



Allied for Accounting and Auditing
Public Accountants and Consultants



BAKER TILLY

Wahid Abdel Ghaffar & Co.

Public Accountants & Consultants

EGYPTIAN GULF BANK (S.A.E)

Separate Financial Statements
For The Year Ended 31 December 2017



Allied for Accounting & Auditing EY
Public Accountants & Consultants



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AUDITORS' REPORT

TO THE SHAREHOLDERS OF THE EGYPTIAN GULF BANK (S.A.E)

Report on the Financial Statements

We have audited the accompanying separate financial statements of the Egyptian Gulf Bank (S.A.E), represented in the separate balance sheet as of 31 December 2017, and the related separate statements of income, change in equity and cash flows for the year then ended, and a summary of significant accounting policies and other notes.

Management's Responsibility for the Financial Statements

These financial statements are the responsibility of the Bank's management, as management is responsible for the preparation and fair presentation of the financial statements in accordance with the instructions of preparation and presentation of financial statements for Egyptian banks and Central Bank of Egypt's rules relating to the preparation and presentation of the financial statements and measurement and recognition bases approved by its Board of Directors on 16 December 2008 and in light of the prevailing Egyptian laws and regulations. Management responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. This 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 Egyptian Standards on Auditing and in light of the prevailing Egyptian laws. Those standards require that we plan and perform the audit to obtain reasonable assurance that 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 assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank'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 financial statements.

Opinion

In our opinion, the separate financial statements referred to above, give a true and fair view, in all material respects of the separate balance sheet of the Bank as of 31 December 2017, and of its separate financial performance and its separate cash flows for the year then ended in accordance with the instructions of preparation and presentation of financial statements for Egyptian banks and Central Bank of Egypt's rules relating to the preparation and presentation of bank's financial statements and measurement and recognition bases approved by its Board of Directors on 16 December 2008 and the related applicable Egyptian laws and regulations relating to the preparation of those financial statements.

Report on Other Legal and Regulatory Requirements

Nothing came to our attention during the year ended 31 December 2017, that the bank was not in compliance with the laws and regulations of the Central Bank of Egypt, and the Banking and Monetary System no. 88 of 2003.

The Bank maintains proper accounting records that comply with the laws and the Bank's articles of association and the financial statements agree with the Bank's records.


The financial information included in the Board of Directors' Report, prepared in accordance with Law no. 159 of 1981 and its executive regulation, is in agreement with the books of the Bank insofar as such information is recorded therein.

Cairo: 28 February 2018



Ashraf Emif
FESAA - FEST
RAA (0259)
Allied for Accounting & Auditing EY
Public Accountants & Consultants

Auditors


BAKER TILLY
WAHID ABDEL GHAFAR & CO.
PUBLIC ACCOUNTANTS & CONSULTANTS
Elsayed Mahmoud Ahmed Salem
FESAA - FEST
RAA (7110)
Wahid Abdel Ghaffar & CO BT
Public Accountants & Consultants

SEPARATE BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	31/12/2017 L.E.	31/12/2016 L.E.
ASSETS			
Cash and balances with the CBE	(15)	7,068,067,524	3,033,646,325
Due from banks	(16)	5,821,229,458	5,170,342,534
Treasury bills and other governmental notes	(17)	9,001,585,978	8,751,810,994
Loans, advances and morabahat for customers	(18)	24,152,221,205	18,946,738,945
Financial investments:			
Available for sale	(19)	3,490,339,098	1,956,374,866
Held to maturity	(19)	4,447,072,991	5,698,569,559
Investment in subsidiaries and associates	(20)	210,402,745	210,402,745
Employee stock ownership plan (ESOP)	(21)	28,185,908	--
Intangible assets	(22)	34,819,989	30,843,461
Other assets	(23)	1,487,798,743	1,126,259,893
Fixed assets	(24)	461,650,504	239,608,487
TOTAL ASSETS		56,203,374,143	45,164,597,809
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks	(25)	4,420,756,702	1,000,000,000
Customers' deposits	(26)	46,465,751,668	40,650,157,689
Other loans \ Subordinated deposits	(27)	502,094,286	2,640,000
Other liabilities	(28)	1,272,527,984	1,117,460,784
Other provisions	(29)	104,412,745	80,395,066
TOTAL LIABILITIES		52,765,543,385	42,850,653,539
SHAREHOLDERS' EQUITY			
Issued and Paid-in capital	(31)	1,786,560,356	1,499,371,317
Retained for capital increase (Cash underwriting)	(31)	469,529,244	287,189,039
Reserves	(32)	577,169,230	125,882,737
Employee stock ownership plan (ESOP) reserve	(21)	2,167,848	--
Retained Earnings	(32)	602,404,080	401,501,177
TOTAL SHAREHOLDERS' EQUITY		3,437,830,758	2,313,944,270
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		56,203,374,143	45,164,597,809

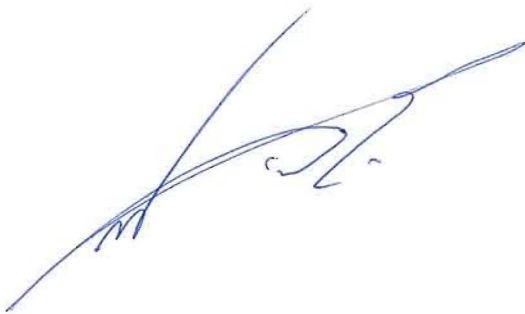
Executive Chairman & managing director
Nidal El Kassem Assar

Chairman
Mohamed Gamal El Din Mohamed Mahmoud

* The accompanying notes from (1) to (39) are an integral part of these separate financial statements and are to be read therewith.
* Audit report attached.

	<u>Note</u>	<u>31/12/2017</u>	<u>31/12/2016</u>
		<u>L.E.</u>	<u>L.E.</u>
Interest from loan and similar income	(6)	6,665,450,720	3,538,024,013
Interest on deposits and similar expenses	(6)	<u>(5,155,330,355)</u>	<u>(2,217,416,065)</u>
Net interest income		1,510,120,365	1,320,607,948
Fees and commissions income	(7)	333,028,157	236,851,960
Fees and commissions expenses	(7)	<u>(46,657,094)</u>	<u>(19,274,495)</u>
Net fees and commission income		286,371,063	217,577,465
Dividends income	(8)	3,774,232	4,506,169
Net trading income	(9)	116,186,498	124,108,762
Gain from sale of financial investments	(19)	11,621,681	39,744,319
Impairment (charge) for credit losses	(12)	<u>(232,827,631)</u>	<u>(383,400,581)</u>
General and administrative expenses	(10)	<u>(786,810,270)</u>	<u>(646,005,049)</u>
Other operating (expenses)	(11)	<u>(30,821,984)</u>	<u>(11,783,645)</u>
Profits before income tax		877,613,954	665,355,388
Income tax expenses	(13)	<u>(376,994,134)</u>	<u>(263,854,211)</u>
Net profit of the period		<u>500,619,820</u>	<u>401,501,177</u>
Earnings per share (EGP/ share)	(14)	<u>1.38</u>	<u>1.36</u>

Executive Chairman & Managing Director
Nidal El Kassem Assar



Chairman
Mohamed Gamal El Din Mohamed Mahmoud



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

SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Cash flows from Operating Activities		
Net Profits before income tax	877,613,954	665,355,388
Adjustments to reconcile net profit to net cash provided by operating activities		
Depreciation and amortization	62,206,841	20,552,866
Impairment of assets	232,827,631	383,400,581
Other provisions no longer required	33,273,772	16,334,050
Revaluation differences for other provision in foreign currencies	(563,467)	16,651,094
Gain from sale of fixed assets	(1,619,155)	(227,937)
Dividends paid	(3,774,232)	(4,506,169)
Amortized cost	(60,823,625)	(62,193,683)
Gains from sale of financial investment available for sale	(11,621,681)	22,762,008
Impairment of non-current assets held for sale	14,700,000	--
Gain from investment in subsidiaries and associates	--	(62,506,327)
Operating profit before changes in assets and liabilities provided from operating activities	<u>1,142,220,038</u>	<u>995,621,871</u>
Net change in assets and liabilities		
Due from banks	(540,840,150)	512,254,107
Treasury bills	(4,985,261,207)	(9,065,534,450)
Trading financial assets	--	1,846,739
Other assets	(257,520,147)	(385,572,762)
Loans and advances and Morabahat to customers	(5,225,287,579)	(11,017,828,516)
Due to banks	3,420,756,702	502,713,025
Customers' deposits	5,815,593,979	20,029,858,621
Other liabilities	155,067,198	657,227,169
Net cash flows(used in) provided from operating activities (1)	<u>(475,271,166)</u>	<u>2,230,585,804</u>
Cash flows from Investing Activities		
Payments to purchase fixed assets and branches improvement	(422,689,743)	(291,232,675)
Proceeds from sale of fixed assets	1,806,370	237,805
Payments to purchase intangible assets	(10,876,201)	(11,538,132)
Proceeds from sale of financial investments other than trading investment	1,239,222,901	1,423,307,752
Payments to purchase investment other than trading investment	(962,573,542)	(3,283,814,452)
Dividends received	3,774,232	4,506,169
Employee stock ownership plan (ESOP)	(26,018,060)	--
Net cash flows (used in) investing activities (2)	<u>(177,354,043)</u>	<u>(2,158,533,533)</u>
Cash flows from Financing Activities		
Change in long Term loans	499,454,286	440,000
Dividends paid	(54,150,118)	(36,312,266)
Capital increase	469,529,244	287,189,039
Net cash flows provided from financing activities (3)	<u>914,833,412</u>	<u>251,316,773</u>
Net change in cash and cash equivalents during the year (1+2+3)	262,208,203	323,369,044
Cash and cash equivalents at beginning of the year	<u>5,537,839,193</u>	<u>5,214,470,149</u>
Cash and cash equivalents at the end of the year	<u>5,800,047,396</u>	<u>5,537,839,193</u>
Cash and cash equivalents are represented in (note 33) :		
Cash and balances with Central Bank	7,068,067,524	3,033,646,325
Due from banks	5,821,229,458	5,170,342,534
Treasury bills	9,680,192,450	9,082,209,450
Balance with CBE within the limit of statutory reserve	(6,639,910,486)	(2,638,650,715)
Due from banks with maturities more than 3 months	(585,014,100)	(44,173,951)
Treasury bills with maturity more than 3 months	(9,544,517,450)	(9,065,534,450)
Cash and cash equivalents at the end of the year	<u>5,800,047,396</u>	<u>5,537,839,193</u>

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

SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>Capital</u>	<u>Retained for capital increase</u>	<u>Reserves</u>	<u>ESOP</u>	<u>Retained Earnings</u>	<u>Total</u>
		<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>
Balance as of 1/1/2016		1,279,943,318	--	149,696,815	--	286,263,252	1,715,903,385
Retained for capital increase (cash underwriting)		--	278,189,039	--	--	--	278,189,039
Dividends paid for year 2015 (Employees profit share)		--	--	--	--	(27,812,266)	(27,812,266)
Board of directors remuneration		--	--	--	--	(8,500,000)	(8,500,000)
Transferred to legal reserves		--	--	27,812,267	--	(27,812,267)	--
Transferred to other reserves		--	--	2,527,570	--	(2,527,570)	--
Net change in fair value of available for sale investment		--	--	(54,337,065)	--	--	(54,337,065)
Transferred to banking risk reserve from retained earnings		--	--	183,150	--	(183,150)	--
Retained for capital increase		219,427,999	--	--	--	(219,427,999)	--
Net profit for the year		--	--	--	--	401,501,177	401,501,177
Balance as of 31/12/2016		<u>1,499,371,317</u>	<u>287,189,039</u>	<u>125,882,737</u>	--	<u>401,501,177</u>	<u>2,313,944,270</u>
Balance as of 1/1/2017		<u>1,499,371,317</u>	<u>287,189,039</u>	<u>125,882,737</u>	--	<u>401,501,177</u>	<u>2,313,944,270</u>
Transferred for capital increase		287,189,039	(287,189,039)	--	--	--	--
Capital increase (cash underwriting)		--	469,529,244	--	--	--	469,529,244
Dividends paid for year 2016 (Employees profit share)		--	--	--	--	(40,150,118)	(40,150,118)
Board of directors remuneration		--	--	--	--	(14,000,000)	(14,000,000)
Transferred to legal reserves		--	--	40,150,118	--	(40,150,118)	--
Transferred to other reserves		--	--	227,937	--	(227,937)	--
Net change in fair value of available for sale investment	(32)	--	--	205,719,694	--	--	205,719,694
Transferred to banking risk reserve from retained earnings		--	--	5,497,244	--	(5,497,244)	--
Transferred from banking risk reserve to retained earnings		--	--	(915,750)	--	915,750	--
Employee stock ownership plan (ESOP)		--	--	--	2,167,848	--	2,167,848
Net profit for the year		--	--	--	--	500,619,820	500,619,820
Transferred to IFRS 9 risk reserve		--	--	200,607,250	--	(200,607,250)	--
Balance as of 31/12/2017		<u>1,786,560,356</u>	<u>469,529,244</u>	<u>577,169,230</u>	<u>2,167,848</u>	<u>602,404,080</u>	<u>3,437,830,758</u>

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

STATEMENT OF PROPOSED EARNING DISTRIBUTION
FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Net profit of the year (from income statement)	500,619,820	401,501,177
Less:		
Profit selling property, plant and equipment transferred to capital reserve according to the law	(1,619,155)	(227,937)
General bank risk reserve	(2,245,431)	(4,581,494)
IFRS 9 risk reserve in accordance with the instructions of the CBE	(200,607,250)	--
Available net profit for distribution	<u>296,147,984</u>	<u>396,691,746</u>
Add:		
Retained earnings in the beginning of the financial year	<u>302,391,510</u>	--
Total	<u>598,539,494</u>	<u>396,691,746</u>
To be distributed as follows:		
Legal reserve 10%	50,061,982	40,150,118
Dividends to shareholders (Free shares)	89,328,018	--
Employees profit share	50,061,982	40,150,118
Board of directors remuneration	17,456,182	14,000,000
Dividends to shareholders (Extra share from profit)	310,671,982	--
Retained earnings at the end of the financial year	<u>80,959,348</u>	<u>302,391,510</u>
Total	<u>598,539,494</u>	<u>396,691,746</u>

* The IFRS 9 risk reserve is created 1% of the total weighted credit risk of net profit after tax for 2017 (Note 32).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**1. General information**

Egyptian Gulf Bank S.A.E was under the minister decree No, 296 at 14 October 1981 according to the Investment Law No, 43 for 1974, That was replaced by investment law No, 230 for the 1989 that was canceled by law No, 8 for 1997 which is concerned for issuance of warranties and bonus of investment and it executives, The Bank is listed in the Egyptian Stock Exchange.

