INTESA SANPAOLO

Board of Director's Report
on Bank Activities & Financial Statements for the Year ended 31st December 2016

Cairo,

Tuesday, 31st January 2017

ALEXBANK | بنك الإسكندرية

INTESA SANPAOLO

Board of Director's Report 2016

Net Interest Income
↑ 19.4%

Net Profit Before Income Tax
↑ 3%

Net Profit
↑ 8.9%

Earnings Per Share
↑ 8.6%

Net Loans Portfolio
↑ 21%

Customers' Deposits
↑ 37.4%

A WORLD OF REAL POSSIBILITIES

ALEXBANK | بنك الإسكندرية

Financial Highlights of 2016

- Net loans portfolio up by 21.0% to EGP 30.0 Billion.
- Customers' deposits up by 37.4% to EGP 51.6 Billion.
- Net interest income up by 19.4% to EGP 3,329 Million.
- Net Profit before income tax increased by 3% to reach EGP 1,869 Million.
- Net profit for the year grew by 8.9% to record EGP 1,514 Million.
- Cost to income ratio reached 52.7% in 2016 vs. 41.5% in 2015.
- Capital Adequacy ratio decreased by 1.30% at level of 12.4% in 2016 vs. 13.7% in 2015.
- Earnings per share increased by 8.6% to reach EGP 3.41 per share.

Contents

The Year 2016 at a Glance

❑ Global Economy Snapshot

❑ World Economic Growth

Global economic growth is estimated to decrease to record 2.3% in 2016, the weakest performance since the global financial crisis, compared to 2.7% in 2015. This decline is attributed to stagnant global trade and weak investments. The sharp decline in oil prices from mid-2014 to early 2016 contributed to the slowdown in global trade over that period, as oil exporting countries suffered major Balance of Payments' imbalances. Additionally, the downtrend in global investment through the year played an important role as well, as capital goods account for about one third of world goods trade.

Advanced economies continued to face restrained growth, weak investment, and slow productivity growth. The outcome of the Brexit vote in the United Kingdom and of the elections in the United States has led to heightened uncertainty about future policy direction, particularly regarding trade, which could continue to intensify in 2017. Advanced-economies' growth is estimated to have decelerated to 1.6% in 2016. In the United States, growth slowed markedly, from 2.6% in 2015 to an estimated 1.6%, negatively affected by weak exports and investment.

Emerging and Developing Economies (EMDEs) grew at an estimated 3.4% in 2016, where growth in low-income countries (LICs) is estimated to have decreased to reach 4.7% in 2016, affected by the decline in oil prices, domestic circumstances, political tensions, and security challenges. However, many commodity-importing LICs continued to grow solidly.

Growth in Middle East and North Africa is estimated to decline to 2.7% in 2016, from 3.2% in 2015, due to the slow growth that oil exporting countries faced as a result of the reduction in oil prices, particularly Gulf Cooperation Council (GCC) countries where growth decelerated by nearly 2 percentage points, as weakness spread from the oil sector to the non-oil sector.

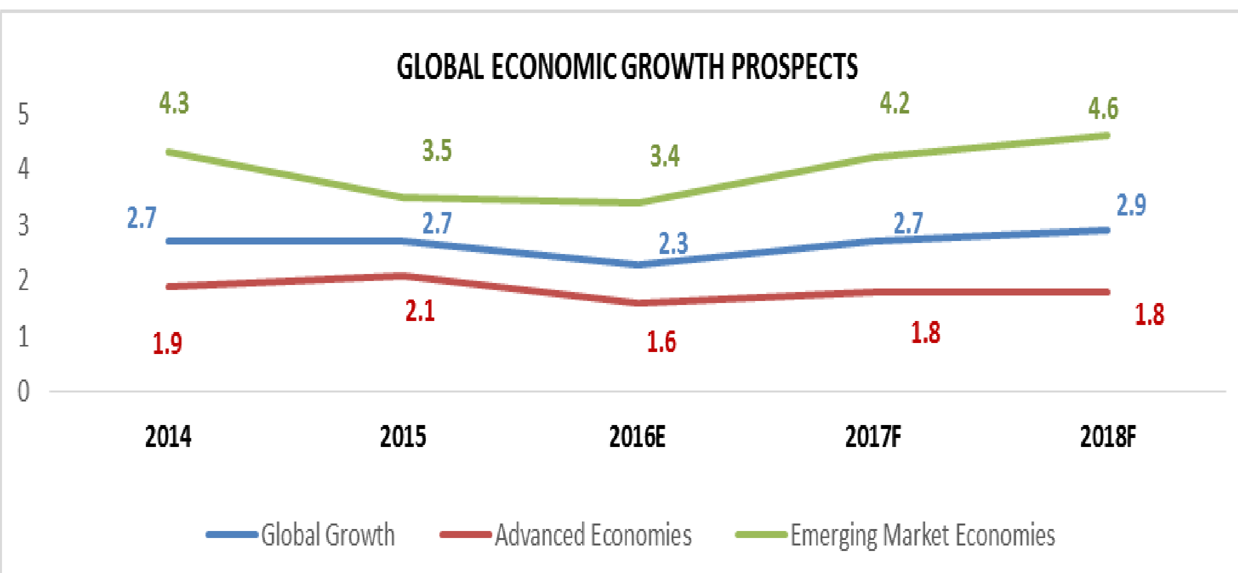
Global Economy Snapshot

Global Economic Prospects

According to the World Bank, the world's growth is expected to increase reaching 2.7% and 2.9% in 2017 and 2018 respectively, mainly reflecting a recovery in EMDEs, where growth is expected to accelerate to 4.2% in 2017, and 4.6% in 2018, contributing by 1.6 %to global growth in 2017, and accounting for about 60% of global growth for the first time since 2013.

Advanced economies' growth rate (United States, Euro Area and Japan) is forecasted to be stable at 1.8% in 2017 and 2018.

World trade volume is forecasted to witness a strong growth in 2017 reaching 3.6%, compared to 2.5% in 2016. Oil prices are also expected to surge by 28.2% in 2017 compared to a negative growth of 15.1% in 2016.

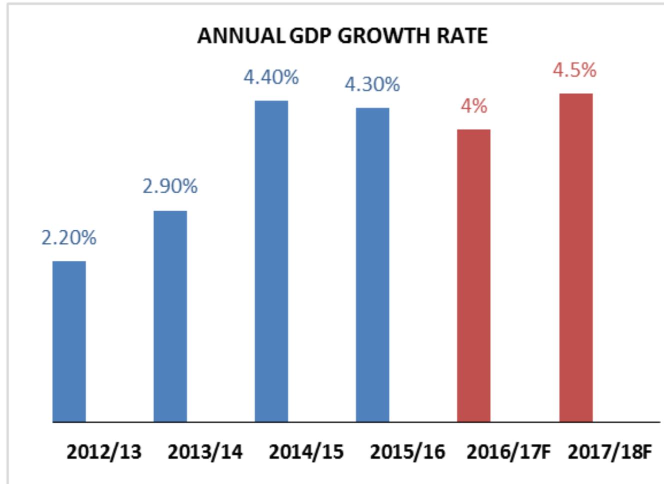


The Year 2016 at a Glance

Local economic scenario in 2016

Economic Growth

- GDP growth declined during FY 2015/16 to reach 4.3%, compared to 4.4% in the previous fiscal year, affected by the drawback in the performance of tourism and extractions sectors, by 28.7% and 5.3% respectively.
- However, the year witnessed an improvement in the construction sector, communications sector, and transportation and storage sector.

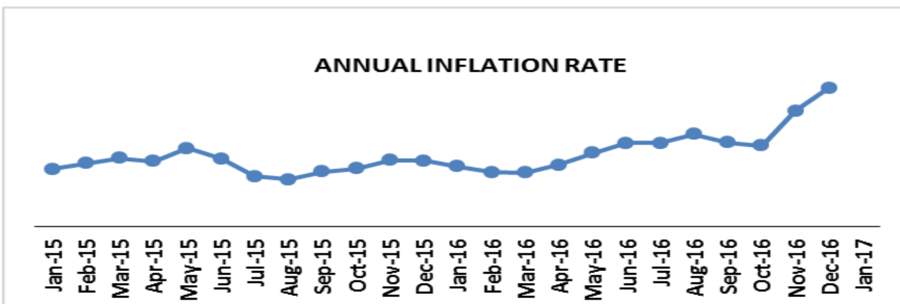


- The economic activity is forecasted to face a further decline reaching 4% in FY 2016/17, negatively affected by the imbalances the Egyptian economy is facing after the floatation of the Egyptian Pound on the 3rd of November 2016. The economy is expected to start recovering in FY 2017/18 to record 4.5%.

Local economic scenario in 2016

Inflation

- **Average annual inflation** jumped to 23.27% in 2016, compared to 11.6% a year earlier. This increase is mainly attributed to the adoption of a number of monetary and fiscal reform regulations such as cutting fuel subsidies, applying the Value Added Tax, and liberalizing the Egyptian Pound in November 2016.
- As fluctuations in the exchange rates are expected to last longer than expected before stabilizing at a lower rate, inflation rate is not expected to record a figure below 20% till the end of the current fiscal year.



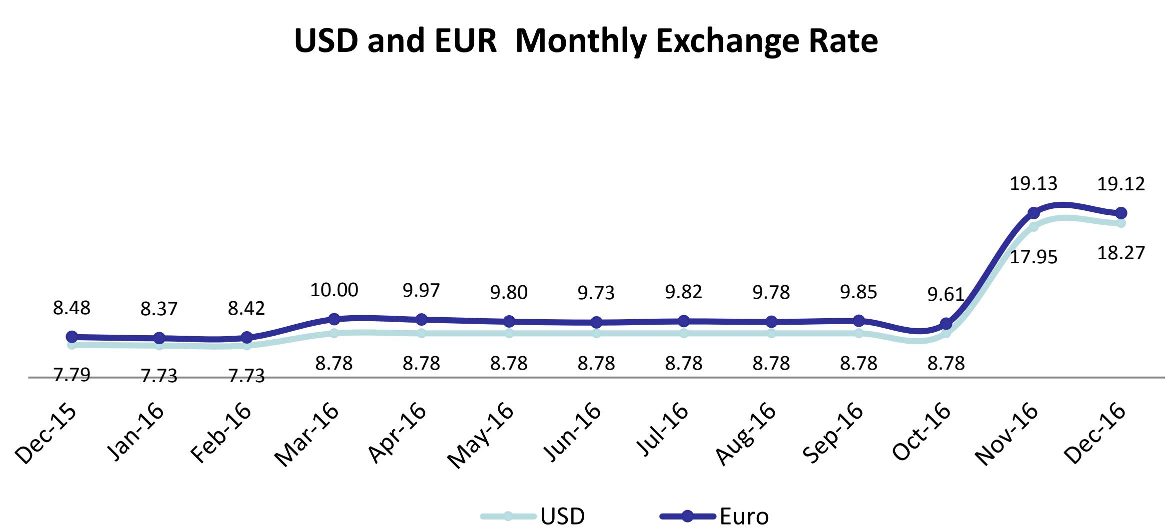
Unemployment

- The levels decreased in Q3 2016 to record 12.6%, compared to 12.8% in the corresponding quarter the previous year, where unemployment among males recorded 8.7%, while among females reached 25.9% in the same quarter. Additionally, urban unemployment reached 14.2% while rural unemployment hit 11.4%.

Local economic scenario in 2016

❑ Exchange rate

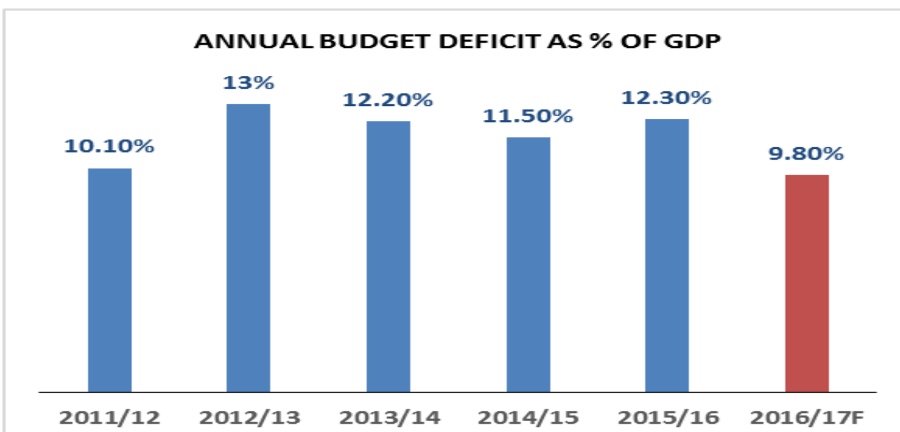
- For the Egyptian Pound's exchange rate against the US Dollar, the Central Bank of Egypt (CBE) adopted on the 14th of March 2016, a more flexible exchange rate regime to eliminate the expanding black market. As the CBE devaluated the Egyptian Pound by 14.5% against the US Dollar from EGP7.73 to EGP8.85.
- With the continuing FX shortage and rising speculations, the CBE adopted a free-float exchange rate regime on the 3rd of November, where banks were able to freely trade and price the Dollar based on supply and demand guidelines, which is considered an essential step for the Egyptian Pound to reach its equilibrium point, eliminating parallel market, improving tourism, exports and sources of foreign currency and helping the CBE to rebuild its reserves.



Local economic scenario in 2016

Budget deficit

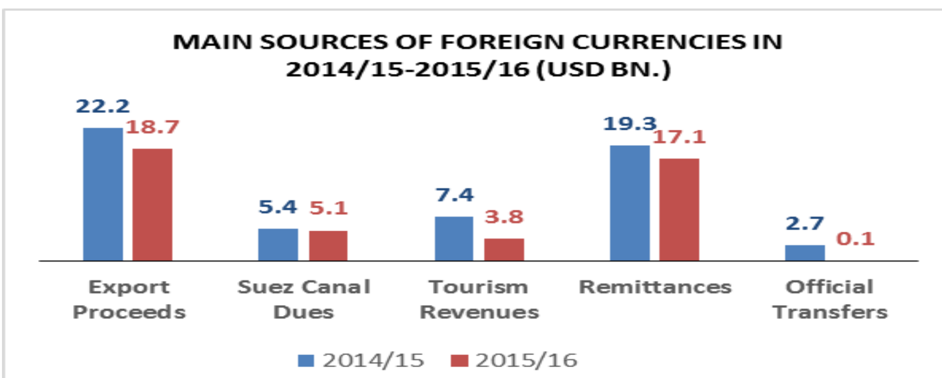
- Government' annual budget deficit recorded EGP339.5 billion (12.3 % of GDP) in FY 2015/16, compared to EGP279.4 billion (11.5 % of GDP) in the previous year.
- This increase in deficit is attributed to low revenues compared with high expenditures. Consequently, the government is planning to cut energy subsidies and increase funds towards education and health sectors.
- Additionally, it applied the VAT in September 2016 as a part of the fiscal reform program, which will help widen the tax base, aiding to reduce the budget deficit.



Local economic scenario in 2016

Balance of Payments

- Egypt's Balance of Payments (BOP) recorded a deficit of USD2.8 billion in FY2015/16 compared to a surplus of USD3.7 billion in FY2014/2015.
- This is mainly attributed to a 53.7% increase in the current account deficit to reach USD18.7 billion against USD12.1 billion.
- The sharp increase in the current account deficit is due to the decline in the services surplus by 59.1% (affected by the drop of tourism revenues by 48.9% to USD3.8 billion).
- However, trade balance deficit narrowed by 3.7% due to the decline in global oil prices which positively affected the Egyptian imports. The capital and financial account registered a 10.7% increase in the net inflow to record USD19.9 billion compared to USD17.9 billion a year earlier.



Local economic scenario in 2016

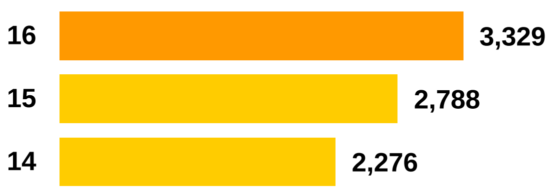
CBE Monetary Policy

- The CBE's Monetary Policy in 2016 has been relatively stable until March 2016 when the overnight deposit rate, overnight lending rate, and the discount rate were raised by 150 basis points to 10.75%, 11.75%, and 11.25% respectively, as the CBE decided to adopt a more flexible exchange rate regime on the 14th of March.
- The CBE raised the rates for the second time in June by 100 basis points.
- After the liberalization of the Egyptian pound on the 3rd of November, the overnight deposit rate, overnight lending rate, and the discount rate were increased by 300 basis points to record 14.75%, 15.75%, and 15.25% respectively.

Financial Highlights

Net Interest Income

(EGP Mln)



Net interest income increased by EGP 541 million or 19.4% in 2016 vs. 2015.

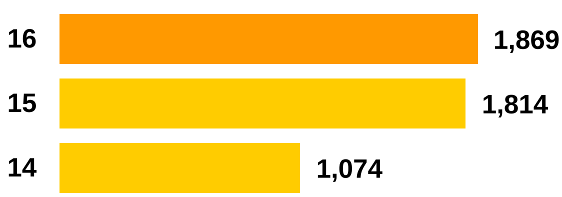
Total Assets

(EGP Mln)

Total Assets increased by EGP 15,295 million or 32.2% in 2016 vs. 2015.

Net Profit before income tax

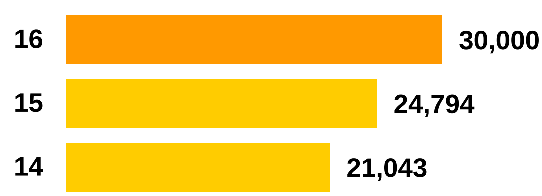
(EGP Mln)



Net Profit before income tax increased by EGP 55 million or 3.0% in 2016 vs. 2015.

Total Net Loans

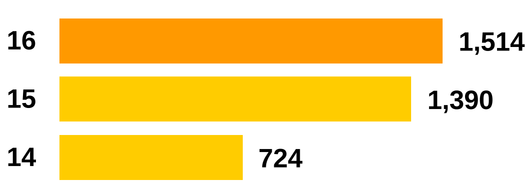
(EGP Mln)



Total net loans increased by EGP 5,206 million or 21.0% in 2016 vs. 2015.

Net Profit

(EGP Mln)



Net Profit for the year increased by EGP 124 million or 8.9% in 2016 vs. 2015.

Customers' Deposits

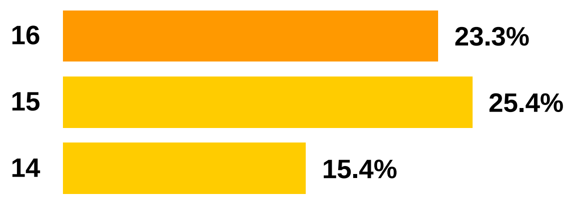
(EGP Mln)

Customers' deposits increased by EGP 14,055 million or 37.4% in 2016 vs. 2015.

Financial Highlights

Return on Equity

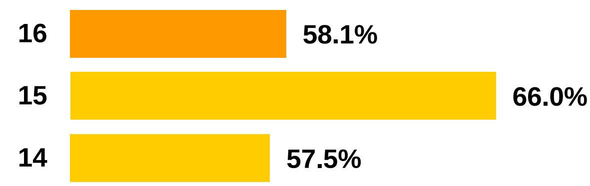
(%)



Return on Equity decreased by -2.1 p.p. in 2016 vs. 2015.

Loans (Net) / Deposits

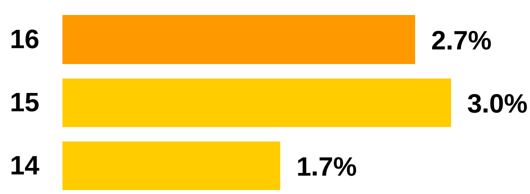
(%)



Net Loans to deposits ratio decreased by -7.9 p.p. in 2016 vs. 2015.

Return on Assets

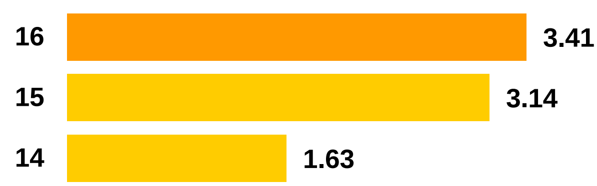
(%)



Return on assets decreased by -0.3 p.p. in 2016 vs. 2015

Earnings per Share

(EGP)



Earnings per share increased by EGP 0.27 or 8.7% in 2016 vs. 2015.

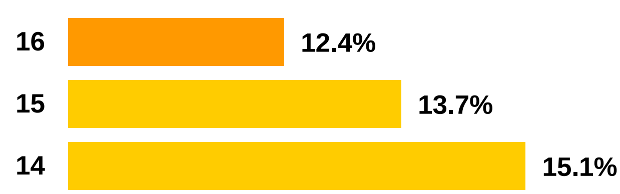
Cost / Income

(%)

Cost to income decreased by -11.2 p.p. in 2016 vs. 2015.

Capital Adequacy (Basel II)

(%)



Capital Adequacy ratio decreased by -1.30 p.p. in 2016 vs. 2015.

Comments on Operations (1/2)

At the end of December 2016, Net Income increased by +15.8% YOY (EGP +512 million) to reach EGP 3,765 million, backed by the increase of +19.4% YOY (EGP +541 million) in Net Interest Income, partially offset by the decrease in Net Fees and Commission Income of -6.1% (EGP -28 million) as the fees and commission income decreased by -2.2% (EGP -12 million) mainly due decrease in commission and fees related to LGs and LCs, along with an increase in fees and commission expenses by -17.1% (EGP -16 million) mainly due to the commissions paid for the loans received from GGF and EBRD.

Increase in the dividend received by EGP 18 million (Y2016 EGP 26 million vs. Y2015 EGP 8 million) due to the dividends collected from AFREXIM bank by EGP 10.6 million, ANRPC by EGP 3.9 million and Misr International Fund Company by EGP 5.9 million.

Decrease in gains from financial investments by -38.1%, while the Net trading income increased due to the increase in profits from foreign currencies exchange of +62.2%.

Total administrative expenses grew by +25% (EGP +340 million) to reach EGP 1,702 million, due to Personnel Cost increase by +25.7% as result of the Early Retirement Program with a total cost of EGP 226 million and the increase in other Administrative expenses of +23.3%, as a result of the increase of maintenance expense, renewal of software, cost of cash shipments, and marketing expenses. The normalized growth of the General and Administrative expenses, if adjusted for the impact of non-recurring items, would have recorded 8.4% only.

Other operating expenses increased by 215% due to the foreign currency revaluation differences by an amount of EGP 165 million (Y2016 EGP 197.8 million vs. Y2015 EGP 32.1 million), mainly due to the floatation of Egyptian Pound, while increased costs dynamics reflected the hike in inflation rate that acted as a catalyst in increasing the Cost/Income ratio from 41.5% in 2015 to 52.7% at end of Y2016.

Comments on Operations (2/2)

Comments on Operations

Net Profit before tax reached EGP 1,869 million, +3% YOY (EGP +55 million).

Net Profit amounted to EGP 1,514 mln, +8.9% YOY (EGP +124million)

Total Assets increased by EGP 15.3 bln, +32.2% YOY, thus reaching EGP 62.8 bln in 2016 vs. EGP 47.5 bln in 2015, where all the balance sheet items dominated in foreign currency has being affected with the Egyptian pound floatation. Balance Sheet Volumes displayed noticeable growth compared to December 2015 as Net Loans to Customers grew by +21.0%, also Customers Deposits recorded a strong increase of +37.4%, due to the increase in the CDs & TDs volume by around EGP 9 bln, along with an increase in CASA by about EGP 5.7 bln (new products launched during H2 2016 with higher interest rates vs. 2015). Loan-to-Deposit ratio decreased from 66.0% in 2015 to reach 58.1% in 2016).

Lending activities has been addressed to create the conditions for sustainable growth through selectively re-building corporate portfolio, replacing low quality clients with high-growth ones, and re-balance corporate portfolio, increasing the share of low risk sectors.

The NPL level increased by EGP +669 million (48.0%), which resulted in an increased of NPL ratio from 5.2% in year 2015 to 6.2% in year 2016 and NPL coverage ratio increased from 80.1% in 2015 to 85.1% in 2016, mainly affected by the foreign currency revaluation due to Egyptian Pound flotation.

On the Liability side, the Bank has continued focusing on re-composition of the product-mix, targeting to balance the weight of low-cost funds (CAs and SAs) vs. high-cost funds (CDs & TDs) to enhance profitability margins in terms of new production, along with market share and customer base retention.

The Bank’s liquidity position and capital base are adequate to support its future growth plans.

Balance Sheet

Assets

(in EGP million) ASSETS	Balance as of 31-12-16	Balance as of 31-12-15	Change Abs.	Change %
Cash and due from Central Bank of Egypt	2,147	3,760	(1,613)	-42.9%
Due from banks	15,425	5,629	9,796	174.0%
Treasury bills and other governmental notes	11,845	9,436	2,409	25.5%
Loans and advances to customers	30,000	24,794	5,206	21.0%
Financial assets classified at fair value through profit and loss	6	4	2	50.0%
Financial investments :				
Available -for- sale	2,135	2,932	(797)	-27.2%
Held- to- maturity	27	40	(13)	-32.5%
Investments in associates	44	41	3	7.3%
Intangible Assets	41	55	(14)	-25.5%
Other assets	772	494	278	56.3%
Fixed assets	371	333	38	11.4%
Total Assets	**62,813**	**47,518**	**15,295**	**32.2%**

- Total Assets increased by +32.2% or EGP +15,295 million mainly due to the following:

- *Cash and Balances with the CBE* decreased by EGP -1,613 million (-42.9%) mainly in decrease the mandatory reserve by EGP -2,186 million that was partially offset with an increase in cash by EGP +573 million;
- *Due from banks* increased by EGP +9,796 million (+174%), due to an increase in Deposits with CBE by EGP +6,931 million and increase in interbank placements by EGP +2,865 million;
- *Treasury Bills* increased in net book value by EGP +2,409 million (25.5%) resulting from increase in the nominal value of the volume by EGP +2,481 million, with an increase in unearned revenue by EGP 72 million due to longer tenor and higher rates composition effect;
- *Net Loans and advances (Performing and Non-performing)* to customers increased by 21.0% to reach EGP 30.0 billion, mainly driven by increase in the gross performing Corporate loans of EGP +4,863 million or 39.7% (increase in Corporate loans by 30.8%, SME by 141.4% and Small Business by 84.3%) and increase in gross performing Retail loans up by EGP +510 million or +3.8% that was mainly affected by the CBE instructions on loans DSR which impacted negatively on the new production.

