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ARAB INTERNATIONAL BANK

# ANNUAL REPORT 2019

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الصرف العربي الدولي

ARAB INTERNATIONAL BANK

# 2019 ANNUAL REPORT

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01

# Overview



# A Letter from the Chairman

On behalf of the members of the Board of Directors of Arab International Bank , and on my own behalf, I am honored to present to you the separate and consolidated financial statements of the Bank through the annual report for the year 2019. Which proved that we were able to accomplish many achievements that helped in reaching the strategic vision that maintains Arab International bank's position as one of the oldest banks in the Egyptian banking sector. We are also working continuously to achieve excellence, to move forward and to establish great relations with a large number of potential clients, in addition to maintaining those we already have with our current clients by relying on our branches, services, and products. As the employees of Arab International Bank are qualified to provide the needed banking services at the highest level, they always strive to progress and work harder. In addition, they are always keen to treat all customers with care and in a distinctive way.

From this standpoint and over the past years, we have expanded the bank's branch network from 7 branches in 2016 to 20 branches. In addition, we managed to expand in order to provide services to better meet the needs of the individual and corporate clients by establishing new departments which helped in the increase of the net profit.

The following is a summary of the most important indicators of our bank's performance during the financial year ended as at December 31, 2019. In addition to the most prominent economic events and developments on the global and domestic levels in 2019.

The separate and consolidated financial statements of the Bank had been prepared and presented in accordance with the rules and instructions of the Central Bank of Egypt and approved by its Board of Directors on December 16, 2008, in addition to their amendments that were issued on February 26, 2019. The net profit reached 61.4 million US dollars in 2019 compared to 39.6 million US dollars in 2018, and customers' deposits increased by 14.16% to reach 3.786 billion US dollars in 2019 compared to 3.317 billion US dollars in 2018. The coverage rate of the Expected Credit Loss (ECL) provision of the loans portfolio reached 30.81% in 2019 compared to 13.89% in the previous year. The Bank's capital adequacy ratio calculated on a Banking Group basis according to the instructions of The Central Bank of Egypt equals to 17.26% while the minimum limit required according to The Central Bank of Egypt is 12.50 % including the capital conservation buffer as at 31 December 2019.

It was proposed not to distribute dividends to shareholders this year to support the financial position of the Bank and to comply with applying the international standards.

## About the economy in Egypt, which is the host country:

Looking at the national level of the economy, we shall find out that Arab Republic of Egypt managed to move steadily towards a better future, as Egypt became one of the natural gas exporting countries after the discoveries of Zohr field, the decline in unemployment, the improvement of pensions, and the increase of civil servants' salaries. Which led to higher domestic demand and increase in exports growth

In addition, Fitch Ratings Inc. affirmed that Egypt's credit rating has improved during 2019, as it improved from B to B + with a stable outlook. Meanwhile, Standard & Poor's also raised Egypt's credit rating from B3 to B2. Furthermore, The Egyptian Pound performance also improved in general and was considered as the strongest performing currency against the US dollar in emerging markets, according to Morgan Stanley.

## The Global Economy Developments:

Several reliable reports published during the year 2019 with respect to the global economic growth rate, indicated that the economic activity growth rate in developed countries slightly increased to reach 1.6 % during the first quarter of 2019, after it continued to slow down to 1.5% during the fourth quarter of 2018. The slight increase of the economic activity growth rate was mainly supported by higher growth rates in the United States of America, the United Kingdom and Japan, while the growth rate in the Euro area was stable. On the other hand, the growth rate of economic activity in emerging countries decreased to 4.1% during the first quarter of 2019, compared to 4.9% during the fourth quarter of 2018. The decline was mainly supported by the weak growth rate in Russia, India and Brazil, while it stabilized in China.

Despite the global economic slowdown this year, we are proud that Arab International Bank has managed to maintain its position as well as reaching the desired achievements. Furthermore, we will maintain our efforts to always achieve excellence through cooperation, commitment, and transparency in all our dealings. Therefore, I would like to express my gratitude and appreciation to our shareholders for their continued support and confidence in AIB, I would also like to thank the members of the Board of Directors for their wise leadership, and I appreciate the bank's management and staff for their continuous efforts.

**Hisham Ramez Abdel Hafez**

Chairman of The Board of Directors & Managing Director

# Bank’s Background

The Arab International Bank was established in 1974 by virtue of an international treaty concluded by the governments of the Arab Republic of Egypt, Libya, Sultanate of Oman, the State of Qatar and the United Arab Emirates. The legal domicile of the Bank is located in Cairo, Egypt. The purpose of this Bank is to carry out all the banking, financial and commercial activities related to the projects of economic development and foreign trade, especially for the interest of the member states, other countries and the Arab countries. The mentioned activities include but are not limited to:

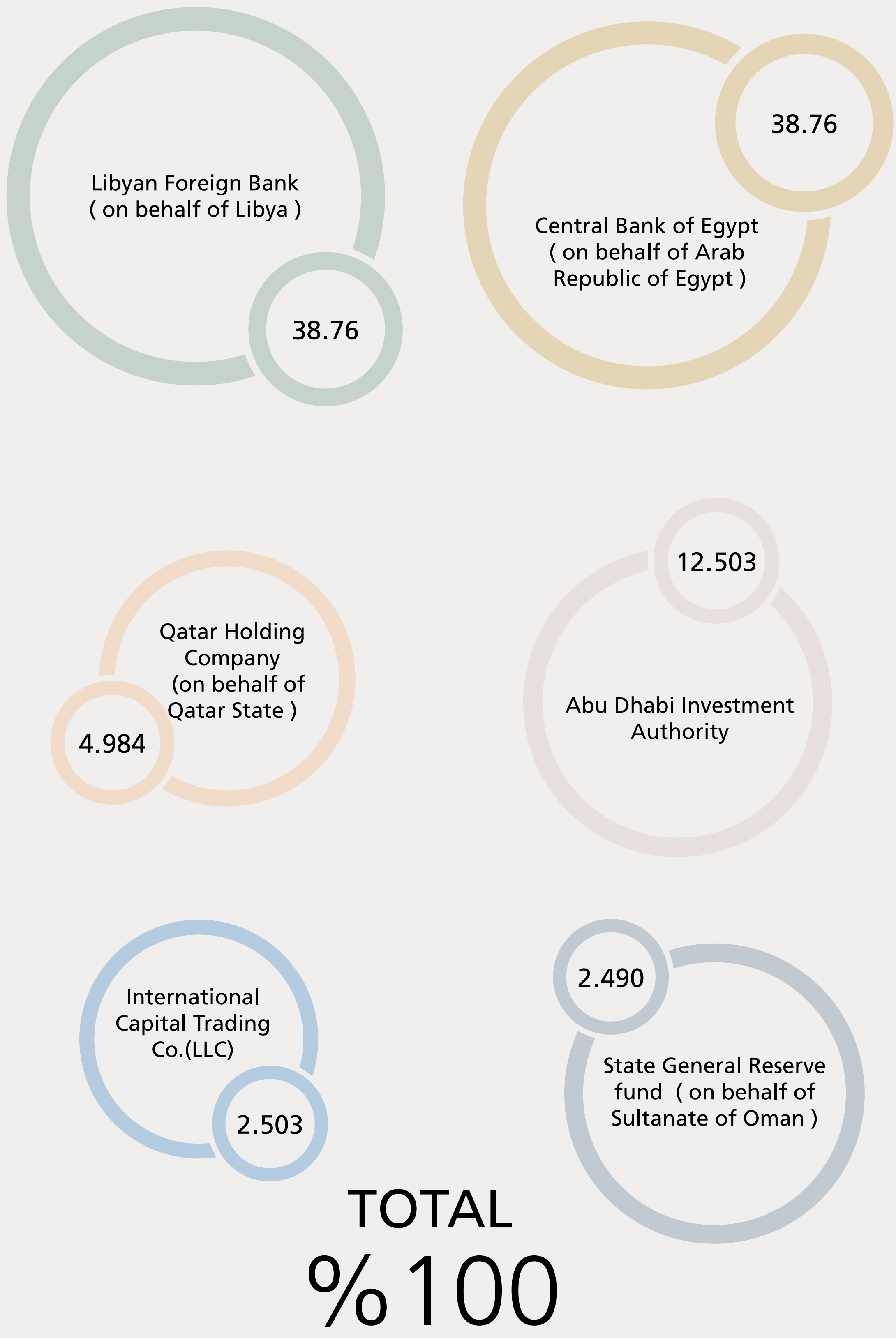
- Accepting time deposits or call deposits and opening accounts for the governments of the Arab countries, non-Arab countries, the organizations, institutions, banks, companies and individuals from the Arab countries and non-Arab countries.
- Financing the foreign trade operations of the Arab countries through providing credit facilities for the importers, granting finance to the exporters and providing insurance or securing the facilities required for such operations.
- Organizing the participation in the projects and investment programs that are related to the economic development particularly those of common nature among a number of the Arab countries.
- Providing long- and medium-term loans for the purposes of development.
- Establishing or acquiring companies or participating in any manner with the banks, Arab and foreign companies practicing similar activities and assisting the Bank in achieving its purposes in the Arab or foreign countries. Within the framework of the endeavors exerted by the Bank to expand its activities and the establishment of new branches in addition to providing all the services to its customers in a manner according to which the Bank can carry out transactions in all currencies including the Egyptian pound along with maintaining all the privileges granted by virtue of the Bank Establishment Treaty whether to the shareholders or the bank customers dealing with it, as the Extraordinary General Assembly meeting of the Arab International Bank held on March 22,2012 approved the amendment of some articles of the Bank Establishment Treaty and its statutes, the following are the most significant amendments of which:

- All transactions undertaken by the Bank shall be conducted in all currencies as specified by the Board of Directors.
- The Bank and its branches are not subject to the laws regulating general organizations or organizations of public utility, public sector companies and joint stock companies in Member States where the Bank or its branches operate.


- In a manner that is not in conflict with the above mentioned and with the rest of Bank Establishment Treaty, this Bank is subjected to the supervision of the Central Bank according to the law of Central Bank, the law of Banking and Monetary System in the headquarters hosting country in addition to exercising control by the other central banks over the branches of the Bank of the member states that participated in the Establishment Treaty of the Bank according to the applicable provisions of the laws regulating the banks and credit facilities of the member states .

It has been taken to activate this amendment procedures as of April 2015.

# The shareholders





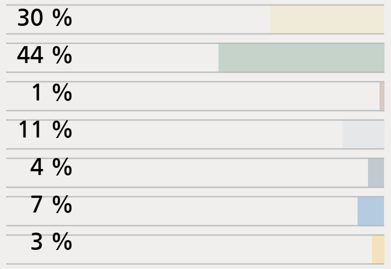

# Members of the Board of Directors

| | |
|---|---|
| Mr.Hisham Ramez Abdel Hafez | Chairman of the Board of Directors & Managing Director |
| Mr.Mohamed Kamal El-Din Barakat | Deputy-Chairman of the Board of Directors & Managing Director |
| Dr.Mostafa Kamal Madboly | Member of the Board of Directors |
| Mr.Rami Ahmed Aboulnaga | Member of the Board of Directors |
| Mr.Mohamed Hesham Abdelhamid Abomousa | Member of the Board of Directors |
| Mrs.Mai Aboulnaga | Member of the Board of Directors |
| Mr.Ali Salem El Hebry | Member of the Board of Directors |
| Mr.Essam Elddin Salem Allag | Member of the Board of Directors |
| Mr.Hamad Rashed Al Noeimy | Member of the Board of Directors |
| Mr.Khaled Mohamed Al Khajeh | Member of the Board of Directors |
| Mr.Mohamed Khalfan Al Dhaheri | Member of the Board of Directors |

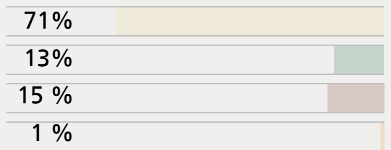
# The most significant financial information & indications

| | 2019 | 2018 |
|---|---|---|
| | (US$ Thousands) | |
| **Income Statement Items** | | |
| Total operating income | 124 729 | 99 613 |
| Total operating expenses | ( 54 676) | ( 48 311) |
| Profit before provisions | 70 054 | 51 302 |
| Net profit | 61 429 | 39 619 |
| | (US$ millions) | |
| **Financial Position Items** | | |
| Total Assets | 5 360 | 4 730 |
| Cash & Placement with banks | 1 632 | 1 132 |
| Net loans and advances | 608 | 1 061 |
| Treasury bills | 2 357 | 1 865 |
| Available for sale investments | 30 | 25 |
| Held to maturity investments | 237 | 202 |
| Investments in subsidiaries & associates | 361 | 332 |
| Customers' deposits | 3 787 | 3 317 |
| Shareholders' equity | 838 | 877 |
| Ratio (%) | % | % |
| **Assets Quality** | | |
| Total assets growth rate | 13.32 | -1.25 |
| Loans provision to gross loans | 26.94 | 12.83 |
| Loans provision to non-performing loans | 95.3 | 116.17 |
| **Capital Adequacy** | | |
| Total equity growth rate | -4.35 | 3.53 |
| Total equity to total assets | 15.64 | 18.54 |
| **Liquidity** | | |
| Net loans to total deposits | 13.59 | 27.84 |
| Net loans to total customers' deposits | 16.06 | 32.00 |
| Total customers' deposits to total deposits | 84.64 | 86.99 |
| Liquid assets to total assets ratio | 67.91 | 60.47 |
| **Profitability** | | |
| Operating income on average assets* | 0.4 | 0.83 |
| Return to average equity* | 2.36 | 4.60 |
| Return to paid in capital* | 3.37 | 6.60 |

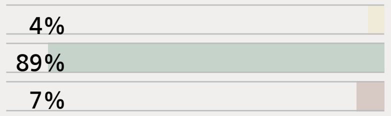
Excluding the amount of US$ 41.2 million representing associates impairment reversal (Non-recurring transaction) as at 31-Dec-2019



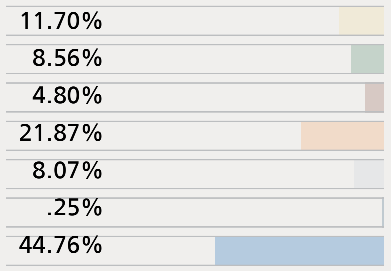

| | Assets Breakdown | 2019 |
|---|---|---|
| 30 % | Cash & Cash at Banks | 1,631,505 |
| 44 % | Treasury Bills | 2,356,511 |
| 1 % | Investments at fair value through OCI | 30,247 |
| 11 % | Loans & Advances | 608,167 |
| 4 % | Investments at Amortized Cost | 237,126 |
| 7 % | Investments in Associates | 361,456 |
| 3 % | Others | 134,658 |
| | | 5,359,670 |




| | Resources Breakdown | 2019 |
|---|---|---|
| 71% | Customers Deposits | 3,786,645 |
| 13% | Banks Deposits | 687,433 |
| 15 % | Shareholders' Equity | 838,458 |
| 1 % | Others | 47,134 |
| | | 5,359,670 |

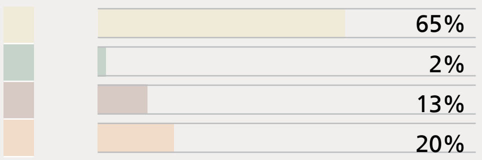



| | Gross Loans & Advances by Type | |
|---|---|---|
| 4% | Customers | 37,956 |
| 89% | Corporate Finance | 781,068 |
| 7% | Banks | 60,000 |
| | | 879,024 |
| | Provisions | 270,857 |

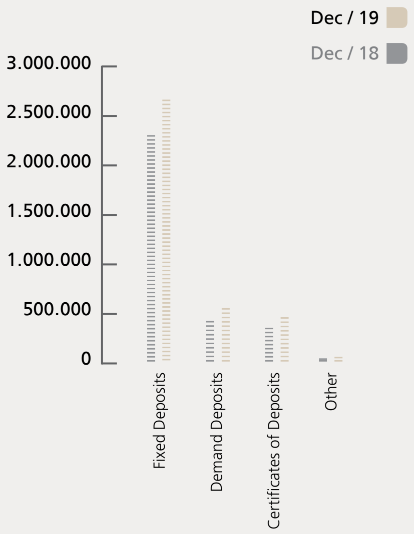



| | Distribution of Net Loans According to Sectors | |
|---|---|---|
| 11.70% | Financials | 102,851 |
| 8.56% | Industrial | 75,223 |
| 4.80% | Commercial | 42,162 |
| 21.87% | Petroleum & Gas | 192,252 |
| 8.07% | Government | 70,925 |
| .25% | Real State | 2,158 |
| 44.76% | Others | 393,453 |
| | | 879,024 |

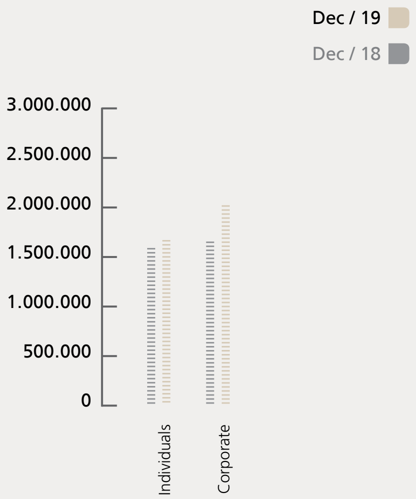
| | Associates by Sectors | |
|---|---|---|
| 234,461 | Financial Institutions | 65% |
| 6,800 | Tourism | 2% |
| 48,000 | Commercials & Industrial | 13% |
| 72,195 | Technology & Education | 20% |
| 361,456 | | |



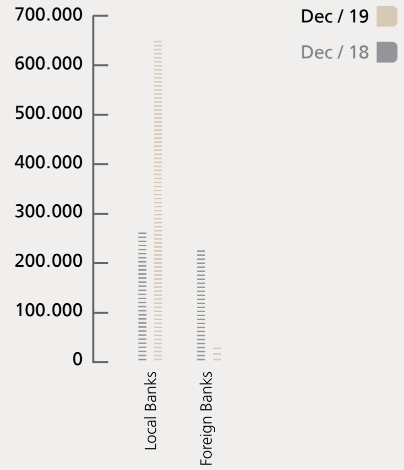

| Customers Deposits | Dec / 19 | Dec / 18 |
|---|---|---|
| Fixed Deposits | 2,656,674 | 2,424,964 |
| Demand Deposits | 594,150 | 478,583 |
| Certificates of Deposits | 490,488 | 376,110 |
| Other | 45,333 | 37,391 |
| | 3,786,645 | 3,317,048 |



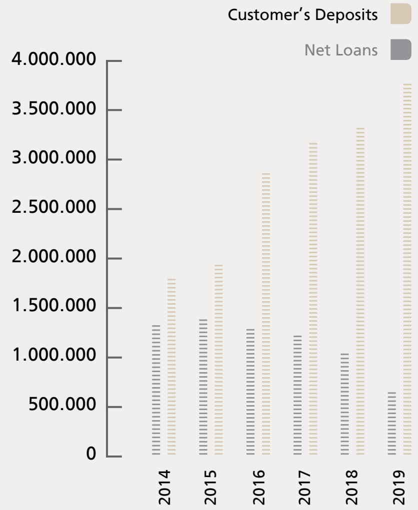

| Distribution of Customers Deposits by Client Type | Dec / 19 | Dec / 18 |
|---|---|---|
| Individuals | 1,724,839 | 1,579,828 |
| Corporate | 2,061,806 | 1,737,220 |
| | 3,786,645 | 3,317,048 |



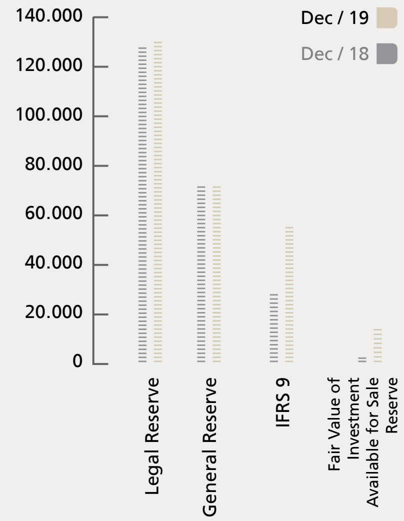

| Distribution of Interbanks Deposits by Region | Dec / 19 | Dec / 18 |
|---|---|---|
| Local Banks | 657,775 | 269,587 |
| Foreign Banks | 29,658 | 226,328 |
| | 687,433 | 495,915 |




| Net Loans versus Customer's Deposits | Customer's Deposits | Net Loans |
|---|---|---|
| 2014 | 1,785,901 | 1,348,606 |
| 2015 | 1,943,896 | 1,438,551 |
| 2016 | 2,803,912 | 1,340,876 |
| 2017 | 3,112,873 | 1,228,470 |
| 2018 | 3,317,048 | 1,061,472 |
| 2019 | 3,786,645 | 608,167 |




| Reserves Distribution | Dec / 19 | Dec / 18 |
|---|---|---|
| Legal Reserve | 126,642 | 122,680 |
| عام General Reserve | 73,582 | 73,582 |
| IFRS 9 | 57,814 | 26,429 |
| Fair Value of Investment Available for Sale Reserve | 16,497 | 716 |
| | 216,721 | 223,407 |



02

# **Board of** Directors’ Report





# Board Of Directors' Report
# On The Activities Of The Bank During The Year 2019

## Introduction

These financial statements of the Bank were prepared in accordance with rules issued on 16 December 2008 by the Central Bank of Egypt with respect to the preparation and presentation of the financial statements of banks in addition to the instructions of preparation and presentation of the financial statements of banks issued on 26 February 2019 by the Central Bank of Egypt with respect to the requirements of IFRS (9) "Financial Instruments".

The said separate and consolidated financial statements were audited by external auditors in accordance with the rules and instructions mentioned above and they issued an unqualified opinion (a clean opinion report) to the effect that the financial statements present fairly, in all material respects, the financial position of Arab International Bank as at December 31, 2019, its financial performance and its cash flows for the year then ended.

The Board of Directors of the Arab International Bank is honored to introduce the results of the Bank's activities and its performance according to the financial statements for the year ended as at December 31, 2019:

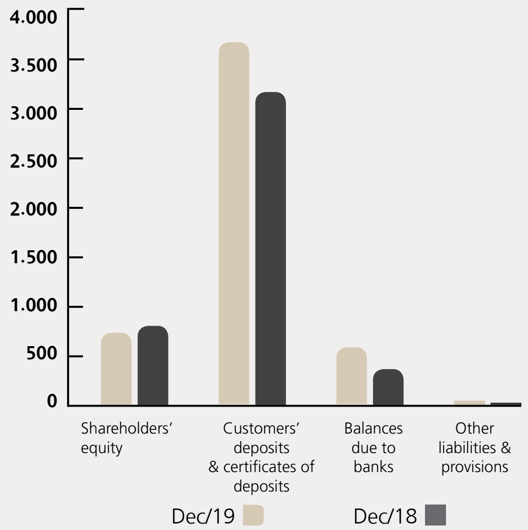
## First: Financial Position:

### (1) The Resources:

The total amount of resources as at December 31, 2019 amounted to US$ 5 360 million corresponding to US$ 4 730 million as at December 31, 2018 with an increase of US$ 630 million. The following table shows the sources of such resources:

Per Million US$

| Resources | 31 December 2019 | | 31 December 2018 | | Change +/(-) |
|---|---|---|---|---|---|
| | Value | % | Value | % | Value |
| Shareholders' equity | **839** | **15.7** | 877 | 18.6 | (38) |
| Customers' deposits & certificates of deposits | **3 787** | **70.6** | 3 317 | 70.1 | 470 |
| Balances due to banks | **687** | **12.8** | 496 | 10.5 | 191 |
| Other liabilities & provisions | **47** | **0.9** | 40 | 0.8 | 7 |
| Total | **5 360** | **100** | **4 730** | **100** | **630** |




### A- Shareholders' Equity

The total shareholders' equity as at December 31, 2019 amounted to US$ 839 million corresponding to US$ 877 million, as at December 31, 2018 with a decrease amounting to US$ 38 million. Hereunder, is an analysis of the shareholder's equity items as at December 31, 2019 & December 31, 2018:

Per Million US$

| Item | 31 December 2019 | 31 December 2018 | Change (-)/ + |
|---|---|---|---|
| | | | Value |
| Paid- in capital | **600** | 600 | - |
| Legal reserve | **126** | 123 | 3 |
| General reserve | **74** | 74 | - |
| Risk reserve (IFRS 9) | **-** | 26 | (26) |
| Financial investments fair value reserve through other comprehensive income | **17** | 1 | 16 |
| Retained earnings including net profit for the year | **22** | 53 | (31) |
| **Total** | **839** | **877** | **(38)** |

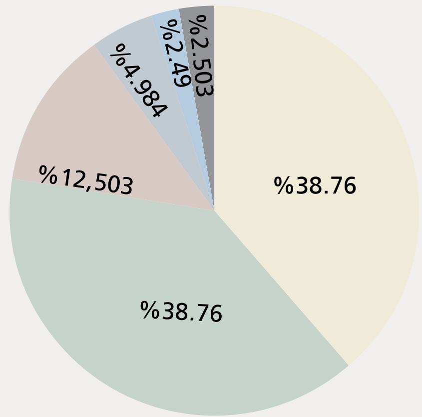
### (A/1) Capital

The Ordinary General Assembly meeting of the Bank was held on May 14, 2009 and approved increasing the issued capital from US$ 300 million to US$ 600 million through the issuance of 15 thousand ordinary shares, the value of each is US$ 20 thousand and they were entirely subscribed in. On November 3, 2009, the amount of US$ 150 million of the said increase was called up and paid on November 23, 2009.

On March 6, 2016, the Board of Directors of the Bank resolved to call up the second portion of capital that represents the last one of the issued capital increase portion whose value amounted to US$ 150 million and it was paid as at June 30, 2016 and thus the issued and paid in capital amounted to US$ 600 million as at December 31, 2019 distributed over 30 000 ordinary shares, the value of each is US$ 20 thousand.

The issued & paid in capital is as follows:

| | No. of shares | Value of issued shares (per thousand US$) | % |
|---|---|---|---|
| Arab Republic of Egypt | 11 628 | 232 560 | 38.76 |
| State of Libya | 11 628 | 232 560 | 38.76 |
| Abu Dhabi Investment Authority | 3 751 | 75 020 | 12.503 |
| State of Qatar | 1 495 | 29 900 | 4.984 |
| Sultanate of Oman - State General Reserve Fund | 747 | 14 940 | 2.49 |
| International Capital Trading Company | 751 | 15 020 | 2.503 |
| **Total** | **30 000** | **600 000** | **100** |



The Bank maintained a strong ratio of capital adequacy as at December 31, 2019 (as a banking group) equals to 17.26 % while the minimum limit of the requirements of the Central Bank of Egypt is 12.5 % including conservation buffer.

### (A-2) Financial investments fair value reserve through other comprehensive income

Financial investments fair value reserve through other comprehensive income is represented in the profits gained from revaluation of outstanding financial investments through other comprehensive income amounting to US$ 17 million as at December 31, 2019.

### (A-3) Retained Earnings

The retained earnings including the net profit of the year as at December 31, 2019 amounted to US$ 22 million (before dividends appropriations for the year 2018) corresponding to US$ 53 million as at December 31, 2018 after taking into consideration the impact of implementing IFRS 9 as of 1 January 2019 and the dividends appropriations for the year 2018.

## B- Deposits

### (B-1) Customers' Deposits & Certificates of Deposits

The customers' deposits & certificates of deposits as at December 31, 2019 amounted to US$ 3 787 million corresponding to US$ 3 317 million as at December 31, 2018 with an increase of US$ 470 million at a rate of increase of 14.2 % as the increase rate in financial organizations and institutions deposits reached 18.7 % while the increase in the certificates of deposits reached 30.4 % and the increase in retail deposits reached the rate of 3.0 %.

The interest paid in return for customers' deposits & certificates of deposits as at 31 December 2019 amounted to US$ 271 million corresponding to US$ 233 million as at 31 December 2018 at an average interest rate that reached 13.8 % for the Egyptian pound and 2.9 % for foreign currencies during the current financial year while corresponding to 14.6 % for the Egyptian pound and 2.7 % for foreign currencies during the comparative year.

### (B/2) Placements from Banks

The Placements from Banks as at December 31, 2019 amounted to US$ 687 million corresponding to US$ 496 million as at December 31, 2018 with an increase amounting to US$ 191 million at a rate of increase of 38.5 % when compared to last year.

The interest paid on Placements from Banks as at December 31, 2019 amounted to US$ 32 million at an average interest rate that amounted to 14.9 % for the Egyptian pound and 1.1 % for foreign currencies corresponding to US$ 19 million as at December 31, 2018 at an average interest rate of 17.1 % for the Egyptian pound and 1.5 % for foreign currencies.

## C- Other Liabilities

The Total amount of other liabilities as at December 31, 2019 amounted to US$ 43 million corresponding to US$ 36 million at an increase amounted to US$ 7 million. The said increase is attributed to an amount of US$ 6.2 million that represented the increase in other credit balances amounting to US$ 1.6 million in addition to an increase amounted to US$ 4.6 million in outstanding checks and an increase of US$ 3 million in the balances of the employee's alternative pension scheme (end of service compensation) and an increase that amounted to US$ 0.6 million in the support granted to the employees pension fund against a decrease in unearned revenues that amounted to US$ 0.9 million in addition to a decrease in interests due to customers amounting to US$ 1.7 million.

## D- Other Provisions

The total other provisions as at December 31, 2019 amounted to US$ 3.9 million and the amount of US$ 3.9 million as at December 31, 2018 as well.

