Bank of Alexandria

(Egyptian Joint Stock Company)

Financial Statements

At 31 December 2018

& Auditor's Report

BDO Khaled & Co.
Public Accountant & Advisers

Wahid Abdel Ghaffar & Co.
Public Accountant & Consultants

Bank of Alexandria

(Egyptian Joint Stock Company)

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Wahid Abdel Ghaffar & Co.
Public Accountant & Consultants

BDO

BDO Khaled & Co.
Public Accountant & Advisers

Translation of financial statements
originally issued in Arabic

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 statement of financial position as of 31 December 2018 and the statements of income, changes in equity and cash flows for the 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, the management's 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.

Auditor's 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements , whether due to fraud or error. In making those risk assessment, 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 2018, and its financial performance and its cash flows for the year then ended, 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.

Report on Legal and Other Regulatory Requirements

No material contravention of the Central Bank of Egypt, Banking and Monetary Institutions Law No. 88 of 2003, were noted during the financial year ended 31 December 2018.

The bank keeps proper records, which include all that is required by law and the statues of the bank, and the accompanying financial statements are in agreement therewith.

The financial information contained in the report of Board of Directors prepared in confirmity with Law No. 159 of 1981 and its Executive Regulations and their amendments, is in agreement with the Bank's accounting records within the limits that such information is recorded therein.

Auditors

Tarek Salah, CPA	**Mohanad T. Khaled**
Member of AICPA	Fellow of ACCA
Fellow of ESAA	Fellow of ESAA
R.A.A 9631	R.A.A. 22444
FRA. No. 105	FRA No. 375
BT Wahid Abdel Ghaffar & Co.	**BDO Khaled & Co.**

Cairo, 31st January 2019

Bank of Alexandria
(Egyptian Joint Stock Company)
Financial Position
As at 31 December 2018

Assets	Note No.	31 December 2018 EGP 000	31 December 2017 EGP 000
Cash and balances at Central Bank of Egypt	(16)	3 915 184	4 137 615
Due from banks	(17)	29 238 822	23 795 746
Treasury bills and other governmental notes	(18)	19 070 088	14 885 831
Loans and advances to customers	(19)	38 239 121	32 148 661
Financial assets classified at fair value through profit and loss	(20)	4 384	5 388
Financial investments :			
Available -for- sale	(21)	2 571 649	1 244 791
Held -to- maturity	(21)	30 187	31 885
Investments in associates	(22)	60 373	58 122
Intangible assets	(23)	193 523	152 308
Other assets	(24)	1 225 539	777 220
Fixed assets	(25)	583 753	459 331
Total assets		**95 132 623**	**77 696 898**
Liabilities and shareholders' equity			
Liabilities			
Due to banks	(26)	419 215	404 737
Customers' deposits	(27)	78 782 023	63 537 024
Other loans	(28)	778 510	718 578
Other liabilities	(29)	2 553 171	2 049 291
Other provisions	(30)	492 163	564 728
Current income tax liabilities		524 744	515 376
Deferred tax liabilities	(31)	136 869	133 050
Retirement benefits obligations	(32)	941 443	798 000
Total Liabilities		**84 628 138**	**68 720 784**
Shareholders' equity			
Share capital	(33)	800 000	800 000
Reserves	(34)	1 846 982	1 896 198
Retained earnings	(34)	7 857 503	6 279 916
Total Shareholders' equity		**10 504 485**	**8 976 114**
Total liabilities and Shareholders' equity		**95 132 623**	**77 696 898**

Auditors' Report "attached"

The accompanying notes from page (6) to page (73) are an integral part of these interim financial statements and are to be read therewith.

Dante Campioni
CEO and Managing Director

Mohamed Raef
Chief Financial Officer

Bank of Alexandria

(Egyptian Joint Stock Company)

Statement of Income

For the year ended 31 December 2018

	Note No.	For the year end 31 December 2018 EGP 000	For the year end 31 December 2017 EGP 000
Interest and similar income	(6)	11 960 183	9 268 731
Interest and similar expense	(6)	(6 387 252)	(4 407 137)
Net interest income		**5 572 931**	**4 861 594**
Fee and commission income	(7)	871 537	705 256
Fee and commission expense	(7)	(191 833)	(142 443)
Net fee and commission income		**679 704**	**562 813**
Net income		**6 252 635**	**5 424 407**
Dividends' income	(8)	36 711	31 705
Net income from financial assets classified at fair value through profit and loss	(9)	(1 413)	1 651
Net trading income	(10)	58 877	87 351
Gains from financial investments	(21)	1 036	226 324
Bank's share in undistributed profit of associated companies		5 734	18 020
Impairment (loss) recovery on loans and advances	(13,19)	(19 840)	(234 222)
Administrative expenses	(11)	(2 270 997)	(1 822 402)
Other operating revenues/ (expenses)	(12)	(81 765)	(67 532)
Net profit before income tax		**3 980 978**	**3 665 302**
Income tax expense	(14)	(955 493)	(882 557)
Net profit for the year		**3 025 485**	**2 782 745**
Earnings per share (EGP/share) - Basic	(15)	6.83	6.26

The accompanying notes from page (6) to page (73) are an integral part of these interim financial statements and are to be read therewith.

Dante Campioni
CEO and Managing Director

Mohamed Raef
Chief Financial Officer

Bank of Alexandria
(Egyptian Joint Stock Company)
Statement of Cash Flows
For the year ended 31 December 2018

	Note No.	For the year ended 31 December 2018 EGP 000	For the year ended 31 December 2018 EGP 000
Cash flows from operating activities			
Net profit before tax		3 980 978	3 665 302
Adjustments to reconcile net profit to cash flows from operating activities			
Depreciation and amortization	(23,25)	154 952	104 993
Impairment (recovery) loss on loans and advances	(13,19)	19 841	234 222
Other provisions formed	(30)	106 911	69 955
Net income from financial assets classified at fair value through profit and loss		1 413	(1 651)
Provisions used (other than loans provision)	(30)	(167 938)	(17 252)
Foreign currencies revaluation differences of other provisions	(30)	(1 414)	4 135
Foreign currencies revaluation differences of other loans		6 136	(19 102)
Revaluation differences of financial investments (other than financial assets held -for- trading)		(187)	(572)
Revaluation differences of fair value reserves - Financial investments available for sale	(34.C)	(6 958)	(2 871)
Interest income from treasury bills and bonds - impact of the recalculation of bonds by the amortized cost	(34.C)	(80)	(167)
(Gains) from sale of fixed assets		(7)	(3 934)
Dividend income	(8)	(36 711)	(31 705)
Impairment of equity instrument available for sale	(21)	13 564	4 196
Gains from financial investments (other than financial assets held -for- trading)	(21)	(14 600)	(230 520)
Gains of financial investments transferred from reserve of fair value account		(889)	(337 749)
Bank's share in undistributed profit of associated companies		(5 734)	(18 020)
Operating profits before changes in assets and liabilities used in operating activities		**4 049 277**	**3 419 260**
Net decrease/(increase) in assets and (decrease)/increase in liabilities			
Balances with Central Bank within the mandatory reserve percentage		418 337	(1 941 203)
Due from banks		29 000	4 471 000
Treasury bills and other governmental notes		(12 736 658)	(1 564 693)
Loans and advances to customers		(6 110 300)	(2 383 554)
Financial assets classified at fair value through profit and loss		(409)	2 693
Other assets		(478 877)	(59 700)
Due to banks		14 478	85 790
Customers' deposits		15 244 999	11 916 432
Other liabilities		503 880	322 873
Retirement benefits obligations		143 443	92 371
Paid taxes		(927 387)	(504 802)
Net cash flows provided from operating activities		**149 783**	**13 856 467**
Cash flows from investing activities			
Payments to purchase fixed assets and preparation of branches	(25)	(205 169)	(157 121)
Proceeds from sale of fixed assets		2 036	11 515
Proceeds from sale of financial investments other than financial assets held -for- trading		588 064	1 346 489
Payments to purchase financial investments other than financial assets held -for- trading		(1 972 144)	(38 048)
Payments to purchase intangible assets		(97 015)	(102 623)
Dividends Received		40 194	35 187
Net cash flows (used in) / provided from investing activities		**(1 644 034)**	**1 095 399**
Cash flows from financing activities			
Proceeds from other loans		172 543	100 016
Payments of other loans		(118 747)	(118 733)
Dividends paid		(1 443 964)	(565 445)
Net cash flows (used in) financing activities		**(1 390 168)**	**(584 162)**
Net change in cash and cash equivalents during the year		(2 884 419)	14 367 704
Cash and cash equivalents at the beginning of the year		33 803 630	19 435 926
Cash and cash equivalents at the end of the year		**30 919 211**	**33 803 630**
Cash and cash equivalents are represented in the following (note no. 36):			
Cash and balances with Central Bank of Egypt		3 915 184	4 137 615
Due from banks		29 238 822	23 795 746
Treasury bills and other governmental notes		19 070 088	14 885 831
Balances with Central Bank within the mandatory reserve percentage		(2 241 819)	(2 660 156)
Deposits with banks with maturity more than three months *		-	(29 000)
Treasury bills and other governmental notes (with maturity more than 3 months)*		(19 063 064)	(6 326 406)
Cash and cash equivalents		**30 919 211**	**33 803 630**

Non-Cash transactions

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

EGP 000 20 434 from both payments to purchase intangible assets and the change in debit balances, which represent the amounts, transferred from assets under construction.

EGP 000 60 143 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 (73) are an integral part of these interim financial statements and are to be read therewith.

Dante Campioni
CEO and Managing Director

Mohamed Raef
Chief Financial Officer

Bank of Alexandria

(Egyptian Joint Stock Company)

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2018

	Note No.	Share capital EGP 000	Reserves EGP 000	Retained earnings EGP 000	Total EGP 000
Balance as at 31 December 2016		800 000	1 609 248	4 080 951	6 490 199
Transferred to Special capital reserve		-	799	(799)	-
Dividends paid for the year 2016		-	-	(191 421)	(191 421)
Net change in fair value of the Available-for-Sale Investments		-	(105 409)	-	(105 409)
Net change in General Banking Risks Reserve		-	25	(25)	-
Net profit for the period ended 31 December 2017		-	-	2 782 745	2 782 745
Transferred to IFRS 9 Risks Reserve		-	391 535	(391 535)	-
Balance as at 31 December 2017		**800 000**	**1 896 198**	**6 279 916**	**8 976 114**
Balance as at 31 December 2017		800 000	1 896 198	6 279 916	8 976 114
Transferred to Special capital reserve	(34)	-	3 934	(3 934)	-
Dividends paid for the year 2017		-	-	(1 443 964)	(1 443 964)
Net change in fair value of the Available-for-Sale Investments	(34)	-	(53 150)	-	(53 150)
Net profit for the period ended 31 December 2018		-	-	3 025 485	3 025 485
Balance as at 31 December 2018		**800 000**	**1 846 982**	**7 857 503**	**10 504 485**

The accompanying notes from page (6) to page (73) are an integral part of these interim financial statements and are to be read therewith.