Balance Sheet

Assets – Continued

Financial Position Key Drivers

- *Net Loans and advances (Performing and Non-performing)-continued*

  The Non-performing loans increased by EGP 669 million due to higher downgrades in Corporate clients (pre-privatization legacy) mainly in foreign currency loans.

- *Available-for-sale (AFS*) decreased by EGP -797 million mainly due to the decrease in investments in government bonds by EGP -1,098 million netted by increase in the fair value of the equity shares participation by EGP +301 million;

- *Investments in associates* increased by EGP 3 million mainly due to increase of the bank share in the declared undistributed profit of the period;

- *Net intangible Assets* decreased by EGP -13.5 million due to new additions by EGP +14.5 million while amortization expenses increased to reach EGP -28 million;

- *Other assets* increased by EGP +278 million due to increase in the accrued revenue from customers by EGP +73 million, accrued revenue from CBE by EGP 152 million and increase in advance payments for purchase of fixed assets by EGP +44 million;

- *Net fixed assets* increased by EGP +38 million due to decrease in deprecation expenses by EGP -54million offset by new additions by amount EGP +92 million.

Balance Sheet

Liabilities

(in EGP millions)	Balance as of	Balance as of	Change	
Liabilities	**31-12-16**	**31-12-15**	**Abs.**	**%**
Due to banks	319	1,549	(1,230)	-79.4%
Customers' deposits	51,621	37,566	14,055	37.4%
Other Loans	756	126	630	500.0%
Other liabilities	2,101	1,307	794	60.7%
Other provisions	511	491	20	4.1%
Current income tax liabilities	154	268	(114)	-42.5%
Deferred tax liabilities	155	94	61	64.9%
Retirement benefits obligations	706	634	72	11.4%
Total Liabilities	**56,323**	**42,035**	**14,288**	**34.0%**

- Total Liabilities increased by +34.0% or EGP +14,288 million mainly due to the following:
  - *Due to banks* decreased by EGP -1,230 million (-79.4%) mainly in due to banks placements by EGP -1,320 million netted by an increase in CA by EGP 90 million;
  - *Customer Deposits* base grew by EGP +14,055 million (+37.4%) mainly due to the contribution of Retail Deposits growing of EGP +9,737 million (+30.6%), along with the increase of Corporate Deposits of EGP +4,317 million (+74.3%);
  - *Other Loans* increased by EGP +630 million (+500%) due to the loan taken from GGF by EGP +365 million, loan from SANAD second tranche by EGP +183million and FX revaluation effect of SANAD first tranche by EGP +53 million;
  - *Other liabilities* increased by EGP +794 million (+60.7%) due to the outstanding balance of dividends payable for the year 2015 related to Intesa SanPaolo Group amounting to EGP +374 million, an amount of EGP 50 million for ERP third wave, accrued interest expenses by EGP +85 million, accrued expense by EGP +60 million and other credit balances by EGP +107 million;
  - *Current income tax liabilities* decreased by EGP -114 million (-42.5%) due to the decrease in the taxable net profit.

Balance Sheet

Liabilities- continued

- *Deferred tax liabilities* increased by EGP +61 million (+64.9%) due to the increase in the AFS reserve of equity shares participation;
- *Retirement benefits obligations* for the medical care benefit increased by EGP +72 million (+11.4%) compared to previous year. The amount of the liability is determined every year by an external actuarial consultant.

Balance Sheet

Shareholders' Equity

Financial Position Key Drivers

(in EGP millions)	Balance as of	Balance as of	Change	
Shareholders' Equity	**31-12-16**	**31-12-15**	**Abs.**	**%**
Share Capital	800	800	-	0.0%
Reserves	1,609	1,402	207	14.8%
Retained Earnings	4,081	3,281	800	24.4%
Total Shareholders' equity	**6,490**	**5,483**	**1,007**	**18.4%**
Total shareholders' equity & liabilities	**62,813**	**47,518**	**15,295**	**32.2%**

- Total Shareholders' Equity increased by EGP +1,007 million or +18.4% due to the following:
  - Increase of retained earnings by EGP +800 million or +24.4%;
  - Increase in the reserves by EGP +207 million, as follows:
    - Increase in the legal reserve by EGP +19 million;
    - Increase in the net change in the fair value of the available for sale investments by EGP +188 million;

Income Statement

(in EGP million)	For the year ended 31-12-16	For the year ended 31-12-15	Change Abs.	Change %
Interest and similar income	5 424	4 478	946	21.1%
Interest and similar expenses	(2 095)	(1 690)	405	24.0%
Net interest income	3 329	2 788	541	19.4%
Fee and commission income	547	560	(13)	-2.3%
Fee and commission expenses	(112)	(95)	17	17.9%
Net fees and commission income	436	464	(28)	-6.0%
Net income	**3 765**	**3 252**	**513**	**15.8%**
Dividend income	26	8	18	225.0%
Net income from financial instruments classified at at fair value through profit or loss	3	1	2	n.r.
Net trading income	98	66	32	48.5%
Gains on financial investments	23	37	(14)	-37.8%
Bank's share in undistributed Profit of associated companies	4	2	2	100.0%
Impairment losses on customers' loans	(98)	(111)	(13)	-11.7%
Administrative Expenses	(1 702)	(1 362)	340	25.0%
Out of which				
Employees cost	*(1 209)*	*(962)*	*247*	*25.7%*
Other administartive expenses	*(493)*	*(400)*	*93*	*23.3%*
Other operating income (expenses)	(250)	(79)	171	216.5%
Net profit before income tax	**1 869**	**1 814**	**55**	**3.0%**
Income tax expenses	(355)	(424)	(69)	-16.3%
Net profit for the year	**1 514**	**1 390**	**124**	**8.9%**
Earnings per share	**3.41**	**3.14**	**0.27**	**8.6%**

- **Net income (EGP +124 million, +8.9 %)**
  - **Net interest income** increased by EGP +541 million (+19.4%). This increase mainly attributable to the following:
    - Increase in interest income on Bonds and fixed-income Securities of EGP +186 million (+14.22%) vs. last year, due to increase in volume and average interest rate;
    - Increase in interest income on Loans to customers of EGP +373 million (+13.37%) due to increase in average volume and average interest rate.
    - Increase in interest income from bank deposits of EGP 387 million due to increase in CBE placements;

Financial Position Key Drivers

Income Statement

- **Net interest income –continue**
  - Increase in interest expenses for deposits due to customers by EGP 397 million due to higher average volume of customers' deposits along with the re-pricing wave that took place in Q4 2016 mainly in in CASA, TDs and CDs interest rates.
- **Net fees and commission income (EGP -28 million, -6%)**

  Total fees and commissions (net) decreased by -6.1% YOY to record EGP 436 million as at December 2016. This result is due to the following:

  - Decrease in fees and commission income by EGP 12 million due to the slowdown in import and export activity, which affected negatively the trade finance commission income, along with increase in fees and commission expense by EGP 16 million due to increase in bancassurance services by EGP 3 million and upfront commission expense for EBRD loan by EGP 9.5 million;

- **Dividends income (EGP +18 million, +225%)**
  - Due to the increase in dividends received from AFS shares by EGP 28 and out which AFREXIM bank by EGP 10.6 million, ANRPC by EGP 3.9 million and Misr international Fund company by EGP 6 million and Misr Alexandria Mutual Fund Company for Financial Investment by EGP 4 million.
- **Net trading income (EGP +32 million, +48.5%)**
  - Mainly due to increase in profits from foreign currencies exchange by EGP +33.6 million (+62.1%) netted by EGP -1.7 million in decrease in gain of sale of debt instruments.
- **Gain from financial investments (EGP -14 million, -37.8%)**
  - As last year included profit from sale of financial investments AFS “FAWRY Co.” by EGP 20.3 million, and the profit from sale of Alexbank first mutual fund in year 2015 by EGP 10 million, while in Y2016 the sale of Arab Trade Finance Program by EGP 16.7 million with variance of EGP -3.6 million;

Income Statement

- **Impairment losses on customers' loans (EGP -13million, -11.7%)**
  - Impairment losses on customers loans decreased mainly due to improvement in collection and reversals.
- **Administrative expenses (EGP +340 million, +25%)**
  - Personnel cost increased by EGP +247 million (+25.7%).
    - Increase in the medical care defined benefit obligation related cost by EGP +14.8 million (+14.7%), increase in salaries, monetary and non-monetary benefits by EGP +7 million (+0.8%);
    - Number of Personnel has dropped by -317 employees to reach 4,718 by end of December 2016;
    - The implementation of Early Retirement Plan system which result in non recurring cost of EGP 226 million.
  - Other administrative expenses increased by EGP +93 million (+23.3%).
    - Increase in Maintenance by EGP +12.7 million, postage and communication by EGP +9 million, travel expenses by EGP +3.5 million, stamp duties taxes by EGP +7.3 million, donations expenses by EGP +7.2 million, software licenses renewal by EGP 9.7 million, non-executive board members remuneration by EGP +2.5 million, marketing expense by EGP +3.3 million, fixed assets and intangible assets depreciation and amortization increased by EGP +6.1 million mainly in additions of new Hardware and Software.
- **Income Tax expenses (EGP -69 million -16.3%)**
    - The main decrease in the income tax expenses is due to the decrease in taxable net profit by EGP 327million, which resulted in the decrease of income tax expense by EGP 73 million netted with increase in the deferred tax expenses by EGP 4 million.

Cost Optimization

Financial Position Key Drivers

CAPEX

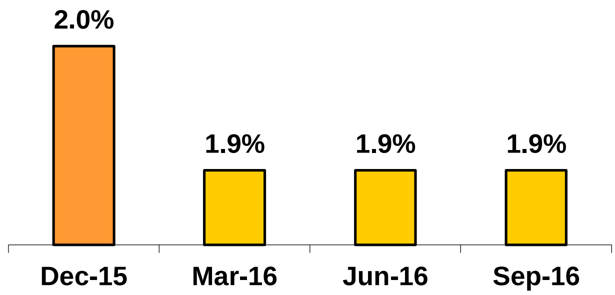
Fujitsu PCs & Laptops	- 6%	EGP 0.33M	Vs. Framework Agreement
80 Free Xerox Printers	- 100%	EGP 0.21M	Vs. 2016 Budget
Fujitsu Laptops	- 31%	EGP 0.54M	Vs. Framework Agreement
IBM P8	- 49%	EGP 7.6M	Vs. 2016 Budget
ATMs	- 31%	EGP 24.5M	Vs. 2016/2017Budget
2 Fujitsu Servers	- 80%	EGP 2.9M	Vs. 2016 Budget

OPEX

Electonic Cards - GMA	- 34%	EGP 1.4M	Vs. 2016 Budget
Customer Insurance	- 10%	EGP 6.4M	Vs. 2015 Actual Premium
IBM Websphere Renewal	- 48%	EGP 2.5M	Vs. Last Year Price
Printer Consumables	- 30%	EGP 2.7M	Vs. 2016 Budget
Mobility	- 23%	EGP 1M	Vs. 2016 Budget
Oracle License	- 50%	EGP 5.5M	Vs. Last Year Price

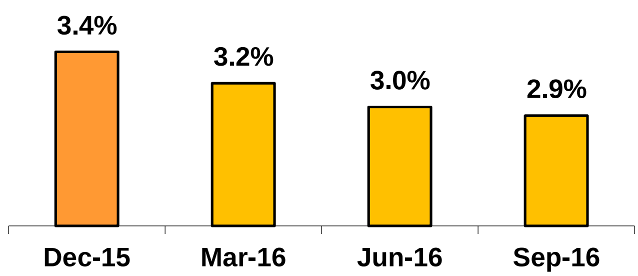
Market Share

TOTAL ASSETS



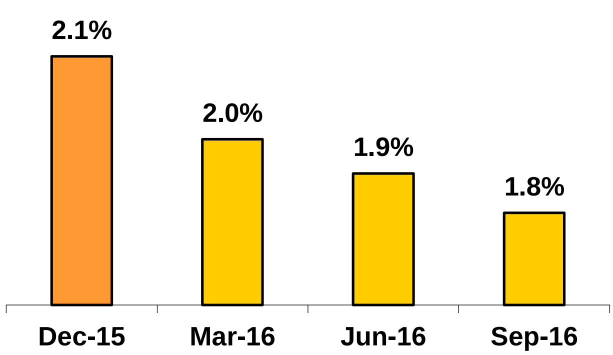
Total Assets market share decreased in Sept-16 by 0.1% compared to Dec-15.

TOTAL LOANS (GROSS)

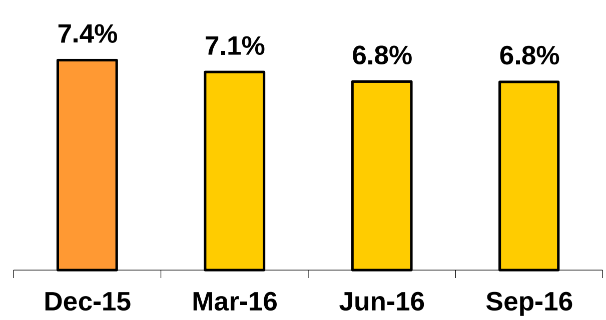


Total Loans market share dropped to 2.9% in Sept-16, due to the decrease in both corporate and retail loans market share versus Dec-15.

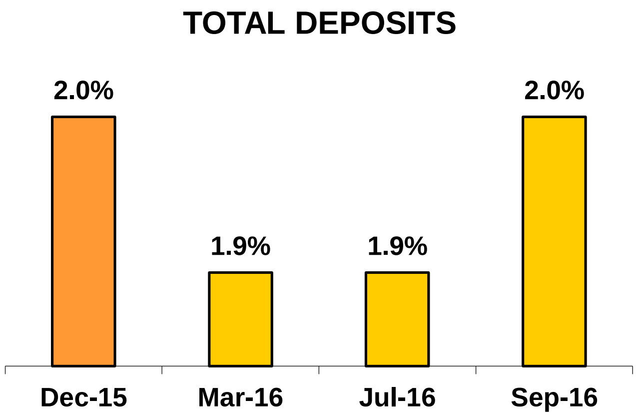
CORPORATE LOANS



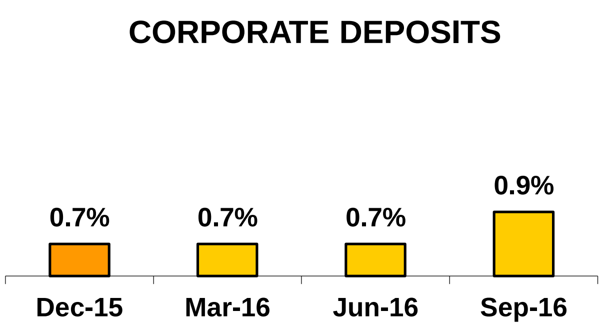
RETAIL LOANS

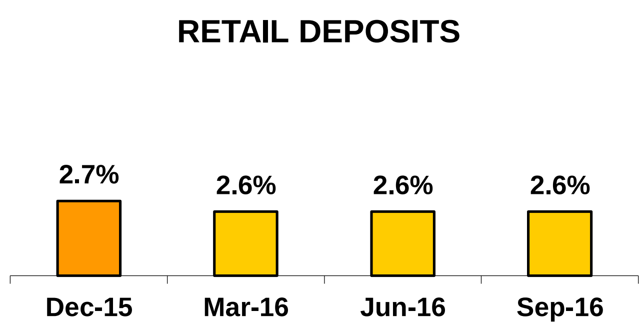


Market Share



Total Customer Deposits market share remained stable in Sept-16 at 2.0% compared to Dec-15.





Corporate Social Responsibility

- As part of IntesaSanpaolo Group, ALEXBANK operates in Egypt with more than 5,000 employees with a network of about 170 branches covering all Egyptian regions. Our business supports a vast array of stakeholders from customers, employees, shareholders, suppliers, investors, the environment and the community at large to assure a long-term and sustainable approach. ALEXBANK must therefore create value and maximize its global impact not only in terms of business success but also participating in the enhancement of the local communities and Country.
- ALEXBANK believes it is must to couple its commercial success with the constant upgrading & enlargement of its CSR activities, working both internally and externally to involve all its stakeholders focusing on the vital integration of our Corporate Social Responsibility concept into all bank's day-to-day business activities.

ALEXBANK'S CSR main strategy platforms:

- ✓ Employee CSR engagement Activities
- ✓ Environment and Sustainability
- ✓ Relief Projects (health – education – culture)
- ✓ Entrepreneurial and Economic Empowerment "Ebda3 men Masr"

- ALEXBANK aims at creating value and maximizing on its global impact not only in terms of business success but also in the enhancement of the local communities where it operates. The bank works upgrading & the enlargement of its CSR activities both internally and externally involving all stakeholders.

Internal CSR Key Projects in 2016

1. Employee Family Support Program

In 2011, the “Employee Family Medical Support Program” was launched dedicating a financial support to employees’ direct family members for medical treatments and severe medical cases. In 2016, the program was promoted to become ”CSR Employees 'Families Emergency/Medical Fund”, allowing ALEXBANK to extend its financial medical support to employees’ families through the Employees 'Families Emergency/Medical Fund. This program is very important to our employees and it is considered one of the core CSR activities.

2. Internal CSR Competiton For Employees “ CSR For My people 2016”

ALEXBANK’s CSR “For My People” competition was launched in 2012 with aim of involving all ALEXBANK employees across all regions. The idea of the competition is that staff propose a specific CSR venue or a proposal that he/she believes is applicable for ALEXBANK to fund. Each year the competition witnesses the sponsorship of four projects across all ALEXBANK regions.

In 2016, the Bank decided to increase the number of projects and supported 6 projects. The total number of projects submitted was 12 and the number of votes was 1944. The projects that were supported in 2016:

- ✓ Helping Children with Heart Disease in Karmouz
- ✓ Completing each other
- ✓ Rehabilitation Project for People with Special Needs
- ✓ Our children are beautiful without burns
- ✓ Providing needed care for liver patient
- ✓ Providing needed care for special needs people

3. “EDUCARE” Program

ALEXBANK witnessed the launch of “EduCare” program in support to employees’ children education. “EduCare” is designed to support employees with roughly up to 25% of annual schooling expenses for a maximum of 2 children. The program's proposition covers all levels of school education including KG1 and KG2. and includes “Nursery” contribution only to female employees. The program also covers the disabled children who are not necessarily in schools by an amount up to EGP 5K.

Internal CSR Key Projects in 2016 – continued

4. Those who need us Campaign:

ALEXBANK's "Those Who Need Us" campaign is a monthly campaign that was kicked off in 2014 whereby employees can suggest and propose ideas for volunteering and CSR causes for people in need all over Egypt all year long.

5. ALEXBANK's Energy Efficiency Project

In 2014, ALEXBANK launched the Energy Efficiency project in both of its premises (Kasr el Nile and Gomhurya) in cooperation with the Ministry of Electricity and the United Nations for Development (UNDP).ALEXBANK is the first Bank to implement the energy efficiency project within local banks in Egypt. The aim of the project is to Reduce CO_2 by 36.8 & electricity by 65%.

Up till now, 44 branches including the two main Head Office premises are now using the lead technology by which ALEXBANK managed to save 20-30% Electricity consumption.

External CSR Community Projects in 2016

1. ALEXBANK "Cotton for Life" Initiative

"Cotton For Life" is a milestone project in cooperation with Filmar Nile Textile (FNT) and is implemented in partnership with the Egyptian Ministry of Technical Education.

The project includes two components: Education & Upcycling and aims to promote and support cotton production through the adoption of modern agricultural methodologies and eco-sustainable industrial processes. 2016 witnessed some developments as the Egyptian Ministry of Education officially approved the new books for agricultural schools of Damietta. Also, the spinning course at Borg El Arab Industrial school has been activated. The project was also, presented during the Agribusiness Day organized by UNIDO, in the presence of the Egyptian Minister of Industry and Commerce.

2. "Long Live Egypt" Fund

In 2015, ALEXBANK donated EGP 20Mln. to the "Long Live Egypt" fund when it was established to support the fund in the developmental activities for Egypt.

In 2016, ALEXBANK donated a total amount of EGP 1 Mln. to "Long Live Egypt" Fund with the aim to support the development and to show solidarity with the people of-Egypt to help alleviate the losses caused by floods in Alexandria Governorate to assert the role of ALEXBANK in serving the community, national development & crisis resolution.

3. Developing "Eastern Saft Preparatory School"

In 2016, ALEXBANK started the development of "Eastern Saft Preparatory School" in Beni Sueif Governorate – Upper Egypt, in partnership with Takatof Association for Development (TAD) with the aim of developing both the infrastructural, educational and human development programs of the school. The project targets 355 students and 49 teachers. February 2017 will witness the Official opening of the school which will be attended by Minister of Social solidarity, Minister of Education and Beni Sueif Governor.

External CSR Community Projects in 2016- continued

4. Full English Course for " Beit el Samery El Saleh" Orphanage

ALEXBANK provides an English course in coordination with AXON (a center that provides professional English courses). This initiative targets 35 students. This will help all the students to have a full English course with an official certification which will help them during their academic career and employment.

5. Developing 5 Villages In Edfu Center - Aswan

In 2016, ALEXBANK partnered with Egyptian Zakat Foundation with an aim to support 5 of the most underprivileged villages (El Akabia, El Hamam, El Hoosh, El Rakekyn and El Karabla Gharb) in Aswan- Edfu Center. The main aim of the project is to support 1000 underprivileged families and to develop the target communities and transforming these communities to become economically self-sufficient. This is in addition to the infrastructural development. It also tackles other problems such as transportation.

The first stage of the project was finalized and around 200 families from El Rokekyn village benefitted from the development of the basic facilities: rebuilding and ceiling houses, connecting drinking water and electricity. Also, around 4 microbuses were purchased and operating. Ceiling was finalized also in El Hamam Village.

6. "Developing A Center And Kitchen For Homeless Children"

"Developing A Center And Kitchen For Homeless Children" is a project in partnership with Sawiris Foundation For Social Development and Banati Foundation For Homeless Children to develop a shelter and a center for homeless children in Haram City in 6th October targeting 300 girls and young mothers aged (2-18) yrs.

The project aims at the infrastructural development of the center and building a huge kitchen to teach girls the principles of cooking and help them later on in pursuing a career to become economically sufficient. The first phase of the project was finalized with regards to the infrastructure and all activities related to kids. The feasibility study of the Kitchen was also finalized.

External CSR Community Projects in 2016- continued

7. "Food For Education" Project

"Food for education" was launched in 2014 in partnership with world food program (WFP) and ISP to facilitate access to basic education and fight malnutrition in rural areas for the very underprivileged children mainly girls in 2 villages (Samasta and Fashn) in Upper Egypt in Beni Sueif governorate. The project targets 7500 beneficiaries including 1500 children in 53 community schools Around 120 million tons of rice were procured and distributed as take-home rations on monthly basis to children whose attendance rates exceeded 80%.

8. ALEXBANK's support to young artists of Faculty of Art Education of Helwan University

Each year, ALEXBANK in cooperation with the Serbian Embassy and the Egyptian Ministry of Culture sponsor a Juried Art Exhibition for young artists/graduate and undergraduate students of the Faculty of Arts Education of Helwan University to help them enhance their art skills. The theme of the competition 2016 encouraged students to express traditional Egyptian artwork. During the exhibition, the artists showcased their artwork and a panel chose the best winning artworks.

9. "Fair Trade Empowerment and Promotion in Egypt"

In 2016, ALEXBANK partnered with Fair Trade Egypt to help support marginalized crafts artisans to have sustainable & enough income that is generated through their production by equipping them with the necessary skills and tools, in addition to creating new marketing and export channels and enhancing existing ones.

The project included interventions and activities for capacity building, product development, technical assistance and provision of tools and development to approximately 400 individual artisans clustered in 12 artisan groups in five different governorates as follows: Beheira, Fayoum, Qena, Asyut, and Red Sea.

❑ External CSR Community Projects in 2016- continued

10. Supporting “Tunis Village” In Fayoum

In 2016 and for the second year in a row, ALEXBANK supported the Sixth Annual “Tunis Village Festival for Pottery and Crafts” in Fayoum. ALEXBANK partnered with the ceramic artists and pottery craftsmen in Tunis village producing handmade original pottery crafts that descend from history old practices. In continuation to ALEXBANK’s support to Tunis Village, the bank decided to make all its giveaways from Handmade/authentic Egyptian products. Part of the money was used as a donation to help the village in many infrastructural work.

11. Supporting the “International Handcrafts Show”

IHS was the first international exhibition for handicrafts in MEA region to take place in Egypt. ALEXBANK was title and official sponsor to Egypt's first International Handcrafts Show held from 18th- 25th November 2016. “Ebda3 Men Masr” partnership with IHS helped to increase the initiatives’ reachability not only to different craftsmen/artisans groups across Egypt. IHS enabled and opened marketing, trade exchange and direct sales opportunities for the handcrafts sector in Egypt.

❑ External CSR Community Projects in 2016- continued

12. “Cluster formation for handicrafts and entrepreneurship development in Upper Egypt”

In 2016, ALEXBANK takes “Ebda3 men Masr” initiative forward and partnered with Egypt Network for Integrated Development (ENID) in a project in Upper Egypt that tackled issues such as job creation, skills development, and employability in the MsMEs and Entrepreneurship programs. The selection criteria of the trainees were based on prioritizing those women who have never had the chance to work because of low skills which encourages cooperation between women from different ethnic and religious groups by providing space for more interaction between women from different backgrounds. ENID NGO is mainly focused on the handicrafts cluster development and this partnership aimed to support ENID’s initiative; The One – village – One product (OVOP) model in four villages. One village produces one competitive manufactured product and expands to form a viable economic cluster to complete the value chain to marketing and sales to 1000 beneficiaries. The project contributed to the economic diversification and employment in different governorates in Upper Egypt among disadvantaged groups (youth and women in rural communities) specifically via training and capacity building for specific jobs in specific product markets.