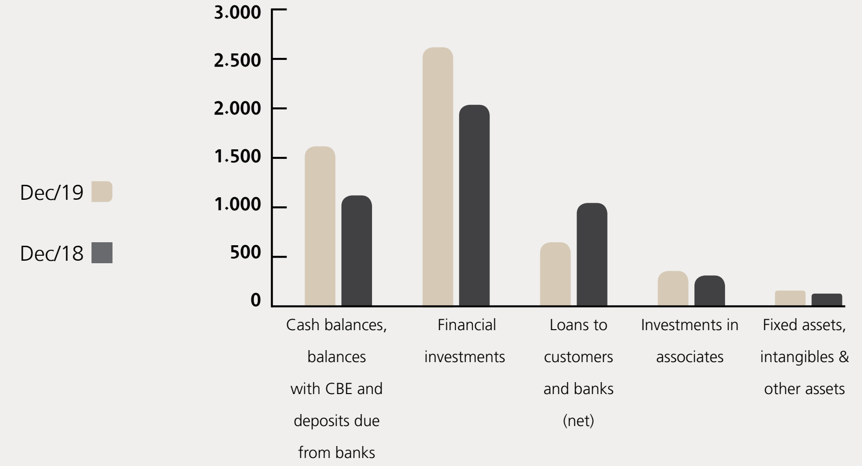


## 2- Utilizations

The total utilizations as at December 31, 2019 amounted to US$ 5 360 million corresponding to US$ 4 730 million as at December 31, 2018 at an increase amounted to US$ 630 million. Such utilizations were distributed as follows:

Per Million US$

| Utilizations | 31 December 2019 | | 31 December 2018 | | Change(-)/ + |
|---|---|---|---|---|---|
| | Value | % | Value | % | Value |
| Cash balances, balances with CBE and deposits due from banks | **1 632** | **30.4** | 1 132 | 23.9 | 500 |
| Financial investments | **2 624** | **49.0** | 2 091 | 44.2 | 533 |
| Loans to customers and banks (net) | **608** | **11.3** | 1 061 | 22.4 | (453) |
| Investments in associates | **362** | **6.8** | 332 | 7.0 | 30 |
| Fixed assets, intangibles & other assets | **134** | **2.5** | 114 | 2.4 | 20 |
| **Total** | **5 360** | **100** | **4 730** | **100** | **630** |




## A- Cash Balances, Balances with the Central Bank of Egypt & Deposits Due from Banks

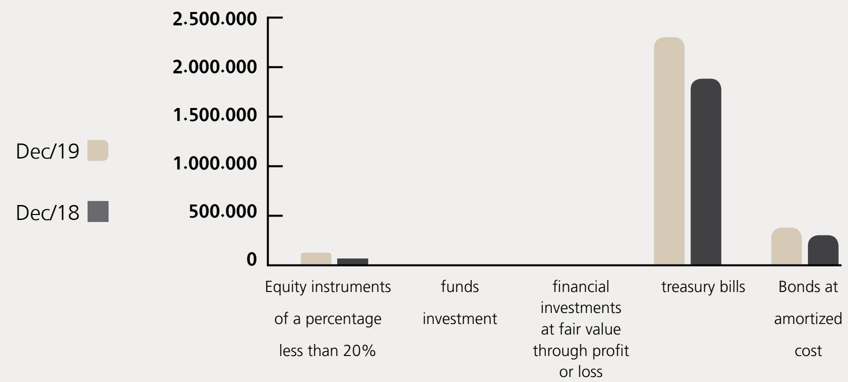
Cash Balances, Balances with the Central Bank of Egypt & Deposits Due From Banks as at December 31, 2019 amounted to US$ 1 632 million corresponding to US$ 1 132 million as at December 31, 2018 with an increase of US$ 500 million at an increase rate of 44.2 % (including an amount equivalent to US$ 212 million increase in balances placed at The Central Bank of Egypt within the mandatory reserve percentage in EGP). The percentage of the said balances as at December 31, 2019 amounted to 43 % of the volume of customers' deposits corresponding to 34 % as at December 31, 2018.

## B- Financial Investments

The balances of financial investments at fair value through other comprehensive income, financial investments at amortized cost, treasury bills and financial investments at fair value through profit or loss as at December 31, 2019 amounted to US$ 2 624 million corresponding to US$ 2 091 million as at December 31, 2018 with an increase of US$ 533 million. The value of such investments represents 49 % of the total assets as at December 31, 2019 corresponding to 44 % as at December 31, 2018. The following represents the components of the said investments as at December 31, 2019/ 2018:

Per Thousand US$

| Description | Percentage of participation | 31-Dec 2019 | 31-Dec 2018 | Change (-)/ + Value |
|---|---|---|---|---|
| **Financial Investments through other comprehensive income** | | | | |
| Equity instruments of a percentage less than 20% | | | | |
| A-Equity instruments recorded at cost | | | | |
| Arab International Company for Hotels and Tourism (AICHT) | 17.60 | 16 400 | 16 400 | |
| Société D'Etudes Et Dev. Tunisia | 10.00 | 1 583 | 1 583 | |
| Arab Financial Services – Bahrain (AFS CO) | 2.30 | 704 | 704 | |
| International Co. for Multi Investments | 10.80 | 1 533 | 1 533 | |
| Arab Trade Financing Program - ATFP | 0.11 | 860 | 860 | |
| Miscellaneous | - | 6 488 | 6 488 | |
| Less: impairment provision | | ( 8 429) | ( 7 497) | ( 932) |
| B-Equity instruments recorded at fair value through other comprehensive income | | | | |
| Arab Banking Corporation - Bahrain (Bank ABC) | - | 356 | 314 | 42 |
| Egyptian Banks Takaful Insurance Co. (for property and liability insurance) | 9.50 | 5 933 | 1 769 | 4 164 |
| The Egyptian Credit Bureau "I-Score" | 3.60 | 2 592 | 288 | 2 304 |
| The Society for Worldwide Interbank Financial Telecommunication (SWIFT) | | 24 | 20 | 4 |
| **Total equity instruments of participation percentage less than 20%** | | **28 044** | **22 461** | **5 583** |
| Mutual funds & investment managers | | 2 203 | 1 722 | 482 |
| **Total financial investments through other comprehensive income** | | **30 247** | **24 183** | **6 065** |
| Treasury bills at amortized cost | | 823 327 | 1 864 526 | (1 041 199) |
| Treasury bills at fair value through other comprehensive income | | 1 533 184 | - | 1 533 184 |
| **Total treasury bills** | | **2 356 511** | **1 864 526** | **491 985** |
| Bonds at amortized cost | | 237 126 | 201 585 | 35 541 |
| **Total bonds at amortized cost** | | **237 126** | **201 585** | **35 541** |
| Financial investments at fair value through profit or loss | | - | 335 | ( 335) |
| **Total financial investments at fair value through profit or loss** | | **-** | **335** | **( 335)** |
| **Total financial investments** | | **2 623 884** | **2 090 629** | **533 255** |




The financial investments through other comprehensive income are valuated at their fair value and the differences of valuations are recorded in equity under the item of revaluation differences of financial investments through other comprehensive income.

## C- Loans to Customers and Banks (Net):

The net loans and advances portfolio after deducting the specified and general impairment provisions that amounted to US$ 608 million as at December 31, 2019 corresponding to US$ 1 061 million as at December 31, 2018 with a decrease amounting to US$ 453 million.

Hereunder are the portfolio components as at December 31, 2019/ 2018:

Per Thousand US$

| Description | 31-Dec-2019 | 31-Dec-2018 | Change (-)/ + Value |
|---|---|---|---|
| Loans granted to financial institutions (subordinated loan) | 60 000 | 100 000 | (40,000) |
| Loans to corporates & firms | 907 332 | 1 192 787 | (285,455) |
| Personal loans | 37 956 | 41 667 | (3,711) |
| **Total portfolio amount** | **1 005 288** | **1 334 454** | **( 329 166)** |
| Less: | | | |
| Suspense interests & commissions | ( 126 263) | ( 101 725) | ( 24 538) |
| Impairment provision | ( 270 353) | ( 171 256) | ( 99 097) |
| Loans to financial institutions provision (subordinated loan) | ( 505) | - | ( 505) |
| **Total provisions, suspense interests & commissions** | **( 397 121)** | **( 272 982)** | **( 124 139)** |
| **Net** | **608 167** | **1 061 472** | **( 453 305)** |

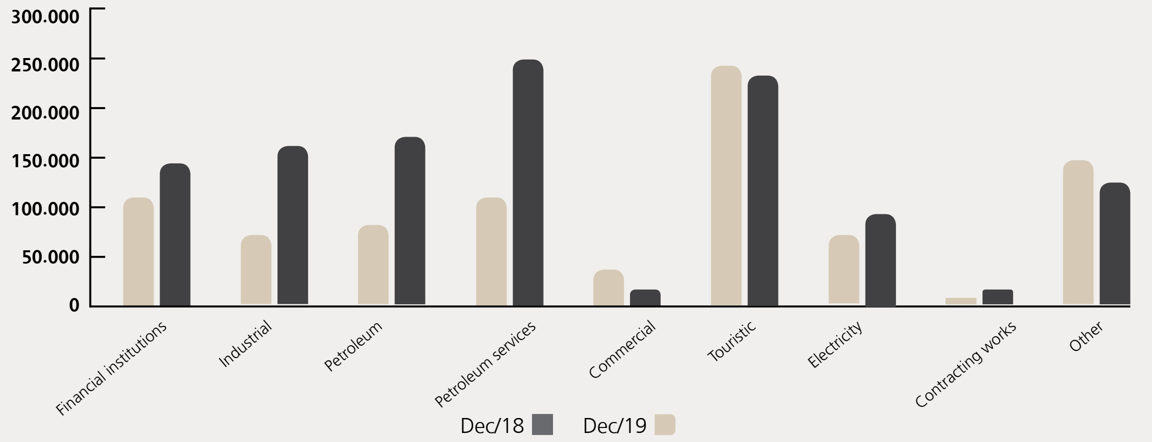
The non-performing loans portfolio (stage 3) after disposing the suspense interests, amounted to US$ 284 million on December 31, 2019, corresponding to US$ 147 million during the previous year. The coverage ratio of loans and advances impairment provisions to the total credit portfolio (excluding the marginalization interests) was 30.81 % on December 31, 2019 corresponding to 13.89 % on December 31, 2018 while the coverage ratio of the defaulting loans impairment provision (stage 3) to the net defaulting loans portfolio was 66 % on December 31, 2019 corresponding to 89.2 % on December 31, 2018.

The total amount of the interest income pertaining to the credit portfolio amounted to US$ 58 million on December 31, 2019 corresponding to US$ 86 million on December 31, 2018 at an average interest rate of 17.1 for the Egyptian pound and 5.9 % for foreign currencies on December 31, 2019 corresponding to 18.4 % for the Egyptian pound and 6.8 % for foreign currencies as at December 31, 2018.

The classification of the loans and advances according to the sectors is as follows (before deducting the impairment provision):

Per Thousand US$

| Sector | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Financial institutions | 102 851 | 149 013 |
| Industrial | 75 223 | 157 025 |
| Petroleum | 78 699 | 167 962 |
| Petroleum services | 113 553 | 250 138 |
| Commercial | 42 162 | 22 196 |
| Touristic | 249 438 | 249 228 |
| Electricity | 70 925 | 93 082 |
| Contracting works | 2 158 | 7 574 |
| Other | 144 015 | 136 510 |
| **Total** | **879 024** | **1 232 728** |




## D- Investments in Subsidiaries & Associates:

The volume of the direct participations in the capital of the subsidiary and associate companies on December 31, 2019 reached the amount of US$ 361.5 million corresponding to US$ 332.3 million on December 31, 2018 with an increase of US$ 29.2 million. The following is an analytical statement of such participations:

Per Thousand US$

| Description | Business Activity | Participation Percentage | 31 December 2019 | 31 December 2018 | Change (-)/+ Amount |
|---|---|---|---|---|---|
| **Investments in Subsidiaries & Associates** | | | | | |
| Participation Percentage 20% and More | | | | | |
| A-Subsidiaries | | | | | |
| Société Arabe Internationale de Banque (SAIB) | Banking | 50 | 79 815 | 79 815 | |
| International Finance Arab Company, Luxembourg (CAFI) | Financial Institutions | 89 | 5 108 | 5 108 | |
| B-Associates | | | | | |
| World Trade Center Company (WTC) | Housing – Administrative | 50 | 48 000 | 60 000 | ( 12 000) |
| Suez Canal Bank | Banking | 42 | 149 538 | 149 538 | |
| *Suez Canal Company for Technology | Educational Institutions | 24 | 72 195 | 30 987 | 41 208 |
| International Company for Tourist Investments (ICTI) | Housing – Hotels | 20 | 6 800 | 6 800 | |
| **Total Investments in Associates (A)** | | | **361 456** | **332 248** | **29 208** |

* The book value of the Bank's participation in Suez Canal Company for Technology during the years 2016 and 2017 was decreased with a total amount of US$ 41.2 million due to the fact of having legal risk pertaining to the ownership of 6th October University that represents one of the most important investments of the company. During that time, the existent risk of losing the investment of the company in the university, made it necessary to form a provision with the above-mentioned amount.

As a result of the success achieved by the Board of Directors of the Suez Canal Company for Technology in regaining the main investment of the company that is represented in 6th October University and the approval of the Ordinary General Assembly of the company during the extraordinary meeting held on 10/1/2019 to the effect of endorsing the agreement contract of terminating the dispute related to the university' ownership that was signed on 6/12/2018 and by virtue of which, the company has all the rights and authorities of the owner with respect to the university.

Accordingly, the impairment value previously mentioned and amounted to US$ 41.2 million was reserved in full into the income statement.

**A reduction in the balance of World Trade Center Company (WTC) that amounted to US$ 12 million as a result of forming a provision exceeding 40 % of the Bank's participation in the issued capital of the company.

## E- Intangible Assets:

The net intangible assets after depreciation amounted to US$ 2 197 thousand as at December 31, 2019, are represented in computer software corresponding to US$ 662 thousand as at December 31, 2018.

## F- Other Assets:

On 31 December 2019, the other assets amounted to US$ 67.2 million corresponding to US$ 62.4 million on December 31, 2018 with an increase of US$ 4.8 million. The said increase is represented in an increase in prepaid expenses with the amount of US$ 0.6 million, an increase in advance payments under the account of fixed assets purchase with the amount of US$ 2.4 million, an increase in prepaid payments under the account of employees share in dividends appropriation with the amount of US$ 0.4 million, an increase in tax under settlement for bonds with the amount of US$ 7 million, an increase in assets that their ownership reverted to the bank in settlement of debts with the amount of US$ 0.8 million and an increase in the Bank's share in profits under settlement of associates with the amount of US$ 1.3 million against a decrease in accrued revenues with the amount of US$ 5.4 million in addition to a decrease in other debit balances with the amount of US$ 2.4 million.

## G- Fixed Assets:

The net value of the fixed assets after depreciation as at December 31, 2019 reached the amount of US$ 65.3 million corresponding to US$ 50.4 million as at December 31, 2018 with an increase that amounted to US$ 14.9 million represented in purchase of land in The New Administrative Capital (NAC) with the amount of US$ 6.6 million and an increase in buildings and improvements with the amount of US$ 10.3 million in addition to an increase in furniture and computers with the amount of US$ 1 million against depreciation with the amount of US$ 3 million.

## H- Contingent Liabilities and Commitments:

The net total amount of contingent liabilities and commitments after deducting the cash collaterals as at December 31, 2019 reached US $ 60.0 million corresponding to US$ 88.7 million as at December 31, 2018, whose statement is as follows:

Per Thousand US$

| Item | 31 December 2019 | 31 December 2018 | Change (-) / + Amount |
|---|---|---|---|
| Documentary Credit & Letters of Guarantee | | | |
| Documentary credit | 3 425 | 22 961 | (19 536) |
| Letters of guarantee | 50 571 | 65 363 | (14 792) |
| **Total (A)** | **53 996** | **88 324** | **( 34 328)** |
| Commitments of loans to corporate | 5 155 | - | 5 155 |
| Money market papers for facilities to suppliers | 849 | 343 | 506 |
| **Total (B)** | **6 004** | **343** | **506** |
| **Total (A +B)** | **60 000** | **88 667** | **( 33 822)** |

The total contingent liabilities provision that represents an obligation on the part of the Bank as at December 31, 2019 amounted to US$ 2.9 million corresponding to US$ 3.1 million as at December 31, 2018. (The net revenues gained from fees and commissions of documentary credit & letters of guarantee as at December 31, 2019 amounted to US$ 2.5 million corresponding to US$ 2.9 million as at December 31, 2018.)

## Second: Income Statement:

The Bank achieved net profits this year that amounted to US$ 61.4 million as at December 31, 2019 corresponding to US$ 39.6 million as at December 31, 2018.The following is a detailed statement of the items of revenues and expenses as at 31 December 2019 & 2018:

Per Thousand US$

| Description | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Operating income | 385 493 | 352 045 |
| Operating expenses | ( 303 255) | ( 251 923) |
| Total operating income | 82 238 | 100 122 |
| Administrative & general expenses | ( 57 381) | ( 50 414) |
| Net profits before provisions | 24 857 | 49 708 |
| Charge / reverse of impairment in associates | 41 209 | - |
| Charge of impairment for credit losses | ( 4 637) | ( 10 089) |
| **Net profit** | **61 429** | **39 619** |

## 1- Revenues:

The Bank achieved total operating income as at December 31, 2019 that amounted to US$ 385 million corresponding to US$ 352 million as at December 31, 2018 according to the following:

Per Thousand US$

| Description | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| Interest income & similar revenues | 383 597 | 99.5 | 340 870 | 96.8 |
| Net income from fees & commissions | 8 715 | 2.3 | 8 700 | 2.5 |
| Dividends | 5 308 | 1.4 | 1 006 | 0.3 |
| Net trading income | 1 285 | 0.3 | 1 246 | 0.4 |
| Financial investments profits (losses) | ( 12 902) | -3.3 | ( 648) | -0.2 |
| Other operating income (expenses) | ( 510) | -0.1 | 871 | 0.2 |
| **Total** | **385 493** | **100** | **352 045** | **100** |

## A- Interest Income from loans & Similar Revenues

The interest income from loans and similar revenues that represent 99.5 % of the total revenues as at December 31, 2019 compared to 96.8 % as at December 31, 2018.The following is a detailed statement of the collected interests as at December 31, 2019/2018:

Per Thousand US$

| Description | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| From cash balances and deposits with banks | 23 926 | 6 | 19 259 | 6 |
| From loans to customers & banks | 58 253 | 15 | 85 796 | 25 |
| From investments portfolio | 301 418 | 79 | 235 815 | 69 |
| **Total** | **383 597** | **100** | **340 870** | **100** |

## B- Net Income from Fees & Commissions

The net income from fees & commissions amounted to US$ 8 715 thousand as at December 31, 2019 corresponding to US$ 8 700 thousand as at December 31, 2018 whose details are as follows:

Per Thousand US$

| Description | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Fees & commissions revenues | 8 823 | 8 799 |
| Fees & commissions expenses | ( 108) | ( 99) |
| **Total** | **8 715** | **8 700** |

## C- Dividends Income

The dividends income amounted to US$ 5 million as at December 31, 2019 compared to US$ 1 million as at December 31, 2018.

The following is a detailed statement of the items of dividends:

Per Thousand US$

| Description | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| Subsidiaries & associates | 4 972 | 94 | 611 | 61 |
| Equity instruments at fair value through other comprehensive income | 336 | 6 | 395 | 39 |
| **Total** | **5 308** | **100** | **1 006** | **100** |

## D- Net Trading Income

The net trading income as at December 31, 2019 amounted to US$ 1 285 thousand compared to US$ 1 246 thousand on December 31, 2018 and the following table presents a detailed description of the net trading income:

Per Thousand US$

| Description | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| Profits from foreign exchange transactions | 1 285 | 100 | 1 235 | 99 |
| Profits from financial investments | - | - | 11 | 1 |
| **Total** | **1 285** | **100** | **1 246** | **100** |

## E- Financial investments profits (losses)

The financial investments losses amounted to US$ 12.9 million as at December 31, 2019 compared to US$ 0.6 million as at December 31, 2018 and the following table presents a detailed description of the financial investments losses:

Per Thousand US$

| Description | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| Losses from financial investments through other comprehensive income | ( 902) | 7 | ( 648) | 100 |
| Impairment of associates * | ( 12 000) | 93 | - | - |
| **Total** | **( 12 902)** | **100** | **( 648)** | **100** |

*A reduction in the balance of World Trade Center Company (WTC) that amounted to US$ 12 million as a result of forming a provision exceeding 40 % of the Bank's participation in the issued capital of the company.

## F- Other Operating Income ( Expenses)

The other operating income ( expenses) amounted to US$ 0.5 million in negative as at December 31, 2019 compared to US$ 0.9 million as at December 31, 2018 and the following table presents a detailed description of the other operating income ( expenses):

Per Thousand US$

| Description | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Gains (losses) from revaluation of assets & liabilities balances other than trading or the originally classified at fair value through profit & loss | 564 | ( 37) |
| Other income | 1 669 | 1 391 |
| Other provisions charge / reverse | ( 1 282) | 508 |
| Other expenses | ( 1 461) | ( 991) |
| **Total** | **( 510)** | **871** |

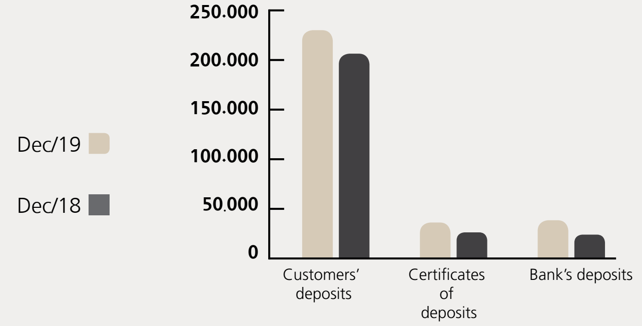
## 2- Expenses:

## A- Interests Expenses:

The interests' expenses as at December 31, 2019 amounted to US$ 303.3 million compared to US$ 251.9 million on December 31, 2018 and the following table presents a detailed description of the paid interests:

Per Thousand US$

| Paid interests | 31-Dec-19 | | 31-Dec-18 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| Customers' deposits | 238 985 | 79 | 207 427 | 82 |
| Certificates of deposits | 31 939 | 10 | 25 137 | 10 |
| Bank's deposits | 32 331 | 11 | 19 359 | 8 |
| **Total** | **303 255** | **100** | **251 923** | **100** |




## B- Administrative and General Expenses:

The administrative and general expenses as at December 31, 2019 reached the amount of US$ 57.4 million corresponding to US$ 50.4 million as at December 31, 2018 with an increase of US$ 7 million at a decrease rate of 13.9 % as follows:

Per Thousand US$

| Description | 31-Dec-19 | | 31-Dec-18 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| Salaries, wages and their equivalents | 44 217 | 77.1 | 39 461 | 78.3 |
| Other administrative expenses | 13 164 | 22.9 | 10 953 | 21.7 |
| **Total** | **57 381** | **100** | **50 414** | **100** |

## C- Credit Loss Impairment Charge

The provision of loans and advances was supported during the year 2019 with an amount of US$ 4.6 million compared to US$ 10.1 million during the year 2018.

03

# Governance



## Governance

The Arab International Bank is committed to apply the corporate governance principles issued by Basel Committee on Banking Supervision in addition to the rules and instructions issued by the Central Bank of Egypt that are applied to the Banks working in Egypt and in the light of the establishment treaty of the Bank and its articles of association.

### Basic Principles of Governance Applied by the Arab International Bank

- Securing shareholders rights and treating them on equal footing basis.
- Respecting and protecting the interests and rights of the other related parties.
- Determining the duties and responsibilities of the Board of Directors and the executive administrative levels.
- Ensuring the importance of the internal and external audit in addition to the audit committees.
- Complying with the disclosure and transparency standards in addition to the proper professional practices.

### The Board of Directors

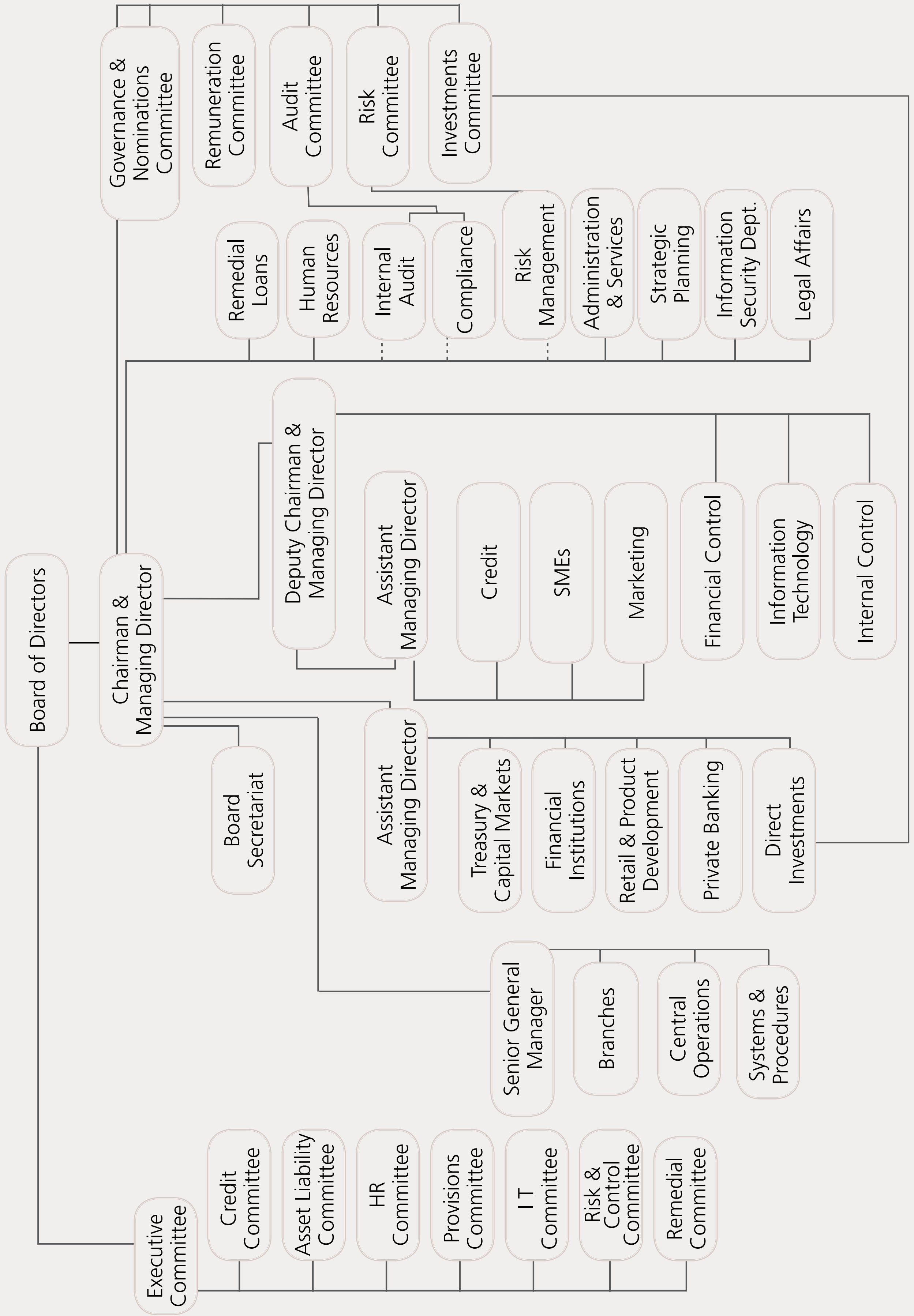
The Board of Directors shall have the most extensive authority to manage the Bank except for the matters that are explicitly stated as authorities and powers that can only be exercised by the General Assembly. The Board of Directors shall convene at the head office of the Bank as a regular league not less than eight times during the year.

### The Board of Directors Main Responsibilities

- Ensuring that the interests of the shareholders, depositors and other related parties of interest are fulfilled.
- Laying out the strategic objectives of the Bank.
- Making sure that the Bank is carefully and properly managed within the framework of laws, regulations and the Bank's approved policies.
- Making sure that the internal control systems are competent and efficient.



## Organizational Structure



# Board Committees

| | |
|---|---|
| **Governance and Nominations Committee:** | |
| Mr. Ali Salem El Hebry | Member of the Board of Directors - committee head |
| Mrs. Mai Aboulnaga | Member of the Board of Directors |
| Mr. Khaled Mohamed Al Khajeh | Member of the Board of Directors |
| **The Remunerations Committee:** | |
| Mr. Ali Mohamed Salem El Hebry | Member of the Board of Directors - committee head |
| Mr. Rami Ahmed Aboulnaga | Member of the Board of Directors |
| Mr. Mohamed Abdelhamid Abomousa | Member of the Board of Directors |
| **Audit Committee:** | |
| Mrs. Mai Aboulnaga | Member of the Board of Directors - committee head |
| Mr. Rami Aboulnaga | Member of the Board of Directors |
| Mr. Khaled Mohamed Al Khajeh | Member of the Board of Directors |
| **The Risk Committee:** | |
| Mr. Mohamed Kamal El-Din Barakat | Deputy-Chairman of the Board of Directors & Managing Director |
| Mr. Mohamed Abdelhamid Abomousa | Member of the Board of Directors - committee head |
| Mr. Ali Salem El Hebry | Member of the Board of Directors |
| Mr. Mohamed Khalfan Al Dhaheri | Member of the Board of Directors |
| Mr. Essam Elddin Salem Allag | Member of the Board of Directors |

| | |
|---|---|
| **Investment Committee:** | |
| Mr. Hisham Ramez Abdel Hafez | Chairman of the Board of Directors & Managing Director - committee head |
| Mr. Mohamed Kamal El-Din Barakat | Deputy-Chairman of the Board of Directors & Managing Director |
| Mr. Mostafa Kamal Madboly | Member of the Board of Directors |
| Mr. Rami Aboulnaga | Member of the Board of Directors |
| Mr. Mohamed Khalfan Al Dhaheri | Member of the Board of Directors |



# Board Committees

| | |
|---|---|
| **The Executive Committee:** | |
| Mr. Hisham Ramez Abdel Hafez | Chairman of the Board of Directors & Managing Director - committee head |
| Mr. Mohamed Kamal El-Din Barakat | Deputy-Chairman of the Board of Directors & Managing Director |
| Mr. Amr Bahaa | Assistant Managing Director |
| Mrs. Sherin Hamed | Assistant Managing Director |
| Mr. Aziz El Gebaly | Senior General Manager |
| Mr. Assem Awwad | General Manager – Risk Management (without voting) |
| Mr. Mohamed El Moseilhy | Deputy - General Manager – Risk Management (without voting) |
| Mr. Mohamed Helmy | Deputy General Manager – Legal Affairs Administration - (As an Observer) |

# Internal Control systems

## First: Risk Management

The Board of Directors of the Bank applies comprehensive governance controls to implement its policies toward the management of risks that the Bank may be exposed there to through the practice of its various activities and lays down an effective vision to manage the banking risks within a framework of an atmosphere attributed by high standards of integrity.