Egyptian Gulf Bank provides corporate, retail banking and investment banking services in various areas of Egypt through forty three branches, and employs over 1675 employees as of the balance sheet date.

Separate financial statements for the year ended 31 December 2017 were approved by the Board of Directors on 20 February 2018.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below; these policies have been consistently applied to all the years presented, unless otherwise stated.

2. A Basis of preparation

The separate financial statements have been prepared in accordance with Egyptian Financial Reporting Standards issued in 2006 and its amendments and in accordance with the Central Bank of Egypt regulations approved by the Board of Directors on December 16, 2008.

The separate financial statements have been prepared under the historical cost convention , As modified by the revaluation of financial assets and liabilities classified as trading or held at fair value through profit or loss, available for sale investment and all derivatives contracts.

2. B Subsidiaries and Associates**(B/1) Subsidiaries:**

Subsidiaries are all entities (including Special Purpose Entities / SPEs) over which the Bank has owned directly or indirectly the control to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights, The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank has the ability to control the entity or not.

(B/2) Associates:

Associates are all entities over which the bank has significant influence but do not reach to the extent of control, generally accompanying a shareholding between 20% and 50% of the voting rights.

The acquisition method of accounting is used to account for the purchase of subsidiaries, The cost of an acquisition is measured at the fair value of the assets given, Equity instruments issued and liabilities incurred or assumed, plus any costs directly related to the acquisition, The excess of the cost of an acquisition over the bank share of the fair value of the identifiable net assets acquired is recorded as goodwill, A gain on acquisition is recognized in profit or loss if there is an excess of the bank's share of the fair value of the identifiable net assets acquired over the cost of the acquisition.

The cost method is applied to account for investments in subsidiaries and associates, whereby, investments are recorded based on the acquisition cost including any goodwill, deducting any impairment losses, and dividends are recorded in the income statement in the adoption of the distribution of these profit and evidence of the bank right to collect them.

2. C Segment reporting

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

2. D Foreign currency translation**(D/1) Functional and presentation currency:**

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

2. Summary of significant accounting policies – continued**(D/2) Transactions and balances in foreign currencies:**

The bank maintains its accounting records in Egyptian pound, Transactions in foreign currencies during the financial year are translated into Egyptian pound using the prevailing exchange rates on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the end of the financial year at the prevailing exchange rates, Foreign exchange gains and losses resulting from settlement and translation of such transactions and balances are recognized in the income statement and reported under the following line items.

- Net trading income from held-for-trading assets and liabilities.
- Other operating revenues (expenses) from the remaining assets and liabilities.

Changes in the fair value of investments in debt instruments; which represent monetary financial instruments, denominated in foreign currencies and classified as available for sale assets are analyzed into valuation differences resulting from changes in the amortized cost of the instrument, differences resulting from changes in the applicable exchange rates and differences resulting from changes in the fair value, of the instruments.

Valuation differences resulting from changes in the amortized cost are recognized and reported in the income statement in income from loans and similar revenues' whereas difference resulting from changes in foreign exchange rates are recognized and reported in 'other operating revenues (expenses)', The remaining differences resulting from changes in fair value are deferred in equity and accumulated in the 'Revaluation reserve of available-for-sale investments'.

Valuation differences resulting from the non-monetary items include gains and losses of the change in fair value of such equity instruments held at fair value through profit and loss, as for recognition of the differences of valuation resulting from equity instruments classified as financial investments available for sale within the fair value reserve in equity.

2. E Financial assets

The Bank classifies its financial assets in the following categories:

- Financial assets designated at fair value through profit or loss.
- Loans and receivables.
- Held to maturity investments.
- Available for sale financial investments.
- Management determines the classification of its investments at initial recognition.

(E/1) Financial assets at fair value through profit or loss:

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit making.

The Bank in all conditions doesn't reclassify any financial instrument moving to programs of financial instruments reclassified with fair value from statement of income or to financial assets program for trading.

(E/2) Loans and advances:

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

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

2. Summary of significant accounting policies – continued**(E/3) Held to maturity financial investments:**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold till maturity, If the Bank has to sell other than an insignificant amount of held- to-maturity assets, the entire category would be reclassified as available for sale unless in necessary cases subject to regulatory approval.

(E/4) Available for sale financial investments:

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

The following are applied in respect to all financial assets:

Debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value, are classified as available-for-sale or held-to-maturity, Financial investments are recognized on trade date, when the group enters into contractual arrangements with counterparties to purchase securities.

Financial assets are initially recognized at fair value plus transaction cost for all financial assets not carried at fair value through profit and loss, Financial assets carried at fair value through profit and loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

Financial assets are derecognized when the rights to receive cash flows from the Financial assets have expired or when the Bank transfer substantially all risks and rewards of the ownership, Financial liabilities are derecognized when they are extinguished, that is, when the obligation is discharged or cancelled or expired.

Available- for- sale, held-for-trading and financial assets designated at fair value through profit and loss are subsequently measured at fair value, Loans, receivable and held-to-maturity investments are subsequently measured amortized cost.

Gains and losses arising from changes in the fair value of the 'financial assets designated at fair value through profit or loss are recognized in the income statement in 'net income from financial instrument designated at fair value 'gains and losses arising from changes in the fair value of available for sale investments are recognized directly in equity, until the financial assets are either sold or become impaired, When available-for-sale financial assets are sold, the cumulative gain or loss previously recognized in equity is recognized in profit or loss

Interest income is recognized on available for sale debt securities using the effective interest method, calculated over the asset's expected life, Premiums and discounts arising on the purchases are included in the calculation of effective interest rates, Dividends are recognized in the income statement when the right to receive payment has been established .

The fair values of quoted investments in active markets are based on current bid prices, If there is no active market for a financial asset, or no current demand prices available, the Bank measures fair value using valuation models, These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation models commonly used by market participants, if the Bank has not been able to estimate the fair value of equity instruments classified available for sale, value is measured at cost less any impairment in value.

Available for sale investments that would have met the definition of loans and receivable at initial recognition may be reclassified out to loans and advances or financial assets held to maturity, in all cases, when the bank has the intent and ability to hold these financial assets in the foreseeable future or till maturity , The financial assets in reclassified at its fair value on the date of reclassification, and any profits or losses that have been recognized previously in equity, are treated based on the following:

- If the Financial asset has fixed maturity, gains or losses are amortized over the remaining life of the investment using the effective interest rate method, In case of subsequent impairment of the financial asset, the previously recognized unrealized gains or losses in equity are recognized directly in the profits and losses.

2. Summary of significant accounting policies – continued

- In the case of financial asset which has infinite life, any previously recognized profit and loss in equity will remain until the sale of the asset or its disposal, in the case of impairment of the value of the financial asset after the re-classification, any gain or loss previously recognized in equity is recycled to the profits and losses.
- If the bank adjusts its estimates of payments or receipts of a financial asset that in return adjust the carrying amount of the asset [or group of financial assets] to reflect the actual cash inflows, the carrying value is recalculated based on the present value of estimated future cash flows at the effective yield of the financial instrument and the difference are recognized in Profit and loss.
- In all cases, if the bank re-classified financial assets in accordance with the above criteria and increases its estimate of the proceeds of future cash flow, this increase adjusts the effective interest rate of this asset only without affecting the investment book value.

2. F Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a legally enforceable right to offset the recognized amounts and there is an intention to be settled on a net basis, or realize the asset and settle the liability simultaneously.

2. G Interest income and expense

Interest income and expense for all financial instruments except for those classified as held-for-trading or designated at fair value are recognized in "Interest income" and "Interest expense" in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant year, The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period to the net carrying amount of the financial asset or financial liability, When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses, The calculation includes all fees and points paid or received between parties of the contract that represent an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

- When all arrears are collected for consumer loans, personal mortgage and micro-finance loans.
- When calculated interest For corporate are capitalized according to the rescheduling agreement condition until paying 25 % from rescheduled payments for a minimum performing period of one year, if the customer continues to perform, the calculated interest will be recognized in interest income [interest on the performing rescheduling agreement balance] without the marginalized before the rescheduling agreement which will be recognized in interest income after the settlement of the outstanding loan balance.

2. H Fees and commission income

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

2. Summary of significant accounting policies – continued

Commitment fees and related direct costs for loans and advances where draw down is probable are deferred and recognized as an adjustment to the effective interest on the loans drawn, Commitment fees in relation to facilities where draw down is not probable are recognized at the maturity of the term of the Commitment.

Fees are recognized on the debt instruments that are measured at fair value through profit and loss on initial recognition and syndicated loan fees received by the bank are recognized when the syndication has been completed and the bank does not hold any portion of it or holds a part at the same effective interest rate used for the other participants portions.

Commission and fees arising from negotiation, or participating in the negotiation of a transaction for a third party such as the arrangement of the acquisition of shares of other securities and the purchase or sale of properties are recognized upon completion of the underlying transaction in the income statement.

Other management advisory and service fees are recognized based on the applicable service contracts, usually on accrual basis, Financial planning fees related to investment funds are recognized steadily over the period in which the service is provided the same principle is applied for wealth management; financial planning and custody services that are provided on the long term are recognized on the accrual basis also.

2. I Dividend income

Dividends are recognized in the income statement when the right to collect it is declared.

2. J sale and repurchase agreements

Securities may be lent or sold according to commitment to repurchase (repos) are reclassified in the financial statement and deducted from Treasury Bills balance, Securities borrowed or purchased according to a commitment to resell them (reverse repos) are reclassified in the financial statement and added to treasury bills balance, The difference between sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective interest rate method.

2. K Impairment of financial assets

(K/1) Financial assets carried at amortized cost:

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

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

- Great financial troubles facing the borrower or debtor.
- Violation of the conditions of the loan agreement such as non-payment.
- Initial bankruptcy proceeding.
- Deterioration of the borrower's competitive position.
- The bank for reasons of economic or legal financial difficult of the borrower by Granting concessions may not agree with the bank granted in normal circumstance.
- Impairment of guarantee.
- Deterioration of credit worthiness.

The objective evidence of impairment loss for group of financial assets is observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, for instance an increase in the default rates for a particular banking product.

The bank estimates the period between a losses occurring and its identification for each specific portfolio, In general, the periods used vary between three months to twelve months.

2. Summary of significant accounting policies – continued

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

- If the bank determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, It includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment according to historical default ratios.
- If the bank determines that an objective evidence of financial assets impairment exists that is individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.
- If the result of a previous test did not recognize impairment loss, then this asset will be added to the group of financial assets that are collectively evaluated for impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate, The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement, If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract when there is objective evidence for asset impairment, As a practical expedient, the bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of collateralized financial asset reflect the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics(i.e., on the basis of the group's grading process that consider asset type, industry, geographical location, collateral type, past-due status and other relevant factors), Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

For the purposes of evaluation of impairment for a group of financial assets according to historical default ratios future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flow of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the bank, Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current condition that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should be reflected together with changes in related observable data from period to period (e.g., changes in unemployment rates, property prices, payment status, or other indicative factors of changes in the probability of losses in the bank and their magnitude),the methodology and assumptions used for estimating future cash flows are reviewed regularly by the bank.