❑ International Memberships

1. ALEXBANK's international Memberships – Equator principles:

Since 2012, ALEXBANK has been a signatory of the Equator Principles, a framework for managing the impacts on the environment and on local communities that may arise from financing large projects. Project finance is a method of financing where lenders are repaid through revenues generated by the project, typically used to fund large, complex and expensive installations like power plants or mines.

2. ALEXBANK's International Membership – UN Global Compact:

Since 2014, ALEXBANK became a signatory of the UN global compact network. Through this, banks adopts an established and globally recognized policy framework for the development, implementation, and disclosure of environmental, social, and governance policies and practices. In addition to this the bank advances its sustainability solutions in partnership with a range of stakeholders, including UN agencies, governments, civil society, labor, and other non-business interests in Egypt. ALEXBANK submits a report at the end of each year with the main activities.

Local Memberships

1. ALEXBANK partnership with Federation of Egyptian Banks

Since 2013, ALEXBANK has been an active member in the FEB and a member in a steering committee. The Bank along with other banks resolved to positively impact Egyptian communities and called on an initiative to donate 2% of the net profit for the year 2013 to be allocated for the development of slums in Egypt in a project named "Renovation of Slum Areas". The project aims to upgrade the living conditions of over 250,000 people living in slums. The first phase was finalized with almost 95% of the work completed (installation of new street lights, works of fire extinguishers, repairing sanitary networks, installation of new systems where needed, ..etc. The project then moved to the second phase to include human development approaches in the slum areas.

In 2016, a new protocol was signed and the project was extended to impact other areas in Cairo. This is in addition to a new education platform to support the infrastructure.

Training Activities in 2016

- Numbers of Trainees **3,700** employees representing **80%** of bank staff
- Number of Training Hours Approximately **88000** hours
- Average Training Hour/ Employee **24** hours
- Some of the Major Training Programs in 2016:

➢ **Technical Courses for Head Office and Branches Network**

- **Credit Certificate** **(No. of Participants 50)**

This Certificate provides participants with fundamentals of Credit as well as other techniques involving risk of trade operations from a credit perspective. Moreover, it gives the candidates perspective on the legal issues that govern the scope of credit activities. And allows participants to successfully complete final desk based on real case studies

- **Rule Based** **(No. of Participants 85)**

The main aim was to introduce the new rule based framework product catalogue for SB and SME, it's exclusively designed by Alexbank internally supported by the Parent Group and capitalizing on our internal coaches to deliver knowledge to the target population.

- **Retail Depts. Collections and Recovery** **(No. of Participants 40)**

It provides participants with all methods used in the collection and settlement of retail banking Depts. determine the methods of classifying retail banking portfolio arrears and the importance of and how to deal with insolvent clients.

- **Treasury Introductions** **(No. of Participants 40)**

This course is designed to provide employees who deal with treasury products in order to raise the awareness of Treasury Products to ensure better practice and to get the most of dealing with treasury products.

- **SME Foundation** **(No. of Participants 90)**

This course is designed for Branches Network staff to provide them the fundamentals of small and medium enterprises, explaining the reasons for targeting small and medium enterprises in Egyptian banks, helping to design and develop a plan for implementation

- **Mahfazty (E wallet) Service** **(No. of Participants 551)**

Awareness sessions about the Mahfazty Service, delivered to BMs, CSOs, & CS Heads

Training Activities in 2016

- **Technical Courses for Head Office and Branches Network - continued**

  - **BCM Awareness (No. of Participants 54)**
    Workshops providing an overview on the main topics of the new regulation and the Group Project, and more details analysis of the Group Model and Regulatory Framework and assessment of the entity.

- **General Inductions**

  - **New Hires& Magnifica Induction "Branch Network" (No. of Participants 213)**
    Providing batches of new hires with all needed information to perform their roles in the most effective way, they also learn the required applications& learn their responsibilities within the bank
  - **Summer Internship Induction (No. of Participants 450)**
    Student Summer interns in Cairo and Alex receive knowledge about Alexbank core values, how it operates, its products & services, and a communication skills session developed internally by training team to enhance their employment potential

- **Control Programs**

  - **Specific training to prevent bribery/ AML (No. of Participants 2694)**
    These courses are designed to enable participants to prevent bribery / Money Laundering in their daily work with a special focus on the bank policies and procedures
  - **Detecting Forgery& Falsification (No. of Participants 202)**
    Participants acquire the skills needed for the detection of forged currency and falsified documents, supported by real case studies
  - **Advanced AML (No. of Participants 90)**
    Workshops focusing on the updates on money laundering activities in Banking institutions as well as FC incoming remittances from AML perspective concerning customers and.
  - **Siron & Norkom Application (No. of Participants 1,113)**
    This is an awareness session about the Siron Application useage, it was delivered to Branch Managers, CSOs, & CS Heads

Training Activities in 2016

- **Interpersonal and Soft Skills**

  - **Team Building** **(No. of Participants 205)**
    A one day experiential workshop for Head office Departments, gathering professionals, team leaders & managers all together to tackle Communication Skills & Change Management and Positive thinking and Positive Attitude, also Team Work & Team Harmony
  - **Business Etiquette** **(No. of Participants 81)**
    This course is designed to train employees to Take off the casual unprofessional mask, and wear the universal global professional one, work on adjusting a professional positive attitude, Practice on the business etiquette global rules, to win the edge of the global competition

- **E-learning Programs**

  - ✓ Violations related to Employee's Financial Transactions V1 1068 participants
  - ✓ Violations related to Employee's Financial Transactions V2 854 participants
  - ✓ Embargo and Red Flags 348 participants
  - ✓ Operational Risk 83 participants

Bank of Alexandria
(Egyptian Joint Stock Company)
Balance sheet
as at 31 December 2016

Assets	Note No.	31/12/2016 EGP 000	31/12/2015 EGP 000
Cash and due from Central Bank of Egypt	(16)	2 146 767	3 760 379
Due from banks	(17)	15 424 789	5 628 731
Treasury bills and other governmental notes	(18)	11 845 036	9 436 184
Loans and advances to customers	(19)	30 000 028	24 793 648
Financial assets classified at fair value through profit and loss	(20)	6 430	3 645
Financial investments :			
Available -for- sale	(21)	2 134 901	2 931 596
Held -to- maturity	(21)	26 565	40 319
Investments in associates	(22)	43 584	40 640
Intangible assets	(23)	41 222	54 688
Other assets	(24)	772 076	494 318
Investment property	(25)	51	51
Fixed assets	(26)	370 738	333 462
Total assets		**62 812 187**	**47 517 661**
Liabilities and shareholders' equity			
Liabilities			
Due to banks	(27)	318 947	1 548 831
Customers' deposits	(28)	51 620 592	37 565 500
Other loans	(29)	756 397	126 063
Other liabilities	(30)	2 100 442	1 306 716
Other provisions	(31)	510 687	491 253
Current income tax liabilities		154 152	268 440
Deferred tax liabilities	(32)	155 142	93 912
Retirement benefits obligations	(33)	705 629	633 623
Total Liabilities		**56 321 988**	**42 034 338**
Shareholders' equity			
Share capital	(34)	800 000	800 000
Reserves	(35)	1 609 248	1 401 949
Retained earnings	(35)	4 080 951	3 281 374
Total Shareholders' equity		**6 490 199**	**5 483 323**
Total liabilities and Shareholders' equity		**62 812 187**	**47 517 661**

The accompanying notes from page (45) to page (121) are an integral part of these financial statements and are to be read therewith.

Bank of Alexandria

(Egyptian Joint Stock Company)

Income statement

for the year ended 31 December 2016

	Note No.	For the year 12/31/2016 EGP 000	For the year 12/31/2015 EGP 000
Interest and similar income	(6)	5 423 714	4 478 103
Interest and similar expense	(6)	(2 094 690)	(1 689 864)
Net interest income		3 329 024	2 788 239
Fee and commission income	(7)	547 446	559 542
Fee and commission expense	(7)	(111 687)	(95 357)
Net fee and commission income		435 759	464 185
Net income		3 764 783	3 252 424
Dividend income	(8)	26 362	8 056
Net income from financial assets classified at fair value through profit and loss	(9)	2 926	925
Net trading income	(10)	97 578	65 706
Gain on financial investments	(21)	23 130	37 366
Bank's share in undistributed Profit of associated companies		4 337	2 496
Impairment loss on loans and advances	(13,19)	(97 667)	(111 325)
Administrative expenses	(11)	(1 702 299)	(1 361 992)
Other operating expenses	(12)	(249 905)	(79 340)
Net profit before income tax		1 869 245	1 814 316
Income tax expense	(14)	(355 279)	(423 896)
Net profit for the year		1 513 966	1 390 420
Earnings per share (EGP/share) - Basic	(15)	3.41	3.14

Bank of Alexandria

(Egyptian Joint Stock Company)

Statement of changes in shareholders' equity

for the year ended 31 December 2016

	Note No.	Share capital EGP 000	Reserves EGP 000	Retained earnings EGP 000	Total EGP 000
Balance as at 31 December 2014		800 000	1 306 175	2 578 495	4 684 670
Transferred to Legal Reserve		-	36 165	(36 165)	-
Transferred to Other Reserves		-	471	(471)	-
Profit appropriation for the year 2014		-	-	(649 936)	(649 936)
Bank's share in the Fair Value Reserve of Investments in Associates after acquisition date		-	(40 979)	(1 094)	(42 073)
Net change in fair value of the Available-for-Sale Investments		-	100 242	-	100 242
Net change in General Banking Risks Reserve		-	(125)	125	-
Net profit for the period ended 31 December 2015		-	-	1 390 420	1 390 420
Balance as at 31 December 2015		**800 000**	**1 401 949**	**3 281 374**	**5 483 323**
Balance as at 31 December 2015		800 000	1 401 949	3 281 374	5 483 323
Transferred to Legal Reserve	(35)	-	19 856	(19 856)	-
Profit appropriation for the year 2015		-	-	(695 577)	(695 577)
Net change in fair value of the Available-for-Sale Investments	(35)	-	188 487	-	188 487
Net change in General Banking Risks Reserve	(35)	-	(1 044)	1 044	-
Net profit for the period ended 31 December 2016		-	-	1 513 966	1 513 966
Balance as at 31 December 2016		**800 000**	**1 609 248**	**4 080 951**	**6 490 199**

The accompanying notes from page (45) to page (121) are an integral part of these financial statements and are to be read therewith.

Bank of Alexandria
(Egyptian Joint Stock Company)
Statement of cash flows
for the year ended 31 December 2016

	For the year ended 31-12-2016 EGP 000	31-12-2015 EGP 000
Cash flows from operating activities		
Net profit before tax	1 869 245	1 814 316
Adjustments to reconcile net profit to cash flows from operating activities		
Depreciation and amortization	81 892	75 847
Impairment loss on loans and advances	97 667	111 325
Other provisions formed	22 311	34 823
Net income from financial assets classified at fair value through profit and loss	(2 926)	(925)
Provisions used (other than loans provision)	(31 009)	(14 051)
Foreign currencies revaluation differences of other provisions	42 332	4 309
Foreign currencies revaluation differences of other loans	71 338	5 900
Interest income from treasury bills and bonds - impact of the recalculation of bonds by the amortized cost	1 066	(303)
Losses (Gains) from sale of fixed assets	(799)	54
Dividend income	(26 362)	(8 056)
Gains from financial investments (other than financial assets held -for- trading)	(23 130)	(37 366)
Gains of financial investments transferred from reserve of fair value account	(2 729)	(5 876)
Bank's share in undistributed Profit of associated companies	(4 337)	(2 496)
Operating profits before changes in assets and liabilities used in operating activities	2 094 559	1 977 501
Net decrease (increase) in assets and (decrease) increase in liabilities		
Balances with Central Bank within the mandatory reserve percentage	2 185 680	(554 541)
Due from banks	(4 500 000)	107 670
Treasury bills and other governmental notes	2 639 946	2 026 582
Loans and advances to customers	(5 303 421)	(3 913 280)
Financial assets classified at fair value through profit and loss	-	927
Other assets	(357 220)	(73 291)
Due to banks	(1 229 884)	1 298 419
Customers' deposits	14 055 092	973 316
Other liabilities	419 702	(5 478)
Retirement benefits obligations	72 006	70 415
Paid taxes	(468 764)	(313 361)
Net cash flows provided from operating activities	**9 607 696**	**1 594 879**
Cash flows from investing activities		
Payments to purchase fixed assets and preparation of branches	(45 847)	(41 930)
Proceeds from sale of fixed assets	1 920	437
Proceeds from sale of financial investments other than financial assets held -for- trading	2 452 057	1 383 202
Payments to purchase financial investments other than financial assets held -for- trading	(1 367 549)	(2 943 262)
Payments to purchase intangible assets	3 308	(24 899)
Dividends Received	27 896	13 546
Net cash flows provided from (used in) investing activities	**1 071 785**	**(1 612 906)**
Cash flows from financing activities		
Proceeds from other loans	616 240	-
Payments of other loans	(57 244)	(14 604)
Dividends paid	(321 553)	(799 174)
Net cash flows used in financing activities	**237 443**	**(813 778)**
Net change in cash and cash equivalents during the year	10 916 924	(831 805)
Cash and cash equivalents at the beginning of the year	8 519 002	9 350 807
Cash and cash equivalents at the end of the year	**19 435 926**	**8 519 002**
Cash and cash equivalents are represented in the following (note no. 37):		
Cash and due from Central Bank	2 146 767	3 760 379
Due from banks	15 424 789	5 628 731
Treasury bills and other governmental notes	11 845 036	9 436 184
Balances with Central Bank within the mandatory reserve percentage	(718 953)	(2 904 633)
Deposits with banks with maturity more than three months *	(4 500 000)	-
Treasury bills and other governmental notes (with maturity more than 3 months)	(4 761 713)	(7 401 659)
Cash and cash equivalents	**19 435 926**	**8 519 002**

For the purpose of preparing the statement of cash flows the following non - cash transactions were eliminated:

EGP 000	17 870	from both payments to purchase intangible assets and the change in debit balances, which represent the amounts, transferred from assets under construction.
EGP 000	1 424	from both loans and advances to customers and the change in debit balances, which represent the amounts of assets reverted to the bank.
EGP 001	46 414	from both fixed assets and the change in debit balances, which represent the amounts of assets reverted to the bank.
EGP 000	374 024	from both the retained earnings and the change in credit balances - dividend payable , distributions of profit for the year 2015
EGP 000	250 576	from both changes in fair value reserve and financial investments available for sale (investments valuation differences).

* From the date of acquisition.

The accompanying notes from page (39) to page (112) are an integral part of these financial statements and are to be read therewith.

CEO and Managing Director
Dante Campioni

Chief Financial Officer
Mohamed Raef

Bank of Alexandria

(Egyptian Joint Stock Company)

Profit Appropriation Statement (Proposed)

for the year ended 31 December 2016

	For the year ended	
	31/12/2016	**31/12/2015**
	EGP 000	**EGP 000**
Net profit for the year	1 513 966	1 390 420
Less:		
Capital gains transferred to reserve according to the law	(799)	-
Banking risk reserve	1 044	125
Net profit for the year available for distribution	1 514 211	1 390 545
Retained earnings at the beginning of the year *	2 565 940	1 890 828
Total	**4 080 151**	**3 281 373**
Appropriation		
Legal reserve **	-	19 856
Shareholders' dividends	40 000	556 168
Employees' profit share	151 421	137 069
Board of directors members remuneration	-	2 340
Retained earnings carried forward	3 888 730	2 565 940
	4 080 151	**3 281 373**

* An amount of EGP 1094 thousand was added as a result of the reclassification of Misr Alexandria Fund Company from the portfolio of associate companies to available for sale investments

** Starting from 2015, as prescribed by the article of association , the bank will no longer deduct from issued and paid - in - capital as it exceeded the 50 % range

The accompanying notes from page (45) to page (121) are an integral part of these financial statements and are to be read therewith.

Bank of Alexandria
<u>"Egyptian Joint Stock Company"</u>

Financial Statements
For the year ended 31 December 2016
and
<u>Auditors' Report thereon</u>

Allied For Accounting & Auditing – EY
Public Accountants & Consultants

Mohamed Salah El Din Eissa Abu Tabl
Egyptian Accountants

Contents

Allied For Accounting & Auditing – EY
Public Accountants & Consultants

Mohamed Salah El Din Eissa Abu Tabl
Egyptian Accountants

<u>Translation of financial statements
Originally issued in Arabic</u>

AUDITORS' REPORT

To the shareholders of Bank of Alexandria (S.A.E)

Report on the Financial Statements
We have audited the accompanying financial statements of Bank of Alexandria (S.A.E) which comprise the balance sheet as at 31 December 2016 and the related statements of income, changes in equity and 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 Bank's management. Management is responsible for the preparation and fair presentation of these financial statements in accordance with central bank of Egypt's rules pertaining to the preparation and presentation of the financial statements and measurement and recognition bases approved by its board of directors on 16 December 2008 and in light of the prevailing Egyptian laws and regulations, management responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; management 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 auditor considers internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates 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 Bank of Alexandria (S.A.E) as of 31 December 2016 and of its financial performance and its cash flows for the year then ended, in accordance with Central Bank of Egypt's rules pertaining to preparation and presentation of the financial statements and measurement and recognition bases approved by its Board of Directors on 16 December 2008 and the Egyptian laws and regulations related to the preparation of these financial statements.

Report on Legal and Other Regulatory Requirements

According to the information and explanations given to us during the financial year ended December 31, 2016 no material contravention to the law of the Central Bank, Banking and Monetary institution No. 88 of the year 2003 and Bank's articles of incorporation were noted.

The Bank maintains proper books of accounts, which include all that is required by law and by the statutes of the Bank, the financial statements are in agreement thereto.

The financial information included in the Board of Directors' report which is prepared according to Law No. 159 of 1981 and its executive regulations is in agreement with the books of the bank insofar as such information is recorded therein.

Cairo; February 1, 2017

Auditors

Emad Hafez Raghib
Allied for Accounting & Auditing EY

Mohamed Salah El Din Abu Tabl
Egyptian Accountants

Bank of Alexandria

(Egyptian Joint Stock Company)

Balance sheet

as at 31 December 2016

Assets	Note No.	31/12/2016 EGP 000	31/12/2015 EGP 000
Cash and due from Central Bank of Egypt	(16)	2 146 767	3 760 379
Due from banks	(17)	15 424 789	5 628 731
Treasury bills and other governmental notes	(18)	11 845 036	9 436 184
Loans and advances to customers	(19)	30 000 028	24 793 648
Financial assets classified at fair value through profit and loss	(20)	6 430	3 645
Financial investments :			
Available -for- sale	(21)	2 134 901	2 931 596
Held -to- maturity	(21)	26 565	40 319
Investments in associates	(22)	43 584	40 640
Intangible assets	(23)	41 222	54 688
Other assets	(24)	772 076	494 318
Investment property	(25)	51	51
Fixed assets	(26)	370 738	333 462
Total assets		**62 812 187**	**47 517 661**
Liabilities and shareholders' equity			
Liabilities			
Due to banks	(27)	318 947	1 548 831
Customers' deposits	(28)	51 620 592	37 565 500
Other loans	(29)	756 397	126 063
Other liabilities	(30)	2 100 442	1 306 716
Other provisions	(31)	510 687	491 253
Current income tax liabilities		154 152	268 440
Deferred tax liabilities	(32)	155 142	93 912
Retirement benefits obligations	(33)	705 629	633 623
Total Liabilities		**56 321 988**	**42 034 338**
Shareholders' equity			
Share capital	(34)	800 000	800 000
Reserves	(35)	1 609 248	1 401 949
Retained earnings	(35)	4 080 951	3 281 374
Total Shareholders' equity		**6 490 199**	**5 483 323**
Total liabilities and Shareholders' equity		**62 812 187**	**47 517 661**

The accompanying notes from page (6) to page (82) are an integral part of these financial statements and are to be read therewith.

Auditors' Report "attached"

CEO and Managing Director
Dante Campioni

Chief Financial Officer
Mohamed Raef

Bank of Alexandria

(Egyptian Joint Stock Company)

Income statement

for the year ended 31 December 2016

	Note No.	For the year 31/12/2016 EGP 000	For the year 31/12/2015 EGP 000
Interest and similar income	(6)	5 423 714	4 478 103
Interest and similar expense	(6)	(2 094 690)	(1 689 864)
Net interest income		3 329 024	2 788 239
Fee and commission income	(7)	547 446	559 542
Fee and commission expense	(7)	(111 687)	(95 357)
Net fee and commission income		435 759	464 185
Net income		3 764 783	3 252 424
Dividend income	(8)	26 362	8 056
Net income from financial assets classified at fair value through profit and loss	(9)	2 926	925
Net trading income	(10)	97 578	65 706
Gain on financial investments	(21)	23 130	37 366
Bank's share in undistributed Profit of associated companies		4 337	2 496
Impairment loss on loans and advances	(13,19)	(97 667)	(111 325)
Administrative expenses	(11)	(1 702 299)	(1 361 992)
Other operating expenses	(12)	(249 905)	(79 340)
Net profit before income tax		1 869 245	1 814 316
Income tax expense	(14)	(355 279)	(423 896)
Net profit for the year		1 513 966	1 390 420
Earnings per share (EGP/share) - Basic	(15)	3.41	3.14

The accompanying notes from page (6) to page (82) are an integral part of these financial statements and are to be read therewith.

CEO and Managing Director
Dante Campioni

Chief Financial Officer
Mohamed Raef

Bank of Alexandria

(Egyptian Joint Stock Company)

Statement of changes in shareholders' equity

for the year ended 31 December 2016

	Note No.	Share capital EGP 000	Reserves EGP 000	Retained earnings EGP 000	Total EGP 000
Balance as at 31 December 2014		800 000	1 306 175	2 578 495	4 684 67
Transferred to Legal Reserve		-	36 165	(36 165)	
Transferred to Other Reserves		-	471	(471)	
Profit appropriation for the year 2014		-	-	(649 936)	(649 936
Bank's share in the Fair Value Reserve of Investments in Associates after acquisition date		-	(40 979)	(1 094)	(42 073
Net change in fair value of the Available-for-Sale Investments		-	100 242	-	100 24
Net change in General Banking Risks Reserve		-	(125)	125	
Net profit for the period ended 31 December 2015		-	-	1 390 420	1 390 42
Balance as at 31 December 2015		**800 000**	**1 401 949**	**3 281 374**	**5 483 32**
Balance as at 31 December 2015		800 000	1 401 949	3 281 374	5 483 323
Transferred to Legal Reserve	(35)	-	19 856	(19 856)	-
Profit appropriation for the year 2015		-	-	(695 577)	(695 577)
Net change in fair value of the Available-for-Sale Investments	(35)	-	188 487	-	188 487
Net change in General Banking Risks Reserve	(35)	-	(1 044)	1 044	-
Net profit for the period ended 31 December 2016		-	-	1 513 966	1 513 966
Balance as at 31 December 2016		**800 000**	**1 609 248**	**4 080 951**	**6 490 199**

The accompanying notes from page (6) to page (82) are an integral part of these financial statements and are to be read therewith.

CEO and Managing Director
Dante Campioni

Chief Financial Officer
Mohamed Raef

Bank of Alexandria
(Egyptian Joint Stock Company)
Statement of cash flows
for the year ended 31 December 2016

	For the year ended 31/12/2016 EGP 000	31/12/2015 EGP 000
Cash flows from operating activities		
Net profit before tax	1 869 245	1 814 316
Adjustments to reconcile net profit to cash flows from operating activities		
Depreciation and amortization	81 892	75 847
Impairment loss on loans and advances	97 667	111 325
Other provisions formed	22 311	34 823
Net income from financial assets classified at fair value through profit and loss	(2 926)	(925)
Provisions used (other than loans provision)	(31 009)	(14 051)
Foreign currencies revaluation differences of other provisions	42 332	4 309
Foreign currencies revaluation differences of other loans	71 338	5 900
Interest income from treasury bills and bonds - impact of the recalculation of bonds by the amortized cost	1 066	(303)
Losses (Gains) from sale of fixed assets	(799)	54
Dividend income	(26 362)	(8 056)
Gains from financial investments (other than financial assets held -for- trading)	(23 130)	(37 366)
Gains of financial investments transferred from reserve of fair value account	(2 729)	(5 876)
Bank's share in undistributed Profit of associated companies	(4 337)	(2 496)
Operating profits before changes in assets and liabilities used in operating activities	2 094 559	1 977 501
Net decrease (increase) in assets and (decrease) increase in liabilities		
Balances with Central Bank within the mandatory reserve percentage	2 185 680	(554 541)
Due from banks	(4 500 000)	107 670
Treasury bills and other governmental notes	2 639 946	2 026 582
Loans and advances to customers	(5 303 421)	(3 913 280)
Financial assets classified at fair value through profit and loss	-	927
Other assets	(357 220)	(73 291)
Due to banks	(1 229 884)	1 298 419
Customers' deposits	14 055 092	973 316
Other liabilities	419 702	(5 478)
Retirement benefits obligations	72 006	70 415
Paid taxes	(468 764)	(313 361)
Net cash flows provided from operating activities	9 607 696	1 594 879
Cash flows from investing activities		
Payments to purchase fixed assets and preparation of branches	(45 847)	(41 930)
Proceeds from sale of fixed assets	1 920	437
Proceeds from sale of financial investments other than financial assets held -for- trading	2 452 057	1 383 202
Payments to purchase financial investments other than financial assets held -for- trading	(1 367 549)	(2 943 262)
Payments to purchase intangible assets	3 308	(24 899)
Dividends Received	27 896	13 546
Net cash flows provided from (used in) investing activities	1 071 785	(1 612 906)
Cash flows from financing activities		
Proceeds from other loans	616 240	-
Payments of other loans	(57 244)	(14 604)
Dividends paid	(321 553)	(799 174)
Net cash flows used in financing activities	237 443	(813 778)
Net change in cash and cash equivalents during the year	10 916 924	(831 805)
Cash and cash equivalents at the beginning of the year	8 519 002	9 350 807
Cash and cash equivalents at the end of the year	19 435 926	8 519 002
Cash and cash equivalents are represented in the following (note no. 37):		
Cash and due from Central Bank	2 146 767	3 760 379
Due from banks	15 424 789	5 628 731
Treasury bills and other governmental notes	11 845 036	9 436 184
Balances with Central Bank within the mandatory reserve percentage	(718 953)	(2 904 633)
Deposits with banks with maturity more than three months *	(4 500 000)	-
Treasury bills and other governmental notes (with maturity more than 3 months)	(4 761 713)	(7 401 659)
Cash and cash equivalents	19 435 926	8 519 002

For the purpose of preparing the statement of cash flows the following non - cash transactions were eliminated:

EGP 000 17 870 from both payments to purchase intangible assets and the change in debit balances, which represent the amounts, transferred from assets under construction.