The policies and risk management systems were laid out in order to assure that the nature of risks the Bank is exposed thereto, does not conflict with its strategic vision, while taking into consideration that the evaluation of the bank's activities is based on balancing between the income and the risks related to achieving it, hence the priority of utilizing the resources and investments of the Bank is determined according to the impact of the risks relevant thereto.

The general framework of risk management is based on awareness of all the employees of the importance of implementing all their responsibilities efficiently and reporting any breaches or barriers that hinder the implementation of the bank's policies.

The said framework is based on an organized approach that is comprised of four phases as follows:

1. Risk Identification.
2. Risk Measurement.
3. Risk Monitoring Limitation.
4. Risk Reporting and Control

The financial risks that the Bank may be exposed to are as follows:

- Credit Risks
- Operational Risks
- Market Risks

The aforementioned risks are managed as follows:

### Credit Risk Management:

The credit risks are the most prominent risks that the Bank may be exposed to, as such risks are represented in the lack of ability of one of the parties to fulfill its commitments and liabilities that fall due to the bank, whether to pay a part thereof or the entire due amounts on the date of maturity.

The loans granted to customers, banks, and current account balances, deposits placed at other banks, financial investments and commitments on the part of third parties represent the most significant financial assets that expose to the risks of credit.

In order to secure the funds of the depositors and maintain the strong financial performance of the Bank along with realizing good profitability rates, the Bank management is concerned with providing effective control to be exercised over the credit risks through the sector of risk management that is completely independent from the business activity units and adopting a prudent, vigilant and conservative policy in addition to implementing a series of procedures that leads to mitigating the risks of credit as much as possible.



### Operating Risk Management:

The operating risks are those resulting from the incommodity or failure of any of the operations, internal procedures, systems, employees or a failure due to external risks including the legal risks.

The operating risk management policy has been activated throughout the bank to measure and assess operating risks in a manner that mitigates the operating risks intensity and their impact on the bank's operating quarter results.

The Risk Management Department is working side by side with the other control departments such as, Internal Control Department and Internal Audit Department to accomplish the ideal implementation of all the activities of the bank.

The operating risk department is committed to the standards laid down by "Basel II" Accords and the classification of operating risks that was stated therein and prepares regular reports to be presented to the top management of the Bank in order to determine the extent of exposure to risk and how to encounter it.

### Market Risk Management:

It is the risk of loss resulting from the reverse changes in the market prices and the market risk includes the following:

Interest Rate Risk

Equity Risk

Foreign Exchange Risk

Commodity Risk

### Financial Assets in Foreign Currencies:

The interest rate is determined based on the floating rate and subsequently the risk of foreign currency interest rate fluctuation shall be mitigated as it goes up and down, while taking into consideration hedging the risk of the fixed rates fluctuation through referring to the financial derivatives (IRS Interest Rate Swap). The Bank may also be exposed to the impacts of the fluctuations on the prevailing interest rate level in the market that are represented in the risk of the cash flow of the interest rate, however, the margin of interest may increase as a result of such fluctuations but the profits may decrease in case of having unexpected movements. The Board of Directors of the Bank determines the limits of variation level with respect to re-pricing the interest rate that can be maintained by the Bank and the said procedure is monitored on daily basis by the market risk department of the Bank.

### Liquidity Risk:

It is the possibility that the Bank may be exposed to difficulties in satisfying its commitments that are related to accrued liabilities and the said risk may result in a failure in fulfilling the liabilities related to the payments due to the depositors and the fulfillment of lending commitments. The Treasury Department is responsible for the liquidity management on the short term and providing regular reports on the movement of assets and liabilities in order to determine the requirements of the Bank in regard to liquidity. In addition, the market risk department is competent to monitor the levels of liquidity and implement the approved policy of the liquidity management.

### Foreign Exchange Risk:

It is the possibility that the Bank may be exposed to the risk of foreign exchange rate fluctuations that affects the balance sheet and the cash flow. The Board of Directors has laid out limits for the foreign currencies according to the total value of each position of which. Meanwhile, the said limits are immediately monitored by the market risk department of the Bank.

## Capital Adequacy Ratio:

The Bank has adopted a conservative policy approach with respect to capital adequacy ratio based on the rule stipulated in Basel (II) accord since 2008 while committing to the instructions and interpretations of the Central bank of Egypt, which is considered more conservative with credit risk concentration of the largest 50 customers.

### The capital adequacy ratio policy of the Bank aims at achieving the following:

Making sure of the capability of the bank to compete on the international level through its compliance with the international standards and rules which regulate the banking activities.

Maintaining the strong financial position of the bank and the safety of the funds of its customers through maintaining secured levels of capital that are in proportion with the risks which its assets are exposed to.

### The capital adequacy ratio is calculated according to the following determinants:

### (Tier 1)

The common Equity: Paid in capital, reserves and retained earnings.

The additional going concern: preferred stocks, approved quarterly profits (loss)

### (Tier 2)

Supplementary capital: General loan loss Provision, reserve of change in available for sale investments fair value and long-term subordinated loans (deposits).

### Capital Requirements for Assets Risk

Capital requirements for credit risk and market risk is calculated based on the standardized approach.

Capital requirements for operating risk is calculated based on the basic indicator approach.

The bank maintained a strong ratio of capital adequacy that equals to 17.26 % at the end of December 2019 compared to 15.86% at the end of December 2018 while the minimum requirement of the capital adequacy ratio according to the Central Bank of Egypt including Conservation buffer equals to 12.5 %.

## Second: Compliance

The Bank is considered among the pioneering banks working in Egypt with respect to establishing an independent sector for compliance since 2002 in order to protect the bank from any noncompliance risks. The activity of the Compliance Sector depends on three essential pivots:

- Making sure that the systems, regulations and business mechanisms of the bank are in conformity with the banking standards and policies and with the laws and instructions issued by the supervisory authorities.
- Anti-money laundering.
- Implementing the principles of governance on sound banking grounds.

A developed policy for compliance was endorsed to be compatible with the accords of Basel Committee on Banking Supervision in addition to the recommendations of the International Financial Action Task Force-FATF, by virtue of which the Head of Compliance was determined along with the appointment of Branch Compliance Officers in all branches of the bank.

The said policy reflects the bank compliance in regard to carrying out an efficient role in anti-money laundering of illicit gains and working on drying up the resources of finance for terrorism in addition to achieving the objectives of the bank according to the following:

Participating in crime-fighting in general.

Maintaining the soundness of the bank's operations and transactions in addition to its professional reputation.

Performing the legal compliance aspect toward the headquarters hosting country as well as implementing the rules, the principles in practice and the binding international controls.

The aforementioned policy is implemented through work procedure manual mainly based on the following:

1. Establishing a data base to count the customers who are restricted to deal with and those whose names are listed in the UN, OFAC and the Central Bank of Egypt in addition to reviewing the outgoing and incoming transfers in this regard.
2. Applying the principle of "identify your customer" to know the identity of all your customers and their banking transactions according to the guidelines of the controls of opening and operating the accounts issued by the Central Bank of Egypt in addition to the international controls and principles in practice.
3. Updating the data of the customers on a regular and ongoing basis.
4. Carrying out a continuous control over all the customers' transactions with the bank.
5. Applying the rules of Enhanced Due Diligence to all the accounts and transactions that are attributed by high risks.
6. Organizing regular training courses with respect to anti-money laundering.

## Third: Internal Audit

The Internal Audit Department is keen to provide "Value Added" to the works of the bank through assuring the efficiency and adequacy of the Internal Control Systems and Governance throughout the bank as well as the Risk and Compliance Departments in order to provide a comprehensive vision to the Audit Committee, Top Management and The Board of Directors thereon. The efficiency and adequacy of the procedures adopted by the Bank's departments in addition to the measures taken when carrying out the Bank's activities are assessed within a framework attributed by Independence and Objectivity when auditing process on the activities of the bank is in place. The internal audit is carried out based on the organizational structure of the Bank and the competencies given to the Internal Control Department.

04

# **Financial** Statements

## A- Standalone Financial Statements



## Auditors' Report

### To The Shareholders of Arab International Bank

### Report on the Separate Financial Statements

We have audited the accompanying separate Financial statements of Arab International Bank (the "Bank"), which comprise the separate statement of financial position as at 31 December 2019 and the related separate statements of income, changes in equity', and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

These separate financial statements are the responsibility of Bank's management. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the rules, pertaining to the preparation and presentation of the banks' financial statements and measurement and recognition bases approved by the Board of Directors of Central Bank of Egypt on 16 December 2008 as amended by the regulations issued on 26 February 2019 and in the light of the prevailing Egyptian laws. Management's responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of separate financial statements that are free from material misstatement, whether due to fraud or error: management's responsibility also includes selecting and applying appropriate accounting policies: and making accounting estimates that are reasonable in the circumstances.

### Auditors ' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the separate 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 separate financial statements.

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



**KPMG Hazem Hassan**
**Public Accountants & Consultants**

**BDO Khaled & Co.**
**Public Accountants & Advisers**

### Opinion

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the separate financial position of Arab International Bank as at 31 December 2019. and its separate financial performance and separate cash flows for the year then ended, in accordance with the rules, pertaining to the preparation and presentation of the banks' financial statements and measurement and recognition bases approved by the Board of Directors of Central Bank of Egypt on 16 December 2008 as amended by the regulations issued on 26 February 2019 and in the light of the prevailing Egyptian laws and regulations related to the preparation of these separate financial statements.

### Emphasis of matter

We draw attention to Note (35) to the financial statements, most of the world countries, including Egypt, were exposed during the first quarter of 2020 to the outbreak of the Corona Virus (Covid-19) epidemic, which caused disturbances in most commercial and economic activities in Egypt. So, this is likely to have a significant impact on pre-defined operational and marketing plans and future cash flows associated with it and the associated elements of assets, liabilities and business results in the bank's financial statements during the following periods. And, as indicated in the above-mentioned note, the bank's Management is currently taking several procedures to confront this risk and limit its impact on its financial position and cash flows, but in light of instability and uncertainty as a result of current events, the magnitude of the impact of that event depends mainly on the time range for the continuation of those effects at which the event is expected to end , the effects resulted thereon and the bank's ability to achieve its plans to confront this risk, which is difficult to determine at the current time.

### Report on Legal and Other Regulatory Requirements

The Bank maintains proper financial records, which include all that is required by the law and the Bank's statutes, and the accompanying separate financial statements are in agreement therewith.

The financial information included in the Board of Directors' report is in agreement with the Bank's accounting records, within the limits that such information recorded therein.

Auditors

Ahmed Maher Tahoon
Member of the Egyptian Society of
Accountants & Auditors
Fellow of the Egyptian Tax Society
Accountants and Auditors Register no 16937
A.S.A Register no1634 BDO Khaled & Co.

BDO Khaled & Co.
BDO
Public Accountants & Advisors

Haleem Amin Samy
Financial Regulatory Authority No. 14
KPMG Hazem Hassan
Public Accountants & Consultants

Cairo, 1 June 2020

## Separate Balance Sheet

For The Financial Year Ended 31 December, 2019

(All amounts are presented in thousand US$)

| | Note No. | 31-12-2019 | 31-12-2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash and due from Central Bank | (16) | 372 044 | 154 125 |
| Due from banks | (17) | 1 259 461 | 977 602 |
| Treasury bills | (18),(21) | 2 356 511 | 1 864 526 |
| Loans and facilities to banks | (19) | 59 495 | 100 000 |
| Loans and facilities to customers | (20) | 548 672 | 961 472 |
| | | | |
| **Financial investments** | | | |
| - At fair value through other comprehensive income | (21) | 30 247 | 24 183 |
| - At amortized cost | (21) | 237 126 | 201 585 |
| - At fair value through profits and losses | (21) | - | 335 |
| Investments in associates & subsidiaries | (22) | 361 456 | 332 248 |
| Intangible assets | (23) | 2 197 | 662 |
| Other assets | (24) | 67 166 | 62 429 |
| Fixed assets | (25) | 65 295 | 50 409 |
| **Total assets** | | **5 359 670** | **4 729 576** |
| | | | |
| **Liabilities & Equity Liabilities** | | | |
| Due to Banks | (26) | 687 433 | 495 915 |
| Customers' deposits | (27) | 3 786 645 | 3 317 048 |
| Other liabilities | (28) | 43 199 | 36 067 |
| Other provisions | (29) | 3 935 | 3 910 |
| **Total liabilities** | | **4 521 212** | **3 852 940** |
| | | | |
| **Equity** | | | |
| Paid-up & issued capital | (30) | 600 000 | 600 000 |
| Reserves | (30) | 216 721 | 223 407 |
| Net profit for the year & retained earnings | (30) | 21 737 | 53 229 |
| **Total equity** | | **838 458** | **876 636** |
| **Total liabilities and equity** | | **5 359 670** | **4 729 576** |

The accompanying notes from (1) to (35) are an integral part of these financial statements and to be read therewith.

- Audit report attached

Gamal Zaghloul
CFO

Mohamed Barakat
Deputy Chairman &
Managing Director

Hisham Ramez
Chairman &
Managing Director



## Separate Statement Of Income

For the Financial Year ended 31 December, 2019

(All amounts are presented in thousand US$)

| | Note No. | 31-12-2019 | 31-12-2018 |
|---|---|---|---|
| Interest from loans and similar income | (6) | 383 597 | 340 870 |
| Interest on deposits and similar expenses | (6) | ( 303 255) | ( 251 923) |
| **Net Interest Income** | | **80 342** | **88 947** |
| Fees and commissions income | (7) | 8 823 | 8 799 |
| Fees and commissions expenses | (7) | (108) | (99) |
| **Net Income from Fees and commissions** | | **8 715** | **8 700** |
| **Net Income from revenues, Fees and Commissions** | | **89 057** | **97 647** |
| | | | |
| Dividends income | (8) | 5 308 | 1 006 |
| Net trading income | (9) | 1 285 | 1 246 |
| (Losses) from financial investments | (10) | ( 12 902) | ( 648) |
| Credit impairment (burden) | (13) | ( 4 637) | ( 10 089) |
| Impairment reverse of investments in associates | | 41 209 | - |
| Administrative expenses | (11) | ( 57 381) | ( 50 414) |
| Other operating revenues ( expenses ) | (12) | (510 ) | 871 |
| **Net Profit For The Year** | | **61 429** | **39 619** |
| **Earning per share (US$/Share)** | **(14)** | **2047.63** | **1320.63** |

The accompanying notes from (1) to (35) are an integral part of these financial statements and to be read therewith .

Gamal Zaghloul
CFO

Mohamed Barakat
Deputy Chairman &
Managing Director

Hisham Ramez
Chairman &
Managing Director

## Separate Statement Of Other Comprehensive Income

For The Year Ended December 31, 2019

(All amounts are presented in thousand US$)

| | 31-12-2019 | 31-12-2018 |
|---|---|---|
| **Net profit for the year** | **61 429** | **39 619** |
| **Items that will not be reclassified in the Profit or Loss:** | | |
| Net change in fair value of investments in equity instruments measured at fair value through other comprehensive income | 5 561 | 28 |
| **Items that will be reclassified in the Profit or Loss:** | | |
| Net change in fair value of investments instruments measured at Fair value through other comprehensive income (treasury (bills | 5 534 | - |
| **Total items of other comprehensive income for the year** | **11 095** | **28** |
| **Total other comprehensive income for the year** | **72 524** | **39 647** |

The accompanying notes from (1) to (35) are an integral part of these financial statements and to be read therewith.

## Separate Statement Of Changes In Shareholders' Equity

For the Financial Year Ended December 31, 2019

(All amounts are presented in thousand US$)

| | Paid in Capital | Legal reserve | General reserve | Fair value reserve | (IFRS 9) Risk reserve | General | Retained earnings reserve | Total |
|---|---|---|---|---|---|---|---|---|
| **31 December, 2018** | | | | | | | | |
| Balance as at 1 January, 2018 | 600 000 | 117 134 | 73 582 | 688 | 26 429 | - | 28 919 | 846 752 |
| Transferred to legal reserve | | 5 546 | | | | | - | 5 546 |
| Change in fair value of available for sale investments | - | - | - | 28 | - | - | - | 28 |
| Dividends distributions for 2017 | - | - | - | - | - | - | ( 15 309) | ( 15 309) |
| Net profit of the year | - | - | - | - | - | - | 39 619 | 39 619 |
| **Balance as at 31 December, 2018** | **600 000** | **122 680** | **73 582** | **716** | **26 429** | **-** | **53 229** | **876 636** |
| 31 December, 2018 | | | | | | | | |
| Balance as at 1 January 2019 | 600 000 | 122 680 | 73 582 | 716 | 26 429 | - | 53 229 | 876 636 |
| Transferred to general risk reserve | - | - | - | - | ( 26 429) | 26 429 | - | - |
| Changes resulted from the initial imple-(mentation of (IFRS9 | - | - | - | 4 686 | - | ( 26 429) | ( 78 548) | ( 100 291) |
| **Adjusted balance as at 1 January, 2019** | **600 000** | **122 680** | **73 582** | **5 402** | **-** | **-** | **( 25 319)** | **776 345** |
| Transferred to legal reserve | - | 3 962 | - | - | - | - | - | 3 962 |
| Dividends distributions for 2018 | - | - | - | - | - | - | ( 14 373) | ( 14 373) |
| Net change in other comprehensive in-come items | - | - | - | 11 095 | - | - | | 11 095 |
| Net profit of the year | - | - | - | - | - | - | 61 429 | 61 429 |
| **Balance as at 31 December, 2019** | **600 000** | **126 642** | **73 582** | **16 497** | **-** | **-** | **21 737** | **838 458** |

The accompanying notes from (1) to (35) are an integral part of these financial statements and to be read therewith.

## Separate Statement Of Cash Flows

For the Financial Year Ended December 31, 2019

(All amounts are presented in thousand US$)

| | Note No. | 31-12-2019 | 31-12-2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net Profit for the year | | 61 429 | 39 619 |
| **Adjustments to reconcile net profit to net cash provided from operating activities** | | | |
| Fixed assets depreciation | (11) | 3 149 | 2 129 |
| Software amortization | (11) | 1 484 | 626 |
| Impairment burden for credit losses | (13) | 4 637 | 10 089 |
| Impairment of financial investments through other comprehensive income | | 932 | 701 |
| Revaluation differences of financial investments at fair value through profits and losses | | - | ( 11) |
| Other provisions reverse / burden | (12) | 1 282 | ( 508) |
| Revaluation differences of investments at amortized cost | | ( 16 594) | 2 633 |
| Reverse of impairment of associates | | ( 41 209) | - |
| Amortization of discount and issue premium | | 623 | 316 |
| Exchange differences of other provisions | (29) | ( 48) | ( 6) |
| Written-off Proceeds from debts previously | | 4 | - |
| Profits from financial investments | | 11 970 | - |
| Dividends income | | ( 5 308) | ( 1 006) |
| **Operating profits before changes in assets & liabilities provided from operating activities** | | **22 351** | **54 582** |
| | | | |
| **Net change in assets & liabilities** | | | |
| Due from Banks | | ( 210 310) | 99 008 |
| Treasury bills of more than three months maturity | | ( 596 967) | ( 198 909) |
| Loans and facilities to customers and banks | | 349 071 | 156 909 |
| Other assets | | ( 4 737) | ( 9 152) |
| Due to Banks | | 191 518 | ( 288 522) |
| Customers' deposits | | 469 597 | 204 175 |
| Other liabilities | | 7 131 | ( 4 941) |
| **Net cash flows provided from operating activities (1)** | | **227 654** | **13 150** |
| | | | |
| **Cash flows from Investing Activities** | | | |
| Payments for fixed assets purchasing and branches fitting-out and furnishing | | ( 21 054) | ( 3 638) |
| Proceeds from financial investments at amortized cost (payments) | | ( 19 558) | 103 856 |
| Proceeds from financial investments at fair value through profits and losses | | - | 28 |
| Reduction in associates capital | | - | 6 200 |
| Dividends received | | 1 560 | 1 146 |
| **Net cash flows (used in) provided from investing activities(2)** | | **( 39 052)** | **107 592** |
| | | | |
| **Cash flow from Financing Activities** | | | |
| Dividends paid | | ( 10 410) | ( 9 763) |
| **Net cash flows (used in) investing activities (3)** | | **( 10 410)** | **( 9 763)** |
| | | | |
| **Net Increase (decrease) in cash & cash equivalents during the year (1)+(2)+(3)** | | 178 192 | 110 979 |
| Cash & cash equivalents at the beginning of the year | | 1 043 763 | 932 784 |
| **Cash & cash equivalents at the end of the year** | | **1 221 955** | **1 043 763** |
| | | | |
| **Cash & cash equivalents are represented as:** | | | |
| Cash and due from the Central Bank | (16) | 372 044 | 154 125 |
| Due from Banks | (17) | 1 259 461 | 977 602 |
| Treasury bills | (18) | 2 356 511 | 1 864 526 |
| Due from the Central Bank other than the mandatory reserve percentage | | ( 348 053) | ( 136 265) |
| Due from Banks of more than three months maturity | | ( 61 497) | ( 62 975) |
| Treasury bills of more than three months maturity | | (2 356 511) | (1 753 250) |
| **Cash & cash equivalents at the end of the year** | **(31)** | **1 221 955** | **1 043 763** |

The accompanying notes from (1) to (35) are an integral part of these financial statements and to be read therewith.

## Separate Statement Of Proposed Dividends

For The Year Ended December 31, 2019

(All amounts are presented in thousand US$)

| | Note No. | 31-12-2019 | 31-12-2018 |
|---|---|---|---|
| **Net profit for the year (as per income statement)** | | **61 429** | **39 619** |
| **Add : Retained earnings *** | (30-C) | ( 39 692) | 13 610 |
| **Total** | | **21 737** | **53 229** |
| | | | |
| **To be distributed as follows :** | | | |
| Legal Reserve (10%) | | 6 143 | 3 962 |
| Shareholders' dividends ( primary share doesn't exceed 5% from the nominal value of the share ) | | - | - |
| Board of Directors remunerations | | 345 | 345 |
| Employees' profit share | | 10 389 | 10 065 |
| Retained earnings at the end of the year | | 4 860 | 38 857 |
| **Total** | | **21 737** | **53 229** |

* Adjusted with changes resulted from the initial implementation of IFRS 9

# Notes to The Separate Financial Statements

For The Year Ended 31, December 2019

(All amounts in notes are presented in thousand US$

unless otherwise is stated).

## 1- Background

Arab International Bank was established in 1974 by virtue of an International Treaty. The registered office of ("The Bank") is located at 35 Abdel Khalek Tharwat Street, Cairo, Egypt and the Bank carries out its business activities through its network of branches in the Arab Republic of Egypt that is composed of 20 branches. By virtue of the Treaty, the Bank enjoys certain privileges and immunities in the territories of the Member States (shareholders). The following are examples of the most prominent privileges and immunities based on the Establishment Treaty and the resolution taken by the Bank General Assembly meeting that was held on 22 March 2012 and came into force as of 14 April 2015:

- The laws regulating the exercise of control over the public institutions, public interest entities public sector companies and the joint stock companies of the Members States in which the Arab International Bank or its branches carry out business activities are not applicable to the Bank or its branches.
- Immunity from all forms of nationalization, seizure or sequestration of the shares of shareholders or their deposits with the Bank.
- The Bank's documents, records and files are inviolable and immune from judicial, administrative or accounting control and inspection rules and laws.
- Confidentiality of customers' accounts with the Bank are not subject to judicial or administrative attachment orders prior to final judgment issuance.
- Exemption from charges, stamps or taxes of any kind on its funds, profits, dividends and all its various activities and transactions.
- Exemption from taxation and any obligations for the payment, withholding or collection of any tax, stamp or duty, which may be imposed on its customers.
- In this respect the Bank practices its activities in a manner that is not in conflict with the aforementioned and the rest of the articles included in Establishment Treaty and in this context, the Bank is subjected to the oversight of the Central Bank of Egypt according to the provisions of the applicable law of the Central Bank of Egypt and the law of Banking and Monetary System of the hosting state, in addition, the Bank branches in the other Member States are subjected to the oversight of their own Central Banks in accordance with the provisions of laws governing their Banks and credit facilities .
- All the transactions of the Bank are carried out in all currencies determined by the Board of Directors
- The necessary actions have been taken to activate these amendments starting from 1, April, 2015.

The number of persons employed by the Bank as of December 31, 2019 was 1101 employees and workers, compared with 1032 as at December 31, 2018.

These financial statements were approved by the Board of Directors as at 1/6/2020.

## 2- Summary of Significant Accounting Policies Applied

The following are the significant accounting policies adopted in the preparation of these separate financial statements, these policies have been consistently applied to all the years presented, unless otherwise stated.

### A- Basis of separate financial statements preparation

- These separate financial statements are prepared in accordance with the instructions issued by the Central Bank of Egypt and approved by its Board of Directors on 16 December 2008, in addition to the instructions of preparation and presentation of the financial statements of banks issued on 26 February 2019 by the Central Bank of Egypt in accordance with the requirements of IFRS (9) "Financial Instruments"
- The consolidated financial statements of the Bank and its subsidiaries are prepared in accordance with the instructions issued by the Central Bank of Egypt and approved by its Board of Directors on 16 December 2008 and the amendments thereof issued on 26 February 2019. The subsidiary companies are entirely included in the consolidated financial statements by using the full consolidation method and these companies are the companies that the Bank - directly or indirectly has more than half of the voting rights or has the ability to control the financial and operating policies, regardless of the type of activity. The consolidated financial statements can be obtained from the Bank management. In addition, the investments in subsidiary and associate companies are presented in the separate financial statements of the Bank and their accounting treatment is made at cost less impairment losses.
- The separate financial statements of the Bank should be read with its consolidated financial statements, for the year ended on December 31, 2019 to get complete information on the Bank's financial position, income statement, cash flows and change in shareholders' equity.
- The consolidated financial statements were previously prepared (until 31 December 2018) in accordance with rules issued by the Central Bank of Egypt with respect to the preparation and presentation of the financial statements of banks and bases of recognition and measurement issued by the Central Bank of Egypt on 16 December 2008. As of 1 January 2019, and based on the instructions of preparation and presentation of the financial statements of banks issued on 26 February 2019 by the Central Bank of Egypt with respect to the requirements of IFRS (9) "Financial Instruments", the management of the Bank amended some of the accounting policies to be in agreement with the aforementioned instructions and the following clarification indicates the details of the changes introduced to these accounting policies.

### B- Changes Introduced to the Accounting Policies Applied

As of 1 January 2019, the Bank implemented the instructions of the Central Bank of Egypt issued on 26 February 2019 with respect to the preparation and presentation of the financial statements of banks in accordance with the requirements of IFRS (9) "Financial Instruments". The following is a summary of the main changes introduced to the accounting policies of Bank that resulted from the implementation of the said instructions.

### Classification of Financial Assets and Liabilities

Upon initial recognition the financial assets are classified as: measured at amortized cost or fair value through other comprehensive income or fair value through profit or loss.

The classification of financial assets is to be based on the business model through which the financial asset is managed and its contractual cash flows.

The financial asset is measured at amortized cost when both of the following conditions are met and the asset is not classified as at fair value through profit or loss:

- Assets are retained in a business model that is intended to hold assets in order to collect contractual cash flows, The contractual terms of the financial assets on specific dates result in cash flows which are only payments of the principal amount and interest on the outstanding principal amount.

Debt instruments are measured at fair value through other comprehensive income only when both of the following conditions are met and are not classified as at fair value through profit or loss:

- Assets are retained in the business model, which is intended to achieve both the collection of contractual cash flows and the sale of financial assets and
- The contractual terms of the financial assets on specific dates result in cash flows that are only payments on the principal amount and interest on the outstanding principal amount.

Upon initial recognition of equity investments that are not held for trading, the Bank may irrevocably decide to measure subsequent changes in fair value in other comprehensive income. This choice is made for each investment on case by-case basis. All other financial assets are classified at fair value through profit or loss. In addition, upon initial recognition, the Bank may irrevocably specify a financial asset that satisfy the requirements of measuring it at amortized cost or fair value through other comprehensive income, as an asset measured at fair value through profit or loss, only in case such action shall eliminate or reduce to a large extent the accounting discrepancies that may arise if otherwise is made.

### Assessing the Business Model

The Bank assesses the objective of the business model in which the asset is maintained on the business portfolio level. This approach reflects the best manner of how the business is managed and how the information is presented to management. The following includes the information taken into consideration:

- The documented policies and objectives of the portfolio and the implementation of these policies in practice. In particular, whether the management strategy focuses only on the collection of the contractual cash flows of the asset or maintaining a specific rate of return to meet the maturities of the financial assets to be in agreement with the maturity dates of the liabilities that finance these assets or generate cash flows through the sale of these assets.
- How to assess the portfolio performance and presenting a report to management of the Bank in this regard.
- Risks affecting the performance of the business model and the financial assets held within that model in addition to the manner in which such risks are managed.
- The number of transactions, their volume and timing of sales in prior periods, the reasons for such sale, and expectations regarding future selling activities. However, information on sales activities is not considered separately, but as a part of a comprehensive assessment of how the documented objective of the Bank to manage the financial assets and how to generate cash flows is achieved.
  The financial assets held for trading or their performance is assessed based on the fair value at fair value through profit or loss as they are not only held to collect contractual cash flows or not held to collect contractual cash flows along with selling the financial assets.

**Assessing whether the contractual cash flows are merely payments of the principal amount and interest or not:**

For the purpose of this assessment, the Bank defines the principal amount as the fair value of the financial asset at initial recognition. The return is defined as the time value of money and the credit risk associated with the principal amount outstanding over a specified period of time and other basic lending risk and costs (such as liquidity risk and administrative costs) in addition to the profit margin.