(K/2) Available for sale investments:

The bank assesses on each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets classify under available for sale is impaired, In the case of equity investments classified as available for sale, a significant or a prolonged decline in the fair value of the security below its cost is considered in determining

whether the assets are impaired, During periods start from first of January 2009, the decrease consider significant when it became 10% from the book value of the financial instrument and the decrease consider to be extended if it continues for period more than 9 months, and if the mentioned evidence become available then any cumulative gains or losses previously recognized in equity are recognized in the income statement, in respect of available for sale equity securities, impairment losses previously recognized in profit and loss are not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement to the extent of previously recognized impairment charge from equity to income statement.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

2. Summary of significant accounting policies – continued

2. L Intangible assets

(L/1) Software (computer programs):

Expenditures related to the development or maintenance of computer programs, are to be charged on income statement, as incurred, Expenditures connected directly with specific software and which are subject to the Bank's control and expected to produce future economic benefits exceeding their cost for more than one year, are to be recognized as an intangible asset, The expenses include staff cost of the team involved in software upgrading, in addition to a portion of overhead expenses.

The expenditures that lead to the development of computer software beyond their original specifications are recognized as an upgrading cost and are added to the original software cost.

The computer software cost is recognized as an asset that is amortized over the expected useful life time not exceeding four years, except for the main software for the bank that is amortized over 10 years.

2. M Other assets

Non-current Assets held for Sale

Non-current assets are classified as non-current assets held for sale if it is expected to recover their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This includes assets bought for loans settlement, fixed assets which the bank suspends their use to sell it, and the subsidiaries and associates companies which the bank buy for the purpose of selling them.

The asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets.

The asset (or disposal group) that is classified as assets held for sale based on the book value in the classification date, or the fair value deducting the sale costs whichever is less.

If the bank changes the sale plan, the book value of the asset will be modified to the amount by which the asset would have been measured in case it was not classified as an asset held for sale taking into consideration any value decline.

As for assets gained against loans settlement, if the bank fails to sell them within the legally set period, the bank should form 10% from the asset value annually as a general bank risk reserve

The changes in the value of non-current assets held for sale, the profit and loss of sale shall be acknowledged in the item other operating revenues (expenses).

2. N Fixed assets

Land and buildings comprise mainly branches and offices, all property, plant and equipment are stated at historical cost less depreciation and impairment losses, Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the bank and the cost of the item can be measured reliably, all other repairs and Maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated; Depreciation of other assets is calculated using the straight-line method to allocate their residual values over estimated useful lives, as follows:

Buildings	40 years
Safes	40 years
Office Furniture	10 years
Typewriters calculators And air conditions	8 years
Computers and core systems	5 years
Fixtures and fitting	5 years
Transportation	4 years
Computer software's	4 years

2. Summary of significant accounting policies – continued

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

Gains and losses on disposals are determined by comparing the selling proceeds with asset carrying amount and charge to other operating expenses in the income statement.

2. O Impairment of non-financial assets

Assets that have an indefinite useful life are not amortized-expect goodwill- and are tested annually for impairment, Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable, an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell or value in use, Assets are tested for impairment with reference to the lowest level of cash generating unit(s), a previously recognized impairment loss relating to a fixed asset may be reversed in part or in full when a change in circumstance leads to a change in the estimates used to determine the fixed asset's recoverable amount, The carrying amount of the fixed asset will only be increased up to the amount that the original impairment not been recognized.

2. P Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

2. Q Other provisions

Provisions for restructuring costs and legal claims are recognized when the Bank has present legal or constructive obligation as a result of past events; where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

In case of similar obligations, the related cash outflow should be determined in order to settle these obligations as a group, The provision is recognized even in case of minor probability that cash outflow will occur for an item of these obligations.

When a provision is wholly or partially no longer required, it is reversed through profit or loss under other operating income (expense),

Provisions for obligations, order than those for credit risk or employee benefits, due within more than 12 month from the balance sheet date are recognized based on the present value of the best estimate of the consideration required to settle the present obligation on the balance sheet date, An appropriate pretax discount rate that reflects the time value of money is used to calculate the present value of such provisions, For obligations due within less than twelve months from the balance sheet date, provision are calculated based on undiscounted expected cash outflows unless the time value of money has significant impact on the amount of provision, then it is measured at the present value.

2. R Employee's benefits

(R/1) Social insurance:

The bank contributes to the social insurance scheme related to the Social Insurance Authority for the benefit of its employees; the income statement is charged with these contributions on an accrual basis and is included in the employee's benefit account.

(R/2) Profit share:

The Bank pay a percentage of the cash profits expected to be distributed as employee's profit share through item "dividends declared" in the owners' equity, and as liability when the its approved by the shareholders general assembly, There is no recorded liability for the employees share in the unpaid dividends portion.

2. Summary of significant accounting policies – continued**(R/3) Other retirement liability:**

The bank provides healthcare benefits to retirees and usually the benefits are granted under the condition that the retiree has reached the retirement age when employed by the bank and completes the minimum required service period, the expected costs are accrued during the period of services rendered by the employee under the defined benefit plans accounting method.

(R/4) Employee stock ownership plan (ESOP):

The extraordinary general assembly meeting held on 9 May 2017 approved the establishment of the employee stock ownership plan (ESOP) by granting after amending the bank's article of association according to the decision of the extraordinary general assembly meeting held on 23 March 2016 based on a proposal from the bank's board of directors on 29 February 2016, this plan will be applied from the date of the approval of the Egyptian Financial Supervisory Authority (EFSA) on this plan in accordance with the law.

Equity securities of this plan will be granted to the bank's executive members, departments' heads, general managers, first line managers and employees of the bank based on their annual performance and appraisal according to the bank's financial performance and personal performance report based on his functional grade.

Equity securities granted to employees are measured by reference to the fair value (market price) at the date on which they are granted. Equity securities are revaluated to the fair value (market price) at each reporting date, together with a corresponding revaluation differences in equity at the balance sheet.

2. S Income tax

Income tax on the profit and loss for the year and deferred tax are recognized in the income statement except for income tax relating to items of equity that are recognized directly in equity.

The income tax is recognized based on net taxable profit using the tax rates applicable on the date of the balance sheet in addition to tax adjustments for previous years.

Deferred taxes arising from temporary time differences between the book value of assets and liabilities are recognized in accordance with the principles of accounting and value according to the foundation of the tax, this is determining the value of deferred tax on the expected manner to realize or settle the values of assets and liabilities, using tax rates applicable on the date of the balance sheet.

Deferred taxes assets of the bank recognized when there is likely to be possible to achieve profits subject to tax in the future to be possible through to use that asset, And is reducing the value of deferred tax assets with part of that will come from tax benefit expected during the following years that in the case of expected high benefit tax, Deferred tax assets will increase within the limits of the above reduced.

2. T Capital**(T/1) Dividends:**

Dividends on ordinary shares and profit sharing are recognized as a charge of equity upon the general assembly approval, Profit sharing include the employee' Profit share and the board of director' remuneration as prescribed by the bank's articles of incorporation and the corporate law.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

3. Financial risk management

The Bank's activities expose it to variety financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks, Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business, The bank's aim is therefore to achieve an appropriate balance between risk and rewards and minimize potential adverse effect on the Bank's financial performance, The most important types of financial risks are credit risk, market risk, liquidity risk and other operating risks, Also market risk includes exchange rate risk, rate of return risk and other prices risks.

The bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems, the bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by risk department under policies approved by the Board of Directors; Bank treasury identifies, evaluates and hedges financial risks in close co-operation with the bank's operating units.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments; In addition, credit risk management is responsible for the independent review of risk management and control environment.

3. A Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the bank by failing to discharge an obligation, Management therefore carefully manages its exposure to credit risk, Credit exposures arise principally in loans and advances, dept., securities and other bills, There is also credit risk in off-balance sheet financial arrangement such as loan commitments, The credit risk management and control are centralized in a credit risk Management team in bank treasury and reported to the Board of Directors and Heads of each business unit regular.

3. (A/1) Credit risk measurement:

Loans and advances to banks and customers

In measuring credit risk of Loans and facilities to banks and customers at counterparty level, the bank reflect three components.

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

These credit risk measurements, which reflect expected loss (the 'expected loss model') are required by the Basel committee on banking regulations and the supervisory practices (the Basel committee), and are embedded in the bank's daily operational management, The operational measurements can be contrasted with impairment allowance required under EAS 26, which are based on losses that have been incurred on the balance sheet data (the 'incurred loss model') rather than expected losses (note 3.A)

The bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty, They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, Clients of the bank are segmented into four rating classes, The bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class, This means that; in principle, exposures migrate between classes as the assessment of their probability of default changes, The rating tools are kept under review and upgraded as necessary, The bank regularly validates the performance of the rating and their predictive power with regard to default events.

Bank's internal ratings scale

Description of the grade	Bank's rating
Performing loans	1
Regular watching	2
Watch list	3
Non-performing loans	4

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**3. Financial risk management - continued**

The amount of default represent the outstanding balances at the time when a late settlement occurred for example the loans expected amount of default represent its book value, For commitments the default amount represents all actual withdrawals in addition to any withdrawals that occurred till the date of the late payment if any.

Loss given default or loss severity represents the bank expectation of the extent of loss on a claim should default occur, It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

Debt instruments, treasury bills and other bills:

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

3. (A/2) Risk Limit and mitigation policies

The Bank manages, Limit and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and banks, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments, Such risks are monitored on revolving basis and subject to an annual or more frequent review, when considered necessary, Limits on the level of credit risk by individual, counterparties, product, and industry sector and by country are approved quarterly by the board of directors

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

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

Some other specific control and mitigation measures are outlined below:

Collaterals:

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

- Mortgages over residential properties.
- Mortgages Business assets such as machines and inventory.
- Mortgages financial instruments such as debt securities and equities.

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

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

Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions, Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on gross basis, However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis, The bank overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

3. Financial risk management - continued

Credit related commitments

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

Commitments to extend credit represent unused portion of authorizations to extend credit in the form of loans, guarantees or letters of credit, With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments, However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3. (A/3) Impairment and provisioning policies

The internal rating systems focus more on credit-quality at the inception of lending and investment activities, Otherwise, impairment provisions recognized at the balance sheet date for financial reporting purposes impairment losses that have been incurred and based on objective evidence of impairment as will be mentioned below, Due to the different methodologies applied, the amounts of incurred credit losses charged to the financial statements are usually lower than the expected amount determined from the expected loss models used.

The impairment provision reported in the balance sheet at the end of the period is derived from the four internal rating grades; however, the majority of the impairment provision comes from the last two ratings.

The table below shows the percentage of in-balance sheet items relating to loans and advances and the related impairment provision for each rating:

Bank's rating	31 December 2017		31 December 2016	
	Loans and advances %	Impairment provision %	Loans and advances %	Impairment provision %
Performing loans	60.90%	0.44%	44.27%	2.15%
Regular watching	22.16%	52.71%	47.71%	25.50%
Watch list	15.90%	28.33%	5.83%	9.15%
Non – performing loans	1.04%	18.52%	2.19%	63.20%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The internal rating tools assists management to determine whether objective evidence of impairment exists under EAS 26, based on the following criteria set out by the bank:

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

The Bank's policy requires the review of all financial assets that are above materiality thresholds at least annually or more regularly when circumstances require, impairment provision on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date, and are applied to all significant accounts individually, The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipt for that individual account, Collective Impairment provisions are provided portfolios of homogenous assets by using the available historical loss experience, experienced judgment and statistical techniques.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

3. Financial risk management - continued

3. (A/4) Pattern of measure the general banking risk

In addition to the four categories of the bank's internal credit rating indicated in note (A/1) management classifies loans and advances based on more detailed subgroups in accordance with the CBE regulations, Assets exposed to credit risk in these categories are classified according to detailed rules and terms depending heavily on information relevant to the customer, his activity, financial position and his repayment track record.

The Bank calculates required provisions for impairment of assets exposed to credit risk, including commitments relating to credit on the basis of rates determined by CBE, In case, the provision required for impairment losses as per CBE credit worthiness rules exceeds the required provision by the application used in balance sheet preparation in accordance with Egyptian Accounting Standards, that excess shall be debited to retained earnings and carried to the "general banking risk reserve" in the equity section, Such reserve is always adjusted, on a regular basis, by any increase or decrease so, that reserve shall always be equivalent to the amount of increase between the two provisions, such reserve is not available for distribution, note no. (32/A) represents the movement of general bank risk reserve during the financial year.