Dante Campioni

CEO and Managing Director

Mohamed Raef

Chief Financial Officer

Bank of Alexandria

(Egyptian Joint Stock Company)

Profit Appropriation Statement (Proposed)

For the year ended 31 December 2018

	For the year end 31/12/2018 EGP 000	For the year end 31/12/2017 EGP 000
Net profit for the year	3 025 485	2 782 745
Less:		
Capital gains transferred to reserve according to the law	(7)	(3 934)
Banking risk reserve	(25)	(25)
Banking risk reserve - IFRS 9	-	(391 535)
Banking risk reserve - Credit	(77 026)	-
Net profit for the year available for distribution	**2 948 427**	**2 387 251**
Retained earnings at the beginning of the year	4 832 018	3 888 731
Total	7 780 445	6 275 982
Appropriation		
Legal reserve *	-	-
Shareholders' dividends	1 916 478	1 166 086
Employees' profit share	294 843	277 878
Retained earnings carried forward	5 569 124	4 832 018
	7 780 445	**6 275 982**

* 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 (73) are an integral part of these interim financial statements and are to be read therewith.

Dante Campioni

CEO and Managing Director

Mohamed Raef

Chief Financial Officer

1. General information

Bank of Alexandria provides retail, corporate and investment banking services in Arab Republic of Egypt through its Head Office in Cairo (49, Kasr El Nil street) and through 211 branches and banking units and employs 4 509 staff members as of 31 December 2018.

Bank of Alexandria (S.A.E) was established on 17 April 1957, as a State wholly owned commercial bank until 31 October 2006, SanPaolo I.M.I (Italian Bank) acquired 80% of its issued capital. On 1 January 2007, a merger was announced between SanPaolo I.M.I and Banca Intesa S.P.A., and the name of shareholder SanPaolo I.M.I has been amended to be Intesa SanPaolo S.P.A.

Bank of Alexandria currently performs its activities under the provisions of the Central Bank of Egypt, 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 became 70.25%.

The Bank’s Board of Directors’ have approved the financial statements hereunder for issuance on 31th of January 2019.

2. Summary of accounting policies

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

2.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 in compliant with the standards referred to. And was prepared 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, financial investments available for sale and all financial derivatives contracts.

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

2.B. Associates companies

Associates companies 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. Moreover, 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 under account of “Other operating income (expenses)”.

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

2.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.

2.D. Foreign currencies translation

2.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.

2.D.2. Transactions and balances in foreign currencies

The bank holds its accounting records 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. Monetary assets and liabilities in foreign currency are re-evaluated at the end of the reporting period 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 that 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 and 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 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.

2.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.
- Financial investments available for sale.

The management determines the classification of its investments at initial recognition.

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

This category includes:

- Financial assets held for trading.
- 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 managing 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, accordingly these investments are classified as at fair value through profit or loss.
- 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 financial derivative from the financial instruments group 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 financial instrument from the group of 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.

2.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 by the bank 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.

2.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 financial assets held to maturity except in cases of necessity.

2.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, held-to-maturity financial investments and 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 assets 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 financial 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 instruments available for sale 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 financial 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 estimated future cash flows 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 bank 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.

2.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 financial position within the item of treasury bills and other governmental notes.

2.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.

2.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 out of financial statements. However, such interest income shall be recognized under the revenue item pursuant to the cash basis according to the following:

2.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.

2.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 which 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.

2.I. Fee and commission income

Due fees 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 (2.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 that 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.

2.J. Dividend income

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

2.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 financial position. Whereas, the liability (purchase and resale agreements) is deducted from the treasury bills and other governmental notes in the financial position. 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.

2.L. Impairment of financial assets

2.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 financial 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 which can be reliably estimated.

The indicators that the bank considers determining 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 based on 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 that 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 that 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.

2.L.2. Financial investments available-for-sale

On each reporting date, the bank estimates whether there is objective evidence on the impairment of a financial asset or a group of financial 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.

2.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.

2.N. Intangible assets

2.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 that 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 that 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.

2.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.

2.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 and core systems	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.

2.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 increase 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.

2.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.

2.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.

2.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.

2.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.

2.T. Employees’ benefits

2.T.1. Retirement benefits obligations

The bank manages a variety of retirement benefit plans that 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 financial position 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.

2.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 accrued (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.

2.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 financial position, 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.

2.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.

2.W. Share capital

2.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.

2.W.2. Dividends

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

2.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.

2.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.

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 Division carries out risk management 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.

3.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 periodically 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.

3.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 3.A).

- 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.

Classification	The classification's Indication
1	Performing loans
2	Regular watching
3	Watch list
4	Non-performing 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.

3.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 at financial position because these settlements are always conducted on a gross basis. However, the credit risk associated to the contracts that 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 resulting 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 high degree of credit risk, compared to short-term commitments.

3.A.3. Impairment policies and provisions

The internal systems of aforementioned assessments (note no. 3.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 financial position 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 financial position relate to loans and facilities and the relevant impairment for each of the bank's internal ratings:

Bank's Assessment	**Dec. 31, 2018**		**Dec. 31, 2017**	
	Loans and advances %	**Impairment loss provision %**	**Loans and advances %**	**Impairment loss provision %**
1-Performing loans	24.35	7.94	27.69	6.93
2-Regular watching	68.72	34.79	60.78	31.86
3-Watch list	1.16	2.95	7.36	17.21
4-Non performing loans	5.77	54.32	4.17	44.00
	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.

3.A.4. The General Model for Measurement of Banking Risk

In addition to the four-creditworthiness ratings shown in (note no. 3.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	Non-performing loans
9	Doubtful	50%	4	Non-performing loans
10	Bad debt	100%	4	Non-performing loans

3.A.5. The Maximum Limit for Credit Risk before Collateral

Credit Risk exposures in the statement of financial position:

	31/12/2018	**31/12/2017**
	EGP 000	**EGP 000**
Treasury bills and other governmental notes	19 070 088	14 885 831
Loans and advances to customers		
Loans to individuals (Retail):		
Overdraft accounts	652 220	683 947
Credit cards	126 465	88 054
Personal loans	17 280 162	14 664 005
Mortgage	13 014	14 932
Corporate loans:		
Overdraft accounts	5 563 834	4 630 335
Direct loans	12 181 146	10 126 123
Syndicated loans	5 141 727	4 882 393
Other loans	891	1 567
Unearned Discount	(11 574)	-
Interest under settlement from customer loan	(274 228)	(215 061)
Suspended interest	(4 027)	(5 528)
Financial investments:		
Debt instruments	2 097 394	694 939
Other assets	403 047	250 850
Total	**62 240 159**	**50 702 387**

Off balance sheet items exposed to credit risk:		
Financial guarantees	4 696 545	4 998 039
Non-revocable credit-related commitments for loans and other liabilities	6 345 362	5 060 455
Letters of credit	2 736 485	848 023
Letters of guarantee (incentive)	5 179 260	4 646 032
Total	**18 957 652**	**15 552 549**

- The previous table represents the maximum limit of exposure as at 31 December 2018 and as at 31 December 2017, without taking into consideration any financial guarantees. As for the financial position items, the enlisted amounts depend on the net book value presented in the statement in financial position.

As illustrated in the previous table 65.4 % of the maximum limit exposed to credit risk at 31 December 2018 arises from loans and advances to banks and customers versus 68.6 % as at 31 December 2017 whereas investments in the debt instruments represent 3.4 % at 31 December 2018 versus 1.4 % as at 31 December 2017.

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:

- 0.12 % of the loans and advances' portfolio is classified in the two higher categories of the internal assessment (low/ average risks) as at 31 December 2018, versus 0.35 % at 31 December 2017.
- 83.4 % of the loans and advances' portfolio is free from any delays or impairment indicators at 31 December 2018 versus 85.7 % as at 31 December 2017.
- The mortgages covered by collaterals, represent an important group in the portfolio.
- Loans and facilities that have been assessed on an individual basis reach EGP 2 361 542 thousand as at 31 December 2018 versus EGP 1 463 439 thousand as at 31 December 2017. Formed from it 57.7 % as a provision at 31 December 2018 versus 81.5 % as at 31 December 2017.
- The bank applied more conservative selecting process when granting loans and advances during the year.
- More than 99.8 % as at 31 December 2018 and as at 31 December 2017, of the investments in debt instruments and treasury bills represents debt instruments on the Egyptian government.

3.A.6. Loans and advances

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

	31/12/2018 EGP 000 Loans and advances to customers	**31/12/2017 EGP 000 Loans and advances to customers**
With no past dues or impairment	34 162 721	30 090 945
With past dues but not subject to impairment	4 435 196	3 536 972
Subject to impairment	2 361 542	1 463 439
Total	**40 959 459**	**35 091 356**
Less:		
Impairment loss provision	(2 430 509)	(2 722 106)
Unearned discount	(11 574)	-
Interest under settlement from customer loans	(274 228)	(215 061)
Suspended interest	(4 027)	(5 528)
Net	**38 239 121**	**32 148 661**

The total impairment loss on loans and advances facilities; reached EGP 2 430 509 thousand as of 31 December 2018, versus EGP 2 722 106 thousand as of 31 December 2017, including EGP 1 361 731 thousand as of 31 December 2018, versus EGP 1 193 304 thousand as of 31 December 2017, of which represents the impairment of individual loans and the remaining amounting to EGP 1 068 778 thousand versus EGP 1 528 802 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 facilities to banks and customers.

Loans and facilities with no past dues or impairment:

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

EGP 000

December 31, 2018

Assessment	Retail				Corporate				
	Debit Current accounts	Credit Cards	Personal Loans	Mortgage	Debit Current accounts	Direct Loans	Syndicated Loans	Other Loans	Net loans and facilities to customers
1- Performing	-	-	-	-	1 270 139	6 702 247	1 781 302	141	**9 753 829**
2- Regular Watching	542 467	94 756	13 960 033	6 038	2 364 059	4 679 327	1 739 023	358	**23 386 061**
3- Watch List	-	-	-	-	10 903	186 876	35 647	2	**233 428**
Total	**542 467**	**94 756**	**13 960 033**	**6 038**	**3 645 101**	**11 568 450**	**3 555 972**	**501**	**33 373 318**

- The guaranteed loans were subjected to impairment as for the non-performing loans category after taking into consideration the collectability of these guarantees.