Within the framework of assessing whether the contractual cash flows of an asset are payments that are limited only to the asset of the principal amount and interest, the Bank takes into consideration the contractual terms of the instrument. This includes assessing whether the financial asset includes contractual terms that may change the timing or amount of contractual cash flows, thereby not meeting that requirement.

### Impairment of Financial Assets Value:

According to the instructions of the Central Bank of Egypt issued on 26 February 2019, IFRS (9) shall replace the "recognized loss model" that was issued by virtue of the instructions of the Central Bank of Egypt issued on 16 December 2008, with the "expected loss model".

The new impairment model also applies to all financial assets in addition to some loan commitments and financial guarantee contracts.
Based on IFRS (9), the credit losses are early recognized than before according to the instructions of the Central Bank of Egypt issued on 16 December 2008.
The Bank applies a three-stage approach to measure expected credit losses for financial assets recorded at amortized cost and debt instruments classified as at fair value through other comprehensive income. Assets are transferred through the following three stages based on the changes in the quality of credit ratings since the initial recognition of these assets.

### Stage 1: Expected Credit Losses Over 12 Months

Stage 1 includes the financial assets at initial recognition where there has been no significant increase in credit risk since initial recognition or where the financial assets include relatively low credit risk.
As for these assets, the expected credit losses over 12 months are recognized and the interest is calculated for the total carrying value of assets (without deducting the credit provision). The expected credit losses over 12 months are the expected credit losses resulting from probable default cases within 12 months after the date of the financial statements.

### Stage 2: Lifetime Expected Credit Loss -Without Credit Value Impairment

Stage 2 includes the financial assets where there has been a significant increase in credit risk since initial recognition, but there is no objective evidence with respect to impairment of value. Lifetime expected credit losses are recognized over the lifetime of such assets. Nonetheless, the calculation of the interest based on the total carrying value of the assets shall continue. Lifetime expected credit loss over lifetime is the expected credit loss resulting from all cases of possible failure over the expected lifetime of the financial instrument.

### Stage 3: Lifetime Expected Credit Loss - With Credit Value Impairment

Stage 3 includes the financial assets where there is objective evidence with respect to the impairment of value on the date of the financial statements. As for such assets the expected credit losses are recognized over lifetime of the assets. The interest on the accounts included in this stage are marginalized and the Bank keeps marginalizing as long as the mentioned accounts are still within this stage.

## C- Accounting for investments in subsidiaries and associates

Investments in subsidiaries and associates are presented in the attached separate financial statements using the cost method, which represents the Bank's direct share in ownership and not according to the business results and the net assets of the investees.

### (C-1) Investments in subsidiaries

Subsidiaries are entities (Including Special Purposes Entities / SPEs) which the bank exercises direct or indirect control over its financial and operating policies and usually has an ownership share of more than half of its voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the bank has the control over its investees.

### (C-2) Investments in associates

Associates are companies in which the Bank has, directly or indirectly, significant influence, but it does not reach to the extent of control, and usually the Bank owns from 20% to 50% of the voting rights. Accounting for acquisition of subsidiary companies by the Bank is carried out according to the purchase method. The recognition of acquisition of companies by the Bank is measured at fair value or the value of assets given by the Bank in return for the purchase of companies and / or issued equity instruments and / or any other costs incurred by the Bank and / or any liabilities accepted by the Bank on behalf of the acquired company on the date of the asset exchange in addition to any costs directly attributed to the acquisition process. In business combination where the control transition over the entity is achieved in stages, and business combination is achieved through more than one transaction, then every transaction of such transactions is separately dealt with on the basis of the acquisition consideration and fair value information at the date of each transition until the date where such control is achieved. The net assets including the acquired determinable contingent liabilities are measured at fair value on the date of acquisition regardless of the existence of any minority interest. If the increase in acquisition cost is above the fair value of the Bank's share in net assets, such acquisition cost shall be considered as goodwill and if the acquisition cost is less than the fair value of aforementioned net assets, and the difference is directly recorded in the income statement under the item of other operating revenues (expenses). Accounting for the subsidiaries and associates is recorded in the separate financial statements according to the cost method. According to which, investments is recorded at acquisition cost including any goodwill less any impairment loss in value. The dividends are recorded in the income statement upon the approval of such profits appropriations and the recognition of the Bank's right to collect its share in such dividends.

## D- 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 a segment which provides products or services within an economic environment that is subject to risks and returns different from those of segments operating in other economic environments.

## E- Functional currency, presentation, transactions and balances in foreign currencies

The financial statements of the Bank are presented in US Dollar while transactions are recorded in the books during the year according to the currency in which the transactions were carried out. For the purposes of presenting the financial statements of the Bank in US Dollar, all assets and liabilities of monetary nature and recorded at the end of the reporting period in various currencies (other than the Egyptian Pound) are translated into US Dollar based on the prevailing exchange rates on that date- as for the balances in the Egyptian Pound, they are translated into US Dollar based on the official exchange rates declared by the Central Bank of Egypt.

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 items:

- Net trading income from assets and liabilities classified as held for trading.
- Other operating revenues (expenses) from the remaining items.
- Items of other comprehensive income in equity with respect to investments in equity instruments and fair value through other comprehensive income (FVOCI).

Changes in the fair value of financial instruments of monetary nature that are denominated in foreign currencies and classified as debt instruments at fair value through other comprehensive income (FVOCI) are analyzed into 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 instrument. Differences resulting from changes in the amortized cost are recognized and reported in the income statement under the item of "Interest on loans and similar income" whereas Differences 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 recognized in other comprehensive income items of equity under the item of "fair value of financial investments reserve at fair value through other comprehensive income (FVOCI)".

Valuation differences arising from the measurement of non-monetary items at fair value include gains or losses resulting from changes in foreign currency exchange rates used to translate those items. Total valuation differences of fair value changes arising from the measurement of equity instruments classified as fair value through profit or loss are recognized in the income statement, while total valuation differences of fair value changes arising from the measurement of equity instruments at fair value through other comprehensive income (FVOCI) are recognized among the items of other comprehensive income in equity under the item of "fair value of financial investments reserve at fair value through other comprehensive income (FVOCI)".

## F- Treasury bills

Treasury bills are recorded upon purchase at nominal value. The issuance discount that represents nonaccrual income of the treasury bills is recorded under other liabilities. The treasury bills are presented in the balance sheet less nonaccrual income that is measured at amortized cost using the effective interest rate, while treasury bills held to collect the contractual cash flows and sales are measured at fair value through other comprehensive income (FVOCI).

## G-Financial assets

### (G-/1) Financial policy applied until 31 December 2018

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the nature and purpose of such assets and it is determined by the Management at initial recognition date.

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

- This category includes financial assets held for trading, financial assets classified as at fair value through profit or loss at initial recognition and financial derivatives.

- Financial assets are classified as held for trading if they are acquired or incurred principally for the purpose of selling in the near term or if they represent a part of identified financial instruments portfolio that are managed together and there is evidence resulted from recent actual transaction that profit can be recognized or if it represents financial derivatives identified as undesignated and effective hedging instruments.

### (G /1/2) Loans and receivables

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

- Those that the Bank intends to sell immediately or in the short term are classified in this case among the financial assets held for trading.

- Those that the Bank upon initial recognition designated as financial assets available for sale.

- Those for which the Bank cannot substantially recover all its initial investment, because of reasons other than credit deterioration of the instrument issuer.

### (G/1/3) Held to maturity financial investments:

Held to maturity financial assets are non-derivative assets which carry fixed or determinable payments and where the Bank has the intention and the ability to hold to maturity. The Bank shall not classify any of its financial assets as held to maturity, if it had sold or reclassified a significant amount of its held financial assets during the current year or the last two years, except for the cases of permissible necessity.

### (G/1/4) Available for sale financial investments:

Available-for-sale assets are non-derivative financial assets that the Bank's management has intention to hold for an indefinite period, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

### The following applies to all financial assets:

- Regular-way purchases and sales transactions of financial assets - whether those that are classified as at fair value through profit or loss, held to maturity, available for sale, loans and receivables - are recognized on settlement-date – the date on which the asset is handed over to or by the entity.
- Financial assets are initially recognized – other than those which are classified as at fair value through profit or loss - at fair value plus transaction costs. As for financial assets classified as at fair value through profit and loss, they are recognized at fair value and the transaction costs associated with the acquisition of those assets are charged to the income statement.
- Financial assets are derecognized when the contractual rights to receive cash flows had expired or when the Bank had transferred substantially all the risk and rewards of ownership to another party. Financial liabilities are disposed upon disposal or cancellation or expiration of its contractual term.
- Available-for-sale financial assets and financial assets classified as at fair value through profit or loss are subsequently measured at fair value while loans, receivables and held-to-maturity investments are subsequently measured at amortized cost.
- Gains and losses arising from changes in the fair value of financial assets classified as at fair value through profit or loss are recognized in the income statement in the period it occurs. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity are recognized in the income statement.
- Interest income is recognized based on the amortized cost method in the income statement. The foreign currency revaluations differences related to financial assets of monetary nature and classified as available for sale investments are recognized in the income statement. Dividends from equity instruments classified as investments available for sale are recognized in the income statement when the Bank's right to receive the payment is established.
- Fair value of investments obtained from quoted market price in active market (Bid Prices), where no active market exists, or quoted price are unobtainable, their fair value is determined by the Bank using a variety of valuation techniques – including recent arm's length transactions, discounted cash flow analysis, option pricing models or any other valuation method commonly used by market participants. When the Bank is unable to estimate the fair value of equity instruments classified as available for sale, it is measured at cost less any impairment losses.

### (G/2) Financial policy applied as of 1 January 2019

The Bank classifies its financial assets within the following groups: financial assets measured at amortized cost, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at fair value through profit or loss. In general, the classification is based on the business model according to which the financial assets and their contractual cash flows are managed.

### (G/2/1) Financial assets at amortized cost:

The financial asset is retained in the business model of financial assets held for collecting contractual cash flows.

The purpose of the business model is holding the financial asset to collect contractual cash flows represented in the principal amount of investment and returns.

Sale is an exceptional contingent event with respect to the purpose of this business model according to the conditions stipulated in the Standard and represented in:

- Existence of deterioration in the creditworthiness of the issuer of the financial instrument.
- Lowest sales in terms of turnover and value.
- The Bank makes clear and reliable documentation of the justifications for each sale transaction and the extent of its compliance with the requirements of the Standard.

### (G/2/2) Financial assets at fair value through other comprehensive income (FVOCI):

Business model of financial assets held to collect contractual cash flows and sales.
Both the collection of contractual cash flows and sales are complementary to the objective of the business model.
High sales in terms of turnover and value when compared to the business model retained for the collection of contractual cash flows.

### (G/2/3) Financial assets at fair value through profit or loss:

The financial asset is retained among other business models that include trading, management of financial assets at fair value, maximizing cash flows by selling.
The objective of the business model is not to retain the financial asset for the collection of contractual cash flows or retain cash flows for the collection of contractual cash flows and sales.
Collecting contractual cash flows is a contingent event for the business model objective.

### The characteristics of the business model are represented in the following:

- Structuring a group of activities designed to extract defined outputs.
- A business model that represents a complete framework of defined activity (inputs – activities – outputs).
- The single business model may include sub-business models.

## H- Off setting financial instruments:

Financial assets and liabilities can be offset when, there is a currently enforceable legal right to set-off the recognized amounts and there is an intention to settle on a net basis, or to receipt the asset and settle the liability simultaneously.
Treasury bills, repos and reverse repos agreements are netted, and presented on the balance sheet under the item of treasury bills and other government notes.

## I- Interest income and expense

- Interest income and expense related to the financial instruments are recognized under the item of loans interest income and similar income or deposits interest expense and similar charges using the effective interest method for all the financial instruments charged with interest.
- The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the related instrument.

The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period when appropriate to reach the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, early payment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties of the contract that is considered part of the effective interest rate and the transaction costs shall include any other premiums or discounts.

Loans interest income is recorded based on the accrual basis. The Bank ceases recognition of interest income of the nonperforming or impaired loans or debts (Stage 3) in the income statement and they are carried off balance sheet in statistical records and are recognized under revenues according to cash basis as per the following:

- When collected and after recovery of all arrears for consumer loans, mortgage loans for personal housing, and small loans for economic activities.
- As for the loans granted to institutions, the cash basis of accounting is to be applied also where the interest income that is subsequently calculated according to the terms of the loan scheduling contract, they are recognized when 25% of the loan installments are paid with a regular performing period of at least one year. In case the customer keeps paying the installments on regular performing basis, the calculated interest income of the outstanding loans balance shall be recorded in revenues (interest income from regular scheduling balance) without the suspense interest before scheduling that is not recorded in revenues unless the entire loan balance is paid in full in the balance sheet prior to scheduling.

## J- Fees and commissions income:

Fees and commissions related to loan or facility – measured at amortized cost - are recognized as income when the service is rendered. Fees and commission income related to non-performing or impaired loans or debts (Stage 3) are suspended and carried off balance sheet in statistical records and are recognized under income according to the cash basis when interest income is recognized. As for fees and commissions, which represent a complementary part of the financial asset effective rate they are recognized as adjustment to the effective interest rate.

Commitment fees of loans are deferred when there is probability that these loans will be used by the customer, as commitment fees represent compensation for the continuing interference to acquire the financial instrument. Subsequently, they are recognized as adjustments to the effective interest rate of the loan. If the commitment period passes without issuing the loan by the Bank, commitment fees are recognized as income at the end of the commitment period.

Fees and commissions related to debt instruments measured at fair value are recognized as income at initial recognition. Fees and commission related to marketing of syndicated loan are recognized as income when the marketing is completed, and the loan is fully used or the Bank did not keep any share of the syndicated loan, or kept a share of effective interest rate that is available for the other participants.

Fees and commissions arising from negotiation or participating in a negotiation to the favor of a third party as in share acquisition arrangements, purchase of other financial instruments or purchase or sale of entities are recognized in the income statement when the defined transaction is completed. Fees and commissions related to management advisory and other services are recognized as income, usually on a time-appropriation basis over the financial period of rendering the service. The fees of financial planning and safe custody services provided over a long period of time are recognized over the period in which the service is provided.

## K- Dividend income

Dividends are recognized in the income statement when the Bank's right to receive those dividends is established.



## L- Impairment of financial assets

### (L/1) Financial policy applied until 31 December 2018

The Bank reviews all its financial assets except for the financial assets measured at fair value through profit or loss to estimate the extent of impairment existence in value as indicated below.

### (L/1/1) Financial assets recorded at amortized cost:

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or portfolio of financial assets is impaired.

A financial asset or a portfolio of financial assets is impaired and impairment losses are recognized when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment a 'loss event' and that loss event, had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

The indicators used by the Bank to determine whether there is objective evidence that a financial asset or a portfolio is impaired include the following:

- Significant financial difficulty facing the borrower or obligor.
- Breach of the loan agreement, e.g. default of principal payment or its interests.
- It became probable that the borrower will enter into bankruptcy, action for liquidation or restructuring of finance granted to him.
- Deterioration of competitive position of the borrower.
- Granting privileges or assignments by the Bank to the borrower, due to economic or legal reasons related to pecuniary difficulties, which are not granted by the Bank in the normal course of business.
- Impairment of guarantees value.
- Deterioration of creditworthiness of the borrower.

An objective evidence for impairment loss of a portfolio of financial assets is the existence of clear information indicating a measurable decline in the expected future cash flows of such portfolio since initial recognition though such decline is not identifiable for each separate asset.

The Bank estimates the period of confirming the loss that is represented in the period between identifying the loss event and identifying the loss for each specific portfolio and for implementation purposes, the period of confirming the loss equals integer.

The Bank first assesses whether objective evidence of impairment exists individually for each financial asset that is individually significant, while assessing whether objective evidence of impairment exists collectively or individually for financial assets that are not individually significant and, in this regard, the Bank shall consider the following:

- In case there is no objective evidence that an impairment loss has been incurred on a financial asset considered individually, whether being individually significant or not, hence, the Bank adds that financial asset to a group of financial assets having similar characteristics in terms of credit risk and assesses the whole group for impairment in value based on the historical probable default rates.
- In case there is objective evidence on a financial asset considered individually and the study revealed establishment or increase of impairment loss, the financial asset shall not be included in the group for which the impairment losses are collectively calculated. If the said study revealed the fact of not having impairment loss, then this asset will be included in the group of financial assets.

In case there is objective evidence of impairment in financial assets value recorded at amortized cost whether in a form of loans, advances or financial investments held to maturity, the impairment losses provision is measured based on the difference between the book value of the asset and the current value of future cash flows that are discounted by using the original effective interest rate of the financial asset which represents the rate calculated on the date of initial recognition of the financial asset (the unrealized future credit losses are not taken into consideration). The carrying value of the asset is reduced by using an account for impairment loss provision and the impairment burden is recognized in the income statement.

If there is evidence that a loan or financial investment held to maturity carries variable rate, the discount rate used to measure any impairment losses will be the prevailing effective interest rate as per the contract on the date when the objective evidence proves that an impairment loss has been incurred. For practical purposes, the Bank may measure the impairment loss of the financial asset recorded at amortized cost based on using the fair value of the instrument of the declared market rates.

As for guaranteed financial assets, when calculating the present value for expected future cash flows of the asset, the addition of the cash flows resulting from the implementation on and the sale of guarantees after deducting the expenses related thereto have to be taken into consideration regardless of the implementation on the guarantees is likely to occur or not.

For the purposes of a collective evaluation of impairment, financial assets are grouped based on similar credit risk characteristics which represent indicators of the debtors' ability to pay all amounts that fell due according to the contractual terms for assets representing the subject matter of the study. When assessing the impairment of a group of financial assets based on the historical impairment losses rates, future contractual cash flows of the group shall be assessed based on the contractual cash flows of the assets of the Bank and the historical loss of assets with credit risk characteristics similar to the assets included in that group.

Historical impairment loss amount is adjusted based on the current declared information to reflect the effects of current circumstances that did not affect the period in which the historical impairment loss rates is estimated in addition to removing the effects of the circumstances existent in the historical periods and currently no longer exist.

The Bank ensures that the estimates of changes in future cash flows for a group of financial assets are in consistence with changes in relative reliable data from year to year. The Bank also reviews the methods and assumptions used to estimate the future cash flows on regular basis to ensure the reduction of any differences between the actual losses and the Bank's estimates for such losses.

## (L/1/2) Available for sale investments

On each balance sheet date, the Bank estimates if there is an objective evidence that impairment loss for the value of a financial asset or a group of assets classified as available-for-sale financial investments has occurred. In case of equity instruments classified as available for sale investments, if there is significant or a prolonged decline in the fair value of the instrument below its acquisition cost, such significant or a prolonged decline is taken into consideration when an assessment of the asset's impairment is recognized. The decline in value is considered significant for the equity instruments if it reaches 10% of the book value of the financial instruments' cost, and it is considered prolonged if it extends for a period of more than 9 months. When the aforementioned objective evidences of impairment in the fair value of an available for sale financial asset has been recognized, the accumulated loss resulted from such impairment in fair value of the financial asset shall be excluded from equity and recognized in the income statement even if the financial asset is not derecognized from the accounting books. In case a subsequent increase in fair value of the equity instruments classified as available-for-sale financial investments occurs, the impairment on profit or loss shall not be reversed and the increase of investment value shall be directly recognized in equity. In case a subsequent increase in fair value of debt instruments classified as available-for-sale financial investments and this increase can be objectively related to an event occurring after the recognition of impairment loss in profit or loss, the impairment value shall also be reversed through profit or loss.



## (L/2) Financial policy applied as of 1 January 2019

The Bank reviews all its financial assets except for the financial assets measured at fair value through profit or loss to estimate the extent of impairment existence in value as indicated below.

The financial assets are classified on the date of the financial statements within three stages as follows:

- The first stage: includes the financial assets where there has been no significant increase in credit risk loss since initial recognition date where the expected credit risk is calculated for 12 months.
- The second stage: includes the financial assets where there has been significant increase in credit risk loss since initial recognition or the date of recognizing their functions where the expected credit risk is calculated over the lifetime of the asset.
- The third stage: the financial assets where there has been impairment in their value that requires calculating their expected credit risk over the lifetime of the asset based on the difference between the book value of the instrument and the present value of the expected future cash flows.

The credit loss and the impairment loss in value related to the financial instruments are measured as follows:

- The low risk financial instrument is classified at initial recognition in the first stage and the credit risk shall be continuously monitored by the credit risk department of the Bank.
- If there is no significant increase in credit risk since initial recognition, the financial instrument is to be transferred to the second stage as it shall not be considered as impaired financial instrument yet in this stage.
- In case of indicators of impairment in the value of the financial instrument, it shall be transferred to the third stage.
- The financial assets established or acquired by the Bank and include a higher rate of credit risk than the rates of the Bank for low risk financial assets at initial recognition, shall be directly classified in the second stage. Accordingly, their credit loss shall be measured based on the expected credit risk over the lifetime of the asset.

## (L2/1) Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative factors related to default have been met.

## (L2/2) Quantitative criteria

Quantitative criteria are applied when the probability of default (PD) increases over the remaining lifetime of the instrument starting from the date of the balance sheet, compared to the residual Lifetime PD expected at initial recognition according to the structure of credit risk levels accepted by the Bank.

## (L2/3) Qualitative criteria:

**For banking retail loans, small and micro finance enterprise**

If the borrower encounters one or more of the following events:

- The borrower requests to change short-term payment to long -term payment as a result of negative effects related to the cash flows of the borrower.
- Extending the grace period of payment upon a request provided by the borrower.
- Previous reiterated arrears within the last [12] months.
- Adverse future economic changes which affects the borrower's future cash flows.

**Loans granted to institutions and medium enterprises**

If the borrower is on the watchlist and/or the instrument meets one or more of the following events:

- Significant increase of interest of the financial asset as a result of increase in credit risk
- Significant adverse changes in business activity, financial and/or economic conditions in which the borrower operates
- Request of debt rescheduling as a result of difficulties encountering the borrower.
- Significant adverse change in actual or expected operating results or cash flows of the borrower
- Adverse future economic changes which affects the borrower's future cash flows.
- Early signs of cash flow/liquidity problems such as delay in servicing of creditors/ trade loan
- Cancellation of one of the direct facilities on the part of the Bank due to an increase in credit risk of the borrower

### Payment default

Loans and facilities granted to institutions, medium, small and micro finance enterprises and retail banking are included in the second stage if the default period exceeds (60) days at most and less than (90) days, while taking into consideration that this period (60 days) shall be reduced at a rate of (10) days per annum to become (30) days during (3) years from the date of implementation.

### Upgrade and transfer between the three categories – (stage 1, 2 and 3)

### Upgrade and transfer from the second stage to the first stage:

The financial asset shall not be transferred from the second stage to the first stage unless all elements of quantitative and qualitative criteria of the first stage have been met and the entire arrears of the financial asset and interests are paid in addition to the lapse of three months of regular payment and satisfying the conditions of the first stage.

### Upgrade and transfer from the third stage to the second stage:

The financial asset shall not be transferred from the third stage to the second stage unless all following conditions are met:

- All quantitative and qualitative elements of the second stage are met.
- Paying 25% of the financial asset due balances including due suspense interests.
- Regular payment for a period of at least 12 months.

## M- Investment Property

Investment property is represented in lands and buildings owned by the Bank for obtaining rental income or capital increase and subsequently it does not include the real estate assets in which the Bank practices its business activity or the assets ownership reverted to the Bank in settlement of debts. The initial recognition of the investment property is carried out at cost and includes the transaction cost. The accounting of the investment property is implemented in the same manner applied to the accounting of the fixed assets.

## N- Intangible assets (computers software)

The expenses related to the development or maintenance of computers are recognized as an expense charged to income statement when incurred and it is recognized as an intangible asset with respect to the expenses directly related to specific software under the control of the Bank when it is expected to generate economic benefits thereof that exceeds its cost for more than one year.

The direct expenses include the cost of employees working in the software development team in addition to a reasonable share of the general expenses relevant thereto.

The expenses that lead to the increase or expansion in the performance of the computers software when compared with the original specifications thereof is recognized as development cost and it is added to the original software cost.

The computers software cost recognized as an asset is amortized over the years expected to benefit from them provided that they shall not exceed three years.

## O- Fixed assets

They represent land and buildings related to head office, branches and offices. All fixed assets are reported at historical cost less depreciation and impairment losses. The historical cost includes all costs directly related to the acquisition of fixed assets items.

Subsequent costs are recognized as a separate asset, only when it is probable that future economic benefits associated with the asset will flow to the Bank and the cost of the asset can be reliably measured. Maintenance and repair expenses 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 cost until it reaches the residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 50 years |
| Furniture | 10 years |
| Computers | 5 years |
| Fixtures and fittings | 10 years |
| Tools & equipment | 10 years |
| Means of transport | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is reduced immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The redeemable value is represented in the net selling value of the asset or the use value of the asset whichever higher. Gains or losses on disposals are determined by comparing net proceeds with asset carrying amount. These gains and losses are included in other operating income (expenses) in the income statement.

## P- Other assets

- This item includes the other assets that are not classified as defined assets in the balance sheet where accrued revenues, prepaid expenses, advance payments under the account of fixed assets purchase, deferred balance of the first day losses that is not amortized yet, current assets and noncurrent assets that their ownership reverted to the bank in settlement of debts (after deduction of the impairment loss provision), deposits and imprests, gold bullions, commemorative coins, debit suspense accounts and balances that are not classified under any defined asset.
- Most of the elements of other assets are measured at cost. If there is an objective evidence for impairment loss in the value of the said assets, then the loss is separately measured for each asset based on the difference between its carrying amount and its net selling value or the present value of the estimated expected future cash flows discounted at the current market rate of similar financial assets, which ever higher.

The book value of the asset is directly reduced, and the loss is recognized in the income statement under the item of other operating revenues (expenses). If the impairment loss is reduced in any subsequent period and such reduction can be objectively related to an event that occurred after the recognition of the impairment loss, then the impairment loss previously recognized is reversed to the income statement provided that such cancellation does not establish an asset book value, on the date of reversing the impairment loss, that exceeds the value of the asset which may be reached if the recognition of such impairment loss has not been recognized.

**With reference to the asset's ownership reverted to the bank in settlement of debts, the following has to be taken into consideration:**

- In accordance with the provisions of Article No. (60) of the Central Bank Law and the law of Banking and Monetary System issued by virtue of law No. 88 of the year 2003, it is prohibited for banks to deal in movables or real estate whether by purchasing, selling or exchange, except for the real estate allocated for running the business of the Bank, used for entertainment purposes of the employees of the Bank, movables or real estate reverted to the bank in settlement of debts due from third parties when the recognition thereof started from the date of conveyance of ownership (the date of debt reduction) and such real state is included in assets reverted to the bank in settlement of debts, provided that the Bank shall dispose thereof according to the following:
- Within one year from the date of conveyance of ownership with respect to movables.
- Within five years from the date of conveyance of ownership with respect to real estate.
- The Board of Directors of the Central Bank of Egypt may approve the extension of the period whenever the circumstances deem necessary, in addition, the Board of Directors of the Central Bank of Egypt has the right to exempt some banks from such restriction based on the banks' nature of activity.
- The assets reverted to the bank in settlement of debts are recorded at the value in which the said assets reverted to the Bank and represented in the value of debts which the Bank's management decided to assign in return for such assets. If there is an objective evidence for impairment loss in the value of the said assets in the subsequent date of conveyance of ownership, then the loss is separately measured for each asset based on the difference between its carrying amount and its net selling value or the present value of the estimated expected future cash flows discounted at the current market rate of similar financial assets, whichever higher. The book value of the asset is reduced through the impairment account and the loss value is recognized in the income statement under the item of other operating revenues (expenses) If the impairment loss is reduced in any subsequent period and such reduction can be objectively related to an event that occurred after the recognition of the impairment loss, then the impairment loss previously recognized is reversed to the income statement provided that such cancellation does not establish an asset book value, on the date of reversing the impairment loss, that exceeds the value of the asset which may be reached if the recognition of such impairment loss has not been recognized.
- In the light of the nature of the movables or real estate which their ownership reverted to the Bank pursuant to the provisions of the aforementioned article, the movables or real estate are classified in accordance with the plan of the Bank, the nature of expected benefits thereof among the fixed assets, investment property, shares, bonds or other assets available for sale, as the case may be. Accordingly, the bases relevant to the measurement of fixed assets, investment property, shares or bonds are applied to the assets reverted to the Bank in settlement of debts and classified under any item of these items. As for the other assets, that are not included in any of these classifications and considered as other assets available for sale, they are measured at cost or fair value defined by the accredited experts of the Bank - less the selling costs – whichever is lower. The differences resulting from the valuation of these assets are recognized in the income statement under the item of other operating revenues (expenses) provided that such assets are to be disposed of within the period prescribed by virtue of law.
- If the said assets are not disposed of, within the period prescribed by virtue of law in accordance with the provisions of Article No. (60) of Law No. 88 of 2003, the banking risk reserve is to be supported by the equivalent of 10% of the value of the said assets on annual basis. The net revenues and expenses of assets reverted to the bank in settlement of debts during the period of their acquisition by the Bank are recorded in the income statement under the item of other operating revenues (expenses).

## Q- The impairment of non-financial assets

The financial assets that have no specific useful life are not depreciated – except for the goodwill – and their impairment is examined on annual basis. The impairment of assets that had been depreciated are to be considered whenever there are events or changes in the circumstances indicating that the book value may not be redeemable. The impairment loss is to be recognized and the asset value shall be reduced with the amount by which the book value of the asset has been increased above the redeemable value. The redeemable value is represented in the net selling value of the asset or the use value of the asset whichever higher. For assessing the impairment, the asset is to be attached to the smallest possible cash-generating unit. The nonfinancial assets that have impairment are to be reviewed to examine whether there is reverse of impairment to the income statement or not on the date of preparing every financial statement.

## R- Lease Contracts

All lease contracts concluded with the Bank are operating lease contracts.

### R/1- Lessee

The payments settled under the account of operating lease less any discounts obtained from the lessor under the item of expenses are recognized in the income statement based on the straight-line method over the term of contract.

### R/2- Lessor

The assets leased out on operating lease basis that are included in the fixed assets in the balance sheet and depreciated over the expected useful life of the asset using the same manner applied to the similar assets.