CBE rating	Categorization	Provision %	Internal rating	Categorization
1	Low risk	0	1	Performing loans
2	Average risk	1	1	Performing loans
3	Satisfactory risk	1	1	Performing loans
4	Reasonable risk	2	2	Regular watching
5	Acceptable risk	2	2	Regular watching
6	Marginally Acceptable risk	3	3	Watch list
7	Watch list	5	3	Watch list
8	Substandard	20	4	Non – performing loans
9	Doubtful	50	4	Non – performing loans
10	Bad debts	100	4	Non – performing loans

3. (A/5) Maximum exposure to credit risk before collateral held

	31/12/2017 L.E	31/12/2016 L.E
In balance sheet items exposed to credit risk		
Treasury bills and other government notes	9,001,585,978	8,751,810,994
Due from banks	5,821,229,458	5,170,342,534
Loans and advances :		
Overdraft	328,018,010	403,688,244
Credit cards	36,600,089	22,153,211
Personal loans	2,927,907,295	1,973,777,130
Mortgage loans	147,069,608	77,477,141
Corporate loans:		
Overdraft	5,185,876,548	6,146,147,071
Direct loans	8,008,378,394	6,527,038,074
Syndicated loans	7,518,371,261	3,796,458,074
Financial investments:		
Debt instruments	7,914,290,387	7,628,378,187
Other assets	1,415,443,774	1,072,572,817
Total	48,304,770,802	41,569,843,477
Off-balance sheet items exposed to credit risk		
Letters of credit	321,041,000	283,310,000
Letters of guarantee	1,480,614,000	1,731,957,000
Total	1,801,655,000	2,015,267,000

The above table represents the maximum limit for credit risk as of 31 December 2017 and 31 December 2016, without taking into considerations any collateral, for on-balance-sheet items, amounts stated depend on net carrying amounts shown in the balance sheet.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**3. Financial risk management - continued**

As shown in the preceding table 50.01% of the total maximum limit exposed to credit risk resulted from loans and advances to customers against 45.58% as at 31 December 2016; while 35.02% represents investments in debt instruments against 39.40% as at 31 December 2016 and the management is confident of its ability to maintain control on an ongoing basis and maintain the minimum credit risk resulting from loans and advances, and debt instruments as follows:

- 84.21% of the loans and advances portfolio are classified at the highest two ratings in the internal rating against 94.09% as at 31 December 2016.
- %90.57 of the loans and advances portfolio has no past due or impairment indicators against 94.26% as at 31 December 2016.
- The Bank has applied a more conservative selection plan for the granted loans during the year ended 31 December 2017.
- Investments in debt instruments and treasury bills contain more than 99.94% against 99.76% as at 31 December 2016 due from the Egyptian government.

3. (A/6) Loans and advances

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
	Loans and advances to customers	Loans and advances to customers
Neither past due nor impaired	22,711,194,760	18,751,924,699
past due but not impaired	2,176,735,013	705,692,162
individually impaired	188,573,412	435,880,798
Gross	25,076,503,185	19,893,497,659
less: impairment losses , advances and restricted interests	(924,281,980)	(946,758,714)
Net	24,152,221,205	18,946,738,945

- As a result to the economic and political circumstances in Egypt loans and advances portfolios has increased 26 % as of 31 December 2017 compared to its balance at 31 December 2016.
- Note (18) includes additional information regarding impairment loss on loans and advances to customers.
- The credit quality of the loans and advances portfolio that neither has past due nor subject to impairment is determined by the internal rating of the bank.

Loans and advances to customers and banks (net)

31/12/2017	Individual				EGP			Total loans and advances for customers
	Overdraft	Credit cards	Personal loans	Mortgage	Overdraft	Corporate Direct loans	Syndicated loans	
Performing	328,018,010	8,865,218	834,735,919	--	2,285,019,556	5,420,393,860	6,389,211,431	15,266,243,994
Regular follow up	--	24,887,536	1,784,975,365	142,831,433	651,081,340	2,012,265,795	456,208,930	5,072,250,399
Watch list	--	1,307,828	243,675,302	--	2,247,625,211	560,338,580	672,950,900	3,725,897,821
Non- performing	--	1,539,507	64,520,709	4,238,175	2,150,441	15,380,159	--	87,828,991
Total	328,018,010	36,600,089	2,927,907,295	147,069,608	5,185,876,548	8,008,378,394	7,518,371,261	24,152,221,205

According to the Bank's internal rating scale, the loans granted to retail customers are considered regular follow up.

Loans and advances to customers and banks (net)

31/12/2016	Individual				EGP			Total loans and advances for customers
	Overdraft	Credit cards	Personal loans	Mortgage	Overdraft	Corporate Direct loans	Syndicated loans	
Performing	403,452,017	--	--	--	2,231,263,114	4,480,915,014	2,059,557,026	9,175,187,171
Regular follow up	--	20,643,042	1,923,252,063	77,389,095	3,338,620,638	1,864,252,028	1,428,371,037	8,652,527,903
Watch list	--	--	--	--	575,870,293	180,937,019	308,530,011	1,065,337,323
Non- performing	236,227	1,510,169	50,525,067	88,046	393,026	934,013	--	53,686,548
Total	403,688,244	22,153,211	1,973,777,130	77,477,141	6,146,147,071	6,527,038,074	3,796,458,074	18,946,738,945

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

3. Financial risk management - continued

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless there is an objective evidence of impairment:

31/12/2017

EGP

	Retail			Total
	Credit cards	Personal loans	Mortgage	
Past due up to 30 days	1,315,171	291,937,502	3,658,865	296,911,538
Past due more than 30 - 60 days	571,192	38,801,320	595,356	39,967,868
Past due more than 60 - 90 days	258,617	24,813,602	5,299	25,077,518
Total	2,144,980	355,552,424	4,259,520	361,956,924

	Corporate			Total
	Overdraft	Direct loans	Syndicated loans	
Past due up to 30 days	85,363,081	555,038,978	58,733,881	699,135,940
Past due more than 30 - 60 days	2,025,232	30,860,856	--	32,886,088
Past due more than 60 - 90 days	363,969,422	364,232,639	354,554,000	1,082,756,061
Total	451,357,735	950,132,473	413,287,881	1,814,778,089

31/12/2016

EGP

	Retail			Total
	Credit cards	Personal loans	Mortgage	
Past due up to 30 days	5,255,276	205,995,728	11,330	211,262,334
Past due more than 30 - 60 days	902,686	36,890,166	1,710	37,794,562
Past due more than 60 - 90 days	263,310	14,094,382	131,687	14,489,379
Total	6,421,272	256,980,276	144,727	263,546,275

	Corporate		Total
	Current account	Direct loans	
Past due up to 30 days	173,298,683	91,006,629	264,305,312
Past due more than 30 - 60 days	40,758,704	29,624,310	70,383,014
Past due more than 60 - 90 days	81,968,864	25,488,697	107,457,561
Total	296,026,251	146,119,636	442,145,887

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

3. Financial risk management - continued

Individually impaired loans

Loans and advances to customers

Loans and advances subject to individual impairment before taking into consideration cash flows from guarantees in 31 December 2017 amounted to EGP 188,573,412 against EGP 435,880,798 as of 31 December 2016.

The breakdown of the total loans and advances subject to individual impairment including fair value of collateral obtained by the Bank against these loans is as follows:

	Overdraft	EGP			Overdraft	Corporate Direct Loans	Total
		Individual Personal loans	Credit cards	Mortgage loans			
31/12/2017							
Individually impaired loans	715,307	60,537,081	2,216,840	80,184	25,753,000	99,271,000	188,573,412
31/12/2016							
Individually impaired loans	--	92,331,306	2,130,765	144,727	228,833,000	112,441,000	435,880,798

Loans and advances Restructured

Restructuring activities include renegotiating in terms of payments terms extension, restructure of mandatory management policies, and adjusting ,postponing repayment terms, Renegotiating policies depend on indicators or standards in addition to the management personal judgment to show that regular payments are of high probability, These policies are subject to regular review, Long-term loans, especially loans to customers are usually subject to renegotiation, Total renegotiated loans reached 1,116,753 thousand against LE 191,433 thousand at 31 December 2016.

	31/12/2017 In thousand EGP	31/12/2016 In thousand EGP
Loans and advances to corporate		
Current accounts	175,167	--
Direct loans	941,586	191,433
Total	1,116,753	191,433

3. (A/7) Debt instruments, treasury bills and other governmental notes

The table below shows an analysis of debt instruments, treasury bills and other governmental notes by rating agency designation at end of financial year, based on standard & Poor's and their equivalent.

	Treasury bills LE	Investments securities LE	Total LE
A	--	7,805,699	7,805,699
B	9,680,192,450	--	9,680,192,450
-B	7,914,275,686	--	7,914,275,686
Total	17,594,468,136	7,805,699	17,602,273,835

3. Financial risk management - continued**3. B Market risk**

The Bank is exposed to market risks of the fair value or future cash flow fluctuation resulting from changes in market prices, Market risks arise from open market related to interest rate, currency, and equity products represented in each of which is exposed to general and specific market movements and changes in sensitivity levels of market rates or prices such as interest rates, foreign exchange rates and equity instrument prices, The Bank divides its exposure to market risk into trading and non-trading portfolios.

Bank treasury is responsible for managing the market risks arising from trading and non-trading activities which are monitored by two separate teams, Regular reports are submitted to the Board of Directors and each business unit head, Trading portfolios include transactions where the Bank deals direct with clients or with the market; Non-trading portfolios primarily arise from managing prices assets and liabilities interest rate relating to retail transactions, Non-trading portfolios also includes foreign exchange risk and equity instruments risks arising from the Bank's held-to-maturity and available-for-sale investments.

3. (B/1) Market risk measurement techniques

As part of market risk management the Bank undertakes various hedging strategies and enters into swaps to match the interest rate risk associated with the fixed-rate long-term loans if the fair value option has been applied, The major measurement techniques used to control market risk are outlined below:

Stress Testing

Stress testing provides an indicator of the expected losses that may arise from sharp adverse circumstances, Stress testing is designed to match business using standard analysis for specific scenarios, The stress testing is carried out by the Bank treasury and includes risk factor stress testing where sharp movements are applied to each risk category and test emerging market stress, as emerging market are subject to sharp movements; and subject to special stress testing including possible events effect specific positions or regions – for example the stress outcome to a region applying a free currency rate, The results of the stress testing are reviewed by Top Management and the Board of Directors.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

3. Financial risk management - continued

3. (B/2) Foreign exchange volatility risk

The Bank is exposed to foreign exchange volatility risk in terms of the financial position and cash flows, The Board of Directors set aggregate limits for foreign exchange for each position at the end of the day, and during the day which is controlled on timely basis, The following table summarizes the Bank' exposure to foreign exchange volatility risk at the end of the financial year and includes the carrying amounts of the financial instruments in currencies:

Amount to the nearest EGP equivalent

	EGP	USD	GBP	EURO	Other currencies	Total
Financial assets as of 31/12/2017						
Cash and balances with the CBE	5,188,971,254	1,841,688,632	1,982,293	21,971,068	13,454,277	7,068,067,524
Due from Banks	4,304,136,485	966,845,941	99,478,904	426,928,709	23,839,419	5,821,229,458
Treasury bills	5,735,850,000	3,518,948,450	--	425,394,000	--	9,680,192,450
Loans and advances to customers	17,038,359,787	7,918,386,392	28,843	119,699,752	28,411	25,076,503,185
Financial investments:						
Available for sale	1,728,958,170	1,761,380,928	--	--	--	3,490,339,098
Held to maturity	4,399,442,852	47,630,139	--	--	--	4,447,072,991
Total financial Assets	38,395,718,548	16,054,880,482	101,490,040	993,993,529	37,322,107	55,583,404,706
Financial liabilities 31/12/2017						
Due to banks	4,160,000,000	260,756,702	--	--	--	4,420,756,702
Customer deposits	30,176,383,249	15,207,345,440	101,828,224	944,783,803	35,410,952	46,465,751,668
Other loans \ Subordinated deposits	502,094,286	--	--	--	--	502,094,286
Total financial liabilities	34,838,477,535	15,468,102,142	101,828,224	944,783,803	35,410,952	51,388,602,656
Net on-balance sheet financial position	3,557,241,013	586,778,340	(338,184)	49,209,726	1,911,155	4,194,802,050
Financial assets as of 31/12/2016						
Total financial Assets	26,612,924,602	17,469,908,961	79,332,432	641,110,049	31,364,348	44,834,640,392
Total financial Liabilities	23,826,466,224	17,038,678,602	79,321,194	674,634,045	33,697,624	41,652,797,689
Net on-balance sheet financial position	2,786,458,378	431,230,359	11,238	(33,523,996)	(2,333,275)	3,181,842,704

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

3. Financial risk management - continued

3. (B/3) Interest rate risk

The Bank is exposed to the effect of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Cash flow interest rate risk is the risk of fluctuation in future cash flows of a financial instrument due to changes in market interest rates. Fair value interest rate risk is the risk whereby the value of a financial instrument fluctuates because of changes in market interest rates, Interest margins may increase as a result of such changes but profit may decrease in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate reprising that may be undertaken and is monitored daily by Bank Treasury.