EGP 000

December 31, 2017

Assessment	Retail				Corporate				
	Debit Current accounts	Credit Cards	Personal Loans	Mortgage	Debit Current accounts	Direct Loans	Syndicated Loans	Other Loans	Net loans and facilities to customers
1- Performing	-	-	-	-	1 935 691	5 667 818	1 508 065	111	**9 111 685**
2- Regular Watching	545 641	63 129	11 874 904	7 767	1 530 532	2 112 543	1 587 911	262	**17 722 689**
3- Watch List	-	-	-	-	141 608	991 557	751 275	63	**1 884 503**
Total	**545 641**	**63 129**	**11 874 904**	**7 767**	**3 607 831**	**8 771 918**	**3 847 251**	**436**	**28 718 877**

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

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

EGP 000

December 31, 2018

	Retail				Corporate				
	Debit Current accounts	**Credit Cards**	**Personal Loans**	**Mortgage**	**Debit Current accounts**	**Direct Loans**	**Syndicated Loans**	**Other Loans**	**Net loans and facilities to customers**
Past dues up to 30 days	-	20 090	2 488 979	5 427	23 352	133 636	788 539	105	3 460 128
Past dues more than 30 days to 60 days	53 232	-	284 145	539	28 277	75 263	-	19	441 475
Past dues more than 60 days to 90 days	18 328	-	81 569	-	108 384	21 163	13 196	4	242 644
Total	**71 560**	**20 090**	**2 854 693**	**5 966**	**160 013**	**230 062**	**801 735**	**128**	**4 144 247**
The fair value of Collaterals	**71 560**	**-**	**1 921 102**	**-**	**8 794**	**4 603**	**-**	**2**	**2 006 061**

EGP 000

December 31, 2017

	Retail				Corporate				
	Debit Current accounts	**Credit Cards**	**Personal Loans**	**Mortgage**	**Debit Current accounts**	**Direct Loans**	**Syndicated Loans**	**Other Loans**	**Net loans and facilities to customers**
Past dues up to 30 days	713	13 908	2 020 333	602	244 638	329 934	-	37	2 610 165
Past dues more than 30 days to 60 days	53 663	-	147 333	4 441	121 787	252 974	-	49	580 247
Past dues more than 60 days to 90 days	18 813	-	45 886	-	1 539	33 546	90 004	38	189 826
Total	**73 189**	**13 908**	**2 213 552**	**5 043**	**367 964**	**616 454**	**90 004**	**124**	**3 380 238**
The fair value of Collaterals	**73 190**	**-**	**-**	**-**	**173 621**	**208 602**	**-**	**3 005**	**418 458**

At the initial recognition of loans and facilities, 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 facilities subject to impairment on an individual basis

The balance of loans and facilities which are subject to impairment on an individual basis, before taking into account the cash flow from collaterals, amounted to EGP 2 361 542 thousand as at 31 December 2018 versus EGP 1 463 439 thousand as at 31 December 2017.

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

EGP 000

December 31, 2018

	Retail				Corporate				
	Debit Current accounts	**Credit Cards**	**Personal Loans**	**Mortgage**	**Debit Current accounts**	**Direct Loans**	**Syndicated Loans**	**Other Loans**	**Total loans and facilities to customers**
Balance	38 159	8 067	221 897	639	1 645 552	4 608	442 415	205	**2 361 542**
Provision	(38 127)	(2 489)	(99 940)	(638)	(790 252)	(4 116)	(425 998)	(171)	**(1 361 731)**
Net	**32**	**5 578**	**121 957**	**1**	**855 300**	**492**	**16 417**	**34**	**999 811**
The fair value of collaterals	-	-	-	-	**17 753**	-	-	**3**	**17 756**

EGP 000

December 31, 2017

	Retail				Corporate				
	Debit Current accounts	**Credit Cards**	**Personal Loans**	**Mortgage**	**Debit Current accounts**	**Direct Loans**	**Syndicated Loans**	**Other Loans**	**Total loans and facilities to customers**
Balance	65 091	8 634	306 247	1 726	538 778	76	541 972	915	**1 463 439**
Provision	(64 730)	(2 003)	(127 229)	(1 049)	(472 462)	(15)	(524 930)	(886)	**(1 193 304)**
Net	**361**	**6 631**	**179 018**	**677**	**66 316**	**61**	**17 042**	**29**	**270 135**
The fair value of collaterals	-	-	-	-	**23 120**	-	-	**13**	**23 133**

Restructured Loans and 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 that 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 629 116 thousand as at 31 December 2018 versus EGP 751 136 thousand as at 31 December 2017.

	31/12/2018 EGP 000	**31/12/2017 EGP 000**
Corporate		
- Debit current accounts	-	22 948
- Direct loans	629 116	728 188
Total Corporate Loans	**629 116**	**751 136**
Total	**629 116**	**751 136**

3.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 fiscal year 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	-	-	**-**
Less than -A	19 070 088	2 045 265	**21 115 353**
Unclassified	-	52 129	**52 129**
Total	**19 070 088**	**2 097 394**	**21 167 482**

3.A.8. Acquisition of collaterals

During the present financial year, the bank hasn't obtained assets by acquiring some collaterals.

3.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 2018.

December 31, 2018			EGP 000	
	Great Cairo	**Alex, Delta and Sinai**	**Upper Egypt**	**Total**
Treasury bills and other governmental notes	19 070 088	-	-	**19 070 088**
Loans and facilities to customers:				
- Loans to individuals (Retail):				
Debit current accounts	234 669	293 796	123 755	**652 220**
Credit cards	126 465	-	-	**126 465**
Personal loans	4 777 175	7 773 824	4 729 163	**17 280 162**
Mortgage	11 686	708	620	**13 014**
- Loans to corporate				
Debit current accounts	3 409 302	1 709 792	444 740	**5 563 834**
Direct loans	9 212 134	2 593 596	375 416	**12 181 146**
Syndicated loans	5 141 727	-	-	**5 141 727**
Other loans	455	294	142	**891**
Unearned discount	(11 574)	-	-	**(11 574)**
Interest under settlement from loans' customers	(193 973)	(80 154)	(101)	**(274 228)**
Suspended interest	(3 985)	(3)	(39)	**(4 027)**
Financial Investments				
Debt instruments	2 097 394	-	-	**2 097 394**
Other assets	347 516	39 809	15 722	**403 047**
Total as at 31 Dec. 2018	**44 219 079**	**12 331 662**	**5 689 418**	**62 240 159**
Total as at 31 Dec. 2017	**36 209 153**	**9 520 517**	**4 972 717**	**50 702 387**

- 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

December 31, 2018	Financial Institutions	Industrial Institutions	Real estate Activity	Wholesale and retail trade	Governmental sector	Other activities	Individuals	Total
Treasury bills and other governmental notes	-	-	-	-	19 070 088	-	-	**19 070 088**
Loans & facilities to customers:								
Loans to individuals (Retail)								
Debit current account	-	-	-	-	-	-	652 220	**652 220**
Credit cards	-	-	-	-	-	-	126 465	**126 465**
Personal loans	-	-	-	-	-	-	17 280 162	**17 280 162**
Mortgage	-	-	-	-	-	-	13 014	**13 014**
Loans to Corporate								
Debit current account	-	1 002 301	1 802 035	1 132 025	949 898	677 575	-	**5 563 834**
Direct loans	-	3 648 493	191 854	1 143 644	5 774 100	1 423 055	-	**12 181 146**
Syndicated loans	-	2 757 692	-	-	887 057	1 496 978	-	**5 141 727**
Other loans	-	329	33	140	221	168	-	**891**
Unearned discount	-	-	-	-	-	-	(11 574)	**(11 574)**
Interest under settlement from loans' customers	-	(104 062)	(150 561)	(3 672)	(11 751)	(4 182)	-	**(274 228)**
Suspended interest	-	(2 743)	(412)	(117)	(40)	(715)	-	**(4 027)**
Financial Investments								
Debt instruments	30 187	-	-	-	2 067 207	-	-	**2 097 394**
Other assets	160 631	-	-	-	1 193	130 535	110 688	**403 047**
Total as at 31 /12/2018	**190 818**	**7 302 010**	**1 842 949**	**2 272 020**	**28 737 973**	**3 723 414**	**18 170 975**	**62 240 159**
Total as at 31/12/2017	**70 423**	**5 370 700**	**1 781 483**	**1 695 770**	**22 638 949**	**3 609 220**	**15 535 842**	**50 702 387**

3.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.

3.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 year ended 31 December 2018 amounted to EGP 24 000 thousand, versus EGP 54 398 thousand during the comparative year.

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 director's monitor and review the results of stress testing.

3.B.2. Summary of value at risk

- **Total value at risk according to the risk type**

EGP 000

	31/12/2018			31/12/2017		
	Medium	**Higher**	**Lower**	**Medium**	**Higher**	**Lower**
Interest rate risk	24 000	75 133	11 852	54 398	126 257	10 871
Total value at risk	**24 000**	**75 133**	**11 852**	**54 398**	**126 257**	**10 871**

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

	31/12/2018			31/12/2017		
	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 type of risk.**

EGP 000

	31/12/2018			31/12/2017		
	Medium	**Higher**	**Lower**	**Medium**	**Higher**	**Lower**
Interest rate risk	24 000	75 133	11 852	54 398	126 257	10 871
Total value at risk	**24 000**	**75 133**	**11 852**	**54 398**	**126 257**	**10 871**

The bank did not estimate exchange rate risk and 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 three 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.