The rent income is recorded less any discounts granted to the lessee based on the straight-line method over the term of contract.

## S- Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents include balances due within three months from date of acquisition. Cash and cash equivalents include balances due from the Central Banks other than the mandatory reserve, balances with banks, treasury bills and other government notes.

## T- Other provisions

Provisions for restructuring costs and legal claims are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of the Bank resources will be required to settle these obligations and their amount can be reliably estimated.
Where there is a number of similar obligations, the likelihood that an outflow is required to settle an obligation is determined taking into consideration the group of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any obligation in this group is minimal.
Provisions no longer required totally or partially are reversed in other operating income (expense).
Provisions are measured at the present value of the expected required expenditures to settle obligations after one year from balance sheet date using the appropriate rate in accordance with the terms of settlement which reflects the time value of money. If the settlement term is less than one year, the estimated value of the obligation is to be calculated unless it has a significant effect, then it shall be calculated using the present value.

## U- Employees' Benefits:

### - Employees Share in Profits:

The Bank pays a percentage of cash profits expected to be distributed as the employees share in profits and recognizes that share as part of the dividends appropriation in equity and as liabilities when approved by the shareholders general assembly of the Bank and no liabilities shall be recorded in the undistributed employees share in profits.

- **Employees' Pension Fund & End of Service Compensations**

The Bank adopted special benefits plan until 17/4/2008. The Bank's contributory defined pension plan covers the permanent employees' pensions and other end of service benefits. The Bank's contribution to this fund is computed at a certain percentage of the employees' annual salaries, in addition to amounts required to the fund as decided by the Actuary to continue providing its services and maintain the minimum return on its invested funds. As for the employees appointed in the Bank after 17/4/2008, the Bank adopted special benefit plan with respect to the end of service compensation only without pensions and the Bank participates in such compensations by a percentage of the employees' wages who are working under the umbrella of this benefit plan on annual basis.

## V- Dividends

Dividends are recognized and deducted from equity in the period when approval thereof is declared by the Shareholders General Assembly. Those dividends include employees' share in the profits and the Board of Directors' remuneration as prescribed by the articles of association of the Bank.

## W- Comparative figures

The comparative figures shall be re-classified, whenever necessary, to be in conformity with the changes in the presentation used in the current year.
In January 2019 and in accordance with the instructions of the Central Bank of Egypt, the Bank did not relist the comparative figures and recognized the impact of implementation on retained earnings on the date of implementation.

# 3- Financial Risk Management

The Bank, as a result of the activities it exercises, is exposed to various financial risks; acceptance of risks is a basis in the financial activities. Some risks or group of risks are analyzed, assessed and managed together. The Bank objective is to balance between the risk and return and to reduce the possible negative effects on the Bank's financial performance.
The most important types of risks are credit risk, market risk, liquidity risk and other operating risks. The market risk comprises foreign currency exchange rates, interest rate risk and other pricing risks.
The risk management policies have been set to determine and analyze the risks, set limits to the risk and control them through reliable methods and updated information systems. The Bank regularly reviews the risk management policies and systems and amends them to reflect the changes in markets, products and services and the best updated applications.
Risks are managed by the Risk Management Department in the light of the policies approved by the Board of Directors. Risk Management Department identify, assess, and cover financial risks in close cooperation with other operating units in the Bank. Within framework of the principles of governance and the sound Banking practices related to Banking risks management, the board of directors provides an integrated supervisory structure of higher committees originated therefrom. The Risk Management Department is in charge of the regular review of risk management and the control environment in an independent manner.

## A- Credit risk

The Bank is exposed to credit risk, which is the risk resulting from failure of one party to meet its obligations. Credit risk is considered the most significant risk for the Bank; therefore, the management is conservative and prudent in managing this risk exposure. Credit risks results mainly from lending activities that result in loans and facilities and from investment activities which results in including such debt instruments in the Bank's assets. Credit risk is also included in off balance sheet financial instruments, such as loan commitments. Managing and monitoring process of credit risk is represented in credit risk management team of the Risk Management Department that provide reports presented to the Board of Directors, Top Management and Heads of operating units on regular basis.

### (A-1) Credit risk measurement

- Loans and facilities to Banks and customers.

To measure credit risk on the loans and facilities to Banks and customers, the Bank considers the following three components:

- Probability of default by the client or third parties to fulfill its contractual obligations.
- The current position and its probable future development from which the Bank conclude the balance exposed to risk. (Exposure at default)
- Loss given default

The daily management of the Bank's activities involves measures of credit risk based on the Expected Loss Model required by the Basel Committee on Banking Supervision. Those operational measures could be inconsistent with the impairment loss burden according to EAS 26, which adopts the realized losses model and not the expected losses (Note A / 3) on the date of the financial statements.

- The Bank assesses the default risk for each customer using internal evaluation methods to determine the rating for the different customers' categories. These methods were internally improved taking into consideration statistical analysis and the professional judgment of the credit officers to reach the appropriate rating. The customers are classified into four ratings. Rating scale (shown in the following table) reflects the possibility of defaults for each rating category, in which the credit positions may transfer from one rating to another depending on the change in the degree of possible risk. The customer's rating and the rating process are reviewed and improved when necessary.

The Bank periodically evaluates the performance of the credit rating methods and their ability in expecting the customers' defaults.

Bank's internal ratings scale

| Rating description | Rating |
|---|---|
| Performing loans | 1 |
| Regular watching | 2 |
| Watch list | 3 |
| Non-performing loans | 4 |

The Position exposed to default depends on the outstanding balances expected at the time when a default occurs, for example, for the loans , the position is the nominal value, for commitments, the Bank includes all actual withdrawals in addition to any other expected withdrawals till the date of the late payment if any.
The expected loss or specific loss represent the Bank's expectation of loss as of the date when the settlement is due, which is loan loss percentage that certainly differs according to the type of debtor, priority of claim, the availability of guarantees and any other means of credit cover.

### Debt instruments, treasury bills and other bills

For debt instruments and bills, the Bank is using the external classifications such as Standard & Poor's or equivalent institutions to manage credit risk, in case such ratings are not available, methods similar to those applied to credit customers are used. Investments in securities and treasury bills are regarded as a way to get better credit quality at the same time provides a source available to meet finance requirements.

### (A-2) Limiting and avoiding risks policies

The Bank manages limits and controls credit risk concentrations on the levels of borrowers, groups, industries and countries.
The Bank manages the credit risk it undertakes by placing limits on the amount of risk accepted in relation to every single borrower, or groups of borrowers, and on the levels of economic activities and geographic segments. Such risks are monitored on regular basis and subjected to annual or more frequent reviews, whenever necessary. The Board of Directors reviews on quarterly basis the levels of credit risk on the levels of the borrower, group of borrowers, product and industry segments and country credit concentration.
The lines of credit are divided for any borrower including Banks, into sub limits based on amounts in and off-balance sheet, the daily limit risk on trading items such as forward foreign exchange contracts where the actual amounts are compared with the limit every day.

Exposure to credit risk is also managed through regular analysis of the existing and potential borrowers' ability to meet their obligations and through changing the lending limits where appropriate.

**The following are other controls used by the Bank to limit the credit risk.**

## Collaterals

The Bank use different methods to limit its credit risk. One of these methods is accepting collaterals against loans and facilities granted by the Bank. The Bank implements guidelines for collaterals to be accepted. The major types of collateral against loans and facilities are:

- Real estate mortgage
- Business assets mortgage such as machines and goods.
- Financial instruments mortgage such as debt and equity instruments.

The long-term finance and loans to corporate entities are generally guaranteed while individual credit facilities are unsecured. In addition, to minimize the credit loss to the least limit, the Bank will seek additional collaterals from all the concerned parties as soon as impairment indicators are noticed for a loan or facility.

The Bank determines the type of collaterals held by the Bank as security for financial assets other than loans and facilities according to the nature of the instrument, generally, debt securities and treasury bills are unsecured, except for Asset-Backed Securities and similar instruments secured by a financial instrument portfolio.

## Credit-related commitments

The primary purpose of these commitments is to ensure that funds are available to customer when required. Guarantees and standby letters of credit are of the same credit risks as loans, documentary and commercial letters of credit – which are issued by the Bank on behalf of the customer by which authorizing a third party to draw within a certain limit in accordance to specific terms and conditions and guaranteed by the goods under shipment are of lower risk than a direct loan. Credit related commitments represent the unused portion of credit limit of loans, guarantees or letters of credit. With respect to credit risk related to credit commitments, the Bank is exposed to probable loss of amount equal to the total unused limit. However, the probable amount of loss is less than the unused limit commitments, as most commitments represent commitments to customers maintaining certain credit standards. The Bank monitors the maturity term of the credit commitments because long-term commitments are usually of high credit risk than short-term commitments.

## (A-3) Impairment and provisioning policies

The policies of the Bank requires determining three stages to classify the financial assets measured at amortized cost, loan commitments, financial guarantees and debt instruments at fair value through other comprehensive income based on the changes of credit quality since the initial recognition and measurement of impairment loss (expected credit loss) in value related to these instruments as follows:

The financial asset that is not impaired at initial recognition is classified in the first stage and the credit risk shall be continuously monitored by the Credit Risk Department of the Bank.
In case there is a significant increase in credit risk since initial recognition, the financial asset is to be transferred to the second stage and it shall not be considered as impaired financial asset in this stage (the expected credit loss over lifetime under lack of impairment in credit value).

In case of indicators of impairment in the value of the financial asset, it shall be transferred to the third stage. The indicators used by the Bank to determine whether there are objective evidences indicating the following:

- Significant increase of interest of the financial asset as a result of increase in credit risk
- Significant adverse changes in business activity, financial and/or economic conditions in which the borrower operates
- Request of debt rescheduling as a result of difficulties encountering the borrower.
- Significant adverse change in actual or expected operating results or cash flows of the borrower
- Adverse future economic changes which affects the borrower's future cash flows.
- Early signs of cash flow/liquidity problems such as delay in servicing of creditors/ trade loan.
- Cancellation of one of the direct facilities on the part of the Bank due to an increase in credit risk of the borrower.

The impairment loss provision appeared in the balance sheet at the end of the year is derived from the four internal rating grades. However, most of the impairment provision comes from the last two ratings of classification. The table below shows the relative distribution percentage of in-balance sheet items relating to loans, facilities and the related impairment for each category of the internal rating of the Bank:

| Ratings of The Bank | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Loans &Facilities | Impairment provision | Loans & facilities | Impairment Provision |
| | % | % | % | % |
| Performing loans | 3,53 | 0,22 | 7,21 | 0,87 |
| Regular watching | 34,50 | 14,17 | 45,84 | 16,26 |
| Watch list | 29,22 | 22,19 | 32,33 | 6,05 |
| Non-performing loans | 32,75 | 63,42 | 14,62 | 76,82 |
| **Total** | **100** | **100** | **100** | **100** |

The internal evaluation instruments help the management to determine whether there are objective evidences of impairment according to the Egyptian Accounting Standard No. 26 and based on the following indicators specified by the Bank:

- Severe financial insolvency encountered by the borrower or the debtor.
- Violation of loan agreement such as default of payment.
- Expecting the Bankruptcy of the borrower, entering into liquidation case or restructuring the finance granted to him.
- Deterioration in the competitive status of the borrower.
- Granting concessions or privileges to the borrower due to economic, legal or financial insolvency encountered by the borrower which may not be given by the Bank in normal circumstances.
- Impairment of guarantee value.
- Deterioration of the creditworthiness.

The policies adopted by the Bank require reviewing all the financial assets exceeding specific relative significance at least once a year or more when the circumstances necessitate to do so.

The impairment charge shall be determined on the accounts that are evaluated on case by case basis through the evaluation of the loss realized on the date of the balance sheet. Such policies are expected to be implemented on all accounts attributed by relative significance on case by case basis. The evaluation usually includes the outstanding guarantee that embraces the reassurance of the implementation on the guarantee and expected collections from the said accounts. The impairment losses provision is formed based on a group of assets of similar kind using the historical empirical experience available, personal judgment and statistical methods.

## (A-4) Banking general risk measurement module

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 requirements. Assets exposed to credit risk in these categories are classified according to detailed conditions and terms depending heavily on information related to the customer, his activities, financial position and commitment to the payment schedules.

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 of having required increment in impairment losses provision according to the rules of the Central Bank of Egypt that exceeds the amount required by using the expected credit loss, the General Banking Risk Reserve shall be set aside in equity and deducted from the retained earnings with an amount equivalent to such increment. The said reserve shall be amended on regular basis as an increase or decrease in a manner that is always equivalent to the amount of increase when comparing the two provisions. The said reserve shall not be distributable.

The following are the categories of credit ratings for the institutions in accordance with the four internal rating grades compared to the bases of the CBE assessment and provisions percentage required for the impairment of assets exposed to credit risk:

| CBE Ratings | Rating indications | Provision percentage required % | Internal Ratings | Internal Ratings Granting |
|---|---|---|---|---|
| 1 | Low risk | Zero | 1 | Performing loans |
| 2 | Moderate risk | 1 | 1 | Performing loans |
| 3 | Satisfactory risk | 1 | 1 | Performing loans |
| 4 | Appropriate risk | 2 | 1 | Performing loans |
| 5 | Acceptable risk | 2 | 1 | Performing loans |
| 6 | Marginally Acceptable risk | 3 | 2 | Regular watching |
| 7 | Watch list | 5 | 3 | Watch list |
| 8 | Substandard | 20 | 4 | Non-performing loans |
| 9 | Doubtful | 50 | 4 | Non-performing loans |
| 10 | Bad debt | 100 | 4 | Non-performing loans |



## (A-5) Maximum limits for credit risk before collaterals

| Balance sheet items exposed to credit risks | 31/12/2019 | 31/12/2018 |
|---|---|---|
| - Treasury bills and other government notes | 2 593 637 | 2 066 111 |
| - Due from Banks | 1 259 461 | 977 602 |
| - Loans to Banks | 59 495 | 100 000 |
| **Loans and facilities to customers:** | | |
| **Retail loans:** | | |
| - Debit current accounts | 79 | 53 |
| - Credit cards | 1 797 | 722 |
| - Personal loans | 36 057 | 40 229 |
| **Corporate loans:** | | |
| - Debit current accounts | 1 673 | 903 |
| - Syndicated loans | 157 748 | 261 484 |
| - Direct loans | 351 318 | 658 081 |
| - Other assets | 15 949 | 21 298 |
| **Total** | **4 477 214** | **4 126 483** |
| **Off-balance sheet items exposed to credit risk** | | |
| - Letters of credit | 3 425 | 23 304 |
| - Letters of guarantee | 50 571 | 65 363 |
| - Companies loans commitments | 5 155 | - |
| **Total** | **59 151** | **88 667** |

- The above table represents the Bank maximum exposure to credit risk on December 31, 2019 – December 31, 2018 before taking into consideration any held collaterals. For assets recognized in the balance sheet, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

  As shown above 13.52 % of the total maximum exposure is derived from loans and advances to Banks and customers as at December 31, 2019, compared to 25.66% as at December 31, 2018.

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

- On December 31, 2019, 42.27% of the loans and advances portfolio to Banks and customers are concentrated in the top two grades of the internal credit risk rating system compared to 56.86% on December 31, 2018.
- On December 31, 2019, 61.34 of loans and advances portfolio to Banks and customers are neither past due nor impaired compared to 86.57% on December 31, 2018.
- Loans and advances assessed individually amounted to US$ 330 556 thousand on December 31, 2019 compared to US$ 165 585 thousand on December 31, 2018.
- The Bank has implemented more prudent processes when granting loans and advances during the financial year ended on December 31, 2019.
- On December 31, 2019 and on December 31, 2018, 100% of the investments in debt instruments and treasury bills represent debt instruments of the part of the Egyptian Government.

The following table indicates information about the financial asset's quality during the financial period:

| Due to banks | First stage 12 months | Second stage Over lifetime | Third stage Over lifetime | Total |
|---|---|---|---|---|
| **Credit rating** | | | | |
| Performing loans | 1 259 983 | - | - | 1 259 983 |
| Regular watching | - | - | - | - |
| Watch list | - | - | - | - |
| Non-performing loans | - | - | - | - |
| | 1 259 983 | - | - | 1 259 983 |
| Less impairment loss provision | (522) | - | - | (522) |
| **Book value** | **1 259 461** | **-** | **-** | **1 259 461** |
| **Treasury bills** | **First stage 12 months** | **Second stage Over lifetime** | **Third stage Over lifetime** | **Total** |
| **Credit rating** | | | | |
| Performing loans | 824 999 | - | - | 824 999 |
| Regular watching | - | - | - | - |
| Watch list | - | - | - | - |
| Non-performing loans | - | - | - | - |
| | 824 999 | - | - | 824 999 |
| Less impairment loss provision | (1 672) | - | - | (1 672) |
| **Book value** | **823 327** | **-** | **-** | **823 327** |
| **Loans and credit facilities to individuals** | **First stage 12 months** | **Second stage Over lifetime** | **Third stage Over lifetime** | **Total** |
| **Credit rating** | | | | |
| Performing loans | 14 062 | - | - | 14 062 |
| Regular watching | 23 412 | - | 145 | 23 557 |
| Watch list | - | - | - | - |
| Non-performing loans | - | - | 337 | 337 |
| | 37 474 | - | 482 | 37 956 |
| Less impairment loss provision | (1) | - | (22) | (23) |
| **Book value** | **37 473** | **-** | **460** | **37 933** |
| **Loans & credit facilities to corporate** | **First stage 12 months** | **Second stage Over lifetime** | **Third stage Over lifetime** | **Total** |
| **Credit rating** | | | | |
| Performing loans | 14 629 | 250 | - | 14 879 |
| Regular watching | 90 893 | 168 137 | - | 259 030 |
| Watch list | - | 177 085 | 62 230 | 239 315 |
| Non-performing loans | - | - | 267 844 | 267 844 |
| | 105 522 | 345 472 | 330 074 | 781 068 |
| Less impairment loss provision | (3 955) | (78 416) | (187 958) | (270 329) |
| **Book value** | **101 567** | **267 056** | **142 116** | **510 739** |
| **Debt instruments at amortized cost** | **First stage 12 months** | **Second stage Over lifetime** | **Third stage Over lifetime** | **Total** |
| **Credit rating** | | | | |
| Performing loans | 237 882 | - | - | 237 882 |
| Regular watching | - | - | - | - |
| Watch list | - | - | - | - |
| Non-performing loans | - | - | - | - |
| | 237 882 | - | - | 237 882 |
| Less impairment loss provision | (756) | - | - | (756) |
| **Book value** | **237 126** | **-** | **-** | **237 126** |

**The following table indicates changes in expected credit loss (ECL) between the beginning and end of the period due to these results:**

| Due to Banks | First stage 12 months | Second stage Over lifetime | Third stage Over lifetime | Total |
|---|---|---|---|---|
| Credit loss provision as at 1 January 2019 | 2 082 | - | - | 2 082 |
| Net impairment charge | (1 534) | - | - | (1 534) |
| Written off during the year | - | - | - | - |
| Foreign exchange differences | (26) | - | - | (26) |
| **Balance at the end of the year** | **522** | **-** | **-** | **522** |
| **Treasury bills** | **First stage 12 months** | **Second stage Over lifetime** | **Third stage Over lifetime** | **Total** |
| Credit loss provision as at 1 January 2019 | 1 759 | - | - | 1 759 |
| Net impairment charge | (74) | - | - | (74) |
| Written off during the year | - | - | - | - |
| Foreign exchange differences | (13) | - | - | (13) |
| **Balance at the end of the year** | **1 672** | **-** | **-** | **1 672** |
| **Loans and credit facilities to individuals** | **First stage 12 months** | **Second stage Over lifetime** | **Third stage Over lifetime** | **Total** |
| Credit loss provision as at 1 January 2019 | 1 | - | 30 | 31 |
| Net impairment charge | - | - | (8) | (8) |
| Written off during the year | - | - | - | - |
| Proceeds from loans previously written off | - | - | - | - |
| Foreign exchange differences | - | - | - | - |
| **Balance at the end of the year** | **1** | **-** | **22** | **23** |
| **Loans & credit facilities to corporate** | **First stage 12 months** | **Second stage Over lifetime** | **Third stage Over lifetime** | **Total** |
| Credit loss provision as at 1 January 2019 | 8 426 | 77 821 | 184 459 | 270 706 |
| Net impairment charge | (4 577) | (105) | 10 893 | 6 211 |
| Proceeds from loans previously written off | - | - | 4 | 4 |
| Written off during the year | - | - | (7 836) | (7 836) |
| Foreign exchange differences | 106 | 700 | 438 | 1 244 |
| Balance at the end of the year | **3 955** | **78 416** | **187 958** | **270 329** |
| **Debt instruments at amortized cost** | **First stage 12 months** | **Second stage Over lifetime** | **Third stage Over lifetime** | **Total** |
| Credit loss provision as at 1 January 2019 | 566 | - | - | 566 |
| Net impairment charge | 190 | - | - | 190 |
| Written off during the year | - | - | - | - |
| Foreign exchange differences | - | - | - | - |
| **Balance at the end of the year** | **756** | **-** | **-** | **756** |

### (A-6) Loans and facilities

The following table indicates the distribution of Loans and facilities balances based on credit rating:

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Loans & facilities to customers | Loans & facilities to Banks | Loans & facilities to customers | Loans & facilities to Banks |
| Neither past due nor impaired | 479 227 | 60 000 | 967 143 | 100 000 |
| Past due but not impaired | 9 241 | - | - | - |
| Impaired | 330 556 | - | 165 585 | - |
| **Total** | **819 024** | **60 000** | **1 132 728** | **100 000** |
| Less: Impairment loss provision | (270 352) | (505) | (171 256) | |
| **Net** | **548 672** | **59 495** | **961 472** | **100 000** |

Total impairment provision for loans and facilities reached 270 352 at the end of the current financial period compared to 171 256 at the end of the comparative year that included 187 980 that represents loans impairment provision of loans individually valued (the third stage) compared to 131 557 at the end of the comparative year. The rest of the loans portfolio which is 82 372 represent the loans impairment provision formed for the first and second stage of the credit portfolio compared to 39 699 at the end of the comparative year.

### Loans and facilities neither past due nor impaired:

The credit quality for the loans and facilities portfolio (neither past due nor impaired) valued upon the internal valuation used by the Bank.

### Loans and facilities to customers

| | Individuals | | | |
|---|---|---|---|---|
| 31/12/2019 | Debit current accounts | Credit cards | Personal loans | Total |
| 1- Performing loans | - | - | 14 062 | 14 062 |
| 2- Regular watching | 28 | 1 788 | 21 594 | 23 410 |
| 3- Watch list | - | - | - | - |
| **Total** | **28** | **1 788** | **35 656** | **37 472** |

| | Corporate | | | |
|---|---|---|---|---|
| 31/12/2019 | Debit current accounts | Direct loans | Syndicated loans and facilities | Total |
| 1- Performing loans | - | 9 763 | 5 116 | 14 879 |
| 2- Regular watching | 430 | 158 606 | 90 755 | 249 791 |
| 3- Watch list | - | 107 890 | 69 195 | 177 085 |
| **Total** | **430** | **276 259** | **165 066** | **441 755** |

The Non-performing loans category secured by cash guarantees were no considered as impaired after taking into consideration that such guarantees can be collected.

### Loans and facilities to customers

| | Individuals | | | |
|---|---|---|---|---|
| 31/12/2018 | Debit current accounts | Credit cards | Personal loans | Total |
| 1- Performing loans | - | - | 16 968 | 16 968 |
| 2- Regular watching | 54 | 689 | 23 463 | 24 206 |
| 3- Watch list | - | - | - | - |
| **Total** | **54** | **689** | **40 431** | **41 174** |

| | Corporate | | | |
|---|---|---|---|---|
| 31/12/2018 | Debit current accounts | Direct loans | Syndicated loans and facilities | Total |
| 1- Performing loans | - | 8 891 | 55 858 | 64 749 |
| 2- Regular watching | 301 | 380 137 | 114 568 | 495 006 |
| 3- Watch list | 419 | 275 535 | 90 260 | 366 214 |
| **Total** | **720** | **664 563** | **260 686** | **925 969** |

The Non-performing loans category secured by cash guarantees were no considered as impaired after taking into consideration that such guarantees can be collected.

### - Past due loans and facilities but not impaired

They are loans and facilities having past due but not considered impaired, unless there is information to the contrary. The loans and facilities to customers having past due and not subject to impairment are represented in the following:

| | Individuals | | | |
|---|---|---|---|---|
| 31/12/2019 | Debit current accounts | Credit cards | Personal loans | Total |
| Past due up to 30 days | - | 2 | - | 2 |
| Past due more than 30 to 60 days | - | - | - | - |
| Past due more than 60 to 90 days | - | - | - | - |
| **Total** | **-** | **2** | **-** | **2** |

| | Corporate | | | |
|---|---|---|---|---|
| 31/12/2019 | Debit current accounts | Direct loans | Syndicated loans and facilities | Total |
| Past due up to 30 days | - | 1 926 | - | 1 926 |
| Past due more than 30 to 60 days | - | 7 313 | - | 7 313 |
| Past due more than 60 to 90 days | - | - | - | - |
| Past due more than 90 days | - | - | - | - |
| **Total** | **-** | **9 239** | **-** | **9 239** |

Past due loans and facilities represent the amounts that entirely or partially fall due and were not paid on the dates contractually agreed upon and they include past due amounts for periods exceeds one day.

Accordingly, the amounts presented in the Note represent the total balance of the loan or facility and not only the past due portion while the rest of the loans balances and other facilities granted to the customer are not included as long as the customer has not been entirely or partially in default.

On the date of initial recognition for the loans & facilities, the presented collaterals fair value is estimated if any - as per the valuation methods usually used in valuation of similar assets provided that they shall not be recognized in the financial statement of the Bank as they do not represent assets of the Bank on that date. In subsequent periods, the fair value of such collaterals will be adjusted as per the price or the market prices of the similar assets.

### - Loans and facilities individually subject to impairment

### Loans and facilities to customers

The balance of Loans and facilities individually subject to impairment (the third stage) at the end of the current financial period before taking into consideration cash flows from guarantees amounted to 330 556 compared to 165 585 at the end of the comparative year. The following tables include a breakdown of the total loans and facilities individually subject to impairment and the fair value of collaterals taken into consideration when provisions are calculated.

| | Individuals | | | |
|---|---|---|---|---|
| 31/12/2019 | Debit current accounts | Credit cards | Personal loans | Total |
| Loans individually subject to impairment | 55 | 6 | 421 | 482 |
| Fair value of collaterals | - | - | - | - |

| | Corporate | | | |
|---|---|---|---|---|
| 31/12/2019 | Debit current accounts | Direct loans | Syndicated loans and facilities | Total |
| Loans individually subject to impairment | 2 976 | 280 554 | 46 544 | 330 074 |
| Fair value of collaterals | - | 41 326 | 5 000 | 46 326 |

| | Individuals | | | |
|---|---|---|---|---|
| 31/12/2018 | Debit current accounts | Credit cards | Personal loans | Total |
| Loans individually subject to impairment | 54 | 35 | 404 | 493 |
| Fair value of collaterals | - | 35 | - | 35 |

| | Corporate | | | |
|---|---|---|---|---|
| 31/12/2018 | Debit current accounts | Direct loans | Syndicated loans and facilities | Total |
| Loans individually subject to impairment | - | 142 426 | 22 666 | 165 092 |
| Fair value of collaterals | - | 18 135 | - | 18 135 |



### (A-7) Debt instruments, treasury bills and other government notes

The table below shows an analysis of debt instruments, treasury bills and other government notes (before deducting any impairment allowances) according to the rating agency of Standard & Poor's or its equivalent at the end of the financial year.

| | Rating | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Egyptian treasury bills** | | | |
| At fair value through other comprehensive income | B | 1 533 184 | - |
| At amortized cost | B | 824 999 | 1 864 526 |
| Egyptian treasury bonds | | | |
| At amortized cost | B | 237 882 | 201 585 |
| **Total** | | **2 596 065** | **2 066 111** |

### (A-8) Acquisition of Collaterals

- The Bank has not acquired assets based on the acquisition of collaterals during the current financial year.

- The assets acquired by the Bank are classified under the item of other assets in the balance sheet and these assets are to be sold whenever applicable.

### (A-9) Concentration of financial assets risks exposed to credit risk

### Geographical sectors

The following table represents an analysis of the most significant credit risk limits of the Bank at book value and their distribution according to the geographical sectors at the end of the current financial year. When we prepared this table, we distributed the risks over the geographical sectors based on the areas related to the customers of the Bank.

| | Greater Cairo | Alexandria | Port Said | Sharm EL Sheikh | Total |
|---|---|---|---|---|---|
| Treasury bills & other government notes | 2 596 065 | - | - | - | 2 596 065 |
| Loans & facilities to Banks | 60 000 | - | - | - | 60 000 |
| **Loans and facilities to customers:** | | | | | |
| **Loans to individuals:** | | | | | |
| - Debit current accounts | 82 | 1 | - | - | 83 |
| - Credit cards | 1 633 | 145 | 17 | 2 | 1 797 |
| - Personal loans | 30 195 | 5 076 | 659 | 146 | 36 076 |
| **- Loans to Corporate:** | | | | | |
| - Debit current accounts | 3 407 | - | - | - | 3 407 |
| - Direct loans | 564 599 | 1 452 | - | - | 566 051 |
| - Syndicated loans | 211 610 | - | - | - | 211 610 |
| **Total as at 31 December 2019** | **3 467 591** | **6 674** | **676** | **148** | **3 475 089** |
| **Total as at 31 December 2018** | **3 291 584** | **6 512** | **743** | **-** | **3 298 839** |

## Activity Sectors

**The following table represents an analysis of the most significant credit risk limits of the Bank at book value distributed according to the business activity practiced by the customers of the Bank.**

| | Financial Institutions | Industrial Institutions | Commercial | Mining &Petroleum Services | Real Estate Activities | Government Sector | Other Activities | Total |
|---|---|---|---|---|---|---|---|---|
| Treasury bills & other government notes | - | - | - | - | - | 2 596 065 | - | 2 596 065 |
| Loans & facilities to Banks | 60 000 | - | - | - | - | - | - | 60 000 |
| **Loans and facilities to customers:** | | | | | | | | |
| **- Loans to individuals:** | | | | | | | | |
| - Debit current accounts | - | - | - | - | - | - | 83 | 83 |
| - Credit cards | - | - | - | - | - | - | 1 797 | 1 797 |
| - Personal loans | - | - | - | - | - | - | 36 076 | 36 076 |
| **- Loans to Corporate:** | | | | | | | | |
| - Debit current accounts | - | 1 111 | 412 | - | - | - | 1 884 | 3 407 |
| - Direct loans | 20 185 | 74 112 | 41 750 | 78 699 | 1 079 | 70 925 | 279 301 | 566 051 |
| - Syndicated loans | 22 666 | - | - | 113 553 | 1 079 | - | 74 312 | 211 610 |
| **Total as of 31 December 2019** | **102 851** | **75 223** | **42 162** | **192 252** | **2 158** | **2 666 990** | **393 453** | **3 475 089** |
| **Total as of 31 December 2018** | **149 013** | **164 988** | **22 196** | **418 100** | **7 574** | **2 159 193** | **377 775** | **3 298 839** |

## B - Market risk

The Bank exposed to market risk which is the risk that the fair value or future cash flow fluctuation resulted from changes in market prices. Market risk arises from open market related to interest rate, currency, and equity products of which each 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.