EGP 000 1 424 from both loans and advances to customers and the change in debit balances, which represent the amounts of assets reverted to the bank.
EGP 001 46 414 from both fixed assets and the change in debit balances, which represent the amounts of assets reverted to the bank.
EGP 000 374 024 from both the retained earnings and the change in credit balances - dividend payable , distributions of profit for the year 2015
EGP 000 250 576 from both changes in fair value reserve and financial investments available for sale (investments valuation differences).

* From the date of acquisition.

The accompanying notes from page (6) to page (83) are an integral part of these financial statements and are to be read therewith.

CEO and Managing Director
Dante Campioni

Chief Financial Officer
Mohamed Raef

Bank of Alexandria

(Egyptian Joint Stock Company)

Profit Appropriation Statement (Proposed)

for the year ended 31 December 2016

	For the year ended	
	31/12/2016	**31/12/2015**
	EGP 000	**EGP 000**
Net profit for the year	1 513 966	1 390 420
Less:		
Capital gains transferred to reserve according to the law	(799)	-
Banking risk reserve	1 044	125
Net profit for the year available for distribution	1 514 211	1 390 545
Retained earnings at the beginning of the year *	2 565 940	1 890 828
Total	**4 080 151**	**3 281 373**
Appropriation		
Legal reserve **	-	19 856
Shareholders' dividends	40 000	556 168
Employees' profit share	151 421	137 069
Board of directors members remuneration	-	2 340
Retained earnings carried forward	3 888 730	2 565 940
	4 080 151	**3 281 373**

* An amount of EGP 1094 thousand was added as a result of the reclassification of Misr Alexandria Fund Company from the portfolio of associate companies to available for sale investments

** Starting from 2015, as prescribed by the article of association . the bank will no longer deduct from issued and paid - in - capital as it exceeded the 50 % range

The accompanying notes from page (6) to page (82) are an integral part of these financial statements and are to be read therewith.

CEO and Managing Director
Dante Campioni

Chief Financial Officer
Mohamed Raef

1- General information

- Bank of Alexandria renders retail, corporate and investment banking services in Arab Republic of Egypt through its Head Office in Cairo (49, Kasr El Nil street) and through 210 branches and banking units, and employs 4 718 staff members as of 31 December 2016.

- Bank of Alexandria (S.A.E) was established on 17 April 1957, as a State wholly owned commercial bank. On 31 October 2006, SanPaolo I.M.I (Italian Bank) acquired 80% of its issued and paid-in capital. On 1 January 2007, a merger was announced between SanPaolo I.M.I and Banca Intesa S.P.A., and the name of SanPaolo I.M.I has been amended to Intesa Sanpaolo S.P.A.
- Bank of Alexandria currently performs its activities under the provisions of the Central Bank, Banking Sector, and Monetary law No. 88/2003.

- On 22 March 2009, the International Finance Corporation I.F.C purchased 9.75% of the bank shares, so Intesa Sanpaolo S.P.A capital share decreased to 70.25%.

- The Bank's Board of Directors' have approved the financial statements hereunder for issuance on 31 January 2017.

2- Summary of accounting policies

Following are the significant accounting policies applied in the preparation of the financial statements. These policies have been consistently applied for all periods presented unless otherwise stated.

A- Basis of preparation of financial statements

The financial statements have been prepared in accordance with Egyptian Accounting Standards (EAS) issued in 2006 and their amendments and in accordance with the instructions of the Central Bank of Egypt (CBE), approved by its Board of Directors on 16 December 2008 that are compliant with the standards referred to; under the historical cost convention, as modified by revaluation of financial assets, liabilities held for trading, financial assets and liabilities classified at inception at fair value through profit and loss, available for sale financial investments and all financial derivatives contracts.

The financial statements of the Bank have been prepared in accordance with the provisions of the relevant local laws.

B- Associates

Associates are entities over which the bank exercises a direct or indirect significant influence without reaching the extent of control. Normally the bank holds ownership equities ranging between 20% and 50% of the voting rights.

Purchase method of accounting has been applied for the bank's acquisition of companies. The acquisition cost is measured by fair value or the equivalent value offered by the bank for acquired assets and/or issued shareholders' equity's instruments and/or obligations the bank incurred and/or obligations the bank accepted on behalf of the acquired company to complete the acquisition process at the date of the exchange process, plus any costs that can be directly attributed to the acquisition process. Net assets including acquired defined potential obligations are measured at fair value at the acquisition date regardless of the minority's rights existence. The excess of the acquisition cost over the fair value of the bank's share in the net assets is considered goodwill. And if there is a decrease in the acquisition cost below the net fair value referred to, the difference shall be recorded directly in the income statement within the item of "Other operating income (expenses)".

The associates in the bank's financial statements are accounted by the equity method. In addition, dividend payouts are deducted in the value of the investment when approved.

C- Segment reporting

A business segment is a group of assets and operations related to providing products or services subject to risk and returns, different from those that are related to other business segments. A geographical segment is related to providing products and services within the same economic environment subject to risk and returns different from those that are related to other geographical segments that operate in a different economic environment.

D- Foreign currencies translation

D-1 Functional and presentation currency:

The bank's financial statements presented to the nearest thousand Egyptian pounds, which represents the bank's functional and presentation currency.

D-2 Transactions and balances in foreign currencies

- The bank holds its accounts in the Egyptian pound. Transactions in foreign currencies during the fiscal period are recorded using the prevailing exchange rates at the date of the transaction. Balances of assets and liabilities with monetary nature in foreign currency are re-evaluated at the end of the year using the prevailing exchange rates at that date. The gains and losses resulting from settlement of such transactions, as well as the differences resulting from the re-evaluation, are recognized in the income statement among the following items:

  - Net trading income or net income on the financial instruments classified at inception in fair value through the profit and loss of assets / liabilities held for trading or those classified at inception in fair value through profit and loss according to their type.

- Shareholders' equity for financial derivatives which are eligible for qualified hedge for cash flows or eligible for qualified hedge for net investment.

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

- Changes in the fair value of the financial instruments with monetary nature in foreign currencies, classified as investments available for sale (debt instruments), are analyzed into evaluation differences resulting from changes in the amortized cost of the instruments, differences resulting from changes in the prevailing exchange rates or differences resulting from the changes in the instrument's fair value. The evaluation differences resulting from the changes in the amortized cost are recognized in the income statement within "Interest income and similar income". The differences relating to exchange rates changes are recognized in "Other operating income (expenses)", whereas the change in the fair value (fair value reserve/financial investments available for sale) are recognized within shareholders' equity.

- The revaluation differences resulting from items other than those with monetary nature include the gains and losses resulting from the change of the fair value such as the equity instruments held in fair value through profit and loss. The revaluation differences resulting from equity instruments classified as financial investments available for sale are recognized within the fair value reserve in the shareholders' equity.

E- Financial assets

The bank classifies financial assets among the following categories: financial assets classified at fair value through profit and loss, loans and receivables, financial investments held to maturity and financial investments available for sale. The management determines the classification of its investments at initial recognition.

E-1 Financial assets classified at fair value through profit and loss:

This category includes financial assets held for trading and assets classified at inception at fair value through profit and loss.

- A financial instrument is classified as an instrument held for trading if it is primarily acquired for the purpose of the sale in the short term or if it represents a part of a portfolio of specific financial instruments that are managed together and there is evidence of recent actual transactions that resulted in short-term profit taking. Further, derivatives are classified as held for trading.
- Financial assets are classified at inception at the fair value through profit and loss in the following cases:

  - When such classification reduces the measurement inconsistency that could arise from handling the related derivative as held for trading at the time of the valuation of the financial instrument in the place of the derivative at amortized cost for loans and facilities to banks and customers, and issued debt instruments.
  - When some investments, such as investments in equity instruments are managed, and valuated at fair value according to the investment strategy or risk management and reports are prepared for the top management on this basis;
  - The financial instruments such as held debt instruments, which contain one or more embedded derivatives that strongly affect cash flows are classified through fair value through profit and loss.

- Profits and losses resulting from changes in the fair value of the financial derivatives that managed in conjunction with the assets and liabilities classified at inception at fair value through profit and loss are recorded in the income statement under "Net income from financial instruments classified at inception at fair value through profit and loss".

- No reclassification for any derivative from the financial instruments valuated at fair value through profit and loss is made during the period in which it is held or its validity period. In addition, any instrument from the financial instruments valuated at fair value through profit and loss, is not reclassified if it has been classified by the bank at its initial recognition as an instrument valuated at fair value through profit and loss.

E-2 Loans and receivables

Loans and receivables represent non-derivative financial assets with fixed or determinable payment that are not quoted in an active market, with the exception of:

- Assets which the bank intends to sell immediately or in the short term. In which case, they are classified as assets held for trading or assets classified at inception at fair value through profit and loss.

- Assets classified as available for sale at initial recognition.

- Assets for which the bank will not be able to substantially recover the value of its initial investment for reasons other than creditworthiness deterioration.

E-3 Held -to- maturity financial investments

Held to maturity investments represent non- derivative financial assets with fixed or determinable amount of payment and with a fixed maturity date, which the bank's management has the intention and the ability to hold and maintain until the date of maturity. The whole group is to be reclassified as available for sale in case the bank sells a significant part of assets held to maturity except in cases of necessity.

E-4 Available -for- sale investments

Available for sale investments are non-derivative financial assets the bank has the intention to hold and maintain for an indefinite period. Such assets may be sold in response to needs for liquidity or to changes in interest rates, exchange rates, or equity prices.

The following is applied to financial assets:

- Purchase and sale transactions of the financial assets classified at fair value through profit and loss, of the held-to-maturity financial investments and of the available-for-sale investments shall be recognized in the ordinary way on the trade date on which the bank is committed to purchase or sell the asset.

- The financial assets which are not classified at inception at fair value through profit and loss shall be recognized at fair value plus the transaction costs, whereas financial assets classified at inception at fair value through profit and loss are recognized only at fair value with the transaction costs associated to those asset being reported in the income statement under "Net Trading Income" item.

- Financial assets shall be derecognized when the contractual right validity to receive cash flows from the asset expires or when the bank transfers most of risk and returns associated with the ownership to a third party. Financial liabilities are derecognized when they expire by either discharging, cancellation, or the expiration of the contractual period.

- Available –for– sale financial assets and financial assets classified at fair value through profit and loss shall be subsequently measured at fair value. Loans and receivables and held-to-maturity investments are subsequently measured at amortized cost.

- Gains and losses resulting from changes in the fair value of assets classified at fair value through profit and loss shall be recognized in the income statement in the period in which they are made, while the gains and losses arising from changes in the fair value of the available for sale investments shall be directly recognized in shareholders' equity statement, until the asset is derecognized or impaired. In which case, the cumulative profit and losses previously recognized in shareholders' equity statement shall be recognized in the income statement.

- Income calculated at the amortized cost method and gains and losses on foreign currencies related to the assets with monetary nature classified as available-for-sale assets shall be recognized in the income statement. Dividends resulting from equity instruments classified as available for sale shall be recognized in the income statement when the right of the bank to receive payment is established.

- Fair value of the investments quoted in active markets shall be defined pursuant to the current Bid Prices. In case there is no active market for the financial assets or the current Bid Prices are unavailable, the bank shall define the fair value by using one of the valuation methods. This includes either using arm's length transactions, discounted cash flow analysis, options pricing models or other valuation methods commonly used by market traders. In case the bank is unable to estimate the fair value of equity instruments classified as available for sale, their value shall be measured by cost after deducting any impairment in value.

- The bank shall reclassify the financial asset previously classified within the group of financial instruments available for sale and within the definition of loans and receivables (bonds or loans) by transferring the same from the group of available for sale instruments to the group of loans and receivables or to financial assets held-to-maturity as the case may be, when the bank has the intention and the ability to hold and maintain these assets through the near future or until maturity date. The reclassification shall be made at fair value on the date of reclassification. Any gains or losses related to these assets, which previously recognized within shareholders' equity shall be treated as follows:

  1- In case of the reclassification of financial assets with fixed maturity date, the gains or losses shall be amortized over the remaining lifetime of the investment held to maturity by using the effective interest rate method. Any value difference based on the amortized cost and the value based on maturity date shall be amortized over the remaining lifetime of the financial asset by using the effective interest rate method. Later, in case of any impairment in the financial asset value, any gains or losses previously recognized directly among shareholders' equity shall be recognized in the profit /loss statement.

2- In case of the financial asset that has an unfixed maturity date, the gains or losses shall remain within shareholders' equity until the asset is sold or disposed, and then be recognized within profit /loss statement. Later, in case of any impairment in the asset's value, any gains or losses previously recognized directly in shareholders' equity shall be recognized in the profits and losses as well.

- If the bank adjusts its estimates of payments or receivables, the book value of the financial asset (or the group of financial assets) shall be settled in a way that reflects the actual cash flows and the adjusted estimates, provided that the book value is recalculated by calculating the present value of future cash flows estimated by the actual return rate of the financial instrument. The result of the settlement shall be recognized as revenue or expenses in the profit and loss.

- In all cases, if the bank reclassifies a financial asset according to the abovementioned and on a subsequent date it raises its estimates of future cash receipts due to an increase in recovered cash, then the impact of this increase shall be recognized as an adjustment of the actual rate of return from the date of the estimates change and not as a settlement to the asset's book balance on the date of estimates change.

F- Offsetting of financial instruments

Financial assets and liabilities are offset in case the bank has a legal right in force to undertake the offsetting of the recognized amounts and it intends to settle the amounts on a net basis or to receive the asset and settle the liability simultaneously.

The items of the agreements for purchasing treasury bills with commitment to resell and the agreements for selling treasury bills with commitment to repurchase shall be presented based on the net basis in the balance sheet within the item of treasury bills and other governmental notes.

G- Financial Derivatives

Derivatives shall be recognized at fair value at the date of the entering into its contract and subsequently be re-measured at fair value. The fair value is defined either from the quoted market prices in the active markets, recent market transactions, or valuation techniques such as discounted cash flow models and options pricing models, as appropriate. All derivatives shall be recognized within the assets if their fair value is positive or within the liabilities if their fair value is negative.

H- Interest income and expense

Interest income and expense of all interest-bearing financial instruments, except those classified as held-for-trading or which been classified at inception at fair value through profit and loss shall be recognized in the income statement under "Interest income on loans and similar income" item or "Interest expenses on deposits and similar charges" by using the effective interest rate method.

The effective interest rate is the method to calculate the amortized cost of a financial asset or liability and to distribute the interest income or expenses over the related instruments' lifetime. The actual rate of return is the rate used to discount the estimated future cash flows of expected payments or receivables during the expected lifetime of the financial instrument or shorter period of time when appropriate in order to reach accurately the book value of a financial asset or liability. When the effective rate of return is calculated, the bank estimates cash flows by considering all the contractual terms and conditions of the financial instrument's contract (for example accelerated repayment options) and not to consider the future credit losses. The method of calculation includes all fees paid or received by and between the contract's parties, which are considered part of the effective interest rate. The cost of transaction includes any premiums or discounts.

When loans or receivables are classified as non-performing or impaired ones as the case may be, the related interest income shall not be recognized nor recorded as off-balance sheet items. However, such interest income shall be recognized under the revenue item pursuant to the cash basis according to the following:

H-1 As for consumer loans, mortgage loans for personal housing and small loans for economic activities, when the interest income is collected and after arrears are fully recovered.

H-2 As for corporate loans, the cash basis shall be also applied, as the return rose according to loans' rescheduling contract terms until payment of 25% of the rescheduling installments and at a minimum of one year of regular payments. In case of the continuation of the customer to repay regularly then the calculated interest will be included in the balance of the loan and included in the income (return on the balance of regular rescheduling) without the marginal interest before the rescheduling, which is not included in the income except after the full repayment of the loan's balance in the balance sheet before rescheduling.

I- Fee and commission income

Fees due from servicing the loan or facility shall be recognized in the income when performing the service, while the fee and commission income related to non-performing or impaired loans or receivables shall not be recognized, as it shall be on off-balance sheet of the financial statements. Then it shall be recognized within the income pursuant to the cash basis when the interest income is recognized according to item (h-2). As for fees, which represent an integral part of the actual return of the financial assets in general, they shall be treated as an amendment to the effective rate of return.

Commitment fees on loans shall be postponed, if there is a probability that these loans will be withdrawn, taking into account that these fees which the bank receives are a compensation for the constant intervention to acquire the financial instrument. Then they shall be recognized by amending the effective rate of return on the loan. When the period of commitment expires without the loan being issued by the bank, these fees shall be recognized within the income at the expiry of the commitment's validity.

Fees on debt instruments measured at fair value shall be recognized within revenue at the initial recognition. Fees on the promotion of the syndicated loans shall be recognized within revenue when the promotion process is completed and the bank does not retain any portion of the loan or if the bank retains a portion for itself earning of the actual rate return which is available to other participants as well.

Fees and commission resulting from negotiations or the participation in negotiations on a transaction in favor of a third party shall be recognized within the income statement- such as the arrangement of the acquisition of shares or other financial instruments, or the acquisition or selling of premises- when the specific transaction is completed. The administrative consultations fees and other services are normally recognized based on the distribution over time relative to the service performance period. However, the financial planning management fees and conservation services fees, which are provided for long periods of time, are recognized over the period during which the service is performed.

J- Dividend income

Dividend income shall be recognized when the right to receive such income is established.

K- Purchase and resale agreements and sale and repurchase agreements

The financial instruments sold under repurchase agreements within the assets of the balances of treasury bills and other governmental notes in the balance sheet. Whereas, the liability (purchase and resale agreements) is deducted from the treasury bills and other governmental notes in the balance sheet. The difference between the sell price and repurchase price is recognized as a return over the period of the agreement by applying the effective interest rate method.

L- Impairment of financial assets

L-1 Financial assets recorded at amortized cost

At reporting dates, the bank assesses whether there is objective evidence on the impairment of a financial asset or a group of financial assets. The financial asset or the group of assets shall be considered impaired and impairment losses shall be recognized when there is objective evidence on the impairment as a consequence of an event or more events that occurred after the initial recognition of the asset and such (Loss Event) affects the reliability of the estimated future cash flow of the financial asset or the group of financial assets.

The indicators that the bank considers to determine the existence of objective evidence on impairment losses include the following:

- Significant financial difficulties that face the borrower / debtor;
- Breach of the terms of the loan facility, such as the stopping of repayments;
- Expectation of the declaration of the borrower's bankruptcy, the entering into the liquidation lawsuit or the restructuring of the granted finance;
- Deterioration of the competitive position of the borrower;
- Granting privileges or concessions by the bank to the borrower for legal or economic reasons related to the latter's financial difficulties, which the bank may not accept granting the same in ordinary circumstances;
- The impairment of the collateral's value;
- The deterioration of the credit situation and positions.

Objective evidence of the impairment losses of a group of financial assets includes the existence of observable data indicating a decrease in the measurement in the future cash flows of the group since the initial recognition though it is not possible to determine the decline of each individual asset, such as the increase of default cases in regards with a bank product.

The bank estimates the period between the loss event and its identification for each specific portfolio. This period normally ranges between three and twelve months.

Further, the bank first assesses whether there is objective evidence of impairment exists for each individual financial asset if it represents significance. The assessment is made individually or collectively for the financial assets that are not significant on an individual basis. In this regard, the following shall be taken into account:

- If the bank identifies there is no objective evidence on the impairment of a financial asset assessed separately whether it has a significance of its own or not, then this asset shall be added to the group of financial assets with similar credit risk features for assessment together to estimate impairment pursuant to historic default ratios.

- If the bank identifies the existence of objective evidence of impairment of a financial asset assessed separately, then this asset shall not be included in the group of assets for which impairment losses are assessed on a collective basis.

- If the aforementioned assessment resulted in the non-existence of impairment losses, then the asset is included in the group.

The amount of impairment loss provision shall be measured by the difference between the asset's book value and the present value of expected future cash flows discounted by applying the original effective interest rate of the asset, future credit losses not incurred should not be included in the above. The book value of the asset shall be reduced by using the impairment losses provision's account and the impairment charge on credit losses, shall be recognized in the income statement.

If the loan or investment held to maturity date bears a variable interest rate, then the discount rate applied to measure any impairment losses, shall be the effective interest rate pursuant to the contract on determining the existence of objective evidence of the impairment of the asset. For practical purposes, the bank may measure the impairment loss value on the basis of the instrument's fair value by applying the quoted market rates. As for collateralized financial assets, the present value of the future cash flows expected from the financial asset shall be credited. Besides, these flows which result from the implementation and selling of the collateral after deducting the expenses related thereto shall be credited.

For the purposes of the estimation of impairment on group basis, the financial assets are pooled in groups of similar characteristics in terms of credit risk, based on classification process conducted by the bank, taking into consideration the type of asset, the industry, the geographical location, the collateral type, the position of arrears, and the other related factors. These characteristics are related to the assessment of future cash flows of the groups of these assets, as they are deemed an indicator of the debtors' ability to repay the amounts due pursuant to the contractual conditions of the assets under consideration.

Upon estimating the impairment of a group of the financial assets based on historical default ratios, the future cash flows of the group shall be estimated based on the contractual cash flows of the banks' assets and the amount of historical losses of these assets with similar credit risk characteristics of these assets held by the bank. The amount of historical losses shall be adjusted based on the current disclosed data in a way that reflects the impact of the current conditions which did not occur in the period over which the amount of historical losses has been identified. Besides, this will cause that the effects of the conditions that existed in the historical periods but no longer exists be cancelled.

The bank seeks that the forecasts of changes in cash flows of a group of assets are reflected in line with these changes in relevant reliable data which occur from time to time; for example, changes in unemployment rates, real estate prices, the position of repayments and any other factors indicating changes in the likelihood of loss in the group and its amount. The bank conducts a periodic review of the method and assumptions used to estimate future cash flows.

L-2 Financial investments available-for-sale

On each reporting date, the bank estimates whether there is objective evidence on the impairment of an asset or a group of assets classified within financial investments available for sale or financial investment held to maturity.

In the case of the existence of investments in equity instruments classified as available-for-sale investments, the significant or prolonged decline in the fair value of the instrument below its book value shall be taken into account upon the estimation of whether there is impairment in the asset or not.

The decline shall be considered as a significant one, when it reaches 10% of the book value cost and the decline shall be considered as a prolonged one if it continues for more than 9 months. If the mentioned evidence is available, then the accumulated loss shall be carried over from shareholders' equity to the income statement. The impairment in value recognized in the income statement concerning equity's instruments shall not be reversed, if a later increase in the fair value occurs. Meanwhile, in case the fair value of debt instruments classified available-for-sale instruments has increased, and has been found possible to objectively link the mentioned increase to an event that took place after the recognition of impairment in the income statement, then the impairment shall be reversed through the income statement.

M- Investments Property

Investments property represent lands and buildings the bank owns in order to obtain rental revenues or capital appreciation. Consequently, these investments do not include the real estate assets where the bank practices its business and activities or the assets reverted to the bank in settlement of debts. The same accounting method applied for fixed assets, shall be applied for investments property.

N- Intangible assets

N-1 Computer software

Expenditure on the development or maintenance of the computer software shall be recognized when being incurred in the income statement. Expenditures associated directly with specific software under the bank's control which are expected to generate economic benefits exceeding their cost for more than a year shall be recognized as intangible asset. The direct expenses include the cost of the staff involved in the software development, in addition to an adequate share of related overheads.

Expenditure which leads to the increase or expansion in the performance of computer software beyond their original specifications shall be recognized as a development cost and shall be added to the cost of original software.

The cost of the computer software shall be amortized over their expected useful life with a maximum of three years starting from the year 2010.

N-2 Other intangible assets

Other intangible assets represent intangible assets other than goodwill and computer software (for example but not limited to trademark, licenses, and benefits of rental contracts).

The recognition of other intangible assets, at their acquisition cost, shall be recognized and amortized on the straight-line method or based on the economic benefits expected from these assets over their estimated useful life. Concerning the assets which do not have a finite useful life, they shall not be subject to amortization; however, they shall be annually assessed for impairment and the value of impairment, (if any), shall be charged to the income statement.

O- Fixed assets

Lands and buildings are mainly represented in head office premises, branches, and offices. All fixed assets shall be disclosed at historical cost minus accumulated depreciation and impairment losses. The historical cost includes expenses directly attributable to the acquisition of the fixed assets' items.

Subsequent expenditures shall be recognized within the book value of the outstanding asset or as an independent asset, as appropriate, when the generation of future economic benefits to the bank from the concerned asset and the reliable determination of its cost become possible. Any maintenance and fixing expenses, during the period in which they are incurred, shall be carried to other operating expenses.

Land shall not be subject to depreciation, while depreciation of other fixed assets shall be calculated using the straight-line method to allocate the cost over the useful life of the asset in a way that the remaining carrying value would equal to its residual value as follows:

Buildings and constructions	20 years
Elevators	10 years
Leased real estate improvements	4 years or leasing period, whichever is less
Office furniture	10 years
Machinery	10 years
Means of transport	5 years
Computers / core banking system	5 years
Fittings and fixtures	10 years

The residual value and useful life of the fixed assets shall be reviewed on each reporting date and shall be adjusted whenever required. Depreciated assets shall be reviewed for purposes of determining the extent of impairment when an event or a change in conditions suggesting that the book value may not be redeemable occurs. Consequently, the book value of the asset shall be reduced immediately to the asset's net realizable value in case of the increase of the book value over the net realizable value.

The net realizable value represents the net selling value of the asset or its utilization value whichever is greater. Gains and losses from the disposal of fixed assets shall be determined by comparing the net proceeds at book value. Gains (losses) shall be included within other operating income (expenses) in the income statement.