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of re-pricing or contractual maturity dates:

	Amount to the nearest EGP						
	Up to one Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial assets as of 31/12/2017							
Cash and balances with the CBE	--	1,756,105,962	--	--	--	5,311,961,562	7,068,067,524
Due from Banks	4,765,533,930	302,000,000	--	--	--	753,695,528	5,821,229,458
Treasury bills	303,250,000	3,624,754,300	5,752,188,150	--	--	--	9,680,192,450
Loans and advances to customers	17,224,765,934	112,132,509	419,559,627	1,267,152,358	6,052,892,757	--	25,076,503,185
Financial investments:							
Available for sale	--	--	--	1,345,997,605	2,144,341,493	--	3,490,339,098
Held to maturity	--	343,521,292	396,924,875	2,175,016,742	1,531,610,082	--	4,447,072,991
Other financial assets	--	--	--	--	--	1,479,638,743	1,479,638,743
Total financial assets	22,293,549,864	6,138,514,063	6,568,672,652	4,788,166,705	9,728,844,332	7,545,295,833	57,063,043,449
Financial liabilities 31/12/2017							
Due to banks	3,160,000,000	1,000,000,000	--	--	--	260,756,702	4,420,756,702
Customer deposits	9,976,373,887	5,852,068,654	18,855,126,494	7,058,580,834	1,042,809,082	3,680,792,717	46,465,751,668
Other loans \ Subordinated deposits	--	300,000	500,480,000	1,314,286	--	--	502,094,286
Other financial liability	--	--	--	--	--	1,238,273,627	1,238,273,627
Total financial liabilities	13,136,373,887	6,852,368,654	19,355,606,494	7,059,895,120	1,042,809,082	5,179,823,046	52,626,876,283
Total interest re-pricing gap	9,145,175,977	(713,854,591)	(12,201,919,742)	(2,271,728,415)	8,686,035,250	1,794,550,235	4,438,258,714
Financial Assets as of 31/12/2016							
Total financial Assets	22,517,015,128	7,537,072,672	5,400,424,474	4,141,802,690	3,839,249,694	1,557,945,436	44,993,510,094
Total financial Liabilities	18,506,304,906	6,041,080,973	7,082,227,790	8,902,054,693	1,121,129,327	1,021,008,175	42,673,805,864
Total interest re-pricing gap	4,010,710,222	1,495,991,699	(1,681,803,316)	(4,760,252,003)	2,718,120,367	536,937,261	2,319,704,230

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**3. Financial risk management - continued****3. C Liquidity risk**

Liquidity risk represents difficulty encountering the Bank in meeting its financial commitments when they fall due or to replace funds when they are withdrawn, this may result in failure in fulfilling the Bank's obligation to repay to the depositors and fulfilling lending commitments.

Liquidity risk management

The Bank's liquidity management process carried out by the Bank Treasury includes:

- Daily funding is managed by monitoring future cash flows to ensure that all requirements can be met, this includes availability of liquidity when due or borrowed by customers, to ensure that the Bank reaches its objective it maintains an active presence in global money markets.
- The Bank maintains a portfolio of highly marketable that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow
- Monitoring liquidity ratios are according to internal requirements and Central Bank of Egypt requirements,
- Managing loans concentration and dues.

For monitoring and reporting purposes, the Bank calculates the expected cash flow and liquidity are expected and monitored on the next day, week and month basis, which are the main times to manage liquidity the starting point to calculate these expectations is through analyzing the financial liabilities dues and expected financial assets collections.

Credit risk department monitor's the mismatch between medium term assets, the level and nature of unused loans limits, overdraft utilizations, and the effect of contingent liabilities such as letters of guarantees and letters of credit.

Funding approach

Sources of liquidity are regularly reviewed by separate team in the bank to maintain a wide diversification according to currency, geographic locations, sources, products and terms.

31/12/2017

	Up to one Month	1-3 Months	3-12 Months	1-5 years	Over 5 year	EGP Total
Financial liabilities						
Due to banks	3,420,756,702	1,000,000,000	--	--	--	4,420,756,702
Customer deposits	13,657,166,606	5,852,068,654	18,855,126,494	7,058,580,834	1,042,809,080	46,465,751,668
Other loans \ Subordinated deposits	--	300,000	480,000	1,314,286	500,000,000	502,094,286
Total financial liabilities	17,077,923,308	6,852,368,654	18,855,606,494	7,059,895,120	1,542,809,080	51,388,602,656
Total financial assets	8,168,980,814	11,620,556,791	8,384,562,162	12,091,592,769	15,317,712,170	55,583,404,706

31/12/2016

	Up to one Month	1-3 Months	3-12 Months	1-5 years	Over 5 year	EGP Total
Financial liabilities						
Due to banks	--	1,000,000,000	--	--	--	1,000,000,000
Customer deposits	18,506,304,906	5,041,080,973	7,081,682,076	8,899,960,407	1,121,129,327	40,650,157,689
Other loans	--	--	545,714	2,094,286	--	2,640,000
Total financial liabilities	18,506,304,906	6,041,080,973	7,082,227,790	8,902,054,693	1,121,129,327	41,652,797,689
Total financial assets	13,239,095,295	9,065,876,889	6,917,170,626	8,010,872,179	7,601,625,403	44,834,640,392

Assets available to meet all liabilities and cover loan commitments include cash, balances with Central Banks, balances due from Banks, treasury bills and other governmental notes, and Loans and credit facilities to Banks and clients. Maturity term of percentage of loans to clients that are maturing within a year is extended in the normal course of the bank's business. Moreover, some debt instruments, treasury bills and other governmental notes are pledged to cover liabilities. The Bank has the ability to meet unexpected net cash flows through selling securities, and finding other financing sources.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

3. Financial risk management - continued

3. D Fair value of financial assets and liabilities

3. (D/1) Financial instruments not measured at fair value,

The table below summarizes the carrying amounts and fair values for those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	Book value		*FMV	
	31/12/2017 L.E.	31/12/2016 L.E.	31/12/2017 L.E.	31/12/2016 L.E.
Financial assets:				
Due from banks	5,821,229,458	5,170,342,534	5,821,229,458	5,170,342,534
Loans and advances to customers:				
Retail:				
Overdraft	328,018,010	403,688,244	*	*
Credit cards	36,600,089	22,153,211	*	*
Personal loans	2,927,907,295	1,973,777,130	*	*
Mortgage	147,069,608	77,477,141	*	*
Corporate:				
Overdraft	5,185,876,548	6,146,147,071	*	*
Direct loans	8,008,378,394	6,527,038,074	*	*
Syndicated loans	7,518,371,261	3,796,458,074	*	*
Financial investments:				
Equity instruments available for sale - fair value	--	3,443,235	--	3,443,235
Debt instruments available for sale – in cost	10,621,701	10,623,002	*	*
Held to maturity	4,447,072,991	5,698,569,559	4,362,825,741	5,563,129,646
Financial liabilities:				
Due to banks	4,420,756,702	1,000,000,000	4,420,756,702	1,000,000,000
Customers deposits	46,465,751,668	40,650,157,689	*	*

* Some assets and liabilities were not measured at their FMV 31 December 2017

Due from banks

Fair value of placements and deposits bearing variable interest rate for one day is its current value, the expected fair value for deposits bearing variable interest is based on the discounted cash flow using rate of similar loans of similar credit risk and due dates.

Loans and advances to banks

Loans and advances to banks are represented in loans other than deposits hold in banks, Fair value expected for loans and advances represents the discounted value of future cash flows expected to be collected and cash flows are discounted using the current market interest rate to determine the fair value.

Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Financial investments

Financial investments shown in the above schedule includes only held to maturity assets investments; as available for sale investments are measured at fair value except for equity instruments for which the market value can't be reliably determined, Fair value of held-to-maturity investments is based on market prices or broker prices, Fair value is estimated using quoted market prices for securities with similar credit and maturity and yield characteristics where information is not available.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

3. Financial risk management - continued

Due to banks and customers

The estimated fair value of deposits of indefinite maturity which includes interest-free deposits is the amount paid on call. The estimated fair value of fixed interest-bearing deposits and other loans not traded in an active market is based on discounted cash flows using interest rates for new debts of similar maturity dates.

Issued debt instrument

Total Fair value is calculated based on current financial markets' rates. As for securities that have no active market, discounted cash flows model is used in the first time according to the current rate applicable to the remaining period till maturity date.

Capital management

For capital management purpose, the bank's capital includes total equity as reported in the balance sheet plus some other elements that are managed as capital; the bank manages its capital to ensure that the following objectives are achieved:

- Compliance with the legally imposed capital requirement in Egypt.
- Protecting the bank's ability to continue as a going concern and enabling it to generate yield for shareholders and other parties dealing with the bank.
- Maintaining a strong capital base to enhance growth of the bank's operations.

Capital adequacy and the use of regulatory capital are monitored on a daily basis by the bank's management. Employing techniques based on the guidelines developed by the Basel committee as implemented by the banking supervision unit in the central bank of Egypt on a quarterly basis.

The CBE requires the bank to comply with the following:

- Maintaining 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 average of the bank's assets and contingent liabilities.

According to new instructions issued in 18 December 2012:

The numerator of the capital adequacy ratio consists of the following two tiers:

Tier One: consist of two parts which are continuous basic paid in capital and additional basic paid in capital.

Tier Two: is the supported paid in capital and consist of:

- 45% from positive foreign currencies translation reserve.
- 45% from special reserve.
- 45% from fair value increment over the book value for financial investments. (Positive portion only)
- 45% from fair value reserve balance for financial investment available for sale.
- 45% from fair value increment over the book value for financial investments held for maturity.
- 45% from fair value increment over the book value for financial investments in associates and affiliates.
- Financial instruments with embedded derivative.
- Loans (Supportive deposits with 20% amortization from its value each year from the last five years from its maturity).
- Impairment loss provision for loans, advances and performing contingent liabilities with maximum 1.25% from total weighted assets and weighted contingent liabilities.
- 50% disposals from tier 1 and 2.
- Assets reverted to the bank value in general banking risk reserve.

* For denominator of capital adequacy ratio consist of:

- Credit risk.
- Market risk.
- Operational risk

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**3. Financial risk management - continued**

Assets risk weight scale ranging from zero to 100% is based on the counterparty risk to reflect the related credit risk scheme, taking into consideration the cash collaterals.

Similar criteria are used for off balance sheet items after adjustments to reflect the nature of contingency and the potential loss of those amounts.

The tables below summarize the capital adequacy ratio according to Basel II for the current and previous years:

	31/12/2017 In thousand EGP	31/12/2016 In thousand EGP
Tier 1 capital		
Issued and paid up capital	2,256,089	1,567,132
Legal reserve	182,647	142,118
Other reserves	277,900	65,384
Retained earnings	510,605	567,410
Additional capital	3,161	2,660
Total deductions from tier 1 capital	(115,868)	(125,736)
Total qualifying tier 1 capital	3,114,534	2,218,968
Tier 2 capital		
45% of differences from foreign balances translation reserve	1,208	1,208
45% of special reserve	3,664	3,664
45% of the increase in fair value than the book value for AFS investments	71,027	3,669
Impairment provision for loans and regular contingent liabilities	250,760	241,737
Subordinated deposits	500,000	--
Total qualifying tier 2 capital	826,659	250,278
Total capital 1+2	3,941,193	2,469,246
Risk weighted assets and contingent liabilities		
Total Credit risk	20,060,725	19,338,947
Total Market risk	79,420	90,870
Total Operation risk	2,186,457	1,476,140
Top 50 concentration	2,238,776	--
Total risk weighted assets and contingent liabilities	24,565,378	20,905,957
Capital Adequacy Ratio (%)	16.044%	11.811%

- The capital base includes an amount of EGP thousands 433,101 from the net profit of 2017 according to the earning distributions and pending on the bank's general assembly approval.

3. E Leverage Financial Ratio:

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

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

This ratio will be included in Basel requirement tier 1 in order to maintain the Egyptian Banking System strong and safe, as long to keep up with the best international regulatory treatments.

Leverage financial ratio reflect relationship between tier 1 for capital that is used in capital adequacy ratio (After Exclusions) and other assets (on balance sheet and off-balance sheet) that are not risk weighted assets.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**3. Financial risk management - continued****Ratio Elements:****1- The numerator elements:**

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

2-The denominator elements:

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

- A- On the balance sheet exposure items after deducting some of tier 1 exclusions for capital base.
- B- Financing financial papers operations exposures.
- C- Off-balance sheet items (weighted by credit conversion factor).

The table below summarizes the leverage financial ratio:

	31/12/2017	31/12/2016
	In thousand EGP	In thousand EGP
Tier 1 capital after exclusions	3,114,534	2,218,968
On-balance sheet items, derivatives and financing securities	56,809,682	45,671,984
Off-balance sheet items	1,789,208	2,390,825
Total exposures	58,598,890	48,062,809
Leverage Financial Ratio	5.315%	4.62%

Liquidity coverage ratio and net stable fund ratio:**- Liquidity coverage ratio (LCR):**

Liquidity coverage ratio aims to ensure that the bank maintains sufficient non-encumbered high quality liquid assets to meet the net outflows within the next 30 days under an unfavorable conditions scenario, and is calculated as follow:

Liquidity coverage ratio (LCR) = High quality liquid assets / Net outflows within 30 days.