3.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 foreign exchange rates risk at 31 Dec. 2018. The following table includes the book value of financial instruments distributed into its component currencies:

The concentration of currency risk of financial instruments

Equivalent in EGP 000

	EGP	USD	Euro	GBP	Other Currencies	Total
As at December 31, 2018						
Financial assets:						
Cash and balances with Central Bank of Egypt	3 721 567	140 852	28 067	557	24 141	**3 915 184**
Due from banks	23 514 590	4 557 842	845 473	161 149	159 768	**29 238 822**
Treasury bills and other governmental notes	18 877 571	192 517	-	-	-	**19 070 088**
Loans and facilities to customers	29 558 632	8 428 789	234 477	2	17 221	**38 239 121**
Financial assets classified at fair value through profit and loss	-	-	4 384	-	-	**4 384**
Financial Investments:						
- Available -for- sale	2 519 137	51 983	529	-	-	**2 571 649**
- Held-to-maturity	30 187	-	-	-	-	**30 187**
Total financial assets	**78 221 684**	**13 371 983**	**1 112 930**	**161 708**	**201 130**	**93 069 435**
Financial liabilities:						
Due to banks	28 049	377 167	8 577	2 961	2 461	**419 215**
Customers' deposits	65 458 510	11 769 119	1 215 487	150 156	188 751	**78 782 023**
Other loans	217 139	561 371	-	-	-	**778 510**
Total financial liabilities	**65 703 698**	**12 707 657**	**1 224 064**	**153 117**	**191 212**	**79 979 748**
Net of financial position	**12 517 986**	**664 326**	**(111 134)**	**8 591**	**9 918**	**13 089 687**
Credit related commitments	**4 370 287**	**3 136 174**	**4 744 885**	**282 189**	**78 756**	**12 612 291**
As at 31 December 2017						
Total financial assets	**61 815 760**	**12 706 749**	**1 321 430**	**175 198**	**230 780**	**76 249 917**
Total financial liabilities	**50 965 329**	**12 147 155**	**1 175 870**	**162 562**	**209 423**	**64 660 339**
Net of financial position	**10 850 431**	**559 594**	**145 560**	**12 636**	**21 357**	**11 589 578**
Credit related commitments	**4 033 156**	**2 411 763**	**3 777 381**	**246 780**	**23 014**	**10 492 094**

3.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 of the bank 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 December 31, 2018	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	-	-	-	-	-	3 915 184	**3 915 184**
Due from banks	24 158 026	2 049 538	3 000 000	-	-	31 258	**29 238 822**
Treasury bills and other governmental notes	2 130 038	6 476 762	10 463 288	-	-	-	**19 070 088**
Loans and facilities to customers	25 057 827	2 971 789	4 200 462	5 458 092	467 636	83 315	**38 239 121**
Financial assets classified at fair value through profit and loss	4 384	-	-	-	-	-	**4 384**
Financial Investments:							
- Available for sale	-	5 004	407 460	2 000 006	159 179	-	**2 571 649**
- Held-to-maturity	-	-	-	30 187	-	-	**30 187**
Other financial assets	-	-	-	-	-	669 042	**669 042**
Total financial assets	**51 350 275**	**11 503 093**	**18 071 210**	**7 488 285**	**626 815**	**4 698 799**	**93 738 477**
Financial liabilities							
Due to banks	229 269	-	1 190	-	-	188 756	**419 215**
Customers' deposits	29 641 662	31 100 900	4 797 532	4 080 795	18 231	9 142 903	**78 782 023**
Other loans	170	49 618	141 622	491 283	95 817	-	**778 510**
Other financial liabilities	-	-	-	-	-	413 018	**413 018**
Total financial liabilities	**29 871 101**	**31 150 518**	**4 940 344**	**4 572 078**	**114 048**	**9 744 677**	**80 392 766**
The interest gap re-pricing	21 479 174	(19 647 425)	13 130 866	2 916 207	512 767	(5 045 878)	**13 345 711**
As at 31 December 2017							
Total financial assets	**41 605 126**	**15 513 040**	**7 119 890**	**6 575 689**	**980 862**	**4 907 856**	**76 702 463**
Total financial liabilities	**25 412 582**	**19 618 694**	**3 704 023**	**7 542 306**	**153 943**	**8 550 571**	**64 982 119**
Interest gap re-pricing	**16 192 544**	**(4 105 654)**	**3 415 867**	**(966 617)**	**826 919**	**(3 642 715)**	**11 720 344**

3.C. 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 depositor's 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 to ensure achievement of this target.
- Maintaining a portfolio of highly marketable assets, which can easily be liquidated to meet any unexpected 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 list of the loans' maturities.

For the purpose of monitoring and reporting take the form of cash flow measurement and projections for the next day, week, and month respectively, which is main period for managing liquidity. 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, 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 financial position 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

	Up to 1 month	**1-3 months**	**More than 3 months -1 year**	**1-5 years**	**More than 5 years**	**Total**
December 31, 2018						
Financial liabilities (According to original amount + Interest)						
Due to banks	469 055	-	167	-	-	**469 222**
Customers' deposits	30 978 483	3 896 688	10 026 145	33 850 893	31 634	**78 783 843**
Other loans	172	50 142	143 119	496 421	96 884	**786 738**
Other financial liabilities	413 018	-	-	-	-	**413 018**
Total financial liabilities according to contractual maturity date	**31 860 728**	**3 946 830**	**10 169 431**	**34 347 314**	**128 518**	**80 452 821**
Total financial assets according to contractual maturity date	**31 231 379**	**22 471 057**	**23 345 367**	**20 875 920**	**3 302 520**	**101 226 243**

EGP 000

	Up to 1 month	**1-3 months**	**More than 3 months -1 year**	**1-5 years**	**More than 5 years**	**Total**
December 31, 2017						
Financial liabilities (According to original amount + Interest)						
Due to banks	408 560	-	1 177	-	-	**409 737**
Customers' deposits	33 611 660	2 777 248	5 898 840	29 360 086	55 773	**71 703 607**
Other loans	30 639	-	104 090	520 608	189 494	**844 831**
Other financial liabilities	321 780	-	-	-	-	**321 780**
Total financial liabilities according to contractual maturity date	**34 372 639**	**2 777 248**	**6 004 107**	**29 880 694**	**245 267**	**73 279 955**
Total financial assets according to contractual maturity date	**35 399 095**	**16 099 840**	**13 697 101**	**18 131 841**	**3 195 120**	**86 522 997**

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 through normal business of bank. 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. (37.C.)

EGP 000

December 31, 2018	**Less than 1 year**	**1-5 years**	**Total**
Commitments of loans and facilities for customers	6 345 362	-	**6 345 362**
Financial guarantees accepted bills and other financial facilities	12 612 291	-	**12 612 291**
Commitments on operational leasing contracts	3 707	3 549	**7 256**
Capital commitments due to fixed assets' acquisition	89 765	-	**89 765**
Capital commitments due to holding shares	-	1 699	**1 699**
Total	**19 051 125**	**5 248**	**19 056 373**

EGP 000

December 31, 2017	**Less than 1 year**	**1-5 years**	**Total**
Commitments of loans and facilities for customers	5 060 455	-	**5 060 455**
Financial guarantees accepted bills and other financial facilities	10 492 094	-	**10 492 094**
Commitments on operational leasing contracts	3 707	7 256	**10 963**
Capital commitments due to fixed assets' acquisition	103 878	-	**103 878**
Capital commitments due to holding shares	-	1 682	**1 682**
Total	**15 660 134**	**8 938**	**15 669 072**

3.D. The fair value of financial assets and liabilities

3.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 6.5 million in the financial year ended 31 December 2018 versus EGP 165.9 million in the fiscal year ended 31 December 2017.

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 statement of financial position at fair value:

EGP 000

	31/12/2018		31/12/2017	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial Assets:				
Due from banks	29 238 822	29 238 822	23 795 746	23 795 746
Loans and facilities to customers:				
Current balances	19 789 627	19 789 627	17 400 411	17 400 411
Financial investments:				
Held-to-maturity	30 187	38 344	31 885	48 749
Financial liabilities:				
Due to banks	419 215	419 215	404 737	404 737
Customers' deposits:				
Current balances	19 461 558	19 461 558	13 754 723	13 754 723
Other loans	778 510	778 510	718 578	718 578

- **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 facilities to banks**
  Loans and facilities to banks represented in loans other than deposits with banks. The expected fair value for loans and facilities 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 facilities to customers**
  Loans and facilities presented in net after discounting the impairment loss provision. Loans and facilities 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.

3.E.1. Capital Management

For capital management purposes, the bank's capital includes total equity as reported in the financial position in addition to other elements that are managed as capital. The bank manages its capital to ensure the following objectives are achieved:

- 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 dealing 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 by the bank's management through models, which depend on the guidelines developed by the Basel Committee as implemented by the 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:

- Maintaining an amount of EGP 500 million as a minimum requirement for the issued and paid-up-capital.
- Maintaining a minimum level of capital adequacy ratio of 10%, calculated as the ratio between total value of the capital elements, and the risk-weighted assets and contingent liabilities of the Bank.

The overseas bank's branches outside Arab Republic of 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 basic capital:

Consists of issued and paid-up share capital, legal, statutory and capital reserve, IFRS 9 Risk reserve and retained earnings (retained losses) and approved interim earnings 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 financial investments available for sale (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 basic capital:

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

Interim profits are recognized only after approval of the auditor and the General Assembly approval of the distributions and the approval of CBE, banks are permitted to include the periodical net profits to the capital base after a limited review performed by the external auditors for the financial statements of the bank, interim losses are deducted without conditions.

Tier Two:

Consists of the following: -

- 45% of the increase in fair value above the book value of financial investments (AFS fair value reserve if positive, held to maturity 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 impairment loss provision should be sufficient to meet the obligations for which the provision is allocated).

Exclusions of 50% of Tier I and 50% Tier 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 base ongoing capital before regulatory amendments, these investments must exceed (collectively) 60% of ongoing base 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 31/12/2018, 31/12/2017:

	31/12/2018 EGP 000	31/12/2017 EGP 000
Capital		
Tier one (Ongoing basic capital)		
Share capital	800 000	800 000
General reserve	29 312	29 312
Legal reserve	400 000	400 000
*Other reserves	901 084	956 308
Retained profits	4 788 649	3 859 874
Profit for the first quarter	2 139 743	1 717 773
Total ongoing basic capital	**9 058 788**	**7 763 267**
Tier two (Supplementary basic capital)		
Equivalent to general risks provisions	479 216	489 418
45% of the increase in the fair value over book value of financial investment without held -for- trading investment	137 616	186 535
Total supplementary basic capital	**616 832**	**675 953**
Total capital	**9 675 620**	**8 439 220**
Risk weighted assets and contingent liabilities:		
Credit Risk (Assets on financial position)	38 337 291	39 153 463
The overrun of top 50 clients on the planned risk weighted border	-	257 872
Market Risk	945 887	426 750
Operation Risk	6 299 580	4 852 331
Total risk weighted assets and contingent liabilities	**45 582 758**	**44 690 416**
Capital adequacy ratio (%)	**21.23 %**	**18.88 %**

***** An amount of EGP 391 535 thousand being the IFRS 9 risks reserve has been included in Other reserves within the ongoing basic capital components.