The market risk management resulting from trading and non-trading portfolios is concentrated in the risk department of the Bank and they are followed up by two separate teams. Interim reports on market risk are presented to the Board of Directors and the heads of business activity units on regular basis.

Trading portfolios include transactions where the Bank deals directly with clients or with the market; non-trading portfolios primarily arise from managing 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 portfolios.

### (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 measure and control market risk are outlined below.

### Value at Risk (VaR)

The Bank applies a 'value at risk' methodology (VaR) for trading and non-trading portfolios to estimate the market risk of positions held and the maximum expected losses based on a number of assumptions for various changes in market conditions. The Board of Directors sets limits for the value of risk that may be accepted by the Bank for trading and non- trading portfolios on separate basis and they are daily monitored by the Risk Management Department in the Bank. Value at Risk (VaR) is a statistic expectation of the current portfolio potential losses resulting from the adverse movements of the market and the maximum loss that may be incurred by the Bank based on using a specific confidence coefficient (98%). Subsequently, there is a statistical probability at a ratio of (2%) that the effective loss is higher than the expected Value at Risk (VaR). VaR model assumes a defined holding period of (ten days) before closing the open positions. It also assumes that the market movements during the defined holding period of (ten days) shall follow the same market movements model which occurred during the previous ten days. The Bank estimates the previous movements based on the data of the last five years. The Bank also applies such historic changes of ratios, prices and indicators in a direct manner on the current positions - this method is known as historic simulation. The effective outputs are regularly monitored to measure the soundness of assumptions and coefficients used to measure Value at Risk (VaR). However, applying such method does not overcome the loss of such limits in case of having greater movements in the market.

### 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 carried out by the Risk Management Department of the Bank include: risk factor stress testing where sharp movements are applied to each risk category and test of emerging market stress, as emerging market portfolios are subject to sharp movements; and subject to special stress test including possible stress events to 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 the Top Management and Board of Directors.

The bank does not currently have an automated system for value at risks or stress tests, and it is performed and reviewed manually.

### (B-2) Foreign exchange volatility risk

The Bank is exposed to foreign exchange rate 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.

The table also includes the carrying amounts of the financial instruments in their currencies as follows:

| 31 December 2019 | USD | Euro | GBP | L.E | Other | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and balances with the Central Bank | 13 513 | 4 482 | 1 466 | 352 378 | 205 | 372 044 |
| Due from Banks | 1 092 422 | 98 648 | 65 328 | 100 | 2 963 | 1 259 461 |
| Treasury bills | 385 781 | 76 490 | - | 1 894 240 | - | 2 356 511 |
| Loans and facilities to customers | 493 119 | 12 807 | 33 | 42 713 | - | 548 672 |
| Loans and facilities to banks | 59 495 | - | - | - | - | 59 495 |
| **Financial investments:** | | | | | | |
| - Available for sale at fair value through other comprehensive income | 30 247 | - | - | - | - | 30 247 |
| - At amortized cost | 100 990 | - | - | 136 136 | - | 237 126 |
| Investments in subsidiaries and associates | 139 723 | - | - | 221 733 | - | 361 456 |
| Other assets | 23 548 | 70 | 74 | 43 474 | - | 67 166 |
| **Total financial assets** | **2 338 838** | **192 497** | **66 901** | **2 690 774** | **3 168** | **5 292 178** |
| **Financial liabilities** | | | | | | |
| Due to Banks | 177 369 | 52 901 | 4 572 | 451 704 | 887 | 687 433 |
| Customers deposits & certificates of deposits | 1 587 832 | 130 746 | 61 910 | 2 004 023 | 2 134 | 3 786 645 |
| Other liabilities | 27 189 | 293 | 51 | 15 661 | 5 | 43 199 |
| **Total financial liabilities** | **1 792 390** | **183 940** | **66 533** | **2 471 388** | **3 026** | **4 517 277** |
| **Net financial position** | **546 448** | **8 557** | **368** | **219 386** | **142** | **774 901** |

| 31 December 2018 | USD | Euro | GBP | L.E | Other | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and balances with the Central Bank | 10 974 | 2 743 | 1 300 | 138 924 | 184 | 154 125 |
| Due from Banks | 762 204 | 126 341 | 65 938 | 19 710 | 3 409 | 977 602 |
| Treasury bills | 520 990 | 78 972 | - | 1 264 564 | - | 1 864 526 |
| Loans and facilities to customers | 873 158 | 42 985 | - | 45 329 | - | 961 472 |
| Loans and facilities to banks | 100 000 | - | - | - | - | 100 000 |
| **Financial investments:** | | | | | | |
| Financial investments at fair value through profit or loss | 335 | - | - | - | - | 335 |
| - Available for sale | 24 183 | - | - | - | - | 24 183 |
| - Held to maturity | 54 366 | - | - | 147 219 | - | 201 585 |
| Investments in subsidiaries and associates | 151 723 | - | - | 180 525 | - | 332 248 |
| Other assets | 23 856 | 3 338 | 133 | 35 102 | - | 62 429 |
| **Total financial assets** | **2 521 789** | **254 379** | **67 371** | **1 831 373** | **3 593** | **4 678 505** |
| Financial liabilities | | | | | | |
| Due to Banks | 331 538 | 115 502 | 3 235 | 44 882 | 758 | 495 915 |
| Customers deposits & certificates of deposits | 1 540 326 | 135 642 | 63 843 | 1 574 939 | 2 298 | 3 317 048 |
| Other liabilities | 28 143 | 478 | 414 | 6 993 | 39 | 36 067 |
| **Total financial liabilities** | **1 900 007** | **251 622** | **67 492** | **1 626 814** | **3 095** | **3 849 030** |
| **Net financial position** | **621 782** | **2 757** | **(121)** | **204 559** | **498** | **829 475** |

## (B-3) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates of the instrument. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effect of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may profit decrease in the event that unexpected movements arise. The Board of Directors of the Bank sets limits on the level of mismatch of interest rate re-pricing that may be undertaken by the Bank, the matter that is monitored on daily basis by the Bank`s Risk Management Department.

The table below summarizes the Bank's exposure to interest rate risk. It includes the financial

| 31 December 2019 | Up to 1 month | More than1 month to 3 Months | More than 3 months to 1 year | More than 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Financial Asset** | | | | | | |
| Cash and balances with the Central Bank | 372 044 | - | - | - | - | 372 044 |
| Due from Banks | 737 694 | 460 270 | 61 497 | - | - | 1 259 461 |
| Treasury bills & government notes | 19 178 | 706 749 | 1 626 438 | 4 146 | - | 2 356 511 |
| Loans and facilities to customers | 67 514 | 329 470 | 30 902 | 53 868 | 66 918 | 548 672 |
| Loans and facilities to banks | - | - | 59 495 | - | - | 59 495 |
| **Financial investments:** | | | | | | |
| - Financial investments at fair value through other comprehensive income | - | - | - | 2 558 | 27 689 | 30 247 |
| - At amortized cost | - | - | 83 691 | 140 196 | 13 239 | 237 126 |
| Investments in subsidiaries and associates | - | - | - | - | 361 456 | 361 456 |
| Other assets | - | - | 67 166 | - | - | 67 166 |
| **Total financial assets** | **1 196 430** | **1 496 489** | **1 929 189** | **200 768** | **469 302** | **5 292 178** |
| **Financial liabilities** | | | | | | |
| Due to Banks | 627 433 | - | 60 000 | - | - | 687 433 |
| Customers' deposits & certificates of deposits | 2 251 334 | 302 018 | 441 192 | 792 101 | - | 3 786 645 |
| Other liabilities | - | - | 43 199 | - | - | 43 199 |
| **Total financial liabilities** | **2 878 767** | **302 018** | **544 391** | **792 101** | **-** | **4 517 277** |
| **Interest re-pricing gap** | **(1 682 337)** | **1 194 471** | **1 384 798** | **(591 333)** | **462 302** | **774 901** |

| 31 December 2018 | Up to 1 month | More than1 month to 3 Months | More than 3 months to 1 year | More than 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Total financial assets** | **1 261 580** | **1 163 664** | **1 282 561** | **522 599** | **448 101** | **4 678 505** |
| **Total financial liabilities** | **2 204 872** | **288 178** | **351 820** | **1 004 160** | **-** | **3 849 030** |
| **Interest re-pricing gap** | **(943 292)** | **875 486** | **930 741** | **(481 561)** | **448 101** | **829 475** |

## C- Liquidity risk

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

### Liquidity risk management

The Bank's liquidity management control process is carried out by the Department of Risk Management that includes the following:

- Daily funding is managed by monitoring future cash flows to ensure that all requirements can be met when due, this includes availability of liquidity as they fall due or when lent to customers. To ensure that the Bank achieves this objective, the Bank maintains an active presence in global money markets.
- The Bank maintains a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flows.
- Monitoring liquidity ratios in relation with internal requirements of the Bank and the requirements of the Central Bank of Egypt.
- Managing loans concentration and making a statement of their dues.

For the purposes exercising control and preparing reports, the cash flows of the day, week and next month are measured and expected as they represent the main period for liquidity management and the starting point to calculate these expectations to analyze the contractual dues of the financial liabilities and the expected dates of the financial assets' collections.

The Department of Assets and Liabilities Management monitors the mismatch between medium term assets, the level and nature of unused loans commitments, debit current accounts utilizations, and the effect of contingent liabilities such as letters of guarantee and letters of credit.

### Funding approach

Sources of liquidity are regularly reviewed by a separate team from the Department of Risk Management of the Bank to maintain a wide diversification by currency, geography, sources, products and terms.

### Non-derivative cash flows

The following table represents the cash flows paid by the Bank based on the non-derivative financial liabilities method that are distributed over the remaining period of the contractual dues on the date of the balance sheet. The amounts included in the table represent undiscounted contractual cash flows while the Bank manages the liquidity risk based on the expected undiscounted cash flows not the contractual ones.

| 31 December 2019 | Up to one month | More than one month & up to three months | More than three months & up to one year | More than one year & up to five years | More than five years | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Due to banks | 627 433 | - | 60 000 | - | - | 687 433 |
| Customers deposits & Certificates of deposits | 2 251 334 | 302 018 | 441 192 | 792 101 | - | 3 786 645 |
| Other financial liabilities | - | - | 43 199 | - | - | 43 199 |
| **Total financial liabilities based on the contractual maturity date** | **2 878 767** | **302 018** | **544 391** | **792 101** | **-** | **4 517 277** |
| **Total financial assets based on the contractual maturity date** | **1 196 430** | **1 496 489** | **1 929 189** | **200 768** | **469 302** | **5 292 178** |

| 31 December 2018 | Up to one month | More than one month & up to three months | More than three months & up to one year | More than one year & up to five years | More than five years | Total |
|---|---|---|---|---|---|---|
| Total financial liabilities based on the contractual maturity date | 2 204 872 | 288 178 | 351 820 | 1 004 160 | - | 3 849 030 |
| Total financial assets based on the contractual maturity date | 1 261 580 | 1 163 664 | 1 282 561 | 522 599 | 448 101 | 4 678 505 |

The previous table does not include other financial assets and liabilities due to unavailability of sufficient data required to distribute them on the basis of the remaining period of the contractual dues on the date of the balance sheet.

Assets available to meet all liabilities and cover loan commitments include cash, balances with central banks, balances due from banks, treasury bills and other government notes in addition to loans and facilities to banks and customers. Maturity term of a percentage of loans granted to customers that fall due within one year is extended through the normal course of business of the Bank.

Moreover, some debt instruments, treasury bills and other government notes are pledged to cover liabilities. The Bank has the ability to meet unexpected net cash flows through the sale of financialsecurities, and finding other financing sources.

## D- Operating risk:

The definition of operating risk comprises "the risk of a change in value caused by the fact that actual direct losses and / or indirect losses incurred due to inadequacy or failure of internal processes, systems, human factor or external events including legal risk or any operating events that impact negatively on the reputation of the Bank, the continuity of the business as a going concern and / or the market value of the Bank."

### The Framework of the Operating Risk Department

The operating risk department is considered as a significant part that supports the various activities of the Bank with respect to its role in identifying and assessing the relevant risks and the required controls to prevent and mitigate the operating losses in addition to participating in enhancing the competency and efficiency of utilizing the various resources of the Bank. The policy of the operating risk department aims at laying out a general framework to consolidate its efficiency and providing support to the governance system through enlightenment and spreading the risk culture among all employees, providing complete awareness of the targets of the operating risk department, how to classify risks, the difference between the operating risk and the other kinds of risks, the duties and responsibilities of management and supervision, the methods and approaches used inside the Bank for determination, measurement, reporting and follow up to limit and mitigate the operating risks.

The Operating Risk Department is concentrating its attention on the spreading of risk culture and the awareness of the importance of identifying, reviewing, examining policies, procedures and work systems, making researches to enhance systems and their security methods, the efficiency of oversight controls to prevent and mitigate the operating risks. Meanwhile, the Operating Risk Department is taking the lead in cooperation with all the departments of the Bank to identify indications that give early warning concerning the events that may expose the Bank to any sort of possible risks.

The operating risk department started working on establishing operating events database along with their classification that is in conformity with the standards laid out by "Basel II" Accords and the classification of operating risks stated therein. The data collection process relies on the internal operating events reports in addition to all relevant external events. The said data is used in analyzing and monitoring the root causes of the operating risks, the frequency of events, evaluating the corrective measures and the controls adopted by the Bank to prevent and mitigate the operating risks.

## E- Fair value of financial assets and liabilities

### Financial instruments not measured at fair value

The table below summarizes the current value and fair value for those financial assets and liabilities not presented on the Bank's balance sheet at their fair value:

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Financial assets** | | | | |
| Due from banks | 1 259 461 | 1 259 461 | 977 602 | 977 602 |
| Loans and facilities to Banks | 59 495 | 59 495 | 100 000 | * |
| **Loans and facilities to customers: *** | | | | |
| - Individuals | 37 933 | * | 41 004 | * |
| - Corporate | 510 739 | * | 920 468 | * |
| **Financial investments:** | | | | |
| - At fair value through other comprehensive income (unquoted) | 21 220 | 27 689 | 22 148 | * |
| - At amortized cost | 237 126 | 237 935 | 201 585 | 201 932 |
| - Investments in associates | 361 456 | * | 332 248 | * |
| **Financial liabilities** | | | | |
| Due to banks | 687 433 | 495 915 | 495 915 | 495 915 |
| **Customers deposits:** | | | | |
| - Individuals | 1 724 839 | * | 1 579 828 | * |
| - Corporate | 2 061 806 | * | 1 737 220 | * |

### Loans and facilities to customers:

Loans and facilities to customers are presented as net amount after deducting the provision of impairment loss.

### Debt instruments at amortized cost:

The fair value of the debt instruments "Egyptian treasury bonds" as per Bloomberg prices declared at the end of the financial period.

## Customers' deposits and due to other banks:

Represent the estimated fair value of demand deposits that includes the deposits of non-bearing interest for the amount paid on demand.

* The management did not calculate the fair value of the financial instruments measured at amortized cost as most of them are of short-term maturity and of floating interest rate, hence, the existence of fair value differences is not probable.

## F- Capital management

The Bank's objectives behind managing the capital include elements other than equity shown in the balance sheet and they are represented in the following:

- Compliance with the legal requirements of capital in The Arab Republic of 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 activity.
  Capital adequacy and its uses are reviewed on a monthly basis according to the regulatory authority's requirements (CBE) by the Bank's management through models based on the instructions of Basel committee for banking control, these data are submitted to CBE on quarterly basis.

CBE requires the following from the Bank:

- Maintaining L.E 500 million as a minimum requirement for issued and paid up capital.
- Maintaining a ratio between risk-weighted elements of capital and elements of assets, and contingent liabilities that are credit risk, market risk and operating risk weighted including a percentage of 12% as a conservation buffer.

**The numerator in capital adequacy comprises the following two tiers:**

**Tier 1:** It is the core capital comprising of paid up capital (after deducting the carrying amount of the treasury stocks) if any, retained earnings and reserves resulting from profit appropriations less any goodwill previously recognized, and any carried forward losses.

**Tier 2:** It is the supplementary capital (Tier 2 Capital) that is comprised of the equivalent of the general risk provision which is formed based on the Obligor Risk Rating and Provisioning Rules issued by the Central Bank of Egypt in a manner that does not exceed 1.25% of the total risk-weighted assets and contingent liabilities, subordinated loans / deposits of more than five-year-maturity period (while amortizing 20% of their value in each year of the last five years of their maturity period) in addition to 45% of the increase resulting from the difference between the fair value and the carrying value of both financial investments available for sale and investments held to maturity date in addition to investments in subsidiaries and associates.

When calculating the total numerator of the capital adequacy ratio it should be taken into consideration that the supplementary capital does not exceed in any way the core capital and that subordinated loans (deposits) do not exceed half of the core capital.
Assets are risk-weighted ranging from zero to 100% classified according to the nature of each asset of the debtor to reflect the credit risk associated with it and taking the cash collaterals into consideration. In addition, the same treatment is used for off-balance amounts after adjustments to reflect the contingent nature and the potential loss of those amounts. The Bank has been in compliance with the local capital requirements.
The following table summarizes the components of the core and supplementary capital in addition to the capital adequacy percentages as at 31 December 2019.

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Core capital (Tier One) - IFRS9** | | |
| Paid up capital | 600 000 | 600 000 |
| Reserves | 219 192 | 215 163 |
| Risk reserve (IFRS9) | - | 37 193 |
| Retained earnings | 37 686 | 92 604 |
| General risk reserve | - | - |
| Total balance of items of the accumulated other comprehensive income after regulatory amendments | (95 391) | - |
| Quarterly interim profits | 40 478 | 47 897 |
| Minority interest / Non-controlling interest | 164 413 | 162 253 |
| Difference between nominal value and current value of subordinated loans (deposit) | 854 | - |
| **Total Core capital** | **967 232** | **1 155 110** |
| **Less:** | | |
| **Investments In Financial Institutions:** | | |
| Amount exceeding 10% of the issued capital of the company for each separate investment (shares) | (63 819) | (52 083) |
| Amount exceeding 10% of the fund assets for each separate investment (mutual funds) | (3 665) | (4 192) |
| Intangible assets | (4 419) | (684) |
| **Disregarded elements:** | | |
| Reserve balance of fair value for investments available for sale (if negative) | - | (12 206) |
| Reserve for foreign currencies translation differences (if negative) | - | (129 370) |
| **Total Tier 1 Capital** | **895 329** | **956 575** |
| **Tier 2 Capital (core capital)** | | |
| Significant elements of required allowances for debt instruments, loans, credit facilities and contingent liabilities included in stage 1 | 18 321 | 51 251 |
| 45% of the specific reserve | 31 | - |
| **Total Tier 2 Capital** | **18 352** | **51 251** |
| **Total capital base (1)** | **913 681** | **1 007 826** |
| Risk-weighted assets & contingent liabilities | | |
| Credit risk for items in & off-balance sheet | 4 598 513 | 5 789 318 |
| Market risk – foreign exchange rates | 331 339 | 169 973 |
| Operating risk | 362 732 | 395 118 |
| **Total Risk-weighted assets & contingent liabilities (2)** | **5 292 584** | **6 354 409** |
| **Capital adequacy ratio (1) / (2)** | **17,26%** | **15,86%** |

*Capital Adequacy Ratio was prepared for the balances of the consolidated financial statements of the Bank in compliance with the instructions of the Central Bank of Egypt issued on 24 December 2012.

## The following table summarizes the financial leverage ratio

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Tier 1 Capital after disposals (1)** | **895 329** | **956 575** |
| Cash and Due from Central Bank | 1 255 728 | 892 053 |
| Balances due from Banks | 1 332 992 | 1 041 855 |
| Loans and credit facilities to banks | 24 109 | 35 677 |
| Treasury bills & other government notes | 2 841 175 | 2 385 677 |
| Financial assets at fair value through other comprehensive income | 525 482 | 159 742 |
| Financial assets at amortized cost | 1 106 565 | 1 623 279 |
| Investments in subsidiaries & associates | 187 259 | 167 695 |
| Loans & credit facilities granted to customers | 2 017 057 | 2 428 446 |
| Fixed assets (after deducting impairment loss provision and accumulated depreciation) | 99 067 | 93 279 |
| Other assets | 145 240 | 142 492 |
| The amount of exposure deducted (after disposing the first tier of the capital base) | (293 378) | (56 960) |
| **Total banks' exposure of items in the balance sheet after deducting the disposals of the first tier** | **9 241 296** | **8 913 235** |
| Letters of credit - imports | 287 | 11 589 |
| Letters of credit - exports | 633 | 23 365 |
| Letters of guarantee | 5 829 | 84 070 |
| Letters of guarantee upon other Banks' request or by their warranty | 824 | 18 651 |
| Accepted bills | 5 130 | 25 102 |
| Rediscounted bills | - | - |
| **Total contingent liabilities** | **12 703** | **162 777** |
| **Total commitments** | **8 248** | **98 061** |
| **Total off- balance sheet exposure** | **20 951** | **260 838** |
| **Total in & off- balance sheet exposure (2)** | **9 262 247** | **9 174 073** |
| **Financial leverage ratio (1/2)** | **9,67%** | **10,43 %** |



## 4- Significant accounting estimates and assumptions

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities that shall be disclosed during the next financial year. Estimates and assumptions are continually evaluated based on historical experience and other factors including the expectations of future events that are believed to be reasonable in the light of available circumstances & information.

The implementation of the financial policies disclosed in Note No. (3) requires that management uses judgements, estimates and assumptions with respect to the carrying value of some assets and liabilities that other sources cannot provide. The said estimates and accompanied assumptions are based on historical experience in addition to other relevant factors. However, the actual results may differ from such estimates.

The assumptions and estimates are reviewed on regular basis and recognition of change in accounting estimates shall take place either in the period in which the change is occurring, in case its effect is confined to such period only, or in the period in which the change is occurring and the future periods, if the change in accounting estimates affects both of current period and the subsequent periods.

The following is a summary of the most prominent assumptions related to the future and the sources of unconfirmed information at the end of the financial period that are attributed by high risk leading to a significant amendment introduced to the fair value of assets and liabilities during the following financial period.

### (4-1) Impairment losses for loans and facilities (expected credit loss)

The Bank reviews the portfolio of loans and facilities on quarterly basis at least. The Bank uses personal judgment in determining whether it is necessary to recognize impairment charge in the income statement, to identify if there are reliable evidences indicating a decline that can be measured in the expected future cash flows from loan portfolio before identifying any decline on the level of each separate loan in the portfolio. These evidences include data indicating negative changes in borrowers' portfolio ability to repay the Bank, or local or economic circumstances related to default in the assets of the Bank. On rescheduling future cash flows, the management uses the previous experience with respect to assets loss of similar credit risk to determine the credit impairment loss for assets when there is objective evidence of impairment similar to that of the portfolio in question. The method 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 the management experience.

### (4-2) Financial derivatives fair value

The fair value of financial derivatives that are not quoted in active markets are determined by using valuation techniques. When these valuation techniques are used (such as pricing models), they shall be examined and periodically reviewed by qualified personnel who are independent from the entity which prepared them.
All models are certified after trial and before they are used to ensure that the results reflect reliable data and prices which can be compared with those of the market. The said models use the data taken from the market only, whenever it is possible to be practically obtained.
However, some factors such as credit risk related to the Bank, counterparty, volatilities and correlations require that the management uses its personal judgement. Changes in assumptions of these factors may affect the disclosed fair value of the financial instruments.

### (4-3) Debt instruments at amortized cost

The Bank classifies non-derivative financial assets with fixed determinable payments or fixed maturity as debt instruments at amortized cost included in "the business model of financial assets held to collect contractual cash flows".
In case the Bank ceases to classify debt instruments as debt instruments at amortized cost included in the portfolio, the carrying value of this type of investments will be increased at the end of the current financial period with the amount of US$ 809 thousand to reach its fair value in return for recognition thereof in the fair value reserve of other comprehensive income statement.

## 5- Segment Analysis

### A- Segment analysis of business activities

31 December 2019

| | Large corporate | Medium enterprises | Investment | Retail Banking | Other activities | Total |
|---|---|---|---|---|---|---|
| **Revenues and expenses according to economic activity** | | | | | | |
| Revenue of business segment activity | 58 908 | 23 444 | 305 185 | 9 249 | 49 401 | 446 187 |
| Expenses of business segment activity | (42 832) | (862) | - | (269 648) | - | (313 342) |
| **Segment operating income** | **16 076** | **22 582** | **305 185** | **(260 399)** | **49 401** | **132 845** |
| Unclassified expenses | | | | | | (71 416) |
| **Profit for the year** | | | | | | **61 429** |
| **Assets and liabilities of the segment activity** | | | | | | |
| Segment activity assets | 1 831 594 | 220 268 | 3 266 572 | 38 074 | - | 5 356 508 |
| Unclassified assets | | | | | | 3 162 |
| **Total assets** | | | | | | **5 359 670** |
| Segment activity liabilities | 2 711 482 | 40 514 | - | 1 724 517 | - | 4 476 513 |
| Unclassified liabilities | | | | | | 883 157 |
| **Total liabilities** | | | | | | **5 359 670** |

Comparative year as at 31 December 2018

| | Large corporate | Medium enterprises | Investment | Retail Banking | Other activities | Total |
|---|---|---|---|---|---|---|
| **Revenues and expenses according to economic activity** | | | | | | |
| Revenue of business segment activity | 78 618 | 21 610 | 235 808 | 13 417 | 5 368 | 354 821 |
| Expenses of business segment activity | (22 637) | (805) | - | (227 501) | - | (250 943) |
| **Segment operating income** | **55 981** | **20 805** | **235 808** | **(214 084)** | **5 368** | **103 878** |
| Unclassified expenses | | | | | | (64 259) |
| **Profit for the year** | | | | | | **39 619** |

Comparative year as at 31 December 2018

| **Assets and liabilities of the segment activity** | | | | | | |
|---|---|---|---|---|---|---|
| Segment activity assets | 1 765 658 | 266 236 | 2 530 032 | 41 769 | - | 4 603 695 |
| Unclassified assets | | | | | | 125 881 |
| **Total assets** | | | | | | **4 729 576** |
| Segment activity liabilities | 2 191 656 | 41 492 | - | 1 579 816 | - | 3 812 964 |
| Unclassified liabilities | | | | | | 916 612 |
| **Total liabilities** | | | | | | **4 729 576** |

### B - Geographical Segments Analysis

31 December 2019

| | Greater Cairo | Alexandria | Port said | Sharm EL Sheikh | Total |
|---|---|---|---|---|---|
| **Revenues &expenses according to the geographical segments** | | | | | |
| - Geographical segments revenues | 428 518 | 899 | 119 | 18 | 429 554 |
| - Geographical segments expenses | (356 448) | (9 034) | (1 971) | (672) | (368 125) |
| **Segment operating income** | **72 070** | **(8 135)** | **(1 852)** | **(654)** | **61 429** |
| **Profit (loss) for the year** | **72 070** | **(8 135)** | **(1 852)** | **(654)** | **61 429** |
| **Assets & liabilities according to the geographical segments** | | | | | |
| - Geographical segments assets | 5 343 139 | 12 923 | 2 742 | 866 | 5 359 670 |
| **Total assets** | **5 343 139** | **12 923** | **2 742** | **866** | **5 359 670** |
| Geographical segments liabilities | 5 156 112 | 165 060 | 34 602 | 3 896 | 5 359 670 |
| **Total liabilities** | **5 156 112** | **165 060** | **34 602** | **3 896** | **5 359 670** |

31 December 2018

| | Greater Cairo | Alexandria | Port said | Sharm EL Sheikh | Total |
|---|---|---|---|---|---|
| **Revenues &expenses according to the geographical segments** | | | | | |
| - Geographical segments revenues | 354 687 | 1 271 | 127 | - | 356 085 |
| - Geographical segments expenses | (307 692) | (6 954) | (1 820) | - | (316 466) |
| **Segment operating income** | **46 995** | **(5 683)** | **(1 693)** | **-** | **39 619** |
| **Profit (loss) for the year** | **46 995** | **(5 683)** | **(1 693)** | **-** | **39 619** |
| **31 December 2018** | | | | | |
| **Assets & liabilities according to the geographical segments** | | | | | |
| - Geographical segments assets | 4 713 158 | 13 130 | 2 509 | 779 | 4 729 576 |
| **Total assets** | **4 713 158** | **13 130** | **2 509** | **779** | **4 729 576** |
| Geographical segments liabilities | 4 550 821 | 145 167 | 32 252 | 1 336 | 4 729 576 |
| **Total liabilities** | **4 550 821** | **145 167** | **32 252** | **1 336** | **4 729 576** |