P- Impairment of non-financial assets

Assets other than goodwill, which do not have a finite useful life, shall not be subject to amortization and shall be reviewed annually to determine whether there is any indication of impairment. Impairment of depreciable assets shall be assessed, whenever there are events or changes in conditions suggesting that the book value may not be redeemable.

The impairment loss shall be recognized and the asset's value shall be reduced by the in the asset's book value over its net realizable value. The net realizable value represents the net selling value of the asset or its utilization value whichever is greater. For purposes of the estimation of impairment, the asset shall be linked to the smallest available cash-generating unit. On the date of the preparing the financial statements, the non-financial assets that have been impaired shall be reviewed to assess a reversal of the impairment to the income statement.

Q- Finance Lease

Finance lease is accounted for pursuant to law no. 95 for the year 1995 on leasing; if the lease contract gives the lessee the right to purchase the asset on a fixed date for a fixed amount and the contract's period represents more than 75% of the asset's expected useful life at least or the present value of total rental payments represents is not less than 90% of the asset value. Other leasing contracts shall be considered operational leasing ones.

Q-1 Lease

With regard to financial leasing contracts, the lease cost including the maintenance cost of leased assets shall be recognized within the expenses in the income statement for the period in which it has been incurred. If the bank decides to exercise the right of the purchase of leased assets, then the cost of the purchasing right shall be capitalized as fixed assets and amortized over the expected remaining useful life of the asset in the same way applied to similar assets.

Payments under the operational leasing minus any discounts granted by the lessor shall be recognized within expenses in the income statement by applying the straight-line method over the period of contract.

R- Cash and cash equivalents

For the purpose of presentation of the statement of cash flows, cash and cash equivalents shall include the balances with maturity not exceeding three months from the date of the acquisition, and cash and balances at the Central Bank of Egypt, other than those that are deemed within the compulsory reserve, due from banks, treasury bills and other governmental notes.

S- Other provisions

The restructuring costs and legal claims' provision shall be recognized when there is a legal or a present indicative obligation due to previous events, and it is also likely that the situation shall require the utilization of the bank's resources to settle the mentioned obligations with the provision of a reliable estimation of the obligation's value being possible.

When there are similar obligations, the cash outflow that can be used in settlement shall be identified, taking into consideration this set of liabilities. The related provision shall be recognized even if there is a little possibility that an outflow with respect to any one item is included in the same class of obligations.

When a provision is wholly or partially no longer required, it shall be reversed through profit or loss under other operating income (expenses) line item.

T- Employees' benefits

T-1 Retirement benefits obligations

The bank manages a variety of retirement benefit plans which are often funded through payments that are defined based on periodical actuarial calculations and are made to insurance companies and other specialized funds. The bank has defined benefits and defined contribution plans.

Defined benefit plans: these are retirement rules, which specify the amount of the retirement benefits that the employee will be granted by the end of the period of service. This benefit normally depends on one factor or more such as age, years of services and income.

The recognized liability in the balance sheet with regards to defined benefit plans is represented in the present value of the defined benefit liabilities at the reporting date, after deducting the fair value of the retirement plans' assets and debiting (crediting) unrealized actuarial reconciliations of profits (losses), as well as the cost of additional benefits related to prior service terms.

An independent actuary who applies the Projected Unit Credit Method calculates the liability of the defined benefit plans (future cash flows expected to be paid) annually. The present value of the identified plans liability is determined through deducting these expected future cash flows to be paid by using the rate of return of high quality corporate bonds or the rate of return of the government bonds in the same currency to be used in payment of the benefits and which have almost the same maturity period of the related obligations of the retirement benefits.

Gains (losses) resulting from changes and adjustments in actuarial estimates and assumptions shall be calculated, and such gains shall be deducted from (the losses shall be added to) the income statement, if they do not exceed 10% of the plan assets' value or 10% of the defined benefits' liability whichever is higher. In case gains (losses) rise above the mentioned percentage, then the increase shall be deducted (added) in the income statements over the average of the remaining years of service.

Past service costs shall be immediately recognized in the income statement within administrative expenses, unless the introduced changes on the retirements' plans are conditional on that employees must be in service for a specified period of time (vesting period). In which case, the past service costs shall be amortized by the straight-line method over the vesting period.

Defined contribution plans: These are pension schemes pursuant to which the bank pays fixed contributions to an independent entity while there is no legal or constrictive commitment on the bank to pay further contributions, if the entity has not established sufficient assets to pay all the employees' benefits related to their service whether in current or previous periods.

Regarding the defined contribution plans, the bank pays contributions according to the retirement's insurance regulations in the public and private sectors on either mandatory or voluntary contractual basis and the bank has no further obligations following the payment of contributions. These contributions shall be recognized within the employees' benefit expenses when maturing (vesting). Paid contributions paid in advance shall be recognized within assets to the extent where the advance payment reduces future payments or cash refund.

T-2 Liabilities of other post-service's benefits

The bank provides health care benefits to retirees, after the end of service term. Usually, such benefits are given provided that the employee remains in the employ of the bank's service until the retirement age, and completes a minimum period of service. The expected costs of these benefits are matured (vested) over the period of employment by adopting an accounting method similar to the method adopted in the defined benefit plans previously explained in the item 2-T/1.

U- Income tax

The income tax on the year's profits or losses include the tax of the current year and the deferred tax and shall be recognized in the income statement, with the exception of the income tax on the items of shareholder's equity, which is directly recognized within shareholders' equity.

The income tax shall be recognized based on the net profit subject to tax through the application of the applicable tax rates at the date of preparing the balance sheet, in addition to the tax adjustments related to previous years.

Deferred tax arising from temporary timing differences between the book value of assets and liabilities calculated according to the accounting principles, as well as its values shall be recognized according to the tax principles. Deferred tax assets and liabilities are measured at the tax rates expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates enacted or substantively enacted by the end of the reporting year.

The deferred tax assets shall be recognized when profits to be subject to tax in the future are likely to be generated, through which this asset can be utilized. The deferred tax shall be decreased with the portion from which the expected taxable benefit will not be achieved over the coming years. In case of the increase of the expected taxable benefits, the deferred tax assets shall be increased within the limit of previous reduction in the value of deferred tax assets.

V- Borrowing

Loans obtained by the bank shall be recognized at inception at fair value minus the cost of the loan obtaining. Subsequently, the loans shall be measured by amortized cost. The difference between net proceeds and the amount to be paid over the borrowing period using the effective interest rate shall be recognized to the income statement.

The fair value of the portion that represents a liability regarding bonds convertible into shares shall be defined by applying the market equivalent rate of return of non- convertible bonds. This liability shall be recognized by the amortized cost method until conversion or maturity of bonds. The remaining proceeds shall be charged to the conversion option included within shareholders' equity in net value after deduction of the income tax effect.

The preferred shares that either carry mandatory coupons, or are redeemed at a defined date or according to the shareholders' option, shall be included within the financial liabilities and be presented in the item of "Other loans". The dividends of these preferred shares shall be recognized in the income statement under "Interest expense on deposits and similar charges" item based on the amortized cost method and by using the effective rate of return.

W- Share capital

W-1 Cost of capital

The issuance expenses, directly attributable to the issuance of new shares or shares against the acquisition of an entity, or the issuance of options shall be presented as a deduction from the shareholders' equity in net proceeds after taxes.

W-2 Dividends

Dividends shall be recognized through deducting the same from shareholders' equity in the period where the General Assembly meeting shareholder approves these dividends. They include the employees' share in profits and the remuneration of the board of directors prescribed by the article of association of the bank and the law.

X- Custody activities

The bank practices custody services, which leads to owning or managing private assets of individuals, trust funds, or post service benefits funds. These resulting assets and profits shall be excluded from the financial statements, as they not considered among the bank's assets.

Y- Comparative figures

Comparative figures shall be reclassified whenever it is necessary to conform to the changes in the adopted presentation of the current period/year.

3- Financial risk management

The bank is exposed to a variety of financial risks, while it practices its business and activities, and the acceptance of risk is considered the basis of financial business. Some risk aspects or a combination of risk are analyzed, assessed, and managed. The bank targets to achieve adequate balance between the risk and return, and to minimize likely adverse impacts on its financial performance. The most important types of risk are credit risk, market risk, liquidity risk and other operating risks. Market risk includes the risk of foreign exchange rates, interest rates and the other pricing risks.

The bank has developed risk management policies to define, analyze and control risk, and set, control and comply with its limits through a variety of reliable methods and up to date information systems. The bank conducts regular reviews and amendments of the risk management policies in order to reflect changes in the markets, products, and services, as well as the best up to date applications.

Risk management is carried out by Risk Management Division in the light of the policies approved by the Board of Directors. Risk division identifies, assesses, and hedges against the financial risk in close collaboration with the different operating units of the bank. The board of directors provides written principles for risk management as a whole, in addition to written policies, which cover defined risk areas such as credit risk, foreign exchange risk, interest- rate risk, and the use of derivatives and non-derivatives financial instruments. In addition, Risk division is responsible for the periodic review of risk management and control environment independently.

A- Credit risk

The bank is exposed to credit risk, which is the risk of default of one party on its obligations. Credit risk is considered as the most important risk the bank faces. Thus, the top management carefully manages risk exposure. Credit risk is mainly represented in lending business from which activities of loans and facilities arise, and in investment activities which cause that the bank's assets include debt instruments. Credit risk is also found in the financial instruments off- balance sheet, such as loan commitments. The credit risk management team in the division, which reports to the board of directors, top management as well as heads of business units, conducts mainly all operations related to the management and control of the credit risk.

A-1 Measurement of credit risk

- **Loans and facilities to banks and customers**

  To measure credit risk related to loans and facilities extended to banks and customers, the bank examines the following three components:

  - Probability of default of the customer or a third party on their contractual obligations.

- The current position and the likely expected future development from which the bank can conclude the balance exposed to default (Exposure at default).

- Loss given default.

  The daily activities of the bank's business involve the measurement of credit risk which reflects the expected loss (The Expected Loss Model) required by the Basel Committee on Banking Supervision. The operating measures may contradict with the impairment charge according to the Egyptian Accounting Standard no. (26), which depends on losses realized at the reporting date (realized losses model) and not on expected losses (Note A/3).

- The bank estimates the probability of default at the level of every customer by applying internal rating methods to rate the creditworthiness of the different categories of customers in details. These methods have been developed for internal rating and the statistical analysis are taken into account together with the personal reasoning of credit officials to reach the adequate rating. The bank's customers have been divided into four categories of creditworthiness rating. The structure of creditworthiness adopted by the bank as illustrated in the following table reflects how probable default of each category is, which mainly means that credit positions move among mentioned categories pursuant to the change in the assessment of the extent of default probability. The assessment methods are reviewed and developed whenever required. Further, the bank periodically assesses the performance of the creditworthiness rating methods and how they are able to predict default cases.

The bank's internal classification categories:

Classification	**The classification's Indication**
1	Performing loans
2	Regular watching
3	Watch list
4	Nonperforming loans

- The position exposed to default depends on the amounts the bank expects to be outstanding amounts when the default takes place; for example, as for a loan, the position is the nominal value while for commitments, the bank enlists all already withdrawn amounts in addition to these amounts expected to be withdrawn until the date of default, if it happens.

- Loss given default or loss severity each represents the bank's expectations of the loss to the extent when claiming repayment of debt if the default occurs. Expressed by the percentage of loss to the debt; this certainly differs in accordance with category of the debtor, the claim's seniority and availability guarantees or other credit mitigation.

- **Debt instruments, treasury bills and other bills**
  Concerning debt instruments and bills, the bank uses the external foreign rating such as the rating of "Standard and Poors" or of similar agencies to manage credit risk. If such ratings are not available, then the bank applies similar methods to those applied to credit customers. Investment in securities, financial papers, and bonds shall be considered as a way to gain a better credit quality and maintain a readily available source to meet funding requirements at the same time.

A-2 Risk Mitigation Policies

The bank manages, mitigates, and controls credit risk concentration at the level of debtor, groups, industries, and countries.

The bank structures the levels of credit risk tolerance by placing limits for the risk tolerance in relation to each borrower or a class of borrowers, and at the level of economic activities and geographical sectors. Such risk shall be constantly monitored and controlled and shall be subject to reviews on an annual basis or more frequently if necessary. Limits of credit risk at the level of borrower/ the group / producer, the sector and the country shall be quarterly approved by the board of directors.

Lines of credit for any borrower including banks shall be divided into sub-lines which include in- and off- the balance sheet amounts and daily risk limit related to trading items such as forward foreign exchange contracts. Actual amounts shall be compared daily with the mentioned limits.

Credit risk exposure is also managed by the regular analysis of the present and the potential borrowers' ability to fulfill their obligations and by amendment of the lending lines when appropriate.

Following are some methods to mitigate risk:

- **Collaterals**

  The bank sets a range of policies and controls to mitigate credit risk. Among these implemented methods is to obtain a security against the extended funds. The bank sets guide rules for defined types of acceptable collaterals.

  Main types of collaterals against loans and facilities include the following:
  - Mortgage.
  - Mortgage of business assets such as equipment and goods.
  - Mortgage of financial instruments such as debt instruments and equity.

  Longer-term finance and lending to corporate are often secured, while credit facilities granted to retail customers are generally unsecured. To reduce credit loss to its minimum level, the bank seeks to get additional collateral from the concerned parties as soon as indicators of impairment in a loan or facility appear.

  Collateral held as a security against assets other than loans and facilities; determined by the nature of the instrument, and debt instruments and treasury bills are normally unsecured with the exception of asset-backed securities and the similar instruments backed by a securities portfolio.

- **Derivatives**

  The bank maintains control procedures over the net open positions for derivatives i.e. the difference between purchase and sale contracts at the level of value and period. The amount exposed to credit risk is at any time defined at the fair value of the instrument that achieves benefit to the bank i.e. an asset that has a positive fair value and represents a small portion of the contractual (nominal) value adopted to express for the volume of outstanding instruments. This credit risk is managed as a part of the aggregate lending line granted to the customer together with the expected risk due to market changes.

  Collateral or other security is not usually obtained against credit risk exposures in these instruments, except where the bank requires that collateral be taken as margin deposits from the counterparties.

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

- **Master Netting Arrangements**

  The bank mitigates the credit risk by entering into Master Netting Arrangements with counterparties that represent a signification volume of transaction. In general, these arrangements do not result in conducting offset between balance sheet assets and liabilities because these settlements are always conducted on a gross basis. However, the credit risk associated to the contracts which serve the bank's interest is reduced through master netting arrangements, as in case of default, all amounts with the counterparty are settled by clearance.

  The bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can be substantially changed within a short period, as it is affected by each transaction subject to these arrangements.

- **Credit related commitments**

  The primary purpose of credit related commitments is to ensure the availability of funds to the customer at demand. Guarantees and standby letters of credit also carry the same credit risk related to loans. Documentary and commercial letters of credit which are issued by the bank on behalf of its customer to grant a third party the right of withdrawal from the bank within the limit of certain amounts and under predefined conditions – are collateralized by the underlying shipments of goods and consequently carry a lesser degree of risk, compared to direct loans.

  The commitments for granting credit represent the unutilized part of the authorized limit to grant loans, guarantees, or documentary letters of credit. The bank is exposed to a potential loss that represents the amount equal to the total of unutilized commitments as concerning credit risk arising from credit granting commitments. Nevertheless, the amount of loss that is likely to occur is below the unutilized commitments, as most credit granting commitments represents potential liabilities of customers who have defined credit specifications. The bank monitors the duration until maturity date of credit commitments, as long term commitments have a higher degree of credit risk, compared to short-term commitments.

A-3 Impairment policies and provisions

The internal systems of aforementioned assessments (note no. A-1) focus to a great extent on the planning of the credit quality, from the starting point of the recognition of lending and investment activities. However, the impairment losses incurred at the reporting date are only recognized for purpose of the preparation of financial statements based on objective evidence, which refers to impairment pursuant to the disclosure below in light of the implementation of different methods.

The impairment loss provision included in the balance sheet at the end of the fiscal year is derived from the four internal ratings; however, the majority of the provision results from the last two ratings. The following table shows the percentage for the items within the balance sheet relate to loans and facilities and the relevant impairment for each of the bank's internal ratings:

Bank's Assessment	**31/12/2016**		**31/12/2015**	
	Loans and advances %	**Impairment loss provision %**	**Loans and advances %**	**Impairment loss provision %**
1-Performing loans	**29.27**	5.95	23.73	4.80
2-Regular watching	56.45	25.23	68.35	30.20
3-Watch list	7.94	12.03	2.69	15.73
4-Non performing loans	6.34	56.79	5.23	49.27
	100	100	100	100

The tools of internal rating help the management define whether there is objective evidence on the existence of impairment pursuant to the Egyptian Accounting Standard no. 26 and depending on the following indicators the bank has defined:

- Great financial difficulties facing the borrower or debtor.
- Breach of the loan agreement's terms such as the non-payment.
- Expectation of the borrower's bankruptcy, entrance into liquidation case, or restructuring of the finance granted.
- Deterioration of the competitive position of the borrower.
- For economic or legal reasons related to the borrower's financial difficulties, the bank grants privileges and concessions to the borrower, which may not be approved thereby in normal circumstances.
- Deterioration of the collateral's value.
- Deterioration of the credit situation.

The bank's policies require review of all financial assets, which exceed defined relative importance at least annually or more if necessary. The impairment charge is to be defined to accounts that have been assessed on an individual basis by assessing the realized loss at the reporting date on each individual case and is to be applied individually to all accounts that have relative importance. The assessment usually includes the outstanding collateral with a reconfirmation of the possibility to realize the collateral as well as the expected collections from these identified accounts being made.

The impairment loss provision shall be made on the basis of a group of homogeneous assets by using the available historical experience, personal judgment, and statistical methods.

A-4 The General Model for Measurement of Banking Risk

In addition to the four-creditworthiness ratings shown in (note no. A-1), the management also prepares ratings in the form of more detailed subgroups, which are in line with the requirements of the Central Bank of Egypt (CBE). Assets exposed to credit risk shall be rated in these subgroups pursuant to detailed rules and terms, which depend largely on customer related information, business and activities, financial position and regularity of payments thereof.

The bank calculates the provision required for the impairment of these assets exposed to credit risk, including credit related commitments based on defined rates set by the Central Bank of Egypt. In case the impairment loss provision required according to Central Bank of Egypt's rules exceeds the provisions as required for the purposes of the preparation of the financial statements according to the Egyptian Accounting Standards (EAS), that excess shall be debited to retained earnings and carried to the general reserve for banking risk in the shareholders' equity section. Such reserves shall be regularly adjusted, by any increase or decrease so that the reserve shall always be equal to the amount of increase between the two provisions. Such provision shall not be subject to distribution.

Following is an indication of corporate credit worthiness categories according to internal rating principles, compared to the rating principles of the Central Bank of Egypt, and of the required provision percentages for the impairment of assets exposed to credit risk:

Central Bank Of Egypt's rating	Rating's meaning	Provision's ratio required	Internal Rating	Meaning of Internal Rating
1	Low risk	Zero	1	Performing loans
2	Average risk	1%	1	Performing loans
3	Satisfactory risk	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 follow up
7	Watch List	5%	3	Special follow up
8	Substandard	20%	4	Nonperforming loans
9	Doubtful	50%	4	Nonperforming loans
10	Bad debt	100%	4	Nonperforming loans

A/5 The Maximum Limit for Credit Risk before Collateral

Credit Risk exposures in the Balance Sheet:

	31/12/2016 EGP 000	31/12/2015 EGP 000
Treasury bills and other governmental notes	11 845 036	9 436 184
Loans and advances to customers		
Loans to individuals (Retail):-		
Overdraft accounts	642 298	532 122
Credit cards	86 040	63 442
Personal loans	13 621 235	13 393 329
Mortgage	16 531	22 176
Corporate loans :-		
Overdraft accounts	4 733 812	3 990 724
Direct loans	8 096 049	6 034 626
Syndicated loans	5 872 447	2 992 149
Other loans	3 701	544
Financial investments :		
Debt instruments	1 388 518	2 500 163
Other assets	198 316	118 704
Total	46 503 983	39 084 163
Credit risk exposures of off-balance sheet items:		
Financial guarantees	5 341 262	2 233 466
Non-revocable credit-related commitments for loans and other liabilities	6 759 595	5 314 894
Letters of credit	547 693	335 908
Letters of guarantee (incentive)	3 659 476	1 578 452
Total	16 308 026	9 462 720

- The previous table represents the maximum limit of exposure as at 31 December 2016 and as at 31 December 2015, without taking into consideration any financial guarantees. As for the balance sheet items, the enlisted amounts depend on the net book value presented in the balance sheet.

  As illustrated in the previous table 71.1 % of the maximum limit exposed to credit risk arises from loans and advances to banks and customers versus 69.2 % as at 31/12/2015 whereas investments in the debt instruments represent 3.0 % versus 6.4% as at 31/12/2015.

  The management has confidence in its abilities to continue of controlling and maintaining the minimum limit of credit risk resulted from loans, facilities, and debt instruments portfolios based on the following:

  - 7.0 % of the loans and advances' portfolio is classified in the two higher categories of the internal assessment (low/ average risks) as at 31/12/2016 , 31/12/2015.
  - 80.1 % of the loans and advances' portfolio is free from any delays or impairment indicators versus 77.1 % as at 31/12/2015.
  - The mortgages covered by collaterals, represent an important group in the portfolio.
  - The loans and advances that have been assessed on an individual basis reach EGP 2 061 368 thousand as at 31/12/2016 versus EGP 1 392 408 thousand as at 31/12/2015. Formed from it an 85.1 % as a provision versus 80.1 % as at 31/12/2015.
  - The bank applied more conservative selecting process when extending loans and advances during the year.
  - More than 99.8 % as at 31/12/2016 versus 99.6 % as at 31/12/2015 , of the investments in debt instruments and treasury bills represents debt instruments on the Egyptian government.

A/6 Loans and advances

The following is the position of loans and advances' balances as regarding creditworthiness:

	31/12/2016 EGP 000 Loans and advances to customers	31/12/2015 EGP 000 Loans and advances to customers
With no past dues or impairment	26 481 975	20 842 863
With past dues but not subject to impairment	4 528 770	4 793 841
Subject to impairment	2 061 368	1 392 408
Total	**33 072 113**	**27 029 112**
Less: Impairment loss provision	(3 072 085)	(2 235 464)
Net	**30 000 028**	**24 793 648**

- The total impairment loss on loans and advances; reached EGP 3 072 085 thousand as of 31 December 2016 versus EGP 2 235 464 thousand as of 31 December 2015, including EGP 1 754 259 thousand as of 31 December 2016 versus EGP 1 115 919 thousand as of 31 December 2015, of which represents the impairment of individual loans and the remaining amounting to EGP 1 317 826 thousand versus EGP 1 119 545 thousand representing the impairment losses on a group basis of the credit portfolio. Note no. 19 include further information on the impairment losses provision of loans and advances to banks and customers.

Loans and advances with no past dues or impairment:

The creditworthiness of the loans and advances portfolio with no past dues or impairment is assessed with reference to the internal assessment adopted by the bank.

EGP 000

31/12/2016

Assessment	Retail				Corporate				Net loans and advances to customers
	Debit Current accounts	Credit Cards	Personal Loans	Mortgage	Debit Current accounts	Direct Loans	Syndicated Loans	Other Loans	
1- Performing	-	-	-	-	2 495 374	5 035 262	1 917 178	98	9 447 912
2- Regular Watching	555 195	57 510	9 935 374	9 687	974 879	1 206 748	1 523 612	245	14 263 250
3- Watch List	-	-	52 533	-	56 853	787 442	919 136	24	1 815 988
Total	**555 195**	**57 510**	**9 987 907**	**9 687**	**3 527 106**	**7 029 452**	**4 359 926**	**367**	**25 527 150**

- The guaranteed loans; are not considered subjected to impairment for the non-performing loans after taking into consideration the probability of collecting these guarantees.

EGP 000

Assessment	31/12 /2015								
	Retail				Corporate				Net loans and advances to customers
	Overdraft accounts	Credit Cards	Personal Loans	Mortgage	Overdraft accounts	Direct Loans	Syndicated Loans	Other Loans	
1- Performing	-	-	-	-	1 942 386	2 313 299	557 288	282	4 813 255
2- Regular Watching	480 678	42 640	10 276 709	5 631	1 234 545	1 793 050	1 017 778	170	14 851 201
3- Watch List	-	-	-	-	6 181	128 730	125 677	14	260 602
Total	**480 678**	**42 640**	**10 276 709**	**5 631**	**3 183 112**	**4 235 079**	**1 700 743**	**466**	**19 925 058**

Loans and advances with past dues but are not subject to impairment

These are loans and advances with delays up to 90 days but are not subject to impairment unless there is other information to the contrary a loan and advances to customers with past dues but not subject to impairment and the fair value of their collaterals are represented in the following:

EGP 000

	31/12/2016								
	Retail				Corporate				Net loans and advances to customers
	Overdraft accounts	Credit Cards	Personal Loans	Mortgage	Overdraft accounts	Direct Loans	Syndicated Loans	Other Loans	
Past dues up to 30 days	61 521	18 740	2 601 169	267	409 214	81 578	125 534	42	3 298 065
Past dues more than 30 days to 60 days	25 103	-	135 878	706	43 318	431 023	-	18	636 046
Past dues more than 60 days to 90 days	-	-	39 047	995	-	18 997	172 618	1	231 658
Total	**86 624**	**18 740**	**2 776 094**	**1 968**	**452 532**	**531 598**	**298 152**	**61**	**4 165 769**
The fair value of collaterals	**86 700**	-	**683 297**	-	**171 068**	**163 768**	**1 453**	-	**1 106 286**

EGP 000

	31/12/2015								
	Retail				Corporate				Net loans an advances t customers
	Overdraft accounts	Credit Cards	Personal Loans	Mortgage	Overdraft accounts	Direct Loans	Syndicated Loans	Other Loans	
Past dues up to 30 days	2 898	12 246	2 124 684	4 160	34 701	146 385	463 751	33	2 788 858
Past dues more than 30 days to 60 days	38 570	-	87 036	966	56 740	1 160 659	301 133	15	1 645 119
Past dues more than 60 days to 90 days	9 541	-	35 064	4 972	29 170	79 368	-	9	158 124
Total	**51 009**	**12 246**	**2 246 784**	**10 098**	**120 611**	**1 386 412**	**764 884**	**57**	**4 592 101**
The fair value of collaterals	**51 009**	-	**327 075**	-	**366**	**231 636**	30 709	**4**	**640 799**

At the initial recognition of loans and advances, the fair value of collaterals is evaluated based on the same financial assets evaluation methods used, and in subsequent periods, the fair value is updated by the market prices or the similar assets' prices.