3.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 (minimum limit of capital adequacy ratio) 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 reflects 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 ratios as of 31 December 2018 and 31 December 2017 are summarized in the following table:

	31/12/2018 EGP 000	**31/12/2017 EGP 000**
First: Tier I capital after exclusions	9 058 788	7 763 267
Total on-balance sheet exposures items (1)	**96 289 448**	**79 087 103**
Total contingent liabilities	6 423 608	5 183 513
Total commitments	1 394 875	1 128 615
Total exposures off- financial position (2)	**7 818 483**	**6 312 128**
Total exposures on and off- financial position (1+2)	**104 107 931**	**85 399 231**
Financial leverage ratio	**8.70%**	**9.09%**

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 fiscal 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.

4.A. Impairment loss on loans and facilities

The bank reviews the portfolio of loans and facilities 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 61 027 thousand of the formed provisions.

4.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.

4.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.

4.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 8 157 thousand to reach the fair value through recording a corresponding entry in the fair value reserve within shareholders' equity statement.

4.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

5.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 statement of financial position.

December 31, 2018	**Corporate**	**Medium and small enterprises**	**Investment**	**Retail**	**Other activities**	**Total**
Income and expenses according to segmental business activity						
Business activity income	2 686 429	1 186 813	47 582	11 598 788	(2 499 946)	**13 019 666**
Business activity expenses	(1 845 984)	(534 001)	(104 729)	(9 304 167)	3 664 495	**(8 124 386)**
Results of activity business	840 445	652 812	(57 147)	2 294 621	1 164 549	**4 895 280**
Unclassified expenses	-	-	-	-	(914 303)	**(914 303)**
Profit before income tax of the year	**840 445**	**652 812**	**(57 147)**	**2 294 621**	**250 246**	**3 980 977**
Income tax	-	-	-	-	(955 492)	**(955 492)**
Profit for the year	**840 445**	**652 812**	**(57 147)**	**2 294 621**	**(705 246)**	**3 025 485**
Assets and liabilities according						
To segmental business activity as at December 31, 2018						
Business activity Assets	17 124 111	3 974 891	599 386	17 139 538	56 294 697	**95 132 623**
Business activity liabilities	4 735 544	5 353 089	-	68 400 072	16 643 918	**95 132 623**
Results of activity business						
Depreciations	-	-	-	-	(154 952)	**(154 952)**
Impairment for other provisions on income statement	-	-	-	-	(126 752)	**(126 752)**

December 31, 2017	**Corporate**	**Medium and small enterprises**	**Investment**	**Retail**	**Other activities**	**Total**
Income and expenses according to segmental business activity						
Business activity income	2 776 885	888 641	64 144	8 623 080	(1 962 852)	**10 389 898**
Business activity expenses	(2 199 075)	(401 284)	(90 504)	(6 588 942)	3 272 953	**(6 006 852)**
Results of activity business	577 810	487 357	(26 360)	2 034 138	1 310 101	**4 383 046**
Unclassified expenses	-	-	-	-	(717 744)	**(717 744)**
Profit before income tax of the year	**577 810**	**487 357**	**(26 360)**	**2 034 138**	**592 357**	**3 665 302**
Income tax	-	-	-	-	(882 557)	**(882 557)**
Profit for the year	**577 810**	**487 357**	**(26 360)**	**2 034 138**	**(290 200)**	**2 782 745**
Assets and liabilities according						
To segment business activity as at December 31, 2017						
Business activity Assets	15 151 508	2 435 171	677 131	14 561 985	44 871 103	**77 696 898**
Business activity liabilities	4 881 753	4 354 506	–	54 100 385	14 360 254	**77 696 898**
Other items of business segment						
Depreciations	–	–	–	–	(104 993)	**(104 993)**
Impairment for other provisions on income statement	–	–	–	–	(304 177)	**(304 177)**

5.B. Geographical Segment Analysis

December 31, 2018	Cairo the Great	Alex., Delta and Sinai	Upper Egypt	Total
Income and expenses according to geographical segment analysis				
Geographical segment Income	10 116 455	1 940 091	963 120	**13 019 666**
Geographical segment expense	(4 186 308)	(3 159 624)	(1 692 757)	**(9 038 689)**
Profit before income tax of the year	**5 930 147**	**(1 219 533)**	**(729 637)**	**3 980 977**
Income tax	(955 492)	-	-	**(955 492)**
Profit for the year	**4 974 655**	**(1 219 533)**	**(729 637)**	**3 025 485**
Assets and liabilities according to geographical segment as at December 31, 2018				
Geographical segment assets	77 059 850	12 245 124	5 827 649	**95 132 623**
Geographical segment liabilities	43 612 114	33 498 527	18 021 982	**95 132 623**
Other items of geographical segment items				
Depreciations	(154 952)	-	-	**(154 952)**
Impairment and other provisions on income statement	(126 752)	-	-	**(126 752)**

December 31, 2017	Cairo the Great	Alex., Delta and Sinai	Upper Egypt	Total
Income and expenses according to geographical segment analysis				
Geographical segment Income	8 024 928	1 548 252	816 718	**10 389 898**
Geographical segment expense	(3 386 502)	(2 161 264)	(1 176 830)	**(6 724 596)**
Profit before income tax of the year	**4 638 426**	**(613 012)**	**(360 112)**	**3 665 302**
Income tax	(882 557)	-	-	**(882 557)**
Profit for the year	**3 755 869**	**(613 012)**	**(360 112)**	**2 782 745**
Assets and liabilities according to geographical segment as at December 31, 2017				
Geographical segment assets	63 294 969	9 376 588	5 025 341	**77 696 898**
Geographical segment liabilities	36 316 923	27 135 951	14 244 024	**77 696 898**
Other items of geographical segment				
Depreciations	(104 993)	-	-	**(104 993)**
Impairment and other provisions on income statement	(304 177)	-	-	**(304 177)**

6. Net interest income

	For the year ended 31/12/2018 EGP 000	For the year ended 31/12/2017 EGP 000
Interest income on loans and similar income:		
Loans and advances to:		
- Customers	5 067 522	4 339 004
	5 067 522	**4 339 004**
Treasury bills and bonds	3 461 357	2 435 140
Current accounts and deposits	3 431 304	2 494 395
Investments in debt instruments	-	192
	11 960 183	**9 268 731**
Interest expense on deposits and similar expenses:		
Current accounts and deposits to:		
– Banks	(1 027)	(7 549)
– Customers	(6 351 831)	(4 368 723)
	(6 352 858)	**(4 376 272)**
Other loans	(34 394)	(30 865)
	(6 387 252)	**(4 407 137)**
Net	**5 572 931**	**4 861 594**

7. Net fee and commission income

	For the year ended 31/12/2018 EGP 000	For the year ended 31/12/2017 EGP 000
Fees & commissions income:		
Fees and commissions related to credit	411 735	354 549
Fees on the financing services (corporate)	329	298
Trust and custody fees	16 323	6 987
Other fees	443 150	343 422
	871 537	**705 256**
Fees and commissions expenses		
Other fees	(191 833)	(142 443)
	(191 833)	**(142 443)**
Net	**679 704**	**562 813**

8. Dividends' income

	For the year ended 31/12/2018	For the year ended 31/12/2017
Net income from:	**EGP 000**	**EGP 000**
- Available-for-sale securities	36 666	31 505
- Held for maturity	45	200
	36 711	**31 705**

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

	For the year ended 31/12/2018 EGP 000	For the year ended 31/12/2017 EGP 000
Net income from:		
- Equity instruments	(1 413)	1 651
	(1 413)	**1 651**

10. Net trading income

	For the year ended 31/12/2018 EGP 000	For the year ended 31/12/2017 EGP 000
Foreign currency transactions:		
- Profits of trading in foreign currencies	**67 306**	**77 791**
- Profits (Losses) from currency swap deals revaluation	**(862)**	**-**
- Profits of Trading debt instruments	**(7 567)**	**9 560**
	58 877	**87 351**

11. Administrative expenses

	For the year ended 31/12/2018 EGP 000	For the year ended 31/12/2017 EGP 000
Employees cost:		
- Salaries and Wages	(960 010)	(899 020)
- Social Insurance	(52 969)	(49 557)
Pension cost:		
- Defined-benefit plans (Note no.32)	(223 774)	(156 082)
- Other Pension benefits *	(119 940)	-
	(1 356 693)	**(1 104 659)**
Other administrative expenses	(914 304)	(717 743)
	(2 270 997)	**(1 822 402)**

(*) Being the early retirement program cost' consequent to the restructuring processes approved by the Bank, considering providing the alternative human resources to ensure the business continuity efficiency assumption.

12. Other operating revenues (expenses)

	Amount	For the year ended 31/12/2018 EGP 000 Aggregate	Amount	For the year ended 31/12/2017 EGP 000 Aggregate
Revaluation losses of monetary assets and liabilities balances in foreign currencies the following:				
Revaluation Provision for loan credit / (debit)	(11 925)		24 596	
Revaluation Provision for contingent liabilities (debit)	1 301		(4 314)	
Revaluation Provision for Other assess Credit/(debit)	114		179	
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)	84 026		16 535	
Revaluation losses of monetary 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		73 516		36 996
Gains from the disposition of the assets reverted to the Bank		1 974		421
(Loss) Gains on sale of property and equipment		7		3 934
Rents		(62 054)		(47 399)
Operating and finance lease		(1 549)		(1 549)
Reversal of other provisions (Note no. 30)		(106 911)		(69 956)
Others		13 252		10 021
		(81 765)		**(67 532)**

13. Impairment recovery (loss) on loans and advances

	For the year ended 31/12/2018 EGP 000	For the year ended 31/12/2017 EGP 000
- Loans and advances to customers (Note no. 19)	(19 840)	(234 222)
	(19 84)	**(234 222)**

14. Income tax expenses

	For the year ended 31/12/2018 EGP 000	For the year ended 31/12/2017 EGP 000
- Current taxes	(936 755)	(866 026)
- Deferred income taxes (Note no. 31)	(18 738)	(16 531)
	(955 493)	**(882 557)**

The following view reveals additional information about Deferred income taxes (Note no. 31), and different taxes on bank profits from the value that would result from the application of the applicable tax rates are as follows:

	Amount	For the year ended 31/12/2018 EGP 000 Aggregate	Amount	For the year ended 31/12/2017 EGP 000 Aggregate
Accounting profit before tax		3 980 978		3 665 302
Tax at 22.5%	895 720		824 693	
Total tax exemptions		895 720		824 693
Add (deduct):				
Expenses are not deductible	18 788		15 296	
The exemptions	(16 025)		(18 008)	
Tax impact of provisions	34 269		41 363	
		37 032		38 651
Tax according to the tax return		**932 752**		**863 344**
The price of the actual tax		**23.43%**		**23.55 %**

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:

- The Bank's corporate income tax has been inspected, paid and settled with the tax authority since the operations start up until the end of year 2013.
- Financial year 2014, 2015, and 2016: The bank finished the tax disputes in the internal committee for the mentioned year and settlement is under progress.
- Financial year 2017: bank received form 31 and provide Large tax payers center with tax inspection requirements.
- Financial Year 2018: The tax return showed a tax due for large tax payers’ center and tax due will be paid and submitted digitally on the legal time.