## 6- Net interest income

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Interest from loans and similar revenues from loans and facilities:** | | |
| - Banks | 5 620 | 5 719 |
| - Customers | 52 633 | 80 077 |
| | **58 253** | **85 796** |
| Bonds & treasury bills | 301 418 | 235 815 |
| Deposits with Banks | 23 926 | 19 259 |
| **Total** | **383 597** | **340 870** |
| **Costs of Deposits and similar costs:** | | |
| **Deposits and current accounts:** | | |
| - Banks | (32 331) | (19 358) |
| - Customers | (270 924) | (232 565) |
| **Total** | **(303 255)** | **(251 923)** |
| **Net** | **80 342** | **88 947** |

## 7- Net income from fees and commission

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Fees and commission income:** | | |
| Fees and commissions related to credit | 2 959 | 3 519 |
| Institution's finance services fees | 3 237 | 2 898 |
| Other fees | 2 627 | 2 382 |
| **Total** | **8 823** | **8 799** |
| **Fees and commission expenses:** | | |
| Other fees paid | (108) | (99) |
| **Net** | **8 715** | **8 700** |

## 8- Dividends income

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Equity instruments at fair value through other comprehensive income | 336 | 395 |
| Subsidiaries & associates | 4 972 | 611 |
| **Total** | **5 308** | **1 006** |

## 9- Net trading income

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Forex gain | 1 285 | 1 235 |
| Financial investments profits | - | 11 |
| **Total** | **1 285** | **1 246** |

## 10- Financial investments (losses)

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Financial investments profits /losses through other comprehensive income | 30 | 54 |
| Impairment of associates | (12 000) | - |
| Impairment losses in equity instruments through other comprehensive income | (932) | (702) |
| **Total** | **(12 902)** | **(648)** |

## 11- Administrative expenses

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Staff costs** | | |
| Wages & salaries and their equivalents | 40 302 | 35 714 |
| The Bank contribution in employees fund | 3 915 | 3 747 |
| | **44 217** | **39 461** |
| Fixed assets depreciation | 3 149 | 2 129 |
| Software amortization | 1 484 | 626 |
| Other administrative expenses | 8 531 | 8 198 |
| **Total** | **57 381** | **50 414** |

The average monthly salary of the twenty largest bonuses and salaries earned in the bank amounted to US$ 494 238 for the year ended December 31, 2019 compared to US$ 49 668 on December 31, 2018

## 12- Other operating income (expenses)

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Gain (loss) revaluation of assets & liabilities balances other than trading or the originally classified at fair value through profit & loss | 564 | (37) |
| Other income | 1 669 | 1 391 |
| Other provisions charge / reverse | (1 282) | 508 |
| Other expenses | (1 461) | (991) |
| **Total** | **(510)** | **871** |

## 13- Credit impairment charge / reverse

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Loans and facilities to customers | (6 203) | (10 089) |
| Loans and facilities to banks | 148 | - |
| Balances with banks | 1 534 | - |
| Treasury bills | 74 | - |
| Debt instruments at amortized cost | (190) | - |
| **Total** | **(4 637)** | **(10 089)** |

## 14- Earnings per share

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Net profit for the year | 61 429 | 39 619 |
| Issued common shares | 30 000 | 30 000 |
| **Earnings per (US$ /share)** | **2 047,63** | **1 320,63** |

## 15- Classification and measurement of financial assets & liabilities

The following table indicates total financial assets & liabilities (before deducting any impairment provisions) according to the classification of the business model:

| 31 December 2019 | Amortized cost | Debt instruments at fair value through other comprehensive income | Equity instruments at fair value through other comprehensive income | Financial assets at fair value through profit or loss | Total carrying value |
|---|---|---|---|---|---|
| Cash and balances with CBE | 372 044 | - | - | - | 372 044 |
| Balances with banks | 1 259 983 | - | - | - | 1 259 983 |
| Treasury bills | 824 999 | 1 533 184 | - | - | 2 358 183 |
| Loans and facilities to customers | 819 024 | - | - | - | 819 024 |
| Loans to banks | 60 000 | - | - | - | 60 000 |
| Financial investments at fair value through other comprehensive income | - | - | 30 247 | - | 30 247 |
| Financial investments at amortized cost | 237 882 | - | - | - | 237 882 |
| Financial investments at fair value through profit or loss | - | - | - | - | - |
| Other Financial assets | 15 949 | - | - | - | 15 949 |
| **Total financial assets** | **3 589 881** | **1 533 184** | **30 247** | **-** | **5 153 312** |
| Balances due to banks | 687 433 | - | - | - | 687 433 |
| Customers' deposits | 3 876 645 | - | - | - | 3 876 645 |
| Other financial liabilities | 16 424 | - | - | - | 16 424 |
| **Total financial liabilities** | **4 580 502** | **-** | **-** | **-** | **4 580 502** |

The following table indicates net financial assets & liabilities according to the instructions of the Central Bank of Egypt issued on 16 December 2008 and IFRS 9 according to the instructions of the Central Bank of Egypt issued on 26 February 2019:

| 1 January 2019 | Measurement according to the instructions of CBE on 16 DECEMBER 2008 | Measurement according to IFRS 9 | Carrying value according to the instructions of CBE on 16 DECEMBER 2008 | Reclassification after IFRS 9 | Remeasurement of financial reports | Carrying value according to IFRS 9 |
|---|---|---|---|---|---|---|
| Cash and balances with CBE | Amortized cost | Amortized cost | 154 125 | - | - | 154 125 |
| Balances with banks | Amortized cost | Amortized cost | 977 602 | - | (2 082) | 975 520 |
| Treasury bills | Amortized cost | Amortized cost | 1 327 992 | - | (1 759) | 1 326 233 |
| Treasury bills | Amortized cost | Fair value through other comprehensive income | 536 534 | 3 574 | - | 540 108 |
| Loans and facilities to customers | Amortized cost | Amortized cost | 1 132 728 | - | (270 737) | 861 991 |
| Loans and facilities to banks | Amortized cost | Amortized cost | 100 000 | - | (652) | 99 348 |
| Debt instruments - bonds | Amortized cost | Amortized cost | 201 585 | - | (566) | 201 019 |
| Equity instruments | At fair value through profit or loss | Fair value through other comprehensive income | 335 | - | - | 335 |
| Equity instruments | Available for sale | Fair value through other comprehensive income | 24 183 | 1 111 | - | 25 294 |
| Other financial assets | Amortized cost | Amortized cost | 21 298 | - | - | 21 298 |
| Total financial assets | | | **4 476 382** | **4 685** | **(275 796)** | **4 205 271** |
| Balances due to banks | Amortized cost | Amortized cost | 495 915 | - | - | 495 915 |
| Customers' deposits | Amortized cost | Amortized cost | 3 317 048 | - | - | 3 317 048 |
| Other financial liabilities | Amortized cost | Amortized cost | 18 095 | - | - | 18 095 |
| Total financial liabilities | | | **3 831 058** | **-** | **-** | **3 831 058** |

* Remeasurement is related to the adjustments of the expected credit loss while reclassification includes adjustments related to the changes introduced to the measurement bases.

## 16- Cash and Due from Central Bank

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Cash | 23 991 | 17 860 |
| Due from central Bank (within the mandatory reserve percentage in L.E) | 348 053 | 136 265 |
| **Balance** | **372 044** | **154 125** |
| Non-interest-bearing balances | 372 044 | 154 125 |
| **Balance** | **372 044** | **154 125** |

## 17- Due from Banks

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Current accounts | 60 188 | 50 031 |
| Deposits | 1 199 795 | 927 571 |
| **Total** | **1 259 983** | **977 602** |
| Less: impairment loss provision | (522) | - |
| **Balance** | **1 259 461** | **977 602** |
| Due from central Bank (other than the mandatory reserve percentage in L.E) | 178 853 | 175 244 |
| Local Banks | 442 596 | 297 022 |
| Foreign Banks | 638 534 | 505 336 |
| **Total** | **1 259 983** | **977 602** |
| Less: impairment loss provision | (522) | - |
| **Balance** | **1 259 461** | **977 602** |
| Non- interest-bearing balances | 191 131 | 20 952 |
| Fixed interest balances | 1 068 852 | 956 650 |
| **Total** | **1 259 983** | **977 602** |
| Less: impairment loss provision | (522) | - |
| **Balance** | **1 259 461** | **977 602** |
| Current balances | 1 259 983 | 977 602 |
| Non-current balances | - | - |
| **Total** | **1 259 983** | **977 602** |
| Less: impairment loss provision | (522) | - |
| **Balance** | **1 259 461** | **977 602** |

## 18- Treasury bills & other government notes

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **A- At amortized cost** | | |
| 30 days maturity | - | 23 821 |
| 90 days maturity | - | 88 775 |
| 364 days maturity | 841 063 | 1 865 897 |
| **Balance** | **841 063** | **1 978 493** |
| Less: unearned interest | (16 064) | (113 967) |
| **Total** | **824 999** | **1 864 526** |
| Less: impairment loss provision | (1 672) | - |
| **Net (1)** | **823 327** | **1 864 526** |
| **B - At fair value through other comprehensive income** | | |
| 30 days maturity | - | - |
| 90 days maturity | - | - |
| 180 days maturity | - | - |
| 270 days maturity | 59 648 | - |
| 364 days maturity | 1 608 828 | - |
| **Balance** | **1 668 476** | **-** |
| Less: unearned interest | (144 399) | - |
| **Total** | **1 524 077** | **-** |
| Reserve for change in Fair value | 9 107 | - |
| **Net (2)** | **1 533 184** | **-** |
| **Net (1+2)** | **2 356 511** | **1 864 526** |

## 19- Loans and facilities to banks

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Subordinated loans | 60 000 | 100 000 |
| Less: impairment loss provision | (505) | - |
| **Total** | **59 495** | **100 000** |
| Current balances | - | |
| Non-current balances | 59 495 | 100 000 |
| **Total** | **59 495** | **100 000** |

On 1 October, 2015, the Board of Directors of the Bank, approved a subordinated loan that amounted to US$ 50 million to support the tier 2 of the capital base, of Société Arabe Internationale de Banque (SAIB) (one of AIB subsidiaries) upon calculating the percentage rate of capital adequacy to maintain the percentage required by the Central Bank of Egypt.

The term of this loan is five years, starting from 4 November 2015 to 3 November 2020. The total amount of the loan would be fully paid at the end of the loan term on 3 November 2020. Société Arabe Internationale de Banque (SAIB) may settle the loan on equal annual installments in a manner that does not exceed 20% of the loan amount.

The annual interest rate of the loan which is 2.5 % (two-point five percent) above LIBOR rate is calculated over six month and the interest is paid every six months. On 4 November 2019, the amount of US$ 40 million of the subordinated loan was paid to the Arab International Bank.

On 24 October 2016, the Board of Directors of the Bank, approved a subordinated loan that amounted to US$ 50 million to support the tier 2 of the capital base, of Société Arabe Internationale de Banque (SAIB) (one of AIB subsidiaries) upon calculating the percentage rate of capital adequacy to maintain the percentage required by the Central Bank of Egypt.

The term of this loan is five years, starting from 2 November 2016, to 1 November 2020. The total amount of the loan will be paid in full in one payment at the end of the loan term on November 2021. Société Arabe Internationale de Banque (SAIB) may settle the loan on equal annual installments in a manner that does not exceed 20% of the loan amount.

The annual interest rate of the loan 4 % (four percent) above LIBOR rate is calculated over six months and the interest is paid every six months.

On 26 December 2019, an addendum to the subordinated loan mentioned above was signed and accordingly the term of the loan contract was extended as of 1 November 2019, for a period of five years which end on 1 November 2024 provided that the said loan must be paid in full at the end of the loan term. The annual interest rate of the loan 4 % (four percent) above LIBOR rate is calculated over six months while having the rest of the conditions stipulated in the subordinated loan referred thereto as it is without introducing any amendments.

## 20- Loans and facilities to customers

| | 31 December 2019 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Total** | **Impairment loss provision** | **Net** | **Total** | **Impairment loss provision** | **Net** |
| **Individuals** | | | | | | |
| Debit current accounts | 83 | (4) | 79 | 108 | (55) | 53 |
| Credit cards | 1 797 | - | 1 797 | 724 | (2) | 722 |
| Personal loans | 36 076 | (19) | 36 057 | 40 835 | (606) | 40 229 |
| **Total (1)** | **37 956** | **(23)** | **37 933** | **41 667** | **(663)** | **41 004** |
| **Corporate including small loans for economic activities** | | | | | | |
| Debit current accounts | 3 407 | (1 734) | 1 673 | 1 459 | (556) | 903 |
| Direct loans | 566 051 | (214 733) | 351 318 | 806 250 | (148 169) | 658 081 |
| Syndicated loans and facilities | 211 610 | (53 862) | 157 748 | 283 352 | (21 868) | 261 484 |
| **Total (2)** | **781 068** | **(270 329)** | **510 739** | **1 091 061** | **(170 593)** | **920 468** |
| **Total (1+2)** | **819 024** | **(270 352)** | **548 672** | **1 132 728** | **(171 256)** | **961 472** |

### Provision for impairment losses

| | 31 December 2019 Individuals | | | |
|---|---|---|---|---|
| | **Debit current accounts** | **Credit cards** | **Personal loans** | **Total** |
| **Balance at the beginning of the year** | **55** | **2** | **606** | **663** |
| Impact of changes resulting from initial implementation of IFRS 9 | (52) | (2) | (578) | (632) |
| **Adjusted balance as at 1 January 2019** | **3** | **-** | **28** | **31** |
| Net impairment charge for the year | 1 | - | (9) | (8) |
| Amounts written off during the year | - | - | - | - |
| Collections from loans previously written off | - | - | - | - |
| Foreign exchange differences | - | - | - | - |
| **Balance at the end of the year** | **4** | **-** | **19** | **23** |

| | Corporate | | | |
|---|---|---|---|---|
| | **Debit current accounts** | **Direct loans** | **Syndicated loans and facilities** | **Total** |
| **Balance at the beginning of the year** | **529** | **148 196** | **21 868** | **170 593** |
| Impact of changes resulting from initial implementation of IFRS 9 | 112 | 80 118 | 19 883 | 100 113 |
| **Adjusted balance as at 1 January 2019** | **641** | **228 314** | **41 751** | **270 706** |
| Net impairment charge for the year | 1 062 | (6 962) | 12 111 | 6 211 |
| Collections from loans previously written off | - | 4 | - | 4 |
| Amounts written off during the year | - | (7 836) | - | (7 836) |
| Foreign exchange differences | 31 | 1 213 | - | 1 244 |
| **Balance at the end of the year** | **1 734** | **214 733** | **53 862** | **270 329** |

| | 31 December 2018 Individuals | | | |
|---|---|---|---|---|
| | **Debit current accounts** | **Credit cards** | **Personal loans** | **Total** |
| **Balance at the beginning of the year** | **91** | **4** | **699** | **794** |
| Net impairment charge | (36) | (2) | (93) | (131) |
| Amounts written off during the year | - | - | - | - |
| Collections from loans previously written off | - | - | - | - |
| Foreign exchange differences | - | - | - | - |
| **Balance at the end of the year** | **55** | **2** | **606** | **663** |

| | Corporate | | | |
|---|---|---|---|---|
| | Debit current accounts | Direct loans | Syndicated loans and facilities | Total |
| **Balance at the beginning of the year** | **568** | **141 375** | **18 930** | **160 873** |
| Net impairment charge | (39) | 6 810 | 2 938 | 9 709 |
| Amounts written off during the year | - | 11 | - | 11 |
| Collections from loans previously written off | - | - | - | - |
| Foreign exchange differences | - | - | - | - |
| **Balance at the end of the year** | **529** | **148 196** | **21 868** | **170 593** |

## 21- Financial investments

| At fair value through other comprehensive income: | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **A - Debt instruments - at fair value :** | | |
| Treasury Bills | 1 533 184 | 536 534 |
| **B - Equity instruments at fair value through other comprehensive income:** | | |
| Quoted | 702 | 314 |
| Unquoted | 27 689 | 22 148 |
| Mutual funds | 1 856 | 1 721 |
| **Total equity instruments at fair value through other comprehensive income** | **30 247** | **24 183** |
| **At fair value through profit or loss** | **-** | 335 |
| **Total financial investments at fair value through other comprehensive income (1)** | **1 563 431** | **561 052** |
| **At amortized cost:** | | |
| **Debt instruments:** | | |
| Quoted | 237 882 | 201 585 |
| Less impairment loss provision | (756) | - |
| | **237 126** | **201 585** |
| **Treasury Bills:** | | |
| Treasury Bills | 824 999 | 1 327 992 |
| Less impairment loss provision | (1 672) | - |
| | **823 327** | **1 327 992** |
| **Total debt instruments at amortized cost (2)** | **1 060 453** | **1 529 577** |
| **Total financial investments (1+2)** | **2 623 884** | **2 090 629** |
| Current balances | 1 103 689 | 1 123 757 |
| Noncurrent balances | 1 520 195 | 966 872 |
| **Total financial investments** | **2 623 884** | **2 090 629** |
| | | |
| Fixed interest debt instruments | 237 126 | 201 585 |
| **Total debt instruments** | **237 126** | **201 585** |

| | At fair value through other comprehensive income | At amortized cost |
|---|---|---|
| **The following is a summary of financial investments movement during the financial year:** | | |
| **Balance at the beginning of the current year** | **24 183** | **201 585** |
| Impact of changes resulting from initial implementation of IFRS 9 | 1 447 | - |
| Additions | - | 51 855 |
| Amortization of Premium / issue discount | - | (623) |
| Disposals (sale / reimbursement) | (12) | (31 529) |
| Impairment in investment value | (932) | - |
| Assets of monetary nature valuation differences in foreign currency | - | 16 594 |
| Changes in fair value reserve | 5 561 | - |
| Transferred to retained earnings | - | - |
| Less impairment loss provision | - | (756) |
| **Balance at the end of the year** | **30 247** | **237 126** |

| | At fair value through other comprehensive income | At amortized cost |
|---|---|---|
| **The following is a summary of financial investments movement during the comparative year:** | | |
| **Balance at the beginning of the comparative year** | **24 856** | **308 390** |
| Additions | - | - |
| Impairment in investment value | (701) | - |
| Amortization of Premium / issue discount | - | (316) |
| Disposals (sale / reimbursement) | - | (103 856) |
| Assets of monetary nature valuation differences in foreign currency | - | (2 633) |
| Changes in fair value reserve | 28 | - |
| Reclassification of financial investments | - | - |
| **Balance at the end of the comparative year** | **24 183** | **201 585** |

## 22- Investments in subsidiaries & associates

Investments in subsidiaries & associates are represented in the following companies and corporate:

31 December 2019

### First: Subsidiaries:

| Name of Company | Total Assets | Total Liabilities (without equity) | Revenues of the company | Net Profits (losses) of the company | Hosing country of the company | Balance as at 1/1/2019 | Balance as at 31/12/2019 | Share % |
|---|---|---|---|---|---|---|---|---|
| Societe Arab International de Banque (SAIB)* | 4 469 530 | 4 157 792 | 533 931 | 12 391 | A.R. E | 79 815 | 79 815 | % 50,435 |
| Compagnie Arab De Financement International « CAFI » | 6 896 | 3 | 43 | (2 616) | Luxembourg | 5 108 | 5 108 | % 89,04 |
| **Total subsidiaries** | | | | | | **84 923** | **84 923** | |

## Second: Associates:

| Name of Company | Total Assets | Total Liabilities (without equity) | Revenues of the company | Net Profits (losses) of the company | Hosing country of the company | Balance as at 1/1/2019 | Balance as at 31/12/2019 | Share % |
|---|---|---|---|---|---|---|---|---|
| Suez Canal Co. For Technology** | 116 545 | 11 663 | 36 347 | 29 712 | A.R. E | **30 987** | **72 195** | **24,08%** |
| International Company for Tourist Investments (ICIT) | 97 547 | 8 755 | 15 587 | 8 119 | A.R. E | **6 800** | **6 800** | **20,00%** |
| World Trade Centre (WTC)*** | 145 335 | 12 522 | 2 218 | 662 | A.R. E | **60 000** | **48 000** | **50,00%** |
| Suez Canal Bank (CSB) | 3 242 612 | 3 036 385 | 355 278 | 33 800 | A.R. E | **149 538** | **149 538** | **41,50%** |
| **Total associates** | | | | | | **247 325** | **276 533** | |
| **Total subsidiaries & associates** | | | | | | **332 248** | **361 456** | |

* The Bank owns 89.043% of the share capital of Compagnie Arab De Financement International « CAFI » and the Bank's direct participation in Societe Arabe International de Banque (SAIB) is 46.075%, and the indirect participation through Compagnie Arab De Financement International « CAFI » is 4.36% of the share capital of (SAIB). Accordingly, the Bank's direct and indirect participation amounted to 50.435%.

** The book value of the Bank's participation in Suez Canal Company for Technology during the years 2016 and 2017 was decreased with a total amount of US$ 41.21 million. The said reduction is represented in the impairment of exchange valuation differences after the liberalization of foreign exchange rates and the impairment of the participation recoverable value due to the fact of having legal risk pertaining to the ownership of 6th October University that represents one of the most important investments of the company. During that time, the existent risk of losing the investment of the company in the university, made it necessary to form a provision with the aforementioned amount.

As a result of the success achieved by the Board of Directors of the Suez Canal Company for Technology in regaining the main investment of the company that is represented in 6th October University and the approval of the Ordinary General Assembly of the company during the extraordinary meeting held on 10/1/2019 to the effect of endorsing the agreement contract of terminating the dispute related to the university' ownership that was signed on 6/12/2018 and by virtue of which, the company has all the rights and authorities of the owner with respect to the university, accordingly, the impairment value previously mentioned and amounted to US$ 41.21 million was reversed during this year due to the fact that it is no longer required.

***The Bank participation in the capital of the World Trade Centre (WTC) Company amounted to 50% and the Bank does not have control over the Company, hence, the investment in the World Trade Centre (WTC) is considered as an investment in associates. A provision was formed with the amount of US$ 12 million that is equivalent to 40% of the issued capital of World Trade Centre (WTC) Company.



## 22- Investments in subsidiaries & associates (continued)

Investments in subsidiaries & associates are represented in the following companies and corporate:

### 31, December 2018

### First: Subsidiaries:

| Name of Company | Total Assets | Total Liabilities (without equity) | Revenues of the company | Net Profits (losses) of the company | Hosing country of the company | Balance as at 1/1/2018 | Balance as at 31/12/2018 | Share % |
|---|---|---|---|---|---|---|---|---|
| Societe Arab International de Banque (SAIB)* | 4 536 988 | 4 230 179 | 539 751 | (7 508) | A.R. E | **79 815** | **79 815** | **50,435%** |
| Compagnie Arab De Financement International « CAFI » | 9 488 | 9 | 34 | (57) | Luxembourg | **5 108** | **5 108** | **89,04%** |
| **Total subsidiaries** | | | | | | **84 923** | **84 923** | |

### Second: Associates:

| Name of Company | Total Assets | Total Liabilities (without equity) | Revenues of the company | Net Profits (losses) of the company | Hosing country of the company | Balance as at 1/1/2018 | Balance as at 31/12/2018 | Share % |
|---|---|---|---|---|---|---|---|---|
| Suez Canal Co. For Technology | 95 538 | 27 053 | 2 188 | 1 155 | A.R. E | **30 987** | **30 987** | **24,08%** |
| International Company for Tourist Investments (ICIT) | 96 573 | 7 086 | 17 705 | 8 806 | A.R. E | **13 000** | **6 800** | **20,00%** |
| World Trade Centre (WTC)** | 145 141 | 12 592 | 2 047 | 1 132 | A.R. E | **60 000** | **60 000** | **50,00%** |
| Suez Canal Bank (CSB) | 2 646 611 | 2 485 609 | 271 265 | 23 456 | A.R. E | **149 538** | **149 538** | **41,50%** |
| **Total associates** | | | | | | **253 525** | **247 325** | |
| **Total subsidiaries & associates** | | | | | | **338 448** | **332 248** | |

## 23- Intangible Asset

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Computer software** | | |
| Net book value at the beginning of the year | 662 | 991 |
| Additions | 3 019 | 297 |
| Amortization during the year | (1 484) | (626) |
| **Net book value at the end of the year** | **2 197** | **662** |
| Cost | 5 057 | 2 038 |
| Accumulated amortization | (2 860) | (1 376) |
| **Net book value at the end of the year** | **2 197** | **662** |

## 24- Other Assets

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Accrued revenue | 15 949 | 21 298 |
| Accrued dividends | 2 438 | 1 170 |
| Prepaid expenses | 3 611 | 3 053 |
| Prepaid amounts to employees under the account of profits appropriations | 8 313 | 7 897 |
| Advance payments to purchase fixed assets | 17 198 | 14 763 |
| Assets reverted to the Bank in return for customers debts (after deducting the impairment) | 2 149 | 1 334 |
| Other | 31 259 | 24 748 |
| **Total** | **80 917** | **74 263** |
| Less impairment loss provision | (13 751) | (11 834) |
| **Net** | **67 166** | **62 429** |

## 25- Fixed assets

| Description | Land | Buildings & Improvements | Furniture Fittings & Office Equipment | Vehicles | Computers | Total |
|---|---|---|---|---|---|---|
| Balance as at 1/1/2019 | 29 535 | 15 739 | 1 888 | 201 | 3 046 | 50 409 |
| Additions | 6 693 | 10 398 | 1 100 | 1 | 275 | 18 467 |
| Disposals | - | - | (263) | - | (171) | (434) |
| Depreciation during the year | - | (1 869) | (324) | (85) | (869) | (3 147) |
| **Net Book Value at 31/12/2019** | **36 228** | **24 268** | **2 401** | **117** | **2 281** | **65 295** |
| **Net Book Value at 31/12/2018** | **29 535** | **15 739** | **1 888** | **201** | **3 046** | **50 409** |

| Description | Land | Buildings & Improvements | Furniture Fittings & Office Equipment | Vehicles | Computers | Total |
|---|---|---|---|---|---|---|
| Balance as at 1/1/2018 | 29 535 | 16 181 | 1 639 | 290 | 1 552 | 49 197 |
| Additions | - | 506 | 535 | - | 2 311 | 3 352 |
| Disposals | - | (2) | - | - | (9) | (11) |
| Depreciation during the year | - | (946) | (286) | (89) | (808) | (2 129) |
| **Net Book Value at 31/12/2018** | **29 535** | **15 739** | **1 888** | **201** | **3 046** | **50 409** |
| **Net Book Value at 31/12/2017** | **29 535** | **16 181** | **1 639** | **290** | **1 552** | **49 197** |

## 26- Due to Banks

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Current Accounts | 175 729 | 142 441 |
| Deposits | 511 704 | 353 474 |
| **Balance** | **687 433** | **495 915** |
| Local Banks | 657 775 | 269 587 |
| Foreign Banks | 29 658 | 226 328 |
| **Balance** | **687 433** | **495 915** |
| Non - Interest Bearing Balances | 96 371 | 43 102 |
| Fixed Interest-Bearing Balances | 591 062 | 452 813 |
| **Balance** | **687 433** | **495 915** |
| Current balance | 687 433 | 495 915 |
| Non – current balance | - | - |
| **Balance** | **687 433** | **495 915** |

## 27- Customers deposits

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Demand deposits (current accounts) | 245 845 | 175 086 |
| Time and call deposits | 2 656 674 | 2 424 964 |
| Certificates of deposits | 490 488 | 376 110 |
| Saving deposits | 348 305 | 303 497 |
| Other deposits | 45 333 | 37 391 |
| | **3 786 645** | **3 317 048** |
| Financial Institutions deposits | 2 061 806 | 1 737 220 |
| Individual deposits | 1 724 839 | 1 579 828 |
| **Balance** | **3 786 645** | **3 317 048** |
| Non-interest-bearing balances | 81 446 | 109 837 |
| Fixed interest-bearing balances | 3 611 092 | 3 162 996 |
| Variable interest-bearing balances | 94 107 | 44 215 |
| **Balance** | **3 786 645** | **3 317 048** |
| Current balances | 2 701 700 | 2 238 954 |
| Non-current balances | 1 084 945 | 1 078 094 |
| **Balance** | **3 786 645** | **3 317 048** |

## 28- Other liabilities

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Accrued interest | 16 424 | 18 095 |
| Unearned revenues | 252 | 1 195 |
| Pension fund | 2 704 | 2 103 |
| Employees' alternative benefit plan | 11 157 | 8 180 |
| Sundry credit balances | 12 662 | 6 494 |
| **Balance** | **43 199** | **36 067** |

## 29- Other Provisions

31 December 2019

| | Balance at the beginning of the year | Impact of change resulting from IFRS 9 | Foreign exchange differences | Formed during the year | Used during the year | Year ending balance |
|---|---|---|---|---|---|---|
| Potential claims provision | 802 | - | - | 185 | (12) | 975 |
| Contingent liabilities provision | 3 108 | 71 | 38 | (321) | - | 2 896 |
| Commitments and facilities provision | - | 366 | 10 | (312) | - | 64 |
| **Total** | **3 910** | **437** | **48** | **(448)** | **(12)** | **3 935** |

31 December 2018

| | Balance at the beginning of the year | Foreign exchange differences | Formed during the year | Used during the year | Year ending balance |
|---|---|---|---|---|---|
| Potential claims provision | 669 | - | 133 | - | 802 |
| Contingent liabilities provision | 3 755 | (6) | (641) | - | 3 108 |
| **Total** | **4 424** | **(6)** | **(508)** | **-** | **3 910** |

## 30- Owners' Equity

### A- Paid in Capital

The Issued Capital as at December 31, 2015 amounted to US$ 600 Million distributed over 30 000 common shares of US$ 20 000 each and the paid-up capital amounted to US$ 450 Million. On September 6, 2016, the Board of Directors of the Bank decided to call up the second and last portion of the issued capital increase that amounted to US$ 150 million paid as at September 30, 2016.

Thus, the issued and paid in capital of the Bank became US$ 600 million as at December 30, 2018 that is distributed over 30,000 common shares whose value is US$ 20 000 each.