This ratio shouldn't be less than 80% in 2017 and to gradually reach 100% by 2019.

For December 2017 LCR ratio record LCY 324%, FCY 138.48% and total of 234.04%.

- Net stable fund ratio (NSFR):

Net stable fund ratio represents the relation between the available stable funding (the numerator) and the required stable funding (the denominator), this ratio seeks to face the mismatch of the long-term financing structure by encouraging banks to use a stable long-term fund sources for at least one year in order to cover assets' investments and any financing claims resulting from off-balance sheet commitments to help the bank to structure its fund sources. This ratio shouldn't be less than 100%, and is calculated as follow:

Net stable fund ratio (NSFR) = Available stable funding / required stable funding \geq 100%

For December 2017 NSFR ratio record LCY 144.06%, FCY 195.96% and total of 158.07%.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**4. Significant accounting estimates and assumptions**

The Bank makes subjective estimates and judgments that affect the reported amounts of assets and liabilities for the following financial year. Consistent estimations and judgments are continually evaluated based on historical experience and other factors including the expectations of future events that are believed to be reasonable.

4. A Impairment losses for -loans and advances

The Bank reviews the portfolio of loans and advances at least quarterly to evaluate their impairment. The Bank uses discretionary judgment on determining whether it is necessary to record impairment loss in the income statement. The Bank has to identify if there is objective evidence indicating a decline in the expected future cash flows from loan portfolio before identifying any decline on individual basis. This evidence includes data indicating negative changes in a borrower's portfolio ability to repay to the Bank or local or economic circumstances related to default. On scheduling future cash flows the management uses the past experience to determine the credit impairment loss for assets when there is objective evidence of impairment similar to that of the portfolio in question. The methods and assumptions used in estimating both the amount and timing of the future cash flows are reviewed on a regular basis to minimize any discrepancy between the estimated loss and actual loss based on experience.

4. B Impairment of available for sale equity investments

The Bank recognizes impairment loss relating to available for sale equity investments when there is a significant or prolonged decline in the fair value below its cost. A judgment is required to determine that the decline is significant or prolonged. In making this judgment the Bank evaluates among other factors the volatility in share price. In addition, impairment loss is recognized when there is evidence of deterioration in the investee, financial position or operating /finance cash flow industry and sector performance technology changes.

Unrealized losses for available for sale investment amounted to 144,721,793 as a result of reevaluating prices declared in capital markets on 31 December 2017.

4. C Held-to-maturity investments

Non-derivatives financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity. This classification requires high degree of judgment; in return the bank tests the intent and ability to hold such investments to maturity. If the bank fails to hold such investments till maturity except for certain circumstances (selling an insignificant amount of held-to-maturity investments near to maturity date) then all held to maturity investment portfolio should be reclassified as available for sale which will be measured at fair value instead of amortized cost. In addition the Bank should suspend classifying investments as held to maturity caption.

If classification of investments as held to maturity is suspended the carrying amount shall increase by EGP 84,247,250 to reach its fair value by increasing the valuation reserve available for sale within the equity caption.

4. D Income tax

The Bank is subject to income tax which requires the use of important estimates to calculate the income tax provision. There are a number of complicated processes and calculations to determine the final income tax. The Bank records a liability related to the tax inspection estimated results. According to estimates of probabilities of extra taxes, when there is a difference between the final result of the actual tax inspection and the amounts previously recorded by the Bank such, differences affect the income and deferred tax provision at the year which the differences were noted.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

5. By activity segment

Activity segment include operations and assets used in providing banking services and managing related risks and yields which may differ from other activities, the segmentation analyses of operations according to the Banking activities are as follows:

- **Large enterprises medium and small ones**
Activities include current accounts, deposits, overdrafts, loans, credit facilities and financial derivatives.
- **Investments**
Include merging of companies, purchase of investments, financing company's restructure and financial instruments.
- **Individuals**
Activities include current accounts, savings, deposits, credit cards, personal loans and mortgage loans.
- **Other activities**
Include other banking activities such as fund management.

6. Net interest income

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Interest from loans and similar income from:		
Loans and advances for customers	3,176,040,952	1,405,708,915
Treasury bills and treasury bonds	2,109,208,853	1,416,168,694
Deposits and current accounts	1,378,647,139	710,579,190
Investments in debt instruments (available for sale)	1,553,776	5,567,214
	<u>6,665,450,720</u>	<u>3,538,024,013</u>
Interest on Deposits and similar expenses from:		
Deposits and current accounts:		
Banks	(390,477,653)	(167,979,921)
Customers	(4,730,193,152)	(2,048,336,214)
REPOS	(34,659,550)	(1,099,930)
	<u>(5,155,330,355)</u>	<u>(2,217,416,065)</u>
Net interest income	<u>1,510,120,365</u>	<u>1,320,607,948</u>

7. Net fees and commission income

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Fees and commission income:		
Fees and commissions related to credit Banking services	321,961,850	228,936,204
Custody fees	1,687,750	905,548
Other fees	9,378,557	7,010,208
	<u>333,028,157</u>	<u>236,851,960</u>
Fees and commission expenses:		
Brokerage fees paid	(3,615,403)	(5,401,249)
Other fees paid	(43,041,691)	(13,873,246)
	<u>(46,657,094)</u>	<u>(19,274,495)</u>
Net fees and commission income	<u>286,371,063</u>	<u>217,577,465</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**8. Dividends income**

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Trading securities	389,339	717,038
Held to maturity	385,343	301,361
Subsidiaries and associates	2,999,550	3,487,770
	<u>3,774,232</u>	<u>4,506,169</u>

9. Net trading income

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Profit from foreign exchange	116,186,498	123,662,865
Profit from selling trading equity instruments	--	445,897
	<u>116,186,498</u>	<u>124,108,762</u>

10. Administrative expenses

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Staff costs		
Wages and salaries	(277,284,531)	(196,243,742)
Social insurance	(16,107,871)	(11,120,119)
Other	(79,231,654)	(132,808,211)
Pension cost		
Retirement benefits	(637,965)	(4,533,950)
	<u>(373,262,021)</u>	<u>(344,706,022)</u>
Other administrative expenses	(413,548,249)	(301,299,027)
	<u>(786,810,270)</u>	<u>(646,005,049)</u>

11. Other operating (expenses) income

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Profit from selling property and equipment	4,351,067	227,937
(Charge) reversal for other provision	(33,273,772)	(16,334,050)
Others	(1,899,279)	4,322,468
	<u>(30,821,984)</u>	<u>(11,783,645)</u>

12. Impairment losses

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Loans and advances to customers (note 18)	(232,827,631)	(383,400,581)
	<u>(232,827,631)</u>	<u>(383,400,581)</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**13. Income tax expenses**

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Current taxes	<u>(376,994,134)</u>	<u>(263,854,211)</u>
	<u>(376,994,134)</u>	<u>(263,854,211)</u>

Tax situation:**A. Corporate income tax**Years 2005 to 2007:

Tax inspection was performed for this period and all disputes have been finalized.

Years 2008 and 2009:

Tax inspection was performed for this period and all disputes have been finalized in the internal committee.

Years 2010 and 2011:

Tax inspection and assessment was performed for this period and a part of the tax liability was paid and all disputes will be transferred to appealing committee.

Year 2012:

Tax inspection was performed for this year and there was no tax liability resulted.

Years 2013 and 2014:

Tax inspection was performed for this period and a part of the tax liability was paid.

Years 2015 to 2017:

Tax returns were provided and there was no tax liability resulted.

B. Payroll taxFrom inception till 2004:

Tax inspection was performed and paid for this period.

Years 2005 and 2006:

Tax inspection was performed in accordance with the new law and there were no tax differences.

Years 2007 to 2012:

Tax inspection was performed and paid for this period and there were no tax differences.

Years 2013 to 2015:

Taxes deducted from the bank's employees were paid.

Year 2016:

Taxes deducted from the bank's employees were paid.

Year 2017:

Taxes deducted from the bank's employees were paid.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**14. Earnings per share**

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Profits available for distribution for the year after tax	500,619,820	401,501,177
Less:		
Staff profit sharing	(50,061,982)	(40,150,118)
Board member bonus	(17,456,182)	(14,000,000)
Profits shareholders stake	433,101,656	347,351,059
Weighted average number of shares	314,796,024	255,575,035
Basic Earnings per share (EGP/ share)	<u>1.38</u>	<u>1.36</u>

Earning distributions under the General Assembly approval.

15. Cash and balances with the Central Bank of Egypt (CBE)

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Cash	428,157,038	394,995,610
Due from the CBE (within the required limit of statutory reserve percentage)	6,639,910,486	2,638,650,715
	<u>7,068,067,524</u>	<u>3,033,646,325</u>
Non-interest bearing balances	5,311,961,562	1,161,384,874
Variable interest bearing balances	1,756,105,962	1,872,261,451
	<u>7,068,067,524</u>	<u>3,033,646,325</u>

16. Due from banks

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Current accounts	168,681,428	211,109,924
Deposits	5,652,548,030	4,959,232,610
	<u>5,821,229,458</u>	<u>5,170,342,534</u>
Balance with CBE otherwise the required limit of statutory reserve percentage	4,487,014,100	3,944,173,534
Local banks	1,152,831,695	1,023,262,000
Foreign banks	181,383,663	202,907,000
	<u>5,821,229,458</u>	<u>5,170,342,534</u>
Non-interest bearing balances	753,695,528	211,109,924
Variable Interest bearing balances	5,067,533,930	4,959,232,610
	<u>5,821,229,458</u>	<u>5,170,342,534</u>
Current balance	<u>5,821,229,458</u>	<u>5,170,342,534</u>
	<u>5,821,229,458</u>	<u>5,170,342,534</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**17. Treasury bills and other governmental notes***

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Treasury bills and other governmental notes	9,680,192,450	9,082,209,450
less:		
REPOS	(142,500,000)	(66,175,000)
Treasury bills and other governmental notes - net	<u>9,537,692,450</u>	<u>9,016,034,450</u>

The Treasury bills represented as follows:

Treasury bills 47 days	300,000	--
Treasury bills 78 days	119,075,000	--
Treasury bills 91 days	16,300,000	16,675,000
Treasury bills 114 days	500,000	--
Treasury bills 149 days	1,500,000	--
Treasury bills 182 days	159,000,000	56,750,000
Treasury bills 233 days	44,475,000	--
Treasury bills 266 days	992,400,000	488,075,000
Treasury bills 273 days	640,550,000	3,344,358,000
Treasury bills 308 days	23,500,000	--
Treasury bills 315 days	--	3,000,000
Treasury bills 316 days	--	55,000,000
Treasury bills 321 days	100,000,000	--
Treasury bills 329 days	--	4,000,000
Treasury bills 341 days	100,000,000	--
Treasury bills 343 days	--	50,000,000
Treasury bills 351 days	50,000,000	55,000,000
Treasury bills 355 days	100,000,000	30,000,000
Treasury bills 356 days	--	75,000,000
Treasury bills 357 days	689,525,000	1,875,300,000
Treasury bills 364 days	6,643,067,450	3,029,051,450
Total	<u>9,680,192,450</u>	<u>9,082,209,450</u>
Unearned interest	(536,106,472)	(264,223,456)
Total (1)	<u>9,144,085,978</u>	<u>8,817,985,994</u>
Repos	(142,500,000)	(66,175,000)
Total (2)	<u>(142,500,000)</u>	<u>(66,175,000)</u>
Total (1+2)	<u>9,001,585,978</u>	<u>8,751,810,994</u>

Treasury bills include EGP 3,518,948,450 (equivalent to USD 198.5 million) as in USD Treasury bills and EGP 425,394,000 (equivalent to EUR 20 million) as in EUR Treasury bills.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

18. Loans, advances and morabihat to customers

	31/12/2017	31/12/2016
	<u>L.E.</u>	<u>L.E.</u>
<u>Retail:</u>		
Overdraft	328,733,317	403,976,791
Credit cards	38,629,763	22,908,749
Personal loans	3,003,820,528	2,027,366,373
Mortgage loans	148,613,879	79,927,450
Total (1)	<u>3,519,797,487</u>	<u>2,534,179,363</u>
<u>Corporate :</u>		
Overdraft	5,294,813,500	6,680,094,613
Direct loans	8,434,746,740	6,753,573,214
Syndicated loans	7,827,145,458	3,925,650,469
Total (2)	<u>21,556,705,698</u>	<u>17,359,318,296</u>
Total loans and advance to customers (1+2)	<u>25,076,503,185</u>	<u>19,893,497,659</u>
<u>Less:</u>		
Unearned interest in advance	--	(11,336,028)
Provision for impairment losses	(921,527,987)	(925,281,668)
Interest in suspense	(2,753,993)	(10,141,018)
Net loans, advances and morabihat to customers	<u>24,152,221,205</u>	<u>18,946,738,945</u>