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 of Tax law, No .79 for year 2016 regarding pending disputes in the internal committee, appeals and cases before the competent courts for the period prior to the enforcement of Law no.143 for year 2006, this is done through the committee formed by the federation of Egyptian banks. The law provisions have been renewed by law No. 14 for FY 2018 which is effective since Feb 28, 2018, Noting that the bank has not signed the protocol signed between ministry of Finance and Federation of Egyptian banks

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

As per the protocol signed between the federation of the Egyptian Banks and the tax authority, executive instructions No.61 for the year 2015 we issued on December 2016 mentioning the fundamental of Stamp duty Tax for banks as follows:

1- Calculate stamp duty for the bank share only for non-Performing clients, if the client has a bank settlement the is calculated on deposit for period from date of classification till filing date.
2- Exempt the client share from stamp duty of loans granted to existing establishment under investment law No.84 (Article 20) & (Article 35).
3- Elimination of drawing stamp duty (25%) which the tax authority calculated upon inspection.

Accordingly, the following was applied:

- Since inception till 31/3/2013 The Stamp duty Tax has been re-inspected in the light of the mention instructions, the bank received form No. (6) which shows credit balance for our bank that will be settled with the tax authority.
- For the period starting from 1/4/2013 till 31/12/2017, Tax authority is currently inspecting the mentioned years and were waiting for the inspection memo and currently inspection is ongoing according to the protocol between the Federation of Egyptian banks and the tax authority.

Real estate tax

- Regarding to the Real estate tax law no. 196 of 2008 that was amended with law no. 117 of 2014, Alex bank paid real estate tax until 31/12/2018 regarding buildings owned for real estate tax assessments that are agree with the reconstruction and housing Bank estimates, and for the real estate tax is not proportional to the estimates the Alex Bank challenged during legal time.
- In respect of the leased premises, which the lease agreement provides for the bank to bear real estate tax, all the claims received from these buildings have been paid up to 31 December 2018.

C. Value Added Tax

In a In accordance with Law No. 67 of 2016 and agreed between the Federation of Egyptian bank and The Central Bank of Egypt, the banks don’t subject to Value added tax as The Central Bank has the right to determine the taxable activities. The Banks pays the value added tax for imported services from abroad (reverse charges) and pay tax amount on legal dates.

D. Payroll Tax

Tax dispute with the Tax authority was ended for the period till 2004, Salary tax is currently under inspection for the years from 2005 to 2014 large tax payers center has been provided with the necessary data to complete the inspection is under process.

15. Basic earnings per share

	For the year ended 31/12/2018	For the year ended 31/12/2017
	EGP 000	**EGP 000**
Net profit for the year	3 025 485	2 782 745
Employees' profit share (in net profit of the year)	(294 843)	(277 878)
Shareholders' share in net profit of the year (1)	**2 730 642**	**2 504 867**
The weighted average of the ordinary issued shares (2) "shares in thousands"	**400 000**	**400 000**
Basic earnings per share (in EGP) (1:2)	**6.83**	**6.26**

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

16. Cash and balances with Central Bank of Egypt

	31/12/2018	31/12/2017
	EGP 000	**EGP 000**
Cash	1 673 365	1 477 459
Balances at central bank within the mandatory reserve ratio*	2 241 819	2 660 156
	3 915 184	**4 137 615**
Non-interest-bearing balances	3 915 184	4 137 615

* Represented in the amounts deposited with the Central Bank of Egypt in the context of the rules of the calculation of 14% as at 31 December 2018 as a mandatory reserve, which is zero-return balances.

17. Due from Banks

	31/12/2018	31/12/2017
	EGP 000	EGP 000
Current accounts	932 862	1 410 487
Deposits	28 305 960	22 385 259
	29 238 822	**23 795 746**
Central banks other than the obligatory reserve ratio *	22 576 688	17 345 282
Local banks	2 690 130	1 923 175
Foreign banks	3 972 004	4 527 289
	29 238 822	**23 795 746**
Balances without interest	31 258	99 358
Balances with fixed return	29 207 564	23 696 388
	29 238 822	**23 795 746**
Current balances	27 877 138	22 506 464
Non-current balances	1 361 684	1 289 282
	29 238 822	**23 795 746**

* Including the amount of EGP 1 361 684 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

	31/12/2018	31/12/2017
	EGP 000	EGP 000
Treasury bills due 91 days	7 050	8 773 575
Treasury bills due 182 days	36 300	540 600
Treasury bills due 273 days	11 317 450	2 224 850
Treasury bills due 364 days	9 164 617	3 945 509
Unearned interest	(1 455 329)	(598 703)
Total	**19 070 088**	**14 885 831**

19. Loans and advances to customers

	31/12/2018	31/12/2017
	EGP 000	EGP 000
Retail		
- Debit current accounts	652 220	683 947
- Credit cards	126 465	88 054
- Personal loans	17 280 162	14 664 005
- Mortgage loans	13 014	14 932
Total (1)	**18 071 861**	**15 450 938**
Corporate including small loans for economic activities		
- Debit current accounts	5 563 834	4 630 335
- Direct loans	12 181 146	10 126 123
- Syndicated loans	5 141 727	4 882 393
- Other loans	891	1 567
Total (2)	**22 887 598**	**19 640 418**
Total loans and facilities to customers (1+2)	**40 959 459**	**35 091 356**
Impairment loss provision	(2 430 509)	(2 722 106)
Unearned discount	(11 574)	-
Interest under settlement from customer loans	(274 228)	(215 061)
Suspended interest	(4 027)	(5 528)
Net	**38 239 121**	**32 148 661**
Distributed to:		
- Current balances	19 789 627	17 400 411
- Non-current balances	18 449 494	14 748 250
	38 239 121	**32 148 661**

19. Loans and advances to customers (Continued)

Impairment loss provision

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

December 31st, 2018

	Retail				EGP 000
	Overdraft accounts	**Credit Cards**	**Personal Loans**	**Mortgage loans**	**Total**
Balance at the beginning of the year	**64 756**	**4 386**	**396 531**	**1 445**	**467 118**
Impairment loss during the year	(18 592)	2 525	(13 802)	(436)	**(30 305)**
Amounts written-off during the year	(8 003)	(1 119)	(47 832)	-	**(56 954)**
Amounts recovered during the year *	-	249	8 582	-	**8 831**
Balance at the year end	**38 161**	**6 041**	**343 479**	**1 009**	**388 690**

	Overdraft accounts	**Direct Loans**	**Corporate Syndicated Loans**	**Other Loans**	**Total**
Balance at the beginning of the year	**588 224**	**737 690**	**928 096**	**978**	**2 254 988**
Impairment loss during the year	583 994	(366 981)	(166 119)	(749)	**50 145**
Amounts written-off during the year	(329 108)	-	(3 252)	-	**(332 360)**
Amounts recovered during the year *	57 121	-	-	-	**57 121**
Differences in revaluation of foreign currencies	3 189	(141)	8 878	(1)	**11 925**
Balance at the year end	**903 420**	**370 568**	**767 603**	**228**	**2 041 819**
Total provision					**2 430 509**

December 31st, 2017

	Retail			EGP 000	
	Overdraft accounts	**Credit Cards**	**Personal Loans**	**Mortgage loans**	**Total**
Balance at the beginning of the year	**474**	**3 622**	**672 166**	**1 705**	**677 967**
Impairment loss during the year	64 513	1 099	(144 895)	(246)	**(79 529)**
Amounts written-off during the year	(231)	(812)	(135 299)	(14)	**(136 356)**
Amounts recovered during the year *	-	477	4 560	-	**5 037**
Differences in revaluation of foreign currencies	-	-	(1)	-	**(1)**
Balance at the year end	**64 756**	**4 386**	**396 531**	**1 445**	**467 118**

	Overdraft accounts	**Direct Loans**	**Corporate Syndicated Loans**	**Other Loans**	**Total**
Balance at the beginning of the year	**641 576**	**534 942**	**1 214 369**	**3 231**	**2 394 118**
Impairment loss during the year	347 808	204 107	(235 912)	(2 253)	**313 750**
Amounts written-off during the year	(439 757)	-	(27 220)	-	**(466 977)**
Amounts recovered during the year *	38 691	-	-	-	**38 691**
Differences in revaluation of Foreign currencies	(94)	(1 359)	(23 141)	-	**(24 594)**
Balance at the year end	**588 224**	**737 690**	**928 096**	**978**	**2 254 988**
Total Provision					**2 722 106**

* From amounts that have been previously written off.

20. Financial assets classified at fair value through profit and loss

	31/12/2018	31/12/2017
	EGP 000	EGP 000
Equity instruments at fair value:		
- Listed in the market	4 384	5 388
Total Equity instrument at fair value	**4 384**	**5 388**
Total Financial assets classified at fair value through profit and loss	**4 384**	**5 388**

The value represents 110 202 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 balance.