Loans and advances subject to impairment on an individual basis

The balance of loans & advances which are subject to impairment on an individual basis, before taking into account the cash flow from collaterals, amounted to EGP 2 061 368 thousand as at 31/12/2016 versus EGP 1 392 408 thousand as at 31/12/2015.

Herein below, is the analysis of the net value of loans and advances subject to impairment on individual basis including the fair value of collaterals the bank has obtained against these loans:

EGP 000

31/12/2016

	Retail				Corporate				
	Overdraft accounts	Credit Cards	Personal Loans	Mortgage	Overdraft accounts	Direct Loans	Syndicated Loans	Other Loans	Total loans and advances to customers
Balance	349	7 432	472 390	4 516	626 737	76	946 610	3 258	2 061 368
Provision	(344)	(1 264)	(287 322)	(1 345)	(514 139)	(19)	(946 610)	(3 216)	(1 754 259)
Net	5	6 168	185 068	3 171	112 598	57	-	42	307 109
The fair value of collaterals	-	-	-	-	13 153	-	-	19	13 172

EGP 000

31/12/2015

	Retail				Corporate		
	Overdraft account	Credit Cards	Personal Loans	Mortgage	Overdraft account	Syndicated Loans	Total loans and advances to customers
Balance	376	6 860	527 131	5 960	580 849	271 232	1 392 408
Provision	(353)	(1 422)	(323 718)	(4 744)	(514 901)	(270 781)	(1 115 919)
Net	23	5 438	203 413	1 216	65 948	451	276 489
The fair value of collaterals	-	-	-	-	38 390	-	38 390

Restructured Loans & Facilities:

The restructuring activities include extending of repayment's arrangements, implementation of obligatory management programs, amending and postponing repayment. The policies of restructuring application depend on indicators or standards which refer to the high prospects of continuance repayment based on the management's personal judgment. These policies are reviewed on regular basis. Restructuring is usually applied on long term loans, especially customers financing loans. Loans which have been subject to renegotiations have reached EGP 971 383 thousand as at 31/12/2016 versus EGP 610 390 thousand as at 31/12/2015.

	31/12/2016 EGP 000	31/12/2015 EGP 000
Retail		
- Personal Loans	52 492	-
Total Retail Loans	52 492	-
Corporate		
- Overdraft account	31 105	33 904
- Direct loans	887 786	576 486
Total Corporate Loans	918 891	610 390
Total	**971 383**	**610 390**

A/7 Debt instruments, treasury bills and other governmental notes:

The following table represents an analysis of debt instruments, treasury bills and other governmental notes at the end of the financial period based on the assessment of Standard & Poor's rating or its equivalent:

EGP 000

	Treasury bills and other governmental notes	Investments in Securities	Total
AAA	-	5 185	5 185
Less than - A	11 845 036	1 331 480	13 176 516
Unclassified	-	51 853	51 853
Total	11 845 036	1 388 518	13 233 554

A/8 Acquisition of collaterals

During the present financial year, the bank has obtained assets by acquiring some collaterals as follows:-

Type of assets	**EGP 000 Book value**
Land and Buildings	766
Machinery and Equipment	694
Total	**1 460**

Acquired assets are sold whenever practicable, and are recorded under the "Other Assets" item in the balance sheet

A/9 The concentration of financial assets' risks exposed to credit risk
Geographical segments

The following table represents an analysis of the bank's most important boundaries of credit risk at book value, distributed in accordance with the geographical segment as at 31 December 2016.

EGP 000

	Cairo	Alex., Delta and Sinai	Upper Egypt	Total
Treasury bills and other governmental notes	11 845 036	-	-	11 845 036
Loans and advances to customers :				
- Loans to individuals (Retail):				
Overdraft accounts	243 841	279 935	118 522	642 298
Credit cards	86 040	-	-	86 040
Personal loans	3 700 965	5 977 792	3 942 478	13 621 235
Mortgage	14 667	978	886	16 531
- Loans to corporate				
Overdraft accounts	3 161 289	1 212 046	360 477	4 733 812
Direct loans	7 059 942	923 973	112 134	8 096 049
Syndicated loans	5 872 447	-	-	5 872 447
Other loans	466	2 983	252	3 701
Financial Investments				
Debt instruments	1 388 518	-	-	1 388 518
Other assets	161 072	29 500	7 744	198 316
Total as at 31/12/2016	33 534 283	8 427 207	4 542 493	46 503 983
Total as at 31/12/2015	26 648 568	8 020 446	4 415 149	39 084 163

Business Segment

The following represents an analysis of the most important boundaries of credit risk at book value, distributed according to the customers' business and activities.

EGP 000

31/12/2016	Financial Institutions	Industrial Institutions	Real estate Activity	Wholesale and retail trade	Governmental sector	Other activities	Individuals	Total
Treasury bills and other governmental notes	-	-	-	-	11 845 036	-	-	11 845 036
Loans & advances to customers:								
Loans to individuals (Retail)								
Overdraft accounts	-	-	-	-	-	-	642 298	**642 298**
Credit cards	-	-	-	-	-	-	86 040	**86 040**
Personal loans	-	-	-	-	-	-	13 621 235	**13 621 235**
Mortgage	-	-	-	-	-	-	16 531	**16 531**
Loans to Corporate								
Overdraft accounts	18 058	1 646 219	462 537	1 191 862	55 198	1 359 938	-	**4 733 812**
Direct loans	134 905	3 384 506	1 062 842	759 627	1 667 795	1 086 374	-	**8 096 049**
Syndicated loans	-	2 699 272	67 736	106 536	1 977 942	1 020 961	-	**5 872 447**
Other loans	-	950	367	1 221	-	1 163	-	**3 701**
Financial Investments								
Debt instruments	26 565	-	-	-	1 356 768	5 185	-	**1 388 518**
Other assets	38 556	-	-	-	32 648	58 431	68 681	**198 316**
Total as at 31/12/2016	**218 084**	**7 730 947**	**1 593 482**	**2 059 246**	**16 935 387**	**3 532 052**	**14 434 785**	**46 503 983**
Total as at 31/12/2015	**136 844**	**5 963 299**	**938 117**	**1 791 296**	**13 773 415**	**2 422 617**	**14 058 575**	**39 084 163**

B- Market Risk

The bank is exposed to market risk represented in volatility in fair value or future cash flows resulted from changes in market prices. Market risk arise from the open positions of interest rates, currency rates and the equity instruments as each of them is exposed to the market's general and specific movements as well as to the changes in the sensitivity level of market prices or rates such as interest rates, foreign exchange rates and the equity instruments' prices. The bank separates exposures to market risk either held for trading or held for non-trading portfolios.

The management of market risk resulted from trading, non-trading activities are centralized in the market risk department in the bank and market risks reports are submitted to the board of directors and heads of business units on a regular basis.

The trading portfolios include these positions resulting from the bank's direct dealing with customers or with the market. Whereas, the non-trading portfolios, arise mainly from management of the return rate of assets and liabilities related to retail transactions. These portfolios include the foreign exchange risks and equity instruments resulted from investments available for sale.

B-1 Methods of Measuring Market Risk

As part of the market risk management the bank, enters into interest rate swaps in order to balance the risk associated with the debt instruments and long term loans with fixed interest rate in case the fair value option is applied. The following are the most important measurement methods applied to control the market risk.

- **Value at Risk**

  The bank applies "value at risk" method for trading and non trading portfolios in order to estimate the market risk of outstanding positions and the maximum limit of expected loss based on a number of assumptions for the various changes of market conditions. The board of directors sets limits for "value at risk" which the bank can accept for trading and non-trading separately and monitored daily by the Market Risk department in the bank.

  Value at risk is a statistical estimate of the potential movements of the present portfolio due to market's adverse moves. It is an expression of the maximum value the bank can lose using a defined confidence factor (99%) consequently there is a statistical probability of (1%) that the actual loss may be greater than the expected value at risk. The value at risk model assumes a defined retention period (ten days) before closing of the open positions. It also assumes that the market movement during the retention period will follow the same pattern of movement that occurred during the previous ten days. The bank should assess these historical changes in rates, prices, and indicators directly on current positions, a method known as historical simulation. Actual outputs should be monitored and controlled on a regular basis to measure the integrity of the assumptions and factors applied to calculate value at risk.

  The use of this method does not prevent the losses over these limits and within the limits of large movements in the market. Since the value at risk is an essential part of the banks' system in control of the market risk. The Board of Directors set the value at risk limits annually for each of the trading and non-trading and split on units of activity. The actual values at risk; are compared with limits set by the Bank and reviewed daily by the bank's risk management. The average daily value at risk during the financial period ended 31 December 2016 amounted to EGP 44 244 thousand, versus EGP 11 671 thousand during the comparative period.

The quality of value at risk model is continuously monitored by reinforcing testing to reinforce the results of value at risk of the trading portfolio and the results of such tests are usually reported to senior management and board of directors.

- **Stress Testing**
  Stress testing gives an indicator of the potential size of losses, which may arise from extremely adverse conditions. Stress testing is designed in a way that suites business and activity by applying typical analysis of defined scenarios. The market risk department undertakes Stress testing to include the stress testing of risk factors where a set of extreme movements is applied on each risk category. There is also stress testing applied on emerging markets, which are subject to extreme movements, and special stress testing that includes potential events, which may affect certain centers or regions such as what can happen in a region currency peg break. The senior management and board of directors monitor and review the results of stress testing.

B/2 Summary of value at risk

Total value at risk according to the risk type

	EGP 000 31/12/2016			EGP 000 31/12/2015		
	Medium	**Higher**	**Lower**	**Medium**	**Higher**	**Lower**
Interest rate risk	44 244	106 955	22 370	11 671	18 360	7 761
Total value at risk	**44 244**	**106 955**	**22 370**	**11 671**	**18 360**	**7 761**

The bank did not estimate exchange rate risk and equity instruments risk as the data is not available.

Value at risk of the trading portfolio according to the risk type

	EGP 000 31/12/2016			EGP 000 31/12/2015		
	Medium	**Higher**	**Lower**	**Medium**	**Higher**	**Lower**
Interest rate risk	-	-	-	-	-	-
Total value at risk	-	-	-	-	-	-

The bank did not estimate exchange rate risk and equity instruments risk as the data is not available.

Value at risk of the non-trading portfolio according to the risk type

	EGP 000 31/12/2016			EGP 000 31/12/2015		
	Medium	**Higher**	**Lower**	**Medium**	**Higher**	**Lower**
Interest rate risk	44 244	106 955	22 370	11 671	18 360	7 761
Total value at risk	**44 244**	**106 955**	**22 370**	**11 671**	**18 360**	**7 761**

The bank did not estimate exchange rate risk & equity instruments risk as the data is not available.

The increase in the value at risk, especially interest rate risk, related to the increase in the sensitivity of interest rates in international financial markets.

The previous results of value at risk calculated separately and independently from the concerned positions and historical movements of markets. Total values at risk for trading and non-trading do not form the bank's value at risk given the correlation between the types of risks and types of portfolios and the subsequent diverse impacts.

B/3 The risk of fluctuations in foreign exchange rates

The bank is exposed to the risk of fluctuations in foreign exchange rates on its financial position and cash flows and the board of directors have set limits of foreign currencies in total value for each position at the end of the day and during the day, which are monitored on the spot. The following table summarizes the extent of the bank's exposure to fluctuations in exchange rates risk at 31 December 2016. The following table includes the book value of financial instruments distributed into its component currencies:

The concentration of currency risk of financial instruments

EGP 000

	EGP	USD	Euro	GBP	Other Currencies	Total
As at 31/12/2016						
Financial assets:						
Cash and balances with Central Bank of Egypt	1 935 433	121 332	40 922	3 363	45 717	**2 146 767**
Due from banks	10 363 645	4 240 129	562 470	162 762	95 783	**15 424 789**
Treasury bills and other governmental notes	11 648 395	196 641	-	-	-	**11 845 036**
Loans and advances to customers	21 593 225	7 836 405	502 373	2 243	65 782	**30 000 028**
Financial assets classified at fair value through profit and loss	-	-	6 430	-	-	**6 430**
Financial Investments:						
- Available -for- sale	1 720 434	413 563	904	-	-	**2 134 901**
- Held-to-maturity	26 565	-	-	-	-	**26 565**
Total financial assets	**47 287 697**	**12 808 070**	**1 113 099**	**168 368**	**207 282**	**61 584 516**
Financial liabilities :						
Due to banks	6 392	268 330	5 878	2 427	35 920	**318 947**
Customers' deposits	38 894 240	11 360 661	1 053 217	156 143	156 331	**51 620 592**
Other loans	86 747	669 650	-	-	-	**756 397**
Total financial liabilities	**38 987 379**	**12 298 641**	**1 059 095**	**158 570**	**192 251**	**52 695 936**
Net of financial position	**8 300 318**	**509 429**	**54 004**	**9 798**	**15 031**	**8 888 580**
Credit related commitments	3 360 244	2 024 857	3 942 483	216 700	4 148	**9 548 432**
As at 31/12/2015						
Total financial assets	40 490 364	5 382 636	513 026	93 182	115 294	46 594 502
Total financial liabilities	33 512 324	5 027 670	496 551	85 998	117 851	39 240 394
Net of financial position	6 978 040	354 966	16 475	7 184	(2 557)	7 354 108
Credit related commitments	1 836 820	757 073	1 449 892	96 545	7 496	4 147 826

B/4 Interest rate risk

The bank is exposed to the impact of the fluctuations in the levels of interest rates prevailing in the market, include the cash flow risk of interest rate represented in the volatility of future cash flow of a financial instrument due to changes in the interest rate of the mentioned instrument. Whereas the interest rates fair value risk is the risk of fluctuations in the value of the financial instrument due to changes in interest rates in the market. The interest margin may rise due to these changes but still the profits may decrease if unexpected movements occur. The board of directors set limits for the level of difference in the re-pricing of interest rate that the bank can maintain and treasury department in the bank daily monitors this.

The following table summarizes the extent of the bank's exposure to the risk of fluctuations in interest rates that includes the book value of financial instruments distributed based on the price of re-pricing dates or maturity dates whichever is sooner:

EGP 000

As at 31/12/2016	Up to 1 month	1 -3 months	More than 3 months – 1 year	1- 5 years	More than 5 years	Interest free	Total
Financial assets:							
Cash and balance with Central Bank of Egypt	-	-	-	-	-	2 146 767	**2 146 767**
Due from banks	10 841 066	2 500 000	2 000 000	-	-	83 723	**15 424 789**
Treasury bills and other governmental notes	3 409 562	6 606 549	1 828 925	-	-	-	**11 845 036**
Loans and advances to customers	12 937 543	3 492 100	3 595 824	8 253 026	1 603 380	118 155	**30 000 028**
Financial assets classified at fair value through profit and loss	6 430	-	-	-	-	-	**6 430**
Financial Investments:							
- Available for sale	210 119	1 139 177	84 954	541 472	159 179	-	**2 134 901**
- Held-to-maturity	-	-	-	26 565	-	-	**26 565**
Other financial assets	-	-	-	-	-	357 146	**357 146**
Total financial assets	**27 404 720**	**13 737 826**	**7 509 703**	**8 821 063**	**1 762 559**	**2 705 791**	**61 941 662**
Financial liabilities							
Due to banks	41 604	-	1 180	-	-	276 163	**318 947**
Customers' deposits	22 700 226	2 156 023	4 328 193	14 180 197	39 628	8 216 325	**51 620 592**
Other loans	20 276	-	78 779	383 463	273 879	-	**756 397**
Other financial liabilities	-	-	-	-	-	201 899	**201 899**
Total financial liabilities	22 762 106	2 156 023	4 408 152	14 563 660	313 507	8 694 387	52 897 835
The interest gap re-pricing	4 642 614	11 581 803	3 101 551	(5 742 597)	1 449 052	(5 988 596)	9 043 827
As at 31/12/2015							
Total financial assets	17 966 837	5 138 941	8 712 007	8 641 336	2 259 802	3 999 222	46 718 145
Total financial liabilities	19 190 924	2 204 928	3 573 869	6 864 985	12 176	7 510 187	39 357 069
Interest gap re-pricing	(1 224 087)	2 934 013	5 138 138	1 776 351	2 247 626	(3 510 965)	7 361 076

Liquidity risk

The liquidity risk is the risk that the bank is unable to meet its commitments associated with its financial obligations at maturity date and replacing the funds that withdrawn; and that may result of failure in meeting obligations related to repayment of the depositors funds or meeting the borrowing commitments.

- **Liquidity risk management**

  The processes of liquidity risk control carried by Assets and Liabilities management department in the bank include the following:

  - The daily funding is managed by monitoring and controlling the future cash flows to ensure the ability to fulfill all obligations and requirements. This includes replenishment of funds as they mature or is borrowed by customers. The bank maintains an active presence in the global money markets t
  - o ensure achievement of this target.
  - Maintaining a portfolio of highly marketable assets, which can easily be liquidated to meet any interruption in cash flows.
  - Monitoring liquidity ratios compared to the internal requirements of the bank and the Central Bank of Egypt's requirements.
  - Management of concentration and profile the debt maturities.

  Monitoring and reporting take the form of cash flow measurement and projections for the next day, week, and month respectively. The starting point for these projections represented in the analysis of the contractual maturities of financial liabilities and expected collection dates of financial assets.

  Assets and Liabilities management department controls the unmatched medium term assets management, the level and type of the unutilized portion of loans' commitments, the extent of utilizing overdraft accounts advances and the impact of contingent liabilities such as letters of guarantees and letters of credit.

- **Financing approach**

  Liquidity resources; reviewed by a separate team in the Assets and Liabilities management department of the bank to provide a wide variety of currencies, geographical regions, resources, products, and maturities.

- **Non derivative cash flows**

  The following table represents the cash flows payable by the method of non-derivative financial liabilities distributed based on remaining period from the contractual maturities on the balance sheet's date. The amounts presented in the table represent the undiscounted contractual cash flows while the bank manages the liquidity risk based on "expected" instead of contractual undiscounted cash flows,

EGP 000

31/12/2016	Up to 1 month	1-3 months	More than 3 months – 1 year	1-5 years	More than 5 years	Total
Financial liabilities (According to original amount + Interest)						
Due to banks	332 110	-	1 193	-	-	333 303
Customers' deposits	31 131 088	2 018 768	4 762 542	18 310 105	88 164	56 310 667
Other loans	20 276	-	79 861	383 463	273 879	757 479
Other financial liabilities	201 899	-	-	-	-	201 899
Total financial liabilities according to contractual maturity date	31 685 373	2 018 768	4 843 596	18 693 568	362 043	57 603 348
Total financial assets according to contractual maturity date	27 431 285	13 737 826	7 509 703	8 794 498	1 762 559	59 235 871

31/12/2015	Up to 1 month	1-3 months	More than 3 months -1 year	1-5 years	More than 5 years	Total
Financial liabilities (According to original amount + Interest)						
Due to banks	1 548 337	-	499	-	-	1 548 836
Customers' deposits	25 083 421	1 925 072	4 198 391	8 278 983	40 870	39 526 737
Other loans	66 979	-	9 566	55 001	-	131 546
Other financial liabilities	116 063	-	-	-	-	116 063
Total financial liabilities according to contractual maturity date	26 814 800	1 925 072	4 208 456	8 333 984	40 870	41 323 182
Total financial assets according to contractual maturity date	17 176 298	4 803 706	12 899 136	17 258 429	3 190 339	55 327 908

The assets available to meet all liabilities and to hedge commitments related to loans include cash and balances with Central Bank, due from banks, treasury bills and other governmental bills and loans and facilities to banks and customers. In the normal course of business, a proportion of customer loans contractually repayable within one year extended. The bank has the ability to meet unexpected net cash flows through selling financial securities as well as raising other funding resources.

- **Off-balance sheet items:-**

The following is according to Note no. (38)

EGP 000

31/12/2016	Less than 1 year	1-5 years	Total
Commitments of loans and facilities for customers	6 759 595	-	6 759 595
Financial guarantees, accepted bills and other financial facilities	9 548 432	-	9 548 432
Commitments on operational leasing contracts	1 593	4 620	6 213
Capital commitments due to fixed assets' acquisition	78 382	-	78 382
Capital commitments due to holding shares	-	111 332	111 332
Total	**16 388 002**	**115 952**	**16 503 954**

EGP 000

31/12/2015	Less than 1 year	1-5 years	Total
Commitments of loans and facilities for customers	5 314 894	-	5 314 894
Financial guarantees, accepted bills and other financial facilities	4 147 826	-	4 147 826
Commitments on operational leasing contracts	103	-	103
Capital commitments due to fixed assets' acquisition	4 383	-	4 383
Capital commitments due to holding shares	-	47 114	47 114
Total	**9 467 206**	**47 114**	**9 514 320**

D- The fair value of financial assets and liabilities

D-1 Financial instruments measured at fair value by applying valuation methods

The change in estimated fair value by applying valuation methods has reached EGP 50 173 thousand in the financial period ended 31 December 2016 versus EGP 4 318 thousand in the financial year ended 31 December 2015 with a increase of EGP 45 855 thousand during the period.

Financial instruments not measured at fair value

The following table summarizes the present value and the fair value of financial assets and liabilities, not presented in the bank's balance sheet at fair value:

EGP 000

	31/12/2016		31/12/2015	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial Assets:				
Due from banks	15 424 789	15 424 789	5 628 731	5 628 731
Loans and advances to customers				
Current balances	16 460 285	16 460 285	11 971 968	11 971 968
Financial investments:				
Held-to-maturity	26 565	39 905	40 319	52 121
Financial liabilities:				
Due to banks	318 947	318 947	1 548 831	1 548 831
Customers' deposits				
Current balances	20 780 222	20 780 222	12 178 978	12 178 978
Other loans	756 397	756 397	126 063	126 063

- **Due from banks**
  The fair value of the Due from banks is the book value where all Due from banks mature within a year.

- **Loans and advances to banks**
  Loans and advances to banks represented in loans other than deposits with banks. The expected fair value for loans and advances represents the discounted value of future cash flows expected for collection. Cash flows discounted by adopting the current market rate to determine the fair value.

- **Loans and advances to customers**
  Loans and advances presented in net after discounting the impairment loss provision. Loans and advances to customers; are divided to current and non-current balances and the book value of current balances is equal to the fair value but it is difficult to obtain the fair value of non-current balances.

- **Investments in financial securities**
  Investments in financial securities in the previous table include only held to maturity bearing assets. Available for sale assets; are assessed at fair value with the exception of equity instruments which the bank has been unable to evaluate their fair value to a reliable extent. The fair value of financial assets held to maturity is determined based on market rates or prices obtained from brokers. If these data are unavailable then the fair value; is assessed by applying the financial markets' rates for negotiable financial securities with similar credit features, maturity dates as well as similar rates.

- **Due to banks**
  The fair value of the due to banks is the book value where all due to banks mature within a year.

- **Customers' deposits**
  Customers' deposits are divided to current and non-current balances and the book value of current balances is equal to the fair value while could not obtain the present value of non-current balances.

E/1 Capital Management

The bank's objectives behind managing capital which include other elements in addition to the shareholders equity shown in the balance sheet are represented in the following:

- Comply with the legal capital requirements in Arab Republic of Egypt and in countries where the bank's branches operate.

- Protect the bank's ability to continue as going concern and enabling it to continue in generating return to shareholders and other parties that deals with the bank.

- Maintain a strong capital base that supports the growth of business.
- Capital adequacy and capital utilizations according to the regulator requirements (the Central Bank of Egypt in Arab Republic of Egypt); are reviewed and monitored daily by the bank's management through models, which depend on the guidelines of Basel Committee for Banking Supervision. Required information is submitted to the Central Bank of Egypt on a quarterly basis.

- Central Bank of Egypt requires each bank to do the following:

  - Maintain an amount of EGP 500 million as a minimum limit of issued and paid-up-capital.

  - Maintain a percentage between capital elements and asset and contingent liabilities elements weighted by risk equals to or exceeds 10%.

  - The overseas bank's branches outside Egypt are subject to the supervision rules regulating banking business in the countries where they operate.

- In accordance with the requirements of Basel II, the numerator of the capital adequacy ratio consists of the following two tiers:

Tier One:

A. Ongoing capital :

Consists of share capital , legal , statutory and capital reserve and retained earnings (retained losses) excluding the following :-

- Treasury Shares
- Good Will
- Bank investments in financial companies (Banks and Companies) and insurance companies [more than 10% or more of the company's issued capital].
- Increase in all bank investments where each investment individually is less than 10% of the company's issued capital for the value of 10% of ongoing capital after regulatory amendments (capital base before excluding investments in financial companies and insurance companies).

The following elements are not considered :-

- Fair value reserve of AFS financial investments (If negative).
- Foreign currency translation differences reserve (If negative).
- Where the above items are deducted from Basic capital if the balance is negative while it's not considered if it is positive.

B. Additional ongoing capital:

It consists of permanent non-cumulative preferred shares, quarterly profit (loss), minority rights and the difference between the nominal value and the current value of supplementary loans (deposits).

Interim profits is recognized only after approval of the auditor and the General Assembly approval of the distributions and the approval of CBE, interim losses are deducted without conditions.

Tier Two:

Consist of the following:-

- 45% of the increase in fair value of the book value of financial investments (AFS fair value reserve if positive, HTM financial investments, investments in associates and subsidiaries).
- 45% of the special reserve.
- 45% of positive foreign currency translation differences reserve.
- Hybrid financial instruments.
- Supplementary loans (deposits).
- Impairment loss provision of loans and contingent liabilities (must not exceed 1.25% of the total credit risk of performing assets and contingent liabilities weighted by risk weights, thus, the provision should be sufficient to meet the obligations for which the provision is allocated).

Exclusions of 50% of Tire I and 50% Tire II:

- Investments in non-financial companies (each individual) 15% or more of Basic ongoing capital of the bank before the regulatory amendments.
- Total value of bank investments in non-financial companies (each individual) less than 15% of core ongoing capital before regulatory amendments, these investments must exceed (collectively) 60% of ongoing capital of the bank before the regulatory amendments.
- Securitization portfolio.
- The share (in general banking risks reserve) of assets reverted to the Bank in settlement of debts.