Provision for impairment losses

31/12/2017

EGP

	<u>Retail</u>				Total
	Overdraft	Credit cards	Personal loans	Mortgage loans	
Beginning Balance	105,000	754,751	53,589,159	2,449,674	56,898,584
Impairment revenue	608,602	1,212,560	22,153,965	(905,403)	23,069,724
Proceeds from bad debts	--	62,363	--	--	62,363
Forex revaluation provision	1,705	--	--	--	1,705
Ending Balance	<u>715,307</u>	<u>2,029,674</u>	<u>75,743,124</u>	<u>1,544,271</u>	<u>80,032,376</u>

	<u>Corporate</u>			Total
	Overdraft	Direct loans	Syndicated loans	
Beginning Balance	532,822,527	206,367,935	129,192,622	868,383,084
Impairment losses	(212,649,296)	241,348,974	181,058,229	209,757,907
Bad debts	(208,844,000)	(23,605,000)	--	(232,449,000)
Forex revaluation provision	(2,586,647)	(133,079)	(1,476,654)	(4,196,380)
Ending Balance	<u>108,742,584</u>	<u>423,978,830</u>	<u>308,774,197</u>	<u>841,495,611</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

18. Loans, advances and morabihat to customers - continued

31/12/2016

EGP

	<u>Retail</u>				Total
	Overdraft	Credit cards	Personal loans	Mortgage loans	
Beginning Balance	--	1,741,926	35,016,177	1,290,551	38,048,654
Impairment losses charge	105,000	(1,075,150)	18,572,982	1,159,123	18,761,955
Proceeds from bad debts	--	490,889	--	--	490,889
Bad debts	--	(402,914)	--	--	(402,914)
Ending Balance	<u>105,000</u>	<u>754,751</u>	<u>53,589,159</u>	<u>2,449,674</u>	<u>56,898,584</u>

	<u>Corporate</u>			Total
	Overdraft	Direct Loans	Syndicated loans	
Beginning Balance	169,246,900	186,475,437	26,961,250	382,683,587
Impairment losses charge	241,741,732	34,187,572	88,709,322	364,638,626
Bad debit	(4,309,718)	(25,722,119)	--	(30,031,837)
Proceeds from bad debts	504,846	--	--	504,846
Forex revaluation provision	125,638,767	11,427,045	13,522,050	150,587,862
Ending Balance	<u>532,822,527</u>	<u>206,367,935</u>	<u>129,192,622</u>	<u>868,383,084</u>

19. Financial investments

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Available for sale financial investments		
Debt instruments at FMV (listed)	3,479,717,396	1,942,308,628
Equity instruments at FMV (listed)	--	3,443,235
Equity instruments at cost (unlisted)	10,621,701	10,623,002
Investment management by other	<u>1</u>	<u>1</u>
Total available for sale investments (1)	<u>3,490,339,098</u>	<u>1,956,374,866</u>
Held to maturity financial investments		
Debt instruments (listed)	4,434,572,991	5,686,069,559
Egyptian Gulf Bank Mutual fund's CDs	5,000,000	5,000,000
Egyptian Gulf Bank Tharaa fund (money market)	<u>7,500,000</u>	<u>7,500,000</u>
Total held to maturity financial investments (2)	<u>4,447,072,991</u>	<u>5,698,569,559</u>
Total financial investments (1+2)	<u>7,937,412,089</u>	<u>7,654,944,425</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

19. Financial investments - continued

31/12/2017

	Available for sale	Held to maturity	Total
	L.E.	L.E.	L.E.
Beginning of the year	1,956,374,866	5,698,570,394	7,654,945,260
Additions	1,857,617,304	41,254,743	1,898,872,047
Disposals (Sale / Redemption)	(362,638,546)	(1,349,451,347)	(1,712,089,893)
Monetary assets foreign currency differences	(166,476,245)	4,959,716	(161,516,529)
Gain/(Loss) from change in FMV(note 32)	196,377,579	--	196,377,579
Amortized cost	9,084,140	51,739,485	60,823,625
Ending balance	<u>3,490,339,098</u>	<u>4,447,072,991</u>	<u>7,937,412,089</u>

31/12/2016

	Available for sale	Held to maturity	Total
	L.E.	L.E.	L.E.
Beginning of the year	4,878,886,822	12,514,700	4,891,401,522
Additions	3,283,814,452	--	3,283,814,452
Transferred financial Investment to Held to maturity	(5,707,814,459)	5,707,814,459	--
Disposals (Sale / Redemption)	(1,286,788,054)	(67,988,162)	(1,354,776,216)
Monetary assets forex revaluation differences	846,046,024	--	846,046,024
(Loss) from changes in FMV (note 32)	(92,745,064)	--	(92,745,064)
Amortized cost	50,935,013	11,258,670	62,193,683
Impairment losses	(15,959,868)	34,969,892	19,010,024
Ending Balance	<u>1,956,374,866</u>	<u>5,698,569,559</u>	<u>7,654,944,425</u>

Profit (losses) from sale of financial investments:

	31/12/2017	31/12/2016
	L.E.	L.E.
Impairment (losses) of financial investments available for sale	--	(28,787,217)
Gains from sale of investment in subsidiaries and associates	--	62,506,326
Gains from sale of financial assets available for sale	<u>11,621,681</u>	<u>6,025,210</u>
	<u>11,621,681</u>	<u>39,744,319</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

20. Investment in subsidiaries and associates

The banks share of investment in subsidiaries and associates is as follows:

31/12/2017*

	Country	Company's assets EGP	Company's liabilities less owners' equity EGP	Company's revenues EGP	Company's profits / (losses) EGP	Book value EGP	Share %
<u>Subsidiaries:</u>							
Egyptian gulf holding	Egypt	286,282,615	50,310,804	46,531,154	36,719,427	199,970,000	99.99%
<u>Associates:</u>							
Alex fish	Egypt	68,112,477	24,826,785	294,396	(452,051)	3,286,430	26.66%
Alex for nutrition production	Egypt	125,824,316	110,479,818	28,031,922	224,679	7,138,215	26.66%
First Gas**	Egypt	48,341,891	21,427,312	23,300,890	(2,795,094)	5,000	
Prime holding for financial investments**	Egypt	505,067,315	80,104,579	56,310,219	18,908,766	3,100	
Total		1,033,628,614	287,149,298	154,468,581	55,400,821	210,402,745	

31/12/2016

	Country	Company's assets EGP	Company's liabilities less owners' equity EGP	Company's revenues EGP	Company's profits / (losses) EGP	Book value EGP	Share %
<u>Subsidiaries:</u>							
Egyptian gulf holding	Egypt	251,676,242	48,096,444	6,113,134	2,733,856	199,970,000	99.99%
<u>Associates:</u>							
Alex fish	Egypt	68,112,477	53,385,528	112,500	(21,758,104)	3,286,430	26.66%
Alex for nutrition production	Egypt	126,784,501	112,630,422	24,927,436	(1,113,545)	7,138,215	26.66%
First Gas**	Egypt	57,397,609	29,111,653	63,334,644	270,976	5,000	
Prime holding for financial investments**	Egypt	382,130,872	1,728,277	(5,747,227)	(12,672,221)	3,100	
Total		886,101,701	244,952,324	88,740,487	(32,539,038)	210,402,745	

* Financial statements for the period from 31/12/2016 to 31/12/2017 have been inspected and proved to be true.

** First Gas (indirect shareholding 19.99%) and Prime Holding Company (indirect shareholding 9.78%) were included in the investments in associates (through the company Egyptian Gulf Holding for Financial Investments of the Bank), in addition to influential influence represented by Membership of the boards of directors of that company.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**21. Employee stock ownership plan (ESOP)**

The balance of the employee stock ownership plan amounted EGP 28,185,908 as at 31 December 2017 according to the fair value of 1,696,000 shares, the revaluation differences amounted EGP 2,167,848.

	<u>Shares</u>	<u>31/12/2017</u> <u>L.E.</u>
Purchased during 2017	1,696,000	26,018,060
ESOP shares revaluation		2,167,848
Total	<u>1,696,000</u>	<u>28,185,908</u>

22. Intangible assets

	<u>31/12/2017</u> <u>L.E.</u>	<u>31/12/2016</u> <u>L.E.</u>
Computer software		
Net book value at the beginning of the financial year	30,843,461	24,275,262
Additions during the year	10,876,201	11,538,132
Amortization during the year	(6,899,673)	(4,969,933)
Net book value at the end of the financial year	<u>34,819,989</u>	<u>30,843,461</u>

23. Other assets

	<u>31/12/2017</u> <u>L.E.</u>	<u>31/12/2016</u> <u>L.E.</u>
Unearned revenues	630,123,557	458,446,864
Prepaid expenses	72,354,969	53,687,076
Advances to purchase fixed assets	420,768,933	278,268,341
Assets reverted to bank (after deducting the impairment)	78,272,600	102,054,489
Impress & Guarantee	11,028,274	6,082,525
Assets held for sale - investments reverted to the bank*	38,690,937	55,383,437
Others	236,559,473	172,337,161
	<u>1,487,798,743</u>	<u>1,126,259,893</u>

* Investments reverted to the bank represented in "Misr America" amounted to LE 26,440,937 and "Hamenz Co" amounted to LE 12,000,000.

* After the CBE board assembly on 8th of September, 2009 the following was stated:

"In the event that a bank that owns shares in a non-financial company with more than 40% of its issued capital, the bank must dispose of any extra ownership within a year of acquiring the shares, Impairment loss of the shares accumulated will then be calculated according to accounting principles so as not to understate the value of these losses relative to any marginal increase above the 40%, Losses should then be reflected in the bank's income statement under investment losses, or as other expenses depending on the circumstances in exchange for a decrease in the book value of share price by the same amount. The bank has calculated impairment account to each of the following: Misr America for medical supplies, and Hamenz."

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

24. Fixed assets

	Land & Buildings L.E.	Office Furniture L.E.	Equipment & Machinery L.E.	Computers L.E.	Furniture L.E.	Vehicles L.E.	Other L.E.	Total L.E.
Balance as at the beginning of 1/1/2016								
Cost	71,007,227	36,263,504	7,587,306	29,628,362	6,292,328	7,277,013	29,364,655	187,420,395
Accumulated depreciation	(20,463,344)	(29,483,276)	(3,583,484)	(18,041,858)	(3,883,525)	(4,708,777)	(17,894,521)	(98,058,785)
Net book value as at the beginning of prior year	50,543,883	6,780,228	4,003,822	11,586,504	2,408,803	2,568,236	11,470,134	89,361,610
Net Book value at the beginning of year	50,543,883	6,780,228	4,003,822	11,586,504	2,408,803	2,568,236	11,470,134	89,361,610
Additions	92,119,210	119,224	10,638,877	38,126,913	249,353	4,736,830	19,849,271	165,839,678
Disposals	--	--	--	--	--	(410,801)	(11,750)	(422,551)
Depreciation for the year	(2,330,734)	(2,024,672)	(1,325,751)	(4,780,462)	(452,882)	(950,808)	(3,717,624)	(15,582,933)
Accumulated depreciation of disposal assets	--	--	--	--	--	409,508	3,175	412,683
Net book value as at 31/12/2016	140,332,359	4,874,780	13,316,948	44,932,955	2,205,274	6,352,965	27,593,206	239,608,487
Balance as at 1/1/2017								
Cost	163,126,437	36,382,728	18,226,183	67,755,275	6,541,681	11,603,042	49,202,176	352,837,522
Accumulated depreciation	(22,794,078)	(31,507,948)	(4,909,235)	(22,822,320)	(4,336,407)	(5,250,077)	(21,608,970)	(113,229,035)
Net book value	140,332,359	4,874,780	13,316,948	44,932,955	2,205,274	6,352,965	27,593,206	239,608,487
Net Book value at the beginning of period	140,332,359	4,874,780	13,316,948	44,932,955	2,205,274	6,352,965	27,593,206	239,608,487
Additions	119,185,143	68,047,328	2,426,117	41,413,694	15,140,668	4,611,600	29,364,601	280,189,151
Disposals	--	--	(549,338)	(103)	(217)	(1,655,151)	(5,033,301)	(7,238,110)
Depreciation cost	(4,524,360)	(17,628,183)	(2,164,455)	(16,110,222)	(2,310,284)	(2,252,217)	(10,317,447)	(55,307,168)
Accumulated depreciation of disposal assets	--	--	549,279	--	--	1,469,283	5,032,332	7,050,894
Reclassification	(2,652,750)	--	--	--	--	--	--	(2,652,750)
Net book value as at 31/12/2017	252,340,392	55,293,925	13,578,551	70,236,324	15,035,441	8,526,480	46,639,391	461,650,504
Balance at 31/12/ 2017								
Cost	279,658,830	104,430,056	20,102,962	109,168,866	21,682,132	14,559,491	73,533,476	623,135,813
Accumulated depreciation	(27,318,438)	(49,136,131)	(6,524,411)	(38,932,542)	(6,646,691)	(6,033,011)	(26,894,085)	(161,485,309)
Net book value 31/12/2017	252,340,392	55,293,925	13,578,551	70,236,324	15,035,441	8,526,480	46,639,391	461,650,504