21. Financial investments

	31/12/2018	31/12/2017
	EGP 000	EGP 000
Available-for-sale financial investments		
Debt instruments at fair value:		
Listed in the market	2 045 269	637 770
Unlisted in the market	21 938	25 284
Equity instruments at fair value:		
Unlisted in the market	504 442	581 737
Total financial investment available for sale (1)	**2 571 649**	**1 244 791**
Financial investments held to maturity		
Debt instruments:		
Unlisted in the market	30 187	31 885
Total Financial investments held to maturity (2)	**30 187**	**31 885**
Total of Financial investments (1+2)	**2 601 836**	**1 276 676**
Current balances	2 113 839	719 317
Non-current balances	487 997	557 359
	2 601 836	**1 276 676**
Debt instruments with fixed interest	2 067 203	663 049
Debt instruments with variable interest	30 191	31 890
	2 097 394	**694 939**

21. Financial investments (Continued)

	Available-for-sale investments	Held-to-maturity investments	Total
	EGP 000	EGP 000	EGP 000
Balance as at January 1, 2018	**1 244 791**	**31 885**	**1 276 676**
Additions	1 940 020	28 341	1 968 361
Disposals (sale/ redemption)	(543 425)	(30 039)	(573 464)
Differences of valuation of assets of monetary nature in foreign currencies	187	-	187
Gains from changes in fair value (Note no.34/c)	(60 143)	-	(60 143)
Impairment recovery (losses)	(13 564)		(13 564)
Amortization of issuance discount	3 783	-	3 783
Balance as at December 31, 2018	**2 571 649**	**30 187**	**2 601 836**
Balance as at January 1, 2017	**2 134 901**	**26 565**	**2 161 466**
Additions	4 746	25 683	30 429
Disposals (sale/ redemption)	(1 095 606)	(20 363)	(1 115 969)
Differences of valuation of assets of monetary nature in foreign currencies	572	-	572
Gains from changes in fair value (Note no.34/c)	196 755	-	196 755
Impairment losses provision reversed	(4 196)	-	(4 196)
Amortization of issuance discount	7 619	-	7 619
Balance as at December 31, 2017	**1 244 791**	**31 885**	**1 276 676**

21.A. Gains from financial investments

	For the year ended 31/12/2018 EGP 000	For the year ended 31/12/2017 EGP 000
Gains from financial investments		
Gain on sale of available-for-sale financial investments	2 010	225 708
Impairment of shareholder’s instrument for sale	(13 564)	(4 196)
Gain from sale of financial investments held to maturity	12 590	4 812
	1 036	**226 324**

22. Investments in associates

The Bank contributions in associates are as follows:

December 31, 2018	Total shareholders' equity	Bank's share percentage	Bank's share in shareholders' equity
	EGP 000		EGP 000
Misr International Towers Co.	216 731	27.86%	60 373
	216 731		**60 373**

December 31, 2017	Total shareholders' equity	Bank's Share Percentage	Bank's share in shareholders' equity
	EGP 000		EGP 000
Misr International Towers Co.	208 648	27.86%	58 122
	208 648		**58 122**

The financial data of associates are as follows:

December 31, 2018	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 Percentage
			EGP 000	EGP 000	EGP 000	EGP 000	%
Misr International Towers Co.	Egypt	*30/09/2018	273 995	57 264	30 670	23 703	27.86%
			273 995	**57 264**	**30 670**	**23 703**	

* The financial statements are under approval

December 31, 2017	*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 Percentage
			EGP 000	EGP 000	EGP 000	EGP 000	%
Misr International Towers Co.	Egypt	30/9/2017	247 316	38 668	36 474	22 433	27.86
			247 316	**38 668**	**36 474**	**22 433**	

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

23. Intangible assets

December 31, 2018	Computer software programs	Benefits of rental contracts	Total
	EGP 000	EGP 000	EGP 000
Cost at the beginning of the year	**364 919**	**655**	**365 574**
Additions	117 449	-	117 449
Total cost	**482 368**	**655**	**483 023**
Amortization at the beginning of the year	(212 703)	(563)	(213 266)
Amortization for the year	(76 208)	(26)	(76 234)
Accumulated amortization	**(288 911)**	**(589)**	**(289 500)**
Net book value at the end of the year	**193 457**	**66**	**193 523**

December 31, 2017	Computer Software Programs	Benefits of rental contracts	Total
	EGP 000	EGP 000	EGP 000
Cost at the beginning of the year	209 838	655	210 493
Additions	155 081	-	155 081
Total cost	**364 919**	**655**	**365 574**
Amortization at the beginning of the year	(168 734)	(537)	(169 271)
Amortization for the year	(43 969)	(26)	(43 995)
Accumulated amortization	**(212 703)**	**(563)**	**(213 266)**
Net book value at the year end	**152 216**	**92**	**152 308**

24. Other assets

	31/12/2018	31/12/2017
	EGP 000	EGP 000
Accrued revenues	569 104	364 244
Prepaid expenses	73 914	51 646
Payments under purchase of fixed assets	75 619	98 740
Assets reverted to the Bank in settlement of debts (after deducting impairment)	2 683	9 009
Insurance and custodies	3 144	2 905
Others	620 078	359 555
	1 344 542	**886 099**
Less: Provisions for doubtful debts	(119 003)	(108 879)
	1 225 539	**777 220**

25. Fixed assets

	Land and Buildings	Improvements on leased assets	Machinery and Equipment	Others	Total
	EGP 000	EGP 000	EGP 000	EGP 000	EGP 000
Balance as at 1/1/2017					
Cost	326 293	55 466	145 918	400 519	928 196
Accumulated depreciation	(122 194)	(44 349)	(90 391)	(300 473)	(557 407)
Net book value at 1/1/2017	**204 099**	**11 117**	**55 527**	**100 046**	**370 789**
Additions	10 410	3 006	92 026	51 679	157 121
Disposals	(434)	-	(33 387)	(8 074)	(41 895)
Depreciation for the year	(13 377)	(5 424)	(14 506)	(27 691)	(60 998)
Disposals' accumulated depreciation	25	-	32 722	1 567	34 314
Net Book value as at 31/12/2017	**200 723**	**8 699**	**132 382**	**117 527**	**459 331**
Balance as at 1/1/2018					
Cost	336 269	58 472	204 557	444 124	1 043 422
Accumulated depreciation	(135 546)	(49 773)	(72 175)	(326 597)	(584 091)
Net book value at 1/1/2018	**200 723**	**8 699**	**132 382**	**117 527**	**459 331**
Additions	28 439	15 945	35 714	125 071	205 169
Disposals	(4 192)	(150)	(565)	(283)	(5 190)
Depreciation for the period	(14 121)	(5 850)	(18 300)	(40 447)	(78 718)
Disposals' accumulated depreciation	2 823	-	221	117	3 161
Net Book value as at 31/12/2018	**213 672**	**18 644**	**149 452**	**201 985**	**583 753**
Balance as at 31/12/2018					
Cost	360 516	74 267	239 706	568 912	1 243 401
Accumulated depreciation	(146 844)	(55 623)	(90 254)	(366 927)	(659 648)
Net book value	**213 672**	**18 644**	**149 452**	**201 985**	**583 753**

26. Due to banks

	31/12/2018	31/12/2017
	EGP 000	EGP 000
Current accounts	418 025	403 579
Deposits	1 190	1 158
	419 215	**404 737**
Central bank of Egypt – Current accounts	-	40 351
Local banks	39 035	30 824
Foreign banks	380 180	333 562
	419 215	**404 737**
Balances without interest	188 756	360 385
Balances with fixed interest	230 459	44 352
	419 215	**404 737**
Current balance	**419 215**	**404 737**

27. Customers' deposits

	31/12/2018	31/12/2017
	EGP 000	EGP 000
Demand deposits	17 058 692	14 743 020
Term and notice deposits	5 327 200	5 103 243
Certificates of deposits and savings	38 092 645	26 863 363
Savings deposits	17 475 234	16 194 085
Other deposits	828 252	633 313
	78 782 023	**63 537 024**
Corporate deposits	10 565 035	9 479 276
Retail deposits	68 216 988	54 057 748
	78 782 023	**63 537 024**
Balances without interest	9 142 903	7 868 406
Balances with variable interest	59 819 825	46 673 028
Balances with fixed interest	9 819 295	8 995 590
	78 782 023	**63 537 024**
Current balances	19 461 558	13 754 723
Non-current balances	59 320 465	49 782 301
	78 782 023	**63 537 024**

Customers' accounts include deposits amounted to EGP 1 382 505 thousand as at 31 December 2018 versus EGP 1 380 676 thousand as at December 31, 2017 Which represent collateral of customer loans, letters of credit, and letters of guarantee. Deposits' fair value approximately equals the present value of such deposits.

28. Other loans (long term loans)

	Interest Rate	31/12/2018	31/12/2017
	%	EGP 000	EGP 000
Loan within the framework of The Agricultural Sector Development Program	3.5: 5.0	88 856	108 036
Long-term loans from CBE	3%	128 283	-
Sanad Loan Fund for MSME	Libor 6 month+2.45%	39 768	78 711
Sanad Loan Fund for MSME	Libor 6 month+2.85%	179 136	177 277
Loan Green for Growth Fund Tranche one amounted to USD 15 million	Libor 6 month+2.95 %	252 899	265 916
Loan Green for Growth Fund Tranche two amounted to USD 5 million	Libor 6 month+2.95%	89 568	88 638
Total long-term loans		**778 510**	**718 578**
Current balances		191 410	113 755
Non-current balances		587 100	604 823
		778 510	**718 578**

- 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.

29. Other liabilities

	31/12/2018 EGP 000	31/12/2017 EGP 000
Accrued interest	413 018	321 780
Prepaid revenues	115 540	105 234
Accrued expenses	413 363	228 210
Creditors	180 927	296 360
Remittances of Egyptian workers in Iraq – due to customers	58 360	58 572
Other credit balances	1 371 963	1 039 135
	2 553 171	**2 049 291**

30. Other provisions

	31/12/2018 EGP 000	31/12/2017 EGP 000
Balance at the beginning of the year	564 728	510 687
Differences in valuation of foreign currencies	(1 414)	4 135
Charged to income statement	106 911	69 955
Used amounts during the year	(167 938)	(17 252)
Transfers to doubtful amounts provisions (other assets)	(10 124)	(2 797)
Balance at the end of the year	**492 163**	**564 728**

Other provisions include of an amount of EGP 248 880 thousand at 31 December 2018 to meet contingent liabilities and contractual commitments that amount to EGP 12 612 291 thousand, versus to EGP 232 807 thousand as at 31 December 2017 to meet contingent liabilities and contractual commitments that amount to EGP 10 492 094 thousand.