When calculating the total numerator of capital adequacy, it should be noted that supplementary loans (deposits) must not exceed 50% of Tier I after exclusions.
Assets and contingent liabilities are likely weighted by credit risk weights, market risk and operating risks.

The bank has committed all of the domestic capital requirements over the past two years, the following table summarizes the components of basic and additional capital ratios and capital adequacy according to Basel II requirements at the end of 31/12/2016 , 31/12/2015:-

	31/12/2016	31/12/2015
	EGP 000	EGP 000
Capital		
Tier one (Ongoing basic capital)		
Share capital	800 000	800 000
General reserve	29 312	29 312
Legal reserve	400 000	380 144
Other reserves	632 627	679 508
Retained profits	2 539 008	1 864 080
Total ongoing basic capital	**4 400 947**	**3 753 044**
Tier two (Supplementary basic capital)		
Equivalent to general risks provisions	453 436	333 896
45% of the Special reserve	9 450	9 450
45% of the increase in the fair value over book value of financial investment without held -for- trading investment	225 840	139 005
Total supplementary basic capital	**688 726**	**482 351**
Total capital	**5 089 673**	**4 235 395**
Risk weighted assets and contingent liabilities:		
Credit Risk	36 274 883	26 711 642
Market Risk	295 175	369 333
Operation Risk	4 299 125	3 841 388
Total risk weighted assets and contingent liabilities	40 869 183	**30 922 363**
Capital adequacy ratio (%)	**12.45 %**	**13.70 %**

E /2 Financial leverage ratio

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

- As a guidance ratio starting from end of September 2015 till December 2017.
- As an obligatory ratio starting from the year 2018.

This ratio will be included in Basel requirement tier1 in order to maintain the effectiveness of the Egyptian Banking system, as well as keep up with the best international regulatory practices.

Financial leverage ratio reflect the relationship between tier I for capital that are used in capital adequacy ratio (after Exclusions) and the bank's assets (on and off-balance sheet items) that are not risk weighted assets.

Ratio Components

The numerator components

The numerator consists of tier I for capital that are used in capital adequacy ratio (after Exclusions) in accordance with the requirements of the Central Bank of Egypt (CBE)

The denominator components

The denominator consists of all bank's assets (on and off-balance sheet items) according to the financial statements, called "Bank exposures" including the following totals:

1- On balance sheet exposure items after deducting Tier I Exclusions for capital base.
2- Derivatives contracts exposure.
3- Financing Financial securities operations exposures.
4- off-balance sheet exposures "weighted exchange transactions".

The Financial leverage ratio as of 31/12/2016 and 31/12/2015is summarized in the following table:

	31/12/2016 EGP 000	31/12/2015 EGP 000
First: Tier I capital after exclusions	4 400 947	3 753 044
Total on-balance sheet exposures items (1)	64 066 691	48 655 371
Total contingent liabilities	4 674 808	2 055 366
Total commitments	1 547 846	1 114 579
Total exposures off-balance sheet (2)	6 222 654	3 169 945
Total exposures on and off-balance sheet (1+2)	70 289 345	51 825 316
Financial leverage ratio	% 6.26	% 7.24

4- The significant accounting estimates and assumptions

The bank applies estimates and assumptions, which affect the amounts of assets and liabilities disclosed in the next financial year. The estimates and assumptions are continuously assessed based on historical experience and other factors as well, including expectations of future events, which are considered reasonable in light of the available information and surrounding circumstances.

A) Impairment loss on loans and advances

The bank reviews the portfolio of loans and advances to assess the impairment on a quarterly basis at least. The bank determines at its own discretion whether the impairment charges should be recorded in the income statement, in order to know if there is any reliable data referring to the existence of a measurable decline in the expected future cash flows of the loan portfolio, before identifying the decline of the level of each loan in the portfolio. Such evidence may include observable data referring to a negative change in the ability of a borrower's portfolio to repay the bank, or to local or economic circumstances related to default in the bank's assets. Upon scheduling the future cash flows, the management use estimates based on prior loss experience for assets with same credit risk characteristics, in the presence of objective evidence, which refers to impairment similar to those included in the portfolio. The method and assumptions used in estimating both the amount and timing of future cash flows are reviewed on a regular basis to minimize any differences between estimated and actual losses based on experience. If the net present value of estimated cash flows differs by +/-5%, then the estimated impairment loss provision will increase or decrease by EGP 73 199 thousand of the formed provisions.

B) Impairment of investments in equity instruments available for sale:

The bank determines the impairment in available for sale equity instruments, when there is a significant or prolonged decline in their fair value below its cost. This determination whether the decrease is significant or prolonged depends on a discretionary judgment. To reach this judgment, the bank estimates- among other factors- the normal volatility of the share price. Additionally, there could be impairment if there is evidence on the existence of deterioration in the company's financial position, in which investments are injected, or in its operating and financing cash flows, in the industry's or the sector's performance, or in changes in technology.

If the full decline in the fair value below the cost is considered significant or prolonged decline, then the bank will suffer an additional loss of EGP 16 735 thousand , which represents the transfer of the negative balance of fair value reserve to the income statement.

C) Fair value of derivatives

Fair values of derivative financial instruments not quoted in active markets are determined by using valuation methods. When these methods are used to determine the fair value, they are tested and reviewed periodically by qualified personnel who are independent of the body that prepared them. All such models have been approved before being used and after being tested to ensure that their results reflect actual data and prices that can be compared with the market to the extent that is deemed practical. Reliable data is only used in these models ; however; areas such as credit risk related to the bank and counterparties, volatility or correlations require the management to use estimates. Changes in assumptions surrounding these factors may affect the fair value of the disclosed financial instruments.

D) Financial investments held to maturity

The non-derivative financial assets with fixed or determinable payments and maturity dates are classified as financial investments held to maturity. This classification requires to a great extent the application of discretionary judgment. To reach such decision, the bank evaluates its willingness and ability to hold these investments until maturity. If the bank fails to hold these investments until maturity date, with the exception of special cases such as the sale of an insignificant amount near maturity, then these investments, which were classified as held–to-maturity investments, shall be reclassified as available-for-sale investments. Consequently, these investments are measured by fair value instead of the amortized cost, in addition to the suspension of the classification of any investments under the mentioned item.

If the classification of investments held to maturity is suspended, then the book value will be adjusted by an increase of EGP 13 340 thousand to reach the fair value through recording a corresponding entry in the fair value reserve within shareholders' equity statement.

E) Income tax

The bank records the liabilities of the expected results of tax examination according to the estimates of the probability of the emergence of additional tax. When there is a discrepancy between the final result of the Tax Authority and the amounts previously recorded, then these discrepancies will affect the income tax and deferred tax provision for the year, in which the discrepancy has been identified.

5- Segment analysis

A - Business segment analysis

Business segment includes operational processes, as well as assets used in providing banking services and management of their related risk and return that are different from those of other business segments. It includes related to segment analysis of these operations in accordance with type of banking business as mentioned in the following:

Large, medium and small enterprises (SMEs)

They include the activities of current accounts, deposits, overdraft accounts, loans, credit facilities and financial derivatives.

Investments

It includes the activities of companies' mergers, the purchase of investments; the financing of company restructuring and financial instruments.

Retail

They include the activities of current and savings accounts, deposits, credit cards, personal loans, and mortgage loans.

Other activities

They include other types of banking business activities such as treasury management.

Transactions between the segmental activities are made in accordance with the bank's ordinary course of business and include operational assets and liabilities as presented in the bank's balance sheet.

EGP 000

31/12/2016	Corporate	Medium and small enterprises	Investment	Retail	Other activities	Total
Income and expenses according to segmental business activity						
Business activity income	1 650 193	581 608	78 210	5 460 566	(1 637 459)	6 133 118
Business activity expenses	(1 112 266)	(360 429)	(51 930)	(4 188 177)	1 941436	(3 771 366)
Results of activity business	537 927	221 179	26 280	1 272 389	303 977	2 361 752
Unclassified expenses	-	-	-	-	(492 507)	(492 507)
Profit before income tax of the period	537 927	221 179	26 280	1 272 389	(188 530)	1869 245
Income tax	-	-	-	-	(355 279)	(355 279)
Profit for the period	537 927	221 179	26 280	1 272 389	(543 809)	1 513 966
Assets and liabilities according to business activity as at 31/12/2016						
Business activity Assets	15 117 969	1 529 459	849 528	13 352 600	31 962 631	62 812 187
Business activity liabilities	6 358 923	3 393 899	-	41 492 446	11 566 919	62 812 187
Other items of business segment						
Depreciations	-	-	-	-	(81 892)	(81 892)
Impairment and other provisions on income statement	-	-	-	-	(119 978)	(119 978)

31/12/2015	Corporate	Medium and small enterprises	Investment	Retail	Other activities	Total
Income and expenses according to segmental business activity						
Business activity income	1 261 677	373 266	63 926	4 613 670	(1 144 552)	5 167 987
Business activity expenses	(865 404)	(243 586)	(38 752)	(3 305 682)	1 562 556	(2 890 868)
Results of activity business	396 273	129 680	25 174	1 307 988	418 004	2 277 119
Unclassified expenses	-	-	-	-	(462 803)	(462 803)
Profit before income tax of the period	396 273	129 680	25 174	1 307 988	(44 799)	1 814 316
Income tax	-	-	-	-	(423 896)	(423 896)
Profit for the period	**396 273**	**129 680**	**25 174**	**1 307 988**	**(468 695)**	**1 390 420**
Assets and liabilities according to segmental activity as at 31/12/2015						
Business activity assets	10 493 133	1 062 363	539 946	13 238 152	22 184 067	47 517 661
Business activity liabilities	2 863 954	2 774 393	14 253	31 739 440	10 125 621	47 517 661
Other items of business segment						
Depreciations	-	-	-	-	(75 847)	(75 847)
Impairment and other provisions on income statement	-	-	-	-	(146 148)	(146 148)

b- Geographical Segment Analysis

EGP 000

31/12/2016	Cairo	Alex. , Delta and Sinai	Upper Egypt	Total
Income and expenses according to geographical segment				
Geographical segment Income	4 178 022	1 258 408	696 688	6 133 118
Geographical segment expense	(2 526 547)	(1 126 491)	(610 835)	(4 263 873)
Profit before income tax of the period	1 651 475	131 917	85 853	1 869 245
Income tax	(355 279)	-	-	(355 279)
Profit for the period	**1 296 196**	**131 917**	**85 853**	**1 513 966**
Assets and liabilities according to geographical segment				
Geographical segment assets	49 768 737	8 364 478	4 678 972	**62 812 187**
Geographical segment liabilities	30 834 281	21 042 757	10 935 149	**62 812 187**
Other items of geographical segment				
Depreciations	(81 892)	-	-	(81 892)
Impairment and other provisions on income statement	(119 978)	-	-	(119 978)

EGP 000

31/12/2015	Cairo	Alex., Delta and Sinai	Upper Egypt	Total
Income and expenses according to geographical segment				
Geographical segment income	3 350 203	1 166 396	651 388	5 167 987
Geographical segment expenses	(1 869 281)	(988 030)	(496 360)	(3 353 671)
Profit before income tax of the period	1 480 922	178 366	155 028	1 814 316
Income tax	(423 896)	-	-	(423 896)
Profit of the period	1 057 026	178 366	155 028	1 390 420
Assets and liabilities according to geographical segment as at 31/12/2015				
Geographical segment assets	35 437 288	7 731 293	4 349 080	**47 517 661**
Geographical segment liabilities	22 561 352	16 345 835	8 610 474	**47 517 661**
Other items of geographical segment				
Depreciations	(75 847)	-	-	(75 847)
Impairment and other provisions on income statement	(146 148)	-	-	(146 148)

6- Net interest income

	For the year end 31/12/2016 EGP 000	For the year end 31/12/2015 EGP 000
Interest income on loans and similar income:		
Loans and advances to:		
- Customers	3 167 673	2 794 224
	3 167 673	2 794 224
Treasury bills and bonds	1 491 304	1 305 615
Current accounts and deposits	763 889	376 466
Investments in debt instruments	848	1 798
	5 423 714	4 478 103
Interest income on loans and similar income:		
Current accounts and deposits to:		
– Banks	(11 510)	(6 717)
– Customers	(2 071 107)	(1 678 381)
	(2 082 617)	(1 685 098)
Other loans	(12 073)	(4 766)
	(2 094 690)	(1 689 864)
Net	3 329 024	2 788 239

7- Net fee and commission income

	For the year end 31/12/2016 EGP 000	For the year end 31/12/2015 EGP 000
Fees & commissions income:		
Fees and commissions related to credit	260 992	284 000
Fees on the financing services (corporate)	627	450
Trust and custody fee	7 607	5 937
Other fees	278 220	269 155
	547 446	559 542
Fees and commissions expenses		
Other fees	(111 687)	(95 357)
	(111 687)	**(95 357)**
Net	**435 759**	**464 185**

8- Dividend income

	For the year end 31/12/2016 EGP 000	For the year end 31/12/2015 EGP 000
Available-for-sale securities	26 362	8 056
	26 362	**8 056**

9- Net income from financial assets classified at fair value through profit and loss

	For the year end 31/12/2016 EGP 000	For the year end 31/12/2015 EGP 000
Net income from :-		
Equity instruments	2 926	925
	2 926	**925**

10- Net trading income

	For the year end 31/12/2016 EGP 000	For the year end 31/12/2015 EGP 000
Foreign currency transactions:		
Profits of trading in foreign currencies	87 660	54 051
Profits of Trading debt instruments instruments	9 918	11 655
	97 578	**65 706**

11- Administrative expenses

	For the year end 31/12/2016 EGP 000	For the year end 31/12/2015 EGP 000
Employees cost		
- Wages and salaries	(824 368)	(815 582)
- Social Insurance	(43 961)	(45 634)
Pension cost		
- Defined-benefit plans (Note no.33)	(115 388)	(100 547)
- Early Retirement Benefits (*)	(226 075)	-
	(1 209 792)	**(961 763)**
Other administrative expenses	(492 507)	(400 229)
	(1 702 299)	**(1 361 992)**

(*) The financial obligations of the Early Retirement Program, for banks employees who decide to enjoy the early retirement pension and the bank grant the approval in the light of the organization of human resource to find an alternatives to ensure the efficiency of business continuity

12- Other operating expenses

	Amount	For the year end 31/12/2016 EGP 000 Aggregate	Amount	For the year end 31/12/2015 EGP 000 Aggregate
Revaluation losses of assets and liabilities balances in foreign currencies the following:				
Revaluation Provision for loan (debit)	(760 087)		(35 094)	
Revaluation Provision for contingent liabilities (debit)	(39 661)		(81)	
Revaluation Provision for Other assess (debit)	(2 671)		(4 229)	
Revaluation losses of assets and liabilities balances in foreign currencies with monetary nature other than held for trading or classified at inception at fair value through profit and loss(credit))	604 606		7 253	
Revaluation losses of assets and liabilities balances in foreign currencies with monetary nature other than held for trading or classified at inception at fair value through profit and loss		(197 813)		(32 151)
Gains from the disposition of the assets reverted to the Bank		2 196		1 555
(Loss) Gains on sale of property and equipment		799		(54)
Rents		(35 730)		(28 160)
Operating and finance lease		(1 678)		-
Reversal of other provisions (Note no. 31)		(22 311)		(34 823)
Others		4 632		14 293
		(249 905)		(79 340)

13- Impairment loss on loans and advances

	For the year end 31/12/2016 EGP 000	For the year end 31/12/2015 EGP 000
Loans and advances to customers (Note no. 19)	(98 020)	(110 972)
Impairment loss of Financial investments held to maturity (Note no. 21)	353	(353)
	(97 667)	(111 325)

14- Income tax expenses

	For the year end 31/12/2016 EGP 000	For the year end 31/12/2015 EGP 000
Current taxes	(354 476)	(426 885)
Deferred income taxes (Note no. 32)	(803)	2 989
	(355 279)	(423 896)

The view additional information about Deferred income taxes (Note no. 32), and different taxes on bank profits from the value that would result from the application of the applicable tax rates are as follows: -

	For the year ended 31/12/2016 EGP 000		For the year ended 31/12/2015 EGP 000	
	Amount	Aggregate	Amount	Aggregate
Accounting profit before tax		1 869 245		1 814 316
Tax at 22.5%	420 580		408 221	
Total tax		420 580		408 221
Add (deduct): -				
Expenses are not deductible	65 456		20 469	
The impact of provisions	(120 606)		4 027	
Tax exemptions	(12 485)		(6 133)	
		(67 635)		18 363
Tax according to the tax return		352 945		426 584
The price of the actual tax		18.9 %		23.5 %

Tax Position

Bank Tax Policy

The Bank calculates and pays tax due in accordance with the applicable laws, rules and regulations, and makes provisions for all tax liabilities after conducting the required study in light of the actual and forecast tax claims.

Following is the Bank's tax position:

A- Corporate Income Tax:

- Financial year from 2009 till 2011 The Bank received Form (9) from tax authority with no tax due .
- Financial year 2014, The Bank finished the tax disputes in the internal committee for the mentioned year and The Bank is currently Form (9) .
- Financial year ended in 31 December 2015 The Bank submits the required data to tax authority " Large tax payers " in order to start inspection process for mentioned year .
- Financial year ended in 31 December 2016,the corporate income tax declaration shows tax due .

B- Stamp Tax Duty

First : The status of Stamp Tax Duty before the period from the application of Law No. 143 of 2006.

In light with low no .79 for year 2016 stating the end of tax disputes, The Bank is currently taking actions to work with the mentioned law for pending tax disputes in internal committees, high challenge committees and specialized courts with its levels for the period before publication of low no . 143 for year 2006

Second : The status of Stamp Tax Duty after the period from the application of Law No. 143 of 2006.

As per the protocol signed between the Federation of Egyptian Banks (FEB) and the representatives of the Taxation Authority, Executive Directives No. 61/2015 dated 16/12/2015 were issued on the principles of stamp tax dutcomputing as to banks. Such Directives include the following directives that positively affect our Bank:

1- Regarding the balances of non-performing customers, Banks will be accountable for their share rather than the non-performing customers' share. In case the Bank makes a settlement with the indebted customers in any subsequent phase, banks shall pay Stamp tax, due by such debtors as of the first quarter in which the non-performing debt arose or the application of Law 143/2006, along with each payment as per the settlement schedule.

2- Regarding the balances of the customers that are subject to Article 20 of Law No. 8/1997 on Investment Guarantees and Incentives law and its amended, Banks will be accountable for their share, with the customers being exempted from their share, as the estimated 25 % on loans and facilities balances that have been subject to stamp duty were cancelled Accordingly, the following was applied:
   - For the period from 1/8/2006 to31/3/2007, the Bank's tax was re-inspected in light of these directives, and the The Bank received Form (6) stamp tax
   - Period starting from 1/1/2008 till 31/12/2009, the Bank was re-inspected and received re-inspection result as the tax authority did not apply the exemption for stamp duty related to some of exempted companies and public institutions, accordingly internal committee accepted such exemptions and finished the tax dispute for the mentioned year.
   - Period starting from 1/1/2010 till 30/09/2015, The bank received form 1 mentioning the inspection 'date, accordingly the bank submits the required data to large tax payers and coordinate with the mentioned tax authority for inspection and re-inspection process according to the protocol.

C- Payroll Tax

The dispute with the Major Tax payers was settled for the period till 2004. Income tax is currently under inspection for the years from 2005 to 2014

15- Basic earnings per share *

Basic earnings per share (EPS) are calculated by dividing net profit attributable to shareholders by the weighted average of ordinary shares issued during the period after excluding the average of shares the bank repurchased and are held among treasury shares, if any.

	For the year ended 31/12/2016 EGP 000	For the year ended 31/12/2015 EGP 000
Net profit for the year	1 513 966	1390 420
Board members' remuneration	-	(2 340)
Employees' profit share (in net profit of the year)	(151 421)	(137 069)
Shareholders' share in net profit of the year (1)	1 362 545	1 251 011
The weighted average of the ordinary issued shares (2) "shares in thousands"	400 000	400 000
Basic earnings per share (in EGP) (1:2)	3.41	3.14

* Diluted earnings per share have not been calculated as the bank has issued a single class of shares (ordinary shares).

16 - Cash and due from Central Bank of Egypt

	31/12/2016 EGP 000	31/12/2015 EGP 000
Cash	1 427 814	855 746
Balances at central bank within the mandatory reserve ratio	718 953	2 904 633
	2 146 767	**3 760 379**
Non- interest bearing balances	2 146 767	3 760 379

* Represented in the amounts deposited with the Central Bank of Egypt in the context of the rules of the calculation of 10% as a mandatory reserve, which is zero-return balances.

17 - Due from Banks

	31/12/2016 EGP 000	31/12/2015 EGP 000
Current accounts	848 879	332 026
Deposits	14 575 910	5 296 705
	15 424 789	**5 628 731**
Central banks other than the obligatory reserve ratio *	11 166 810	4 235 669
Local banks	1 181 223	292 864
Foreign banks	3 076 756	1 100 198
	15 424 789	**5 628 731**
Balances without interest	83 723	27 781
Balances with fixed return	15 341 066	5 600 950
	15 424 789	**5 628 731**
Current balances	14 109 290	5 077 992
Non-current balances	1 315 499	550 739
	15 424 789	**5 628 731**

* Including the amount of EGP 1 315 499 thousand, as the Bank shall maintain, as per the instructions of the Central Bank of Egypt, 10% of the customers' deposits in foreign currencies as a return-generating reserve with the CBE.

18 Treasury bills and other governmental notes

	31/12/2016 EGP 000	31/12/2015 EGP 000
Treasury bills due 91 days	7 286 900	2 054 100
Treasury bills due 182 days	882 125	2 134 500
Treasury bills due 273 days	2 542 978	3 515 725
Treasury bills due 364 days	1 511 550	2 038 125
Unearned income	(378 517)	(306 266)
Total	**11 845 036**	**9 436 184**

19 Loans and advances to customers

	31/12/2016 EGP 000	31/12/2015 EGP 000
Retail		
- Overdraft accounts	642 298	532 122
- Credit cards	86 040	63 442
- Personal loans	13 621 235	13 393 329
- Mortgage loans	16 531	22 176
Total (1)	**14 366 104**	**14 011 069**
Corporate including small loans for economic activities		
- Overdraft accounts	4 733 812	3 990 724
- Direct loans	8 096 049	6 034 626
- Syndicated loans	5 872 447	2 992 149
- Other loans	3 701	544
Total (2)	**18 706 009**	**13 018 043**
Total loans and advances to customers (1+2)	**33 072 113**	**27 029 112**
Impairment loss provision	(3 072 085)	(2 235 464)
Net	**30 000 028**	**24 793 648**
Distributed to:		
- Current balances	16 460 285	11 971 968
- Non-current balances	13 539 743	12 821 680
	30 000 028	**24 793 648**

Impairment loss provision

An analysis of the movement in the impairment loss provision for loans and advances to customers according to types:

31/12/2016

	Overdraft accounts EGP 000	Credit Cards EGP 000	Retail Personal Loans EGP 000	Mortgage loans EGP 000	Total EGP 000
Balance at the beginning of the year	412	3 118	698 951	5 231	**707 712**
Impairment loss during the period	57	428	(61 402)	(3 526)	**(64 443)**
Amounts written-off during the period	-	(431)	(9 887)	-	**(10 318)**
Amounts recovered during the period *	-	507	2 127	-	**2 634**
Differences in revaluation of foreign currencies	5	-	42 377	-	**42 382**
Balance at the year end	**474**	**3 622**	**672 166**	**1 705**	**677 967**

	Overdraft accounts EGP 000	Direct Loans EGP 000	Corporate Syndicated Loans EGP 000	Other Loans EGP 000	Total EGP 000
Balance at the beginning of the year	621 053	380 607	526 071	21	**1 527 752**
Impairment loss during the year	19 944	47 503	91 808	3 208	**162 463**
Amounts written-off during the year	(42 428)	-	-	-	**(42 428**
Amounts recovered during the year *	28 627	-	-	-	**28 627**
Differences in revaluation of foreign currencies	14 380	106 832	596 490	2	**717 704**
Balance at the year end	**641 576**	**534 942**	**1 214 369**	**3 231**	**2 394 11**
Total provision					**3 072 085**

* From amounts that have been previously written off.

31/12/2015	Overdraft accounts EGP 000	Credit Cards EGP 000	Retail Personal Loans EGP 000	Mortgage loans EGP 000	Total EGP 000
Balance at the beginning of the year	809	2 725	716 982	6 010	**726 526**
Impairment loss during the year	(364)	220	4 001	(775)	**3 082**
Amounts written-off during the year	(38)	(569)	(23 839)	(4)	**(24 450)**
Amounts recovered during the year *	-	742	1 808	-	**2 550**
Differences in revaluation of foreign currencies	5	-	(1)	-	**4**
Balance at the year end	**412**	**3 118**	**698 951**	**5 231**	**707 712**

	Overdraft accounts EGP 000	Direct Loans EGP 000	Corporate Syndicated Loans EGP 000	Other Loans EGP 000	Total EGP 000
Balance at the beginning of the year	782 413	292 137	504 986	21	**1 579 557**
Impairment loss during the year	(27 548)	82 133	53 304	-	**107 889**
Amounts written-off during the year	(159 143)	-	(59 315)	-	**(218 458)**
Amounts recovered during the year *	23 673	-	-	-	**23 673**
Differences in revaluation of Foreign currencies	1 658	6 337	27 096	-	**35 091**
Balance at the year end	**621 053**	**380 607**	**526 071**	**21**	**1 527 752**
Total Provision					**2 235 464**

20 Financial assets classified at fair value through profit and loss

	31/12/2016 EGP 000	31/12/2015 EGP 000
Equity instruments at fair value:		
- Listed in the market	6 430	3 645
Total Equity instrument at fair value	**6 430**	**3 645**
Total Financial assets classified at fair value through profit and loss	**6 430**	**3 645**

The value represents 140 127 shares of ISP equity securities owned by the bank with the dividends to be credited to the bank account. The amount due to Italian employee's beneficiary of these shares under the Parent Company's Remuneration System for Top Management is recorded under credit balances.