25. Due to banks

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Current accounts	260,756,702	--
Deposits	4,160,000,000	1,000,000,000
	<u>4,420,756,702</u>	<u>1,000,000,000</u>
Local banks	4,160,000,000	1,000,000,000
Foreign banks	260,756,702	--
	<u>4,420,756,702</u>	<u>1,000,000,000</u>
Non-interest bearing balances	260,756,702	--
Interest bearing balances	4,160,000,000	1,000,000,000
	<u>4,420,756,702</u>	<u>1,000,000,000</u>
Current balances	4,420,756,702	1,000,000,000
	<u>4,420,756,702</u>	<u>1,000,000,000</u>

26. Customers' deposits

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Demand deposits	19,227,125,654	8,212,469,667
Time and call deposits	21,403,988,008	26,791,919,838
Certificates of deposits	3,672,303,074	3,768,266,278
Saving deposits	1,298,001,840	1,270,424,464
Other deposits	864,333,092	607,077,442
	<u>46,465,751,668</u>	<u>40,650,157,689</u>
Corporate deposits	36,775,271,041	32,000,614,366
Retail deposits	9,690,480,627	8,649,543,323
Total	<u>46,465,751,668</u>	<u>40,650,157,689</u>
Non-interest bearing balances	745,708,526	163,342,075
Variable interest bearing balances	42,060,461,568	36,732,176,336
Fixed interest bearing balances	3,659,581,574	3,754,639,278
	<u>46,465,751,668</u>	<u>40,650,157,689</u>

27. Other loans \ Subordinated deposits

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Commercial International Bank loan	2,094,286	2,640,000
Subordinated Deposits	500,000,000	--
	<u>502,094,286</u>	<u>2,640,000</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**28. Other liabilities**

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Accrued interest	463,117,165	495,292,897
Unearned revenue	57,769,616	14,699,000
Accrued expenses	191,409,735	226,200,402
Creditors	235,820,371	192,917,474
Other credit balances	324,411,097	188,351,011
	<u>1,272,527,984</u>	<u>1,117,460,784</u>

29. Other Provisions

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Balance at the beginning of the year	80,395,066	47,409,922
Foreign currencies revaluation	(563,467)	16,651,094
Charged during the year to statement of income	33,273,771	16,334,050
Used during the year	(8,692,625)	--
Balance at the end of the year	<u>104,412,745</u>	<u>80,395,066</u>

30. Differed income tax

	Differed tax assets		Differed tax liabilities	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	LE	LE	LE	LE
Fixed assets	--	--	16,169,613	12,699,995
Provisions (excluded loans impairment losses)	19,538,246	14,134,268	--	--
Others	--	--	--	--
Total tax	<u>19,538,246</u>	<u>14,134,268</u>	<u>16,169,613</u>	<u>12,699,995</u>
Net tax derived from asset	<u>3,368,633</u>	<u>1,434,273</u>	<u>--</u>	<u>--</u>

Movement of differed Assets and Liabilities:

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>LE</u>	<u>LE</u>
Beginning balance	1,434,273	--
Additions during period	5,403,978	7,815,742
Disposal during period	(3,469,618)	(6,381,469)
Ending balance	<u>3,368,633</u>	<u>1,434,273</u>

In accordance with the Central Bank of Egypt instructions and Egyptian Accounting Standards No. (24) "income taxes" deferred tax assets are not recognized if no future benefits are expected and/or the existence of deferred tax liabilities at the same time. Accordingly, tax assets were not recognized during the financial year ended 31 December 2017 as well as the financial year ended 31 December 2016.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**31. Capital****Authorized capital**

The authorized capital amounted to USD 500,000,000, or its equivalent in EGP.

Issued and paid up capital

The issued and paid up capital amounted to USD 316,302,322 (equivalent to EGP 1,786,560,356 represented in 316,302,322 shares at par value of USD 1 each.

- The capital increase procedures were completed by issuing free shares referred to above. The shares of the Egyptian Stock Exchange and Misr Clearing, Depository and Central Depository Company were registered on 5 May 2017.

- The cash subscription was opened on August 28, 2017 and until September 26, 2017 for the first stage and the second stage. The subscription was oversubscribed by 95.60% for 26,499,266 shares with par value of USD 26,499,266 (equivalent to EGP 469,529,244) and the rest of the increase procedures are being taken by the concerned parties.

32. Reserves and retained earnings**1- Reserves during the year as follows:**

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
<u>Reserves</u>		
Legal reserve	182,268,555	142,118,437
Differences from foreign balances translation	2,684,997	2,684,997
Fair value reserve-investments available for sale	144,721,793	(60,997,902)
General reserve	17,529,143	17,529,143
Special Reserve	8,143,329	8,143,329
General bank risk reserve	13,130,944	8,549,450
Capital reserve	8,083,220	7,855,283
IFRS 9 risk reserve*	200,607,250	--
Reserves at the end of the year	<u>577,169,230</u>	<u>125,882,737</u>

* The IFRS 9 risk reserve is created 1% of the total weighted credit risk of net profit after tax for 2017 in accordance with the Central Bank of Egypt regulations issued on 28 January 2018 and can't be used but with the approval of Central Bank of Egypt.

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
A- General bank risk reserve		
Balance at the beginning of the year	8,549,450	8,366,300
Transferred from retained earnings	5,497,244	183,150
Transferred to retained earnings*	(915,750)	--
Balance at the end of the year	<u>13,130,944</u>	<u>8,549,450</u>

In accordance with the Central Bank of Egypt instructions general bank risk reserve is formed to meet unexpected risks; and this reserve is un-distributable except after obtaining the approval of the Central Bank of Egypt.

* An amount of EGP 915,750 was reversed due to selling an asset reverted to the bank.

32. Reserves and retained earnings - continued

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
B- Legal reserve		
Balance at the beginning of the year	142,118,437	114,306,170
Transferred from retained earnings 2015	40,150,118	27,812,267
Balance at the end of the year	<u>182,268,555</u>	<u>142,118,437</u>

In accordance with local laws, 10% of the net year's profit is transferred to reserve not available for distribution until this reserve reaches 100% of the capital.

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
C- Fair value reserve-investments available for sale		
Balance at the beginning of the year	(60,997,902)	(6,660,837)
(Losses) from changes in FMV (note 19)	196,377,579	(92,745,064)
Net losses transferred to the statement of income resulted from disposal	9,545,082	(4,900,720)
Change in reevaluation of forex	(202,967)	(4,466,324)
Net losses transferred to the statement of income resulted from impairment	--	47,775,043
Balance at the end of the year	<u>144,721,792</u>	<u>(60,997,902)</u>

D- Special reserve

Special reserve was formed in accordance with Central Bank of Egypt instruction issued on 16 December 2008 and can't be used but with the approval of Central Bank of Egypt.

2- Retained earnings

	<u>31/12/2017</u>	<u>31/12/2016</u>
	<u>L.E.</u>	<u>L.E.</u>
Retained earnings movement		
Balance at the beginning of the year	401,501,177	286,263,252
Net profit for the year	500,619,820	401,501,177
Retained for capital increase (Free shares)	--	(219,427,999)
Dividends declared prior year		
Employees profit share	(40,150,118)	(27,812,266)
Board of directors remuneration	(14,000,000)	(8,500,000)
Transferred to general banking risk reserve	(4,581,494)	(183,150)
Transferred to legal reserve	(40,150,118)	(27,812,267)
Transferred to other reserve	(227,937)	(2,527,570)
Transferred To IFRS 9 risk reserve	(200,607,250)	--
Balance at the end of the year	<u>602,404,080</u>	<u>401,501,177</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**33. Cash and cash equivalents**

For the purpose of preparing the statement of cash flow, the cash and cash equivalent includes the following balance of maturity dates within less than three months from the date of acquisition:

	<u>31/12/2017</u> <u>L.E.</u>	<u>31/12/2016</u> <u>L.E.</u>
Cash and due from CBE	7,068,067,524	3,033,646,325
Due from banks	5,821,229,458	5,170,342,534
Treasury bills	9,680,192,450	9,082,209,450
Balance with CBE within the limit of statutory reserve	(6,639,910,486)	(2,638,650,714)
Due from banks with maturities more than 3 months	(585,014,100)	(44,173,951)
Treasury bills maturity more than 3 months	(9,544,517,450)	(9,065,534,450)
Cash and cash equivalent at the end of the year	<u><u>5,800,047,396</u></u>	<u><u>5,537,839,194</u></u>

34. Commitment and contingent liabilities**A. Capital Commitment**

The Bank's total capital commitments related to building and completing new branches and purchase of assets and equipment amounted to EGP 78,425,382 which has not been finished as at 31 December 2017.

B. Commitments for loans, guarantees and facilities

Bank commitments for loans guarantees and facilities are represented as follows:

	<u>31/12/2017</u> <u>L.E.</u>	<u>31/12/2016</u> <u>L.E.</u>
Letter of credit (import & export)	321,041,000	283,310,000
Letter of guarantee	1,480,614,000	1,731,957,000
	<u><u>1,801,655,000</u></u>	<u><u>2,015,267,000</u></u>

35. Salaries & Bonus of top management

	<u>31/12/2017</u> <u>L.E.</u>	<u>31/12/2016</u> <u>L.E.</u>
Short term salaries & bonuses	44,545,624	38,021,398
	<u><u>44,545,624</u></u>	<u><u>38,021,398</u></u>

The top twenty salaries and Bonuses in the bank reached EGP 44,545,624 yearly and the monthly average is EGP 3,712,135 for the year ended 31 December 2017.

36. Related parties transactions

Number of transactions with related parties has been conducted in the normal course of business including loans and deposits. Related parties transactions and balances at the end of the financial year are as follows:

A. Loans and advances to related parties

	Top Management		Subsidiaries and associates	
	<u>31/12/2017</u> <u>L.E.</u>	<u>31/12/2016</u> <u>L.E.</u>	<u>31/12/2017</u> <u>L.E.</u>	<u>31/12/2016</u> <u>L.E.</u>
Existing loans at the beginning of the year	61,107,373	32,394,616	14,521,000	42,628,079
Loans issued during the year	7,304,445	33,326,015	1,831,000	--
Loans collected during the year	(33,057,243)	(4,613,258)	(6,583,000)	(28,107,079)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

Existing loans at the year end	35,354,575	61,107,373	9,769,000	14,521,000
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36. Related parties transactions - continued

B. Deposits from related parties

	Top Management	
	31/12/2017	31/12/2016
	In thousand EGP	In thousand EGP
Deposits at the beginning of the year	19,756	15,860
Deposit received during the year	46,142	27,285
Deposit redeemed during the year	(44,194)	(23,389)
Existing deposits at the year end	21,704	19,756

	Top Management	
	31/12/2017	31/12/2016
	In thousand EGP	In thousand EGP
Call deposits	4,765	264
Saving accounts	5,334	5,883
Saving and deposit certificates	8,443	10,209
Time & call deposits	3,162	3,400
	21,704	19,756

37. Mutual funds

A. Mutual fund established by the bank – Egyptian Gulf Bank

The Fund is one of the licensed banking activities of the Bank under the Capital Market Law No. 95 of 1992 and its Executive Regulations. The Fund is managed by Hermes Investment Fund Management Company. The Fund has a total investment of 100 million Egyptian pounds. (Five million Egyptian pounds) to start the activity of the Fund

The recoverable amount of the certificates as at 31 December 2017 was EGP 292.59 and the Fund's certificates on the same date amounted to 157,729.

B. The Thraa Fund cash

Fund is a licensed financial service conducted by the bank –according to the articles of Capital market law no.95 for 1992 and its bi-law and the fund is managed by Prime Company for mutual fund management, The number of certificates at the initial offering was 34,944,491 million certificates with a total amount of EGP 375 million of which 713359 certificates (amounting to EGP 7,5million) were designated to the fund operation

The recoverable amount of each certificate as of 31 December 2017 amounted EGP 15.4006 and the Fund's certificates on the same date were numbered to 24,097,025.

38. Comparative figures

Comparative figures have been reclassified to conform to changes in presentation used in the current period.

39. Subsequent events

The Central Bank of Egypt has issued regulation on 28 January 2018 concerning:

- Applying the International Financial Reporting Standards requirements no. (9) “financial instruments” which will be implemented starting from January 2019, and the bank should prepare its financial statements as at 31 March 2018 and the following statements during 2018 in accordance with the current regulations as well as preparing experimental audited financial statements on that date in accordance with the new regulations according to IFRS 9 requirements.

- Creating IFRS 9 risk reserve 1% of the total weighted credit risk of net profit after tax for 2017 and can't be used but with the approval of Central Bank of Egypt.