31. 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 Current financial period.
- 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:

31.A. Recognized deferred tax liabilities

	Deferred tax liabilities	
	31/12/2018	**31/12/2017**
	EGP 000	**EGP 000**
Fixed assets (depreciation)	(51 869)	(33 130)
Fair value differences	(85 000)	(99 920)
Total deferred tax liability	**(136 869)**	**(133 050)**

The movement of deferred tax liabilities:

	31/12/2018	**31/12/2017**
	EGP 000	**EGP 000**
Balance at the beginning of the period/ year	(133 050)	(155 142)
Exclusions / (Additions)	(3 819)	22 092
Balance at the end of the period/ year	**(136 869)**	**(133 050)**

The deferred tax recorded directly in equity:

	31/12/2018	**31/12/2017**
	EGP 000	**EGP 000**
Fair value differences	(85 000)	(99 920)
	(85 000)	**(99 920)**

31.B. Unrecognized deferred tax assets

	Deferred tax assets	
	31/12/2018	**31/12/2017**
	EGP 000	**EGP 000**
Other provisions (other than impairment loss, provision on customers' loans and income tax provision and performing contingent liabilities provision)	80 783	91 485
	80 783	**91 485**

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.

32. Retirement benefits obligations

	31/12/2018	31/12/2017
	EGP 000	EGP 000
Liabilities included in the financial position statement for:		
Post-retirement medical benefits	941 443	798 000
	941 443	**798 000**

Amounts recognized in the income statement:

	31/12/2018	31/12/2017
	EGP 000	EGP 000
Post-retirement medical benefits	223 774	156 082
	223 774	**156 082**

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

	31/12/2018	31/12/2017
	EGP 000	EGP 000
The present value of funded obligations	934 765	934 765
Unrealized actuarial losses	6 678	(136 765)
The liabilities in the financial position statement	**941 443**	**798 000**

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

	EGP 000	EGP 000
The balance at the beginning of the year	798 000	705 629
Current service cost	14 358	11 487
Interest cost	179 496	133 710
Actuarial losses	29 920	10 885
Paid benefits	(80 331)	(63 711)
Balance at the end of the year	**941 443**	**798 000**

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

	31/12/2018	31/12/2017
	EGP 000	EGP 000
Current service cost	14 358	11 487
Interest cost	179 496	133 710
Actuarial losses	29 920	10 885
	223 774	**156 082**

The principal actuarial assumptions used are presented as follows:

	31/12/2018	**31/12/2017**
Discount rate	15%	15%
Previous service cost inflation rate	10.5%	10.5%
Future service assumption cost inflation rate	12%	12%
Mortality assumption	92 mortality cases every year	92 mortality cases every year
Employee turnover	15% pa at age 20 decreasing to 0.1% after age 50.0% after age 54	15% pa at age 20 decreasing to 0.1% after age 50.0% after age 54

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

33. Share capital

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

34. Reserves and retained earnings

	31/12/2018 EGP 000	31/12/2017 EGP 000
Legal reserve	400 000	400 000
General reserve	29 312	29 312
Special capital reserve	418 116	414 182
Fair value reserve/financial investments available - for- sale	297 656	350 806
Other reserves	289 188	289 188
IFRS 9 Risks Reserve	391 535	391 535
General Banking Risks Reserve	175	175
Specific reserve *	21 000	21 000
Total reserves	**1 846 982**	**1 896 198**

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

The movement in reserves is as follows:

34.A. Legal reserve

	31/12/2018 EGP 000	31/12/2017 EGP 000
Balance at the beginning of the year	400 000	400 000
Balance at the end of the year	**400 000**	**400 000**

- 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.

34.B. Special capital reserve

	31/12/2018 EGP 000	31/12/2017 EGP 000
Balance at the beginning of the year	414 182	413 383
Formed from the financial year 's profits 2016, 2017	3 934	799
Balance at the end of the year	**418 116**	**414 182**

34.C. Fair value reserve/ financial investments available for sale

	31/12/2018 EGP 000	31/12/2017 EGP 000
Balance at the beginning of the year	350 806	456 215
Net gains from change in fair value (Note no.21)	(60 143)	196 755
Net gains transferred to income statement resulting from disposals	(889)	(337 749)
Loss transferred to the statement of income as a result of impairment	(6 958)	(2 871)
The impact on the reserve after calculating the bonds by the amortized cost	(80)	(167)
Deferred tax liability (Note no.31)	14 920	38 623
Balance at the end of the year	**297 656**	**350 806**

34.D. IFRS 9 Risks Reserve

- IFRS 9 Risks Reserve represents 1% of total credit risk for assets and contingent liabilities weighted by risk weights based on December 2017, and subsequent net profit after tax for 2017.

	31/12/2018 EGP 000	31/12/2017 EGP 000
IFRS 9 Risks Reserve	391 535	391 535
Balance at the end of the year	**391 535**	**391 535**

34.E. Retained earnings

The movement in retained earnings	**31/12/2018 EGP 000**	**31/12/2017 EGP 000**
Balance at the beginning of the year	6 279 916	4 080 951
Change in general banking risk reserve	-	(25)
Net profits of the current year	3 025 485	2 782 745
Employees' share in financial year 2017/2016 profit	(277 878)	(151 421)
Transferred to Special capital reserve	(3 934)	(799)
Transferred to IFRS 9 risks reserve	-	(391 535)
Shareholders' dividends in financial year 2017/2016	(1 166 086)	(40 000)
Balance at the end of the period/year	**7 857 503**	**6 279 916**

35. Dividends

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 on February 28th, 2018 the distribution to the Shareholders of an amount of EGP 1 966 545 thousand; and the Board of Directors has to distribute an amount of EGP 302 545 thousand for employees as a share in profits (the actual distributions amounted of EGP 277 878 thousand for employees 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 2018.

36. 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.

	31/12/2018 EGP 000	**31/12/2017 EGP 000**
Cash and balances at Central Bank of Egypt (Note no.16)	1 673 365	1 477 459
Due from banks (Note no. 17)	29 238 822	23 766 746
Treasury bills and other governmental notes (Note no. 18)	7 024	8 559 425
	30 919 211	**33 803 630**

37. Contingent liabilities and commitments:

37.A. Legal Claims

There are a number of cases filed against the bank on 31 December 2018, and the balance of the claims' provision amounted to EGP 63 239 thousand.

37.B. Capital commitments

37.B.1. Financial investments

The value of the capital commitments related to financial investments which are not required to be paid until 31 December 2018 amounted to USD 95 thousand as follows:

Available - for - sale investments (foreign currency)	Investment value	Paid amount	Remaining amount and not requested
			USD 000
Horus Fund for Investment in Agricultural and Food Sector	3 496	3 401	95
	3 496	**3 401**	**95**

37.B.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 89 765 thousand on 31 December 2018, versus EGP 103 878 thousand on 31 December 2017. The Top Management has sufficient confidence in generating revenues and providing the finance required to cover these commitments.

37.C. Commitments related to loans, guarantees, and facilities

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

	31/12/2018 EGP 000	31/12/2017 EGP 000
Loan commitments	6 345 362	5 060 455
Accepted documentation	974 594	303 474
Letters of guarantee	9 875 806	9 644 071
Letters of credit “import”	1 244 074	391 878
Letters of credit “export”	517 817	152 671
Total	**18 957 653**	**15 552 549**

37.D. Commitments on operational leasing contracts

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

	31/12/2018 EGP 000	31/12/2017 EGP 000
Not more than one year	3 707	3 707
More than one year but less than five years	3 549	7 256
Total	**7 256**	**10 963**

38. 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 financial year are as follow:

38.A. Transactions with related Parties (Associate companies)

	31/12/2018	31/12/2017
	EGP 000	EGP 000
Statement of financial position		
Loans and Advances	11 313	-
Customers' Deposits	14 051	4 157
Income statements		
Interest Expenses	161	-
Interest Revenues	306	-

38.B. Transactions with the Parent Bank (Intesa Sanpaolo Bank)

	31/12/2018	31/12/2017
	EGP 000	EGP 000
Statement of financial position		
Due from banks	226 807	319 253
Debit balances and other assets	11 495	3 151
Due to banks	899	860
Credit balances and other liabilities	31 552	29 123
Income statements		
Expenses Central Depository Shares	6 400	-

38.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 4.87 million as at 31 December 2018 versus EGP 3.92 million as at 31 December 2017.

39. 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:

39.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). The bank has allocated 2% from the size of the fund which represent at least EGP 5 million to continue the activity.

The Bank investment in the fund amounted to 15 thousand certificates (including certificates of activity undertaking), and their redeemable value amounted to EGP 5.35 million as at 31 December 2018.

The redeemable value of the certificate as at 31 December 2018 amounted to EGP 356.84 and the outstanding certificates at that date reached 98 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 1 236 thousand as at 31 December 2018, which were presented under the item of "Fee and commission income" in the income statement.

39.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 has allocated 2% from the size of the fund which represent at least EGP 5 million to continue the activity.

The Bank investments in the fund amounted to a number of 822 thousand certificates (including certificates of activity undertaking), and their redeemable value amounted to EGP 27.36 million as at 31 December 2018.

The redeemable value of the certificate amounted to EGP 33.2951 as at 31 December 2018, and the outstanding certificates at that date reached 40 630 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 5 377 thousand as at 31 December 2018, which were presented under the item of "Fee and commission income" in the income statement.

39.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 fund with a quarterly return. The bank has allocated 2% from the size of the fund which represent at least EGP 5 million to continue the activity.

The Bank investment in the fund amounted to 250 thousand certificates (including certificates of activity undertaking), and their redeemable value amounted to EGP 5.63 million as at 31 December 2018.

The redeemable value of the certificate amounted to EGP 22.52376 as at 31 December 2018 and the outstanding certificates at that date reached 2 735 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 467 thousand as at 31 December 2018 which were presented under the item of “Fee and commission income” in the income statement.

40. Major events

IFRS 9: Financial Instruments

The IASB issued IFRS 9 ‘Financial Instruments’ in its final form in July 2014 and Central Bank of Egypt (“CBE”) issued a circular on 28 January 2018 instructing Banks to implement the standard with effect from 1 January 2019. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

a. Classification and measurement

The adoption of this standard will have an effect on the classification and measurement of Bank's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The classification and measurement of financial assets will depend on how these are managed (the entity’s business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income or fair value through statement of income. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

b. Impairment of financial assets

The impairment requirements apply to financial assets measured at amortized cost, fair value through other comprehensive income, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

Financial assets where 12-month ECL is recognized are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by the bank.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile.

According to the Central Bank of Egypt instructions, the banks set up the IFRS 9 risk reserve at 1% from credit risk weighted assets deducted from net profit after tax for 2017 amounted to 391 Million EGP (through statement of change in equity) included in the capital (tear 1) in the capital adequacy and it is not used unless obtaining the approval of the Central Bank of Egypt.

The final instructions of the Central Bank regarding the application of IFRS 9 as of the date of approval of these financial statements have not been issued.

Dante Campioni	**Mohamed Raef**
CEO and Managing Director	**Chief Financial Officer**