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* From amounts that have been previously written off.

21 Financial investments

	31/12/2016 EGP 000	31/12/2015 EGP 000
Available-for-sale financial investments		
Debt instruments at fair value:		
Listed on the market	1 336 669	2 434 560
Unlisted on the market	25 284	25 284
Equity instruments at fair value :		
Unlisted on the market	772 948	471 752
Total available for sale financial investments (1)	**2 134 901**	**2 931 596**
Financial investments held to maturity		
Debt instruments:		
Unlisted on the market	26 565	40 319
Total Financial investments held to maturity (2)	**26 565**	**40 319**
Total of Financial investments (1+2)	**2 161 466**	**2 971 915**
Current balances	1 424 164	2 447 745
Non-current balances	737 302	524 170
	2 161 466	**2 971 915**
Debt instruments with fixed interest	1 356 764	2 447 737
Debt instruments with variable interest	31 754	52 426
	1 388 518	**2 500 163**

	Available-for-sale investments EGP 000	Held-to-maturity investments EGP 000	Total EGP 000
Balance as at 1/1/2016	**2 931 596**	**40 319**	**2 971 915**
Additions	1 208 548	-	1 208 548
Disposals (sale/ redemption)	(2 414 820)	(14 107)	(2 428 927)
Gains from changes in fair value (Note no.35/c)	250 576	-	250 576
Impairment losses provision reversed	-	353	353
Amortization of issuance discount	159 001	-	159 001
Balance as at 31/12/2016	**2 134 901**	**26 565**	**2 161 466**
Balance as at 1/1/2015	**1 222 677**	**49 320**	**1 271 997**
Additions	3 110 094	-	3 110 094
Disposals (sale/ redemption)	(1 337 188)	(8 648)	(1 345 836)
Gains from changes in fair value (Note no.35/c)	95 345	-	95 345
Impairment losses provision reversed	-	(353)	(353)
Amortization of issuance discount	(166 832)	-	(166 832)
Reclassification of Portfolio of Associate Companies	7 500	-	7 500
Balance as at 31/12/2015	**2 931 596**	**40 319**	**2 971 915**

Gains from financial investments

	For the year end 31/12/2016 EGP 000	For the year end 31/12/2015 EGP 000
Gain on sale of available-for-sale financial investments	17 052	35 073
Gain from sale of financial investments held to maturity	6 078	2 293
	23 130	**37 366**

The settlement of the impairment loss provision of the financial investments held to maturity:

	31/12/2016 EGP 000	31/12/2015 EGP 000
Balance at the beginning of the year	(353)	-
Impairment losses on loans reversed during the year	353	(353)
Balance at the end of the year	-	**(353)**

22 Investments in associates

The Bank contributions in associates are as follows:-

31/12/2016	**Total shareholders' equity EGP 000**	**Bank's share percentage %**	**Bank's share in shareholders' equity EGP 000**
Misr International Towers Co.	156 460	27.86	43 584
	156 460		**43 584**

31/12/2015	**Total shareholders' equity EGP 000**	**Bank's Share Percentage %**	**Bank's share in shareholders' equity EGP 000**
Misr International Towers Co.	145 893	27.86	40 640
	145 893		**40 640**

The financial data of associates are as follows:

31/12/2016	**Country of the Company's Head Office**	**Balance Sheet date**	**Company's Assets EGP 000**	***Company's Liabilities (without shareholders' equity) EGP 000**	**Company's Revenues EGP 000**	***Profits (losses) of the company EGP 000**	**Share Percentag %**
Misr International Towers Co.	Egypt	30/09/2016	192 405	35 945	25 844	16 542	27.86
			192 405	**35 945**	**25 844**	**16 542**	

31/12/2015	*Country of the Company's Head Office	Balance Sheet date	Company's Assets	* Company's Liabilities (without shareholders' equity)	Company's Revenues	* Profits (losses) of the company	Share Percenta
			EGP 000	EGP 000	EGP 000	EGP 000	%
Misr International Towers Co.	Egypt	30/9/2015	179 008	33 115	21 761	13 389	27.86
			179 008	33 115	21 761	13 389	

23 Intangible assets

31/12/2016	Computer software programs	Benefits of rental contracts	Total
	EGP 000	EGP 000	EGP 000
Cost at the beginning of the year	195 276	655	195 931
Additions	14 562	-	14 562
Total cost	**209 838**	**655**	**210 493**
Amortization at the beginning of the year	(140 732)	(511)	(141 243)
Amortization for the year	(28 002)	(26)	(28 028)
Accumulated amortization	**(168 734)**	**(537)**	**(169 271)**
Net book value at the year end	**41 104**	**118**	**41 222**

31/12/2015	Computer Software Programs	Benefits of rental contracts	Total
	EGP 000	EGP 000	EGP 000
Cost at the beginning of the year	160 249	655	160 904
Additions	35 027	-	35 027
Total cost	**195 276**	**655**	**195 931**
Amortization at the beginning of the year	(118 623)	(485)	(119 108)
Amortization for the year	(22 109)	(26)	(22 135)
Accumulated amortization	**(140 732)**	**(511)**	**(141 243)**
Net book value at the year end	**54 544**	**144**	**54 688**

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* It includes the effect of decision of dividend payout (The Board members' and the employees' share).

24 Other assets

	31/12/2016 EGP 000	31/12/2015 EGP 000
Accrued revenues	335 755	110 370
Prepaid expenses	49 097	36 131
Payments under purchase of fixed assets	52 785	8 431
Assets reverted to the Bank in settlement of debts	28 369	95 324
Deposits with others	3 111	3 063
Others	409 041	332 881
	878 158	**586 200**
Less: Provisions for doubtful amounts	(106 082)	(91 882)
	772 076	**494 318**

25 Investment property

31/12/2016	Land	Buildings	Total
	EGP 000	EGP 000	EGP 000
Cost at the beginning of the year	51	197	248
Total cost	**51**	**197**	**248**
Depreciation at beginning of the year	-	(197)	(197)
Accumulated depreciation	-	(197)	(197)
Net book value at the year end	**51**	**-**	**51**

31/12/2015	Land	Buildings	Total
	EGP 000	EGP 000	EGP 000
Cost at the beginning of the year	51	197	248
Total cost	**51**	**197**	**248**
Depreciation at the beginning of the year	-	(197)	(197)
Accumulated depreciation	-	(197)	(197)
Net book value at the year end	**51**	**-**	**51**

26 Fixed assets

	Land and Buildings EGP 000	Improvements on leased assets EGP 000	Machinery and Equipment EGP 000	Others EGP 000	Total EGP 000
Balance as at 1/1/2015					
Cost	275 407	51 712	122 363	351 484	800 966
Accumulated depreciation	(99 131)	(31 864)	(71 432)	(252 804)	(455 231)
	176 276	**19 848**	**50 931**	**98 680**	**345 735**
Additions	5 758	3 806	19 600	13 284	42 448
Disposals	(253)	(1 612)	-	(1 176)	(3 041)
Depreciation for the year	(10 947)	(7 255)	(9 969)	(25 541)	(53 712)
Disposals' accumulated depreciation	218	1 088	-	726	2 032
Net Book value as at 31/12/2015	**171 052**	**15 875**	**60 562**	**85 973**	**333 462**
Balance as at 1/1/2016					
Cost	280 912	53 906	141 963	363 592	840 373
Accumulated depreciation	(109 860)	(38 031)	(81 401)	(277 619)	(506 911)
	171 052	**15 875**	**60 562**	**85 973**	**333 462**
Additions	46 820	1 560	5 146	38 735	92 261
Disposals	(1 687)	-	(1 191)	(1 808)	(4 686)
Depreciation for the year	(13 354)	(6 318)	(9 868)	(24 324)	(53 864)
Disposals' accumulated depreciation	1 217	-	878	1 470	3 565
Book value as at 31/12/2016	**204 048**	**11 117**	**55 527**	**100 046**	**370 738**
Balance as at 31/12/2016					
Cost	326 045	55 466	145 918	400 519	927 948
Accumulated depreciation	(121 997)	(44 349)	(90 391)	(300 473)	(557 210)
Net book value	**204 048**	**11 117**	**55 527**	**100 046**	**370 738**

27 Due to banks

	31/12/2016 EGP 000	31/12/2015 EGP 000
Current accounts	284 737	193 809
Deposits	34 210	1 355 022
	318 947	**1 548 831**
Central banks of Egypt- Current balances		
Local banks	77 838	1 344 126
Foreign banks	241 109	204 705
	318 947	**1 548 831**
Balances without interest	276 163	173 465
Balances with fixed interest	42 784	1 375 366
	318 947	**1 548 831**
Current balances	318 947	1 548 831

28 Customers' deposits

	31/12/2016 EGP 000	31/12/2015 EGP 000
Demand deposits	13 237 076	8 144 918
Term and notice deposits	5 727 753	3 612 160
Certificates of deposits and savings	16 918 204	10 676 281
Savings deposits	14 957 076	14 596 372
Other deposits	780 483	535 769
	51 620 592	**37 565 500**
Corporate deposits	10 122 475	5 804 595
Retail deposits	41 498 117	31 760 905
	51 620 592	**37 565 500**
Balances without interest	8 216 325	7 220 047
Balances with variable interest	35 132 668	26 449 026
Balances with fixed interest	8 271 599	3 896 427
	51 620 592	**37 565 500**
Current balances	26 780 222	12 178 978
Non-current balances	24 840 370	25 386 522
	51 620 592	**37 565 500**

Customers' accounts include deposits of EGP 1 272 767 thousand as at 31/12/2016 versus EGP 1 059 987 thousand as at 31/12/2015, Which represent collateral of customer loans, letters of credit, and letters of guarantee. Deposits' fair value approximately equals the present value of such deposits.

29 Other loans (long term loans)

	Interest Rate %	31/12/2016 EGP 000	31/12/2015 EGP 000
Loan within the framework of The Agricultural Sector Development Program	3.5: 4.5	86 747	57 420
Sanad Loan Fund for MSME	3.2962	121 655	68 643
Sanad Loan Fund for MSME	Lipor 6month+2.85%	182 665	-
Loan Green for Growth Fund Tranche one amounted to USD 15 million	Lipor 6month+2.95 %	273 998	-
Loan Green for Growth Fund Tranche two amounted to USD 5 million	Lipor 6month+2.95%	91 332	-
Total long term loans		**756 397**	**126 063**
Current balances		99 055	56 078
Non-current balances		657 342	69 985
		756 397	**126 063**

- The bank has fulfilled all of its loan obligations in terms of the principal, interest or any other terms and conditions during the current year and the comparative year.

30 Other liabilities

	31/12/2016 EGP 000	31/12/2015 EGP 000
Accrued interest	201 899	116 674
Prepaid revenues	95 773	77 007
Accrued expenses	(*) 239 500	129 117
Creditors	208 720	108 885
Remittances of Egyptian workers in Iraq – due to customers	59 242	60 107
Dividend payable	374 024	-
Other credit balances	921 284	814 926
	2 100 442	**1 306 716**

(*) Include EGP Million 50.4 as estimations for the financial liabilities resulting from the restructuring of staff members who decided to make advantage of early retirement (Note 11).

31- Other provisions

	31/12/2016 EGP 000	31/12/2015 EGP 000
Balance at the beginning of the year	491 253	470 151
Differences in valuation of foreign currencies	42 332	4 309
Charged to income statement	22 311	34 823
Used amounts during the year	(31 009)	(14 051)
Transfers from doubtful amounts provisions (other assets)	(14 200)	(3 979)
Balance at the end of the **year**	**510 687**	**491 253**

Other provisions include of an amount of EGP 201 417 thousand at 31/12/2016 to meet contingent liabilities and contractual commitments that amount to EGP 9 548 432 thousand, versus to EGP 152 122 thousand as at 31/12/2015 to meet contingent liabilities and contractual commitments that amount to EGP 4 147 826 thousand.

32- Deferred tax liabilities

- The deferred income tax has been calculated in full on the deferred tax differences according to the liabilities method by applying the actual tax rate of 22.5% for the present fiscal year
- Deferred tax assets resulting from carried forward tax losses are not recognized unless future taxable profits, through which carried forward taxable losses can be utilized, are likely to be proven.
- Deferred tax assets resulting from other provisions are not recognized.

Following are the balances and the movement in deferred tax assets and liabilities:

A- Recognized deferred tax liabilities

	Deferred tax liabilities	
	31/12/2016 EGP 000	31/12/2015 EGP 000
Fixed assets (depreciation)	(16 599)	(15 795)
Fair value differences	(138 543)	(78 117)
Total deferred tax liability	**(155 142)**	**(93 912)**

The movement of deferred tax liabilities:

	31/12/2016 EGP 000	31/12/2015 EGP 000
Balance at the beginning of theyear	(93 912)	(107 977)
Exclusions / (Additions)	(61 230)	14 065
Balance at the end of the year	**(155 142)**	**(93 912)**

The deferred tax recorded directly in equity:

	31/12/2016	31/12/2015
	EGP 000	EGP 000
Fair value differences	(138 543)	(78 117)
	(138 543)	**(78 117)**

B- Unrecognized deferred tax assets

	Deferred tax assets	
	31/12/2016	31/12/2015
	EGP 000	EGP 000
Other provisions (other than impairment loss, provision on customers' loans and income tax provision and performing contingent liabilities provision)	44 800	68 781
	44 800	**68 781**

Deferred tax assets related to the abovementioned items have not been recognized, due to the lack of reasonable assurance to benefit from them in the near future.

33- Retirement benefits obligations

	31/12/2016	31/12/2015
	EGP 000	EGP 000
Liabilities included in the financial position statement for:		
Post-retirement medical benefits	705 629	633 623
	705 629	**633 623**

Amounts recognized in the income statement:	For the year end 31/12/2016	For the year end 31/12/2015
	EGP 000	EGP 000
Post-retirement medical benefits	115 388	100 547
	115 388	**100 547**

The balances in the financial position statement are presented as follows:

	31/12/2016	31/12/2015
	EGP 000	EGP 000
The present value of funded obligations	905 397	841 930
Unrealized actuarial losses *	(199 768)	(208 307)
The liabilities in the financial position statement	**705 629**	**633 623**

The movement in liabilities during the period is represented in the following:

	31/12/2016 EGP 000	31/12/2015 EGP 000
The balance at the beginning of the year	633 623	563 208
Current service cost	11 966	10 136
Interest cost	92 613	81 374
Actuarial losses	10 809	9 037
Paid benefits	(43 382)	(30 132)
Balance at the end of the year	**705 629**	**633 623**

The recognized amounts in the income statement are presented as follows:

	For the year end 31/12/2016 EGP 000	For the year end 31/12/2015 EGP 000
Current service cost	11 966	10 136
Interest cost	92 613	81 374
Actuarial losses	10 809	9 037
	115 388	**100 547**

The principal actuarial assumptions used are presented as follows:

	31 /12/2016	31/12/2015
Discount rate	15%	11%
Previous service cost inflation rate	11.5%	9.5%
Future service assumption cost inflation rate	13%	11%
Mortality assumption	90 mortality cases every year	90 mortality cases every year
Employee turnover	15% pa at age 20 decreasing to 0.1% after age 50, 0% after age 54	0.5%

* Whereas actuarial losses are higher than 10% of the defined benefits liability, then the amortized amount has been recognized in the income statement.

34- Share capital

	No. of Shares (In millions)	Ordinary Shares	Total
		EGP 000	EGP 000
Balance at the beginning of the period / year	400	800 000	800 000
Balance at the end of the period / year	400	800 000	800 000

- The bank's authorized capital amounts to EGP 1 000 million.
- The issued and subscribed capital amounts to EGP 800 million, divided into 400 million shares with a par value of EGP 2 each and it has been fully subscribed and paid.
- On February 23rd, 2007, the Ministry of Investment (State owned assets management program) invited investment banks to submit their proposals for the public offering of 15% of the issued share capital and the remaining 5% to Alex Bank's employees and the subscription program is not implemented yet.

Therefore, the bank's issued and subscribed capital is divided as follows:

Name	Shareholding %	No. of Shares (000)	Nominal value Shares EGP 000
Intesa Sanpaolo S.P.A	70.25	281 000	562 000
International Finance Corporation I.F.C	9.75	39 000	78 000
Ministry of finance (Share of State)	20.00	80 000	160 000
	100%	400 000	800 000

35- Reserves and retained earnings

	31/12/2016 EGP 000	31/12/2015 EGP 000
Legal reserve	400 000	380 144
General reserve	29 312	29 312
Special capital reserve	413 383	413 383
Fair value reserve/financial investments available - for-sale	456 215	267 728
Other reserves	289 188	289 188
General Banking Risk Reserve	150	1 194
Specific reserve	21 000	21 000
Total reserves	**1 609 248**	**1 401 949**

- No amounts shall be distributed from the balance of the special capital reserve expect after obtaining the approval of the Central Bank of Egypt (CBE).

The movement in reserves is as follows:

(35/a) Legal reserve

	31/12/2016 EGP 000	31/12/2015 EGP 000
Balance at the beginning of the year	380 144	343 979
Formed from the financial year's profits 2015,2014	19 856	36 165
Balance at the end of the year	**400 000**	**380 144**

- According to the Bank's Articles of Association, 5% of the annual net profit shall be retained to make the legal reserve, and retaining profit shall stop for the legal reserve balance when it reaches 50% of the share capital.

(35/b) Special capital reserve

	31/12/2016 EGP 000	31/12/2015 EGP 000
Balance at the beginning of the year	413 383	412 912
Formed from the financial year 's profits 2015, 2014	-	471
Balance at the end of the year	**413 383**	**413 383**

(35/c) Fair value reserve/ financial investments available for sale

	31/12/2016 EGP 000	31/12/2015 EGP 000
Balance at the beginning of the year	267 728	167 486
Net gains from change in fair value (Note no.21)	250 576	95 345
Net gains transferred to income statement resulting from disposals	(2 729)	(5 876)
The impact on the reserve after calculating the bonds by the amortized cost	1 066	(303)
Deferred tax liability (Note no.32)	(60 426)	11 076
Balance at the end of the year	**456 215**	**267 728**

(35/d) Retained earnings

The movement in retained earnings	**31/12/2016 EGP 000**	**31/12/2015 EGP 000**
Balance at the beginning of the year	3 281 374	2 578 495
Change in general banking risk reserve	1 044	125
Net profits of the current year	1 513 966	1 390 420
Employees' share in financial year 2015/2014 profit	(137 069)	(68 713)
Board of directors' members remuneration for financial year 2015/2014	(2 340)	(2 210)
Transferred to legal reserve	(19 856)	(36 165)
Transferred to Special capital reserve	-	(471)
Shareholders' dividends in financial year 2015/2014	(556 168)	(579 013)
Dividends from Associates transferred to Bank's share	-	(1 094)
Balance at the end of the year	**4 080 951**	**3 281 374**

36- Dividend

Dividend is not recorded until it is approved by the General Assembly of Shareholders . The Board of Directors in accordance with the Bank's Bylaws proposes to the Assembly scheduled to be held 1 March 2017 a distribution to the Shareholders of an amount of EGP 40 million; and the Board of Directors has to distribute an amount of EGP 151 421 thousand for employees as a share in profits (the actual distributions amounted of EGP 137 069 thousand for employees and the amount of EGP 2 340 thousand as remuneration to the members of the Board of Directors for the previous year) and not recognized in these presented financial statements resolution . And the dividend recorded for shareholders' and employees' share in profits and Board of Directors members remuneration in equity distribution of retained earnings in the year ended 31 December 2016

37- Cash and cash equivalents

For the presentation of the cash flows statement, cash and cash equivalents include the following balances with maturities of no later than three months from the acquisition date.

	31/12/2016 EGP 000	**31/12/2015 EGP 000**
Cash and due from Central Bank of Egypt (Note no.16)	1 427 814	855 746
Due from banks (Note no. 17)	10 924 789	5 628 731
Treasury bills and other governmental notes (Note no. 18)	7 083 323	2 034 525
	19 435 926	**8 519 002**

38- Contingent liabilities and commitments:

a) Legal Claims

There are a number of cases filed against the bank on 31 December 2016, and the balance of the claims' provision amounted to EGP 56 636 thousand.

b) Capital commitments

1- Financial investments

The value of the capital commitments related to financial investments which are not required to be paid until 31 December 2016 amounted to USD 6 095 thousand as follows:

			USD 000
Available - for - sale investments (foreign currency)	**Investment value**	**Paid amount**	**Remaining amount and not requested**
Horus Fund for Investment in Agricultural and Food Sector	3 496	3 401	95
African Bank for Import and Export - Afrexim	10 000	4 000	6 000
	13 496	**7 401**	**6 095**

2- Fixed assets and fittings and fixtures of branches

The value of the commitments related to the purchase contracts of fixed assets and the fittings and fixtures of the branches that has not yet been made till the reporting date amounted to EGP 78 382 thousand on 31 December 2016 , versus EGP 4 383 thousand on December 31, 2015. The Top Management has sufficient confidence in generating revenues and providing the finance required to cover these commitments.

c) Commitments related to loans, guarantees, and facilities

The bank's commitments related to loans, guarantees and facilities are represented in the following:

	31/12/2016 EGP 000	**31/12/2015 EGP 000**
Loan commitments	6 759 595	5 314 894
Accepted documentation	142 147	101 778
Letters of guarantee	9 000 738	3 811 918
Letters of credit “import”	317 941	143 316
Letters of credit “export”	87 606	90 814
Total	**16 308 027**	**9 462 720**

d) Commitments on operational leasing contracts:

The total of minimum lease payments on irrevocable operational leasing contracts is as follows:

	31/12/2016 EGP 000	**31/12/2015 EGP 000**
Not more than one year	1 593	103
More than one year but less than five years	4 620	-
Total	**6 213**	**103**

39- Transactions with related parties

- The bank is a subsidiary of the Parent Bank (Intesa Sanpaolo Bank - Italy), in which it owns 70.25% of the ordinary shares, whereas the remaining percentage 29.75% is owned by other shareholders.

- The bank has entered into many transactions with the related parties within the context of its normal business. These transactions include loans, deposits, as well as foreign currency swaps.

- The transactions and the balances of the related parties at the end of the fiscal year are as follow:

A) Deposits from related parties:

	31/12/2016 EGP 000	31/12/2015 EGP 000
Due to customers		
Deposits at the beginning of the year /year beginning	4 225	1 735
Deposits at the end of the year	**4 225**	**1 735**

B) Transactions with the Parent Bank (Intesa Sanpaolo Bank):

	31/12/2016 EGP 000	31/12/2015 EGP 000
Statement of financial position		
Due from banks	204 636	185 522
Debit balances and other assets	5 548	1 315
Due to banks	4 780	51 628
Credit balances and other liabilities	372 820	486

Income statement

	For the year ended 31/12/2016 EGP 000	For the year ended 31/12/2015 EGP 000
Interest income banks	354	975
Interest expenses banks	3	13
Expenses Central Depository Shares	1 600	1 595

C) Board of Directors and the Top Management Benefits

The monthly average amount of the 20 biggest employees' salaries for the current year is amounted to EGP 3.08 million as at 31 December 2016 versus EGP 2.19 million as at 31 December 2015.

40- Mutual funds

It is an activity authorized for the Bank by virtue of Capital Market Law No. 95/1992 and its Executive Regulations.
These funds, which are managed by EFG- Hermes Fund Management Company, are as follows:

A) Bank of Alexandria Mutual Fund (with periodical return and capital growth)

The certificates of the fund reached 3 million with an amount of EGP 300 million (after increasing the capital of the mutual fund on March 26th, 2006 with an amount of EGP 100 million). 50 thousand certificates were allocated to the Bank to undertake the fund's activity after Clause (6) of the prospectus was amended under the approval of the Capital Market Authority (CMA), in order that the percentage be amended to 2% instead of 5% under Article No. 150 by the Ministerial Decree No. 209 for period 2007 from the capital market law executive regulations.
The Bank investment in the fund amounted to 50 thousand certificates (including certificates of activity undertaking), and their redeemable value amounted to EGP 14.552 million as at 31 December 2016.

The redeemable value of the certificate as at 31 December 2016 amounted to EGP 291and the outstanding certificates at that date reached 171 thousand certificates.
According to the fund's management contract and its prospectus, the Bank shall be paid fees and commissions in return for its supervision of the fund and other administrative services rendered thereby. Total commissions amounted to EGP 290 thousand as at 31 December 2016, which were presented under the item of "Fee and commission income" in the income statement.

B) Bank of Alexandria's Monetary Mutual Fund (with daily-accumulated return in Egyptian pound)

The certificates of the fund reached 20 million certificates with an amount of EGP 200 million. As the fund is an open fund, the Bank adjusts its allocated percentage on a daily basis.

The Bank investments in the fund amounted to a number of 0.655 million certificates (including certificates of activity undertaking), and their redeemable value amounted to EGP 16.522 million as at 31 December 2016.
The redeemable value of the certificate amounted to EGP 25.2409 as at 31 December 2016, and the outstanding certificates at that date reached 32 789 thousand certificates.

According to the fund's management contract and its prospectus, the Bank shall be paid fees and commissions for its supervision on the fund and other administrative services rendered thereby. Total commissions amounted to EGP 6 173 thousand as at 31 December 2016, which were presented under the item of "Fee and commission income" in the income statement.

C) Bank of Alexandria Fixed Income Fund (with quarterly return)

The certificates of the fund reached 10 million certificates with an amount of EGP 100 million. 500 thousand certificates have been allocated to the Bank to undertake the fund's activity according the Article No. 150 of the executive regulations of the Capital Market Law No. 95/1992. It is worth mentioning that the fund is an open-ended fund with a quarterly return.

The Bank investment in the fund amounted to 500 thousand certificates (including certificates of activity undertaking), and their redeemable value amounted to EGP 8.734 million as at 31 December 2016.
The redeemable value of the certificate amounted to EGP 17.46791 as at 31 December 2016 and the outstanding certificates at that date reached 4 558 thousand certificates.
According to the fund's management contract and its prospectus, the Bank shall be paid fees and commissions for its supervision on the fund and other administrative services rendered thereby. Total commissions amounted to EGP 282 thousand as at 31 December 2016 which were presented under the item of "Fee and commission income" in the income statement.

CEO and Managing Director	Chief Financial Officer
Dante Campioni	Mohamed Raef

2