### The subscribed share capital is as follows:

| | No. Of shares | Nominal value | % | Paid |
|---|---|---|---|---|
| Arab Republic of Egypt | 11 628 | 232 560 | 38,76 | 232 560 |
| Libya | 11 628 | 232 560 | 38,76 | 232 560 |
| Abu Dhabi Investment Authority | 3 751 | 75 020 | 12,503 | 75 020 |
| State of Qatar | 1 495 | 29 900 | 4,984 | 29 900 |
| State General Reserve Fund of Sultanate of Oman | 747 | 14 940 | 2,49 | 14 940 |
| International Capital Trading Co. | 751 | 15 020 | 2,503 | 15 020 |
| **Total** | **30 000** | **600 000** | **100** | **600 000** |

### B- Reserves

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Legal Reserve (Analytical Note No. B-1) | 126 642 | 122 680 |
| General Reserve | 73 582 | 73 582 |
| Risk reserve (IFRS 9) | - | 26 429 |
| Fair value reserve of investments available for sale (Note No. B-2) | 16 497 | 716 |
| **Total of reserve at the end of the year** | **216 721** | **223 407** |

* In accordance with the instructions of the Central Bank of Egypt with respect to the implementation of IFRS 9 as of 1 January 2019, the special reserve - credit, general banking risk reserve - credit and IFRS 9 risk reserve - were consolidated in one reserve in the name of the general risk reserve provided that the difference between the provisions required based on IFRS 9 and the provisions required based on the previous instructions of CBE shall be deducted from the general risk reserve and incase it is not adequate, the increase is to be deducted from the retained earnings, whatever the result of the retained earnings is - as debit or credit.

### (B-1) Legal Reserve

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Balance at the beginning of the year** | **122 680** | **117 134** |
| Transferred from net profit of the year | 3 962 | 5 546 |
| **Balance at the end of the year** | **126 642** | **122 680** |

In compliance with the articles of associations of the Bank, the amount of 10% of the net profit of the year is to be retained to support the legal reserve until its balance reaches the equivalent of 100% of the paid -in capital. Whenever the reserve is less than 100%, the retention of the amount of 10% of the net profit of the year used to support the legal reserve must be reinstated. The ordinary general assembly meeting of the Bank held on 28/7/2019 for the financial year ended as at 31/12/2018, approved the appropriation of 10% for the legal reserve with the amount of US$ 3 962 thousand.

### (B-2) Fair value reserve of investments available for sale

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Balance at the beginning of the year** | **716** | **688** |
| Impact of changes resulted from the initial implementation of IFRS 9 | 4 686 | - |
| Net change in fair value of financial investments | 11 095 | 28 |
| **Balance at the end of the year** | **16 497** | **716** |

## C- Retained earnings

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Balance at the beginning of the year** | **53 229** | **28 919** |
| Net profit of the year | 61 429 | 39 619 |
| Employees' share in profit | (10 066) | (9 386) |
| Board of Directors remunerations | (345) | (377) |
| Transferred to legal reserve | (3 962) | (5 546) |
| Impact of implementing (IFRS9) | (78 548) | - |
| **Balance at the end of the year** | **21 737** | **53 229** |

## 31- Cash and cash equivalent

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

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| - Cash at hand | 23 991 | 17 860 |
| - Balances with Banks | 1 197 964 | 914 627 |
| - Treasury bills | - | 111 276 |
| **Balance at the end of the year** | **1 221 955** | **1 043 763** |

## 32- Commitments and contingent liabilities

## A- Legal claims

There are lawsuits filed against the Bank as at 31 December 2019, a provision was formed for these lawsuits amounting to US$ 975 thousand.

## B- Commitments for loans, guarantees and facilities

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Letters of guarantee | 50 571 | 65 363 |
| Letters of Credit - import | 1 243 | 833 |
| Letters of Credit - export | 2 182 | 22 128 |
| Commitments for corporate loans | 5 155 | - |
| Money market papers for facilities to suppliers | 849 | 343 |
| **Total** | **60 000** | **88 667** |

## Transactions with related parties

Transactions with related parties have been conducted at arm's length in accordance with the norms and the normal course of banking rules in practice. Related parties' transactions and balances on the balance sheet date are as follows:

## 33- Loans & facilities to related parties

| | Subsidiaries & Associates | |
|---|---|---|
| | **31/12/2019** | **31/12/2018** |
| **Loans and facilities to customers & banks** | | |
| Outstanding loans at the beginning of the year | 104 991 | 150 000 |
| Loans issued during the financial year | - | 4 991 |
| Loans paid during the financial year | (40 000) | (50 000) |
| **Outstanding loans at the end of the year** | **64 991** | **104 991** |

## Deposits from related parties

| | Subsidiaries & Associates | |
|---|---|---|
| | **31/12/2019** | **31/12/2018** |
| Deposits at the beginning of the year | 131 642 | 120 919 |
| Deposits issued during the financial year | 3 039 | 10 815 |
| Deposits refunded during the financial year | - | (92) |
| **Deposits at the end of the year** | **134 681** | **131 642** |

## Other

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Balances due from Banks | 23 496 | 1 096 |
| Balances due to Banks | 238 276 | 314 659 |

## 34- Employees' Pension fund

The Bank has a funded defined benefit contributory pension plan covering all full-time employees until 17 April 2008. The benefits provided by the plan are determined by the Board of Directors. The value of the vested benefit liability according to the plan and the adequacy of the reserve are annually determined by an Actuary.

On 8 December 2013, the Board of Directors of the Bank, approved the Voluntarily Early Retirement Plan based on the new conditions and benefits instead of the adopted regulations of the end of service compensation, social insurance and pension plan program through the complete withdrawal from the Bank and the Employees' Pension Fund (without pension) provided that the proposed benefits shall be granted pursuant to the insurance wage as at 31 December 2013.

Accordingly, the Bank shall finance the Employees' Pension Fund by a subordinated loan within the limit of US$ 55 million that represents the difference between the total employees' benefits amounts after being granted the additional benefits of the Voluntarily Early Retirement according to the regulations thereof, and the actuarial pension reserve allocated for such age categories. The settlement of the subordinated loan occupies the second priority after the fulfillment of the Fund's obligations that are established upon the actuarial calculations while taking into consideration that the balance of the subordinated loan is included in the assets of the Fund that are allocated for the fulfillment of its obligations. The subordinated loan balance shall be reduced on monthly basis with an amount equivalent to the surplus resulting from the Voluntarily Early Retirement Plan.

The share of the year of the surplus resulting from the implementation of the Voluntarily Early Retirement Plan for the year 2017 was calculated and amounted to US$ 4 991 thousand, hence, the subordinated loan granted to the Employees' Fund was reduced by the same amount of the surplus share for the year 2017. Based on the Actuary's Report issued in 2017, the Bank postponed the payment of the last portion of the subordinated loan paid in 2017 (reverse of amounts previously paid during the year 2017) and reimbursed the amount to the pension reserve fund as of December 31, 2017 provided that the said portion of the subordinated loan shall be settled during the coming years when the pension reserve fund is capable of fulfilling the said obligation according to the directives of the Actuary Expert referred to above.

The employees' pension reserve fund on December 31, 2019 amounted to US$ 99 418 thousand corresponding to US$ 97 909 thousand as at December 31, 2018. The Actuary's Report stated that there is no deficit in the pension reserve fund on December 31, 2019, after the completion of the realized actual investment return difference that amounted to US$ 2 663 thousand in order to reach the minimum limit that should be achieved at a rate of 7% of the total reserve fund along with the postponement of settlement of the last portion of the subordinated loan, that amounted to US$ 4 991 thousand and in case the Bank approves to add the annual increment of 2019, there will be a deficit with an amount of US$ 42 thousand in the fund.

Based on the Actuary' opinion, that Employees' Pension Fund has been supported by US$ 2 663 thousand that represents the investment return difference (7%) that is guaranteed by the Bank and the realized investment return (2019) referred to in the Actuary's Report in addition to the amount of US$ 42 thousand being the cost of adding the annual increment of 2019 and deducted from the income statement of this year, along with the postponement of settlement of the last portion of the subordinated loan, that amounted to US$ 4 991 thousand and adding its value to the Employees' Pension reserve fund provided that the said portion will be settled during the following years when the pension reserve fund is quite adequate to cover such settlement according to the directives of the Actuary Expert referred to above.

## 35- Significant events subsequent to the end of the financial year and do not require adjustments in the financial statements

The recent outbreak of Novel Coronavirus Disease (COVID-19) is still having a heavy impact on economy and the global markets and the implications of its negative impact on various aspects that includes among several ones, the manpower, operating processes and the available liquidity in the Bank. Accordingly, the management of the Bank formed a team to develop and execute emergency plans to encounter such extraordinary circumstances. Currently, we are closely following up and exercising ongoing assessment of all the developments related to the outbreak of (COVID-19). As we shall take all the necessary actions to maintain our operating processes and more importantly, to protect our employees, customers of the Bank and all the stakeholders related with the Bank.

In the light of our present knowledge and available information, we expect that Novel Coronavirus Disease (COVID-19) shall have no impact on the capability of the Bank to continue in business as a going concern in the foreseeable future.

04

# **Financial** Statements

## B- Consolidated Financial Statements





## Auditors' Report

### To The Shareholders of Arab International Bank

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated Financial statements of Arab International Bank and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the related consolidated statements of income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management ' Responsibility for the Consolidated Financial Statements

These consolidated financial statements are the responsibility of Group's management. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the rules, pertaining to the preparation and presentation of the bank's financial statements and measurement and recognition bases approved by the Board of Directors of Central Bank of Egypt on 16 December 2008 as amended by the regulations issued on 26 February 2019 and in the light of the prevailing Egyptian laws. Management's responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; management's responsibility also includes selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors ' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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



KPMG Hazem Hassan
Public Accountants & Consultants
BDO Khaled & Co.
Public Accountants & Advisers

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arab International Bank and its subsidiaries (the "Group") as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended, in accordance with the rules, pertaining to the preparation and presentation of the banks' financial statements and measurement and recognition bases approved by the Board of Directors of Central Bank of Egypt on 16 December 2008 as amended by the regulations issued on 26 February 2019 and in the light of the prevailing Egyptian laws and regulations related to the preparation of these consolidated financial statements.

### Emphasis of matter

We draw attention to Note 36 to the financial statements, most of the world countries, including Egypt, were exposed during the first quarter of 2020 to the outbreak of the Corona Virus (Covid-19) epidemic, which caused disturbances in most commercial and economic activities in Egypt. So, this is likely to have a significant impact on pre-defined operational and marketing plans and future cash flows associated with it and the associated elements of assets, liabilities and business results in the Group's financial statements during the following periods. And, as indicated in the above-mentioned note, the group's Management is currently taking several procedures to confront this risk and limit its impact on its financial position and cash flows, but in light of instability and uncertainty as a result of current events, the magnitude of the impact of that event depends mainly on the time range for the continuation of those effects at which the event is expected to end , the effects resulted thereon and the group's ability to achieve its plans to confront this risk, which is difficult to determine at the current time.

Auditors

Ahmed Maher Tahoon
Member of the Egyptian Society of
Accountants & Auditors
Fellow of the Egyptian Tax Society
Accountants and Auditors Register no 16937
A.S.A Register no1634 BDO Khaled & Co.

BDO Khaled & Co. BDO Public Accountants & Advisors

Haleem Amin Samy
Financial Regulatory Authority No. 14
KPMG Hazem Hassan
Public Accountants & Consultants

Cairo, 1 June 2020

## Consolidated Balance Sheet

as at December 31, 2019

(All amounts are presented in thousand US$)

| | Note No. | 31-12-2019 | 31-12-2018 adjusted |
|---|---|---|---|
| **Assets** | | | |
| Cash and due from Central Bank | (14) | 755 840 | 359 841 |
| Due from banks | (15) | 1 832 092 | 1 538 390 |
| Treasury bills & other government notes | (16) | 2 841 175 | 2 385 677 |
| Loans and facilities to banks | (17) | 24 109 | 35 677 |
| Loans and facilities to customers | (18) | 2 017 057 | 2 395 488 |
| | | | |
| **Financial investments** | | | |
| - At fair value through other comprehensive income | (19) | 525 482 | 159 407 |
| - Amortized cost | (19) | 1 106 565 | 1 623 279 |
| - At fair value through profit or loss | | - | 335 |
| Investments in associates | (20) | 187 259 | 167 695 |
| Intangible assets | (21) | 4 419 | 3 424 |
| Other assets | (22) | 140 821 | 140 253 |
| Fixed assets | (23) | 99 067 | 89 399 |
| **Total assets** | | **9 533 886** | **8 898 865** |
| | | | |
| **Liabilities & Equity** | | | |
| **Liabilities** | | | |
| Due to Banks | (24) | 704 640 | 497 386 |
| Customer's deposits | (25) | 7 675 699 | 7 170 540 |
| Other loans | (26) | 62 162 | 98 017 |
| Other liabilities | (27) | 103 782 | 103 005 |
| Other provisions | (28) | 9 432 | 20 242 |
| Deferred tax liability | | 364 | 991 |
| **Total liabilities** | | **8 556 079** | **7 890 181** |
| | | | |
| **Equity** | | | |
| Paid-up capital | (32 - A) | 600 000 | 600 000 |
| Reserves | (32 - B) | 247 044 | 247 924 |
| Foreign exchange translation differences | | ( 123 078) | ( 129 369) |
| Difference between current value and nominal value of the subordinated deposit | | 854 | - |
| Retained earnings | (32 - C) | 88 574 | 134 134 |
| **Total AIB shareholder's equity** | | **813 394** | **852 689** |
| Minority interest / Non-controlling interest | | 164 413 | 155 995 |
| **Total equity** | | **977 807** | **1 008 684** |
| **Total liabilities and equity** | | **9 533 886** | **8 898 865** |

* The accompanying notes from (1) to (36) are an integral part of these consolidated Financial Statements and to be read therewith

- Audit report attached

Gamal Zaghloul
CFO

Mohamed Barakat
Deputy Chairman &
Managing Director

Hisham Ramez
Chairman &
Managing Director

## Consolidated Income Statement

For the Financial Period ended December 31, 2019

(All amounts are presented in thousand US$)

| | Note No. | 31-12-2019 | 31-12-2018 adjusted |
|---|---|---|---|
| Interest from loans and similar income | (5) | 870 086 | 841 288 |
| Interest on deposits and similar expenses | (5) | ( 695 446) | ( 677 024) |
| **Net Interest Income** | | **174 640** | **164 264** |
| Fees and commissions income | (6) | 37 231 | 39 405 |
| Fees and commissions expenses | (6) | ( 2 229) | ( 1 813) |
| **Net Income from Fees and commissions** | | **35 002** | **37 592** |
| **Net income from interest, fees and comissions** | | **209 642** | **201 856** |
| | | | |
| Dividends income | (7) | 1 340 | 1 875 |
| Net trading income | (8) | 7 427 | 5 778 |
| (Losses) from financial investments | (19) | ( 10 304) | ( 7 372) |
| Impairment charge for credit losses | (12) | ( 4 835) | ( 14 012) |
| Administrative expenses | (9) | ( 136 403) | ( 112 494) |
| Associate impairment charge / reverse | | 12 000 | - |
| Other operating (expenses) revenues | (10) | ( 1 680) | ( 14 176) |
| Gains from investments in associates | | 17 479 | 12 096 |
| **Profits before tax** | | **94 666** | **73 551** |
| Income tax | (11) | ( 37 923) | ( 41 130) |
| **Profit For The Year** | | **56 743** | **32 421** |
| Minority interest / Non-controlling interest - Profits (losses) | | 5 855 | ( 9 550) |
| AIB shareholders'share | | 50 888 | 41 971 |
| **Profit For The Year** | | **56 743** | **32 421** |

* The accompanying notes from (1) to (36) are an integral part of these consolidated Financial Statements and to be read therewith

Gamal Zaghloul
CFO

Mohamed Barakat
Deputy Chairman &
Managing Director

Hisham Ramez
Chairman &
Managing Director

## Consolidated statement of Comprehensive income

For the Financial Period ended December 31, 2019

(All amounts are presented in thousand US$)

| | 31-12-2019 | 31-12-2018 adjusted |
|---|---|---|
| **Net profit for the year** | **56 743** | **32 421** |
| Net change in fair value of investments at fair value through other comprehensive income | 27 803 | ( 6 084) |
| Expected credit loss for debt instruments at fair value through other comprehensive income | (50) | - |
| Amortization of the reserve for bonds' fair value reclassified from investments available for sale to investments held to maturity | - | 3 423 |
| **Total other comprehensive income items for the year** | **27 753** | **( 2 661)** |
| **Total comprehensive income for the year** | **84 496** | **29 760** |

* The accompanying notes from (1) to (36) are an integral part of these consolidated Financial Statements and to be read therewith

## Consolidated Statement Of Cash Flows

For the Financial Year Ended December 31, 2019

(All amounts are presented in thousand US$)

| | Note No. | 31-12-2019 | 31-12-2018 adjusted |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net Profit for the year | | 94 666 | 73 551 |
| **Adjustments to reconcile net profit to net cash provided from operating activities** | | | |
| Depreciation & amortization of fixed and intangible assets | (9) | 12 893 | 10 957 |
| Impairment charges for credit losses | (12) | 4 835 | 14 012 |
| Other provisions charge / reverse | | ( 5 769) | 13 710 |
| Amounts used from other provisions | (28) | ( 2 236) | ( 770) |
| Impairment of financial investments through other comprehensive income | (19) | 932 | 701 |
| Impairment reverse in associates | (19) | ( 12 000) | - |
| Profits from financial investments | | 11 970 | - |
| Translation differences (non-monetary transactions) | | ( 142 530) | 14 942 |
| Revaluation differences of investments at amortized cost | | ( 16 594) | 2 633 |
| Revaluation differences of financial investments at fair value through profit or loss | | - | ( 11) |
| Amortization of premium and issue discount | | ( 2 613) | ( 5 609) |
| Profits / losses of financial investments | | ( 2 598) | 6 724 |
| Revaluation differences from other provisions in foreign currencies | | ( 48) | ( 6) |
| Profits from fixed assets sale | | ( 4 019) | ( 133) |
| Proceeds from debts previously written off | | 4 | - |
| Profits / losses of investments in associates | | ( 17 479) | ( 12 109) |
| Dividends appropriations | | ( 1 340) | ( 1 875) |
| **Operating profits before changes in assets & liabilities (used in) provided from operating activities** | | **( 81 926)** | **116 717** |
| **Net change in assets & liabilities** | | | |
| Due from Banks | | ( 311 687) | 70 460 |
| Treasury bills | | ( 561 459) | ( 146 001) |
| Loans and facilities to Banks and customers | | 288 171 | 301 781 |
| Other assets | | 2 025 | ( 10 560) |
| Due to Banks | | 167 254 | ( 472 756) |
| Customers' deposits | | 505 209 | 317 739 |
| Other liabilities | | 3 313 | ( 23 180) |
| Income tax paid | | ( 41 065) | ( 43 720) |
| **Net cash flows (used in) provided from operating activities (1)** | | **( 30 165)** | **110 480** |
| **Cash flows from Investing Activities** | | | |
| Payments to acquire fixed assets and fixtures of branches (intangible) | | ( 27 341) | ( 6 473) |
| Proceeds / Payments from financial investments at amortized cost | | ( 19 558) | 103 856 |
| Proceeds from fixed assets sale | | 4 019 | 133 |
| Proceeds from financial investments sale other than financial assets at fair value through profit or loss | | 401 084 | 88 748 |
| Reducing the capital of an associate | | - | 6 200 |
| Proceeds from due financial investments at fair value through profit or loss | | - | 28 |
| Purchase of financial investments other than financial assets at fair value through profit or loss | | ( 14 149) | ( 103 864) |
| Collected dividends | | 2 564 | 2 015 |
| **Net cash flows provided from investing activities (2)** | | **346 619** | **90 643** |
| **Cash flows from Financing Activities** | | | |
| Collected from other loans | | 6 602 | 15 380 |
| Payments received from other loans | | ( 85 760) | ( 55 255) |
| Dividends received | | ( 10 410) | ( 17 114) |
| **Net cash flows (used in) provided from financing activities (3)** | | **( 89 568)** | **( 56 989)** |
| **Net Increase (decrease) in cash & cash equivalents during the year (1)+(2)+(3)** | | **226 886** | **144 134** |
| Cash & cash equivalents at the beginning of the year | | 1 498 733 | 1 354 600 |
| **Cash & cash equivalents at the end of the year** | | **1 725 619** | **1 498 734** |
| **Cash & cash equivalents are represented in:** | | | |
| Cash and due from the Central Bank | (14) | 755 840 | 359 841 |
| Due from Banks | | 1 892 220 | 1 638 372 |
| Treasury bills | | 2 842 172 | 2 385 677 |
| Due from the Central Bank (within the mandatory reserve percentage) | | ( 712 757) | ( 300 205) |
| Due from Banks of over than three months maturity | | ( 209 684) | ( 310 550) |
| Treasury bills of over than three months maturity | | ( 2 842 172) | ( 2 274 401) |
| **Cash & cash equivalents at the end of the year** | **(29)** | **1 725 619** | **1 498 734** |

* The accompanying notes from (1) to (36) are an integral part of these consolidated Financial Statements and to be read therewith

# Consolidated Statement Of Changes In Shareholders' Equity

For the Financial Year Ended December 31, 2019

(All amounts are presented in thousand US$)

| | Paid in Capital | Legal reserve | General risk reserve | Capital reserve | Special reserve | fair value re-serve investments at fair value through OCI | General banking risk reserve | General risk reserve | (IFRS 9) risk reserve | Foreign exchange translation differenc-es | Reserve of the difference between current value and nominal value of subordinated deposit | Retained earnings | Minority interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at 31 December 2017 | **600 000** | **119 626** | **87 578** | **573** | **1 683** | **( 8 252)** | **3 702** | **-** | **37 193** | **( 128 438)** | **-** | **114 805** | **172 343** | **1 000 813** |
| Adjustments of intangible and fixed assets | - | - | - | - | - | - | - | - | - | - | - | ( 441) | ( 436) | ( 877) |
| Transferred to legal reserve | - | 7 382 | - | - | - | - | - | - | - | - | - | ( 7 382) | - | - |
| Transferred to general banking risk reserve | - | - | - | - | - | - | 1 096 | - | - | - | - | ( 1 096) | - | - |
| Dividends distribution for the year 2017 | - | - | - | - | - | - | - | - | - | - | - | ( 13 546) | ( 3 717) | ( 17 263) |
| Tramsferred to capital reserve | - | - | - | 4 | - | - | - | - | - | - | - | ( 4) | - | - |
| Net change in fair value of available for sale investments | - | - | - | - | - | ( 6 084) | - | - | - | - | - | - | ( 6 008) | ( 12 092) |
| Amortization of fair value reserve for bonds reclassified from financial investments available for sale to investments held to maturity | - | - | - | - | - | 3 423 | - | - | - | - | - | - | 3 363 | 6 786 |
| Foreign exchange translation differences | - | - | - | - | - | - | - | - | - | ( 931) | - | ( 173) | - | ( 1 104) |
| Net profit of the year | - | - | - | - | - | - | - | - | - | - | - | 41 971 | ( 9 550) | 32 421 |
| **Adjusted balance as at 31,December 2018** | **600 000** | **127 008** | **87 578** | **577** | **1 683** | **( 10 913)** | **4 798** | **-** | **37 193** | **( 129 369)** | **-** | **134 134** | **155 995** | **1 008 684** |
| | | | | | | | | | | | | | | |
| **Balance as of 1 January, 2019** | **600 000** | **127 008** | **87 578** | **577** | **1 683** | **( 10 913)** | **4 798** | **-** | **37 193** | **( 129 369)** | **-** | **140 501** | **162 253** | **1 021 309** |
| Adjustments - Fixed assets | - | - | - | - | - | - | - | - | - | - | - | ( 716) | ( 704) | ( 1 420) |
| Adjustments - Other provisions | - | - | - | - | - | - | - | - | - | - | - | ( 5 651) | ( 5 554) | ( 11 205) |
| **Adjusted balance as at 1 January 2019** | **600 000** | **127 008** | **87 578** | **577** | **1 683** | **( 10 913)** | **4 798** | **-** | **37 193** | **( 129 369)** | **-** | **134 134** | **155 995** | **1 008 684** |
| Transferred to General banking risk reserve | - | - | - | - | - | - | 478 | - | - | - | - | ( 478) | - | - |
| Transferred to General risk reserve | - | - | - | - | ( 1 614) | - | ( 5 180) | 43 987 | ( 37 193) | - | - | - | - | - |
| Impact of the initial implementation of IFRS9 | - | - | - | - | - | 10 847 | - | ( 43 987) | - | - | - | ( 81 060) | ( 14 795) | ( 128 995) |
| **Balance as of 1 January 2019 after the impact of the initial implementation of IFRS9** | **600 000** | **127 008** | **87 578** | **577** | **69** | **( 66)** | **96** | **-** | **-** | **( 129 369)** | **-** | **52 596** | **141 200** | **879 689** |
| | | | | | | | | | | | | | | |
| Transferred to capital reserve | - | - | - | 67 | - | - | - | - | - | - | - | ( 67) | - | - |
| Transferred to legal reserve | - | 3 962 | - | - | - | - | - | - | - | - | - | ( 3 962) | - | - |
| Net change in fair value of investments at fair value through other comprehensive income | - | - | - | - | - | 27 753 | - | - | - | - | - | - | 17 355 | 45 108 |
| Foreign exchange translation differences | - | - | - | - | - | - | - | - | - | 6 291 | - | - | - | 6 291 |
| Adjustment of lease value for finance lease cancelled contracts | - | - | - | - | - | - | - | - | - | - | - | 210 | - | 210 |
| Adjustments of Takaful contribution differences | - | - | - | - | - | - | - | - | - | - | - | (1) | - | (1) |
| Adjustments of previous years' tax | - | - | - | - | - | - | - | - | - | - | - | 38 | - | 38 |
| Difference between Current value and nominal value of subordinated deposit | - | - | - | - | - | - | - | - | - | - | 854 | - | - | 854 |
| Adjustments of profits for the year 2018 | - | - | - | - | - | - | - | - | - | - | - | ( 718) | 3 | ( 715) |
| Dividends distributions for the year 2018 | - | - | - | - | - | - | - | - | - | - | - | ( 10 410) | - | ( 10 410) |
| Net profit of the year | - | - | - | - | - | - | - | - | - | - | - | 50 888 | 5 855 | 56 743 |
| **Balance at 31 December 2019** | **600 000** | **130 970** | **87 578** | **644** | **69** | **27 687** | **96** | **-** | **-** | **( 123 078)** | **854** | **88 574** | **164 413** | **977 807** |

* The accompanying notes from (1) to (36) are an integral part of these consolidated Financial Statements and to be read therewith

# Notes to The Consolidated Financial Statements

For The Year Ended 31, December 2019

(All amounts in notes are presented in thousand US$

unless otherwise is stated).

## 1- **Background**

Arab International Bank was established in 1974 by virtue of an International Treaty.The registered office of the Bank is located at 35 Abdel Khalek Tharwat Street, Cairo, Egypt and the Bank carries out its business activities through its network of branches in the Arab Republic of Egypt that is composed of 20 branches. By virtue of the Treaty, the Bank enjoys certain privileges and immunities in the territories of the Member States (shareholders). The following are examples of the most prominent privileges and immunities based on the Establishment Treaty and the resolution taken by the Bank General Assembly meeting that was held on 22 March 2012 and came into force as of 14 April 2015:

- Exemption from laws regulating public institutions, public interest entities, public sector companies or joint stock companies in the Members States in which the Arab International Bank or its branches carry out business activities.
- Immunity from all forms of nationalization, seizure or sequestration of the shares of shareholders or their deposits with the Bank.
- The Bank's documents, records and files are inviolable and immune from judicial, administrative or accounting control and inspection rules and laws.
- Confidentiality of customers' accounts with the Bank are not subject to judicial or administrative attachment orders prior to final judgment issuance.
- Exemption from charges, stamps or taxes of any kind on its funds, profits, dividends and all its various activities and transactions.
- Exemption from taxation and any obligations for the payment, withholding or collection of any tax, stamp or duty, which may be imposed on its customers.
- In this respect the Bank practices its activities in a manner that is not in conflict with the aforementioned and the rest of the articles included in Establishment Treaty and in this context, the Bank is subjected to the oversight of the Central Bank of Egypt according to the provisions of the applicable law of the Central Bank of Egypt and the law of Banking and Monetary System of the hosting state, in addition, the Bank branches in the other Member States are subjected to the oversight of their own Central Banks in accordance with the provisions of laws governing their Banks and credit facilities .
- All the transactions of the Bank are carried out in all currencies determined by the Board of Directors.

These financial statements were approved by the Board of Directors as at June 1, 2020.

## 2- Summary of Significant Accounting Policies Applied

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

### A- Basis of Consolidated financial statements preparation

These consolidated financial statements are prepared in accordance with the instructions issued by the Central Bank of Egypt and approved by its Board of Directors on 16 December 2008, in addition to the instructions of preparation and presentation of the financial statements of banks in accordance with the requirements of IFRS 9 "financial instruments" issued by the Central Bank of Egypt on 26 February 2019. These consolidated financial statements are prepared in compliance with the provisions of the relevant local laws.

The consolidated financial statements were previously prepared (until 31 December 2018) in accordance with rules issued by the Central Bank of Egypt with respect to the preparation and presentation of the financial statements of banks and bases of recognition and measurement issued by the Central Bank of Egypt on 16 December 2008. As of 1 January 2019, and based on the instructions of preparation and presentation of the financial statements of banks issued on 26 February 2019 by the Central Bank of Egypt with respect to the requirements of IFRS (9) "Financial Instruments", the management of the Bank amended some of the accounting policies to be in agreement with the aforementioned instructions and the following clarification indicates the details of the changes introduced to these accounting policies.

### Changes Introduced to the Accounting Policies Applied

As of 1 January 2019, the Bank implemented the instructions of the Central Bank of Egypt issued on 26 February 2019 with respect to the preparation and presentation of the financial statements of banks in accordance with the requirements of IFRS (9) "Financial Instruments". The following is a summary of the main changes introduced to the accounting policies of Bank that resulted from the implementation of the said instructions.

### Classification of Financial Assets and Liabilities

Upon initial recognition the financial assets are classified as: measured at amortized cost or fair value through other comprehensive income or fair value through profit or loss.

The classification of financial assets is to be based on the business model through which the financial asset is managed and its contractual cash flows.

The financial asset is measured at amortized cost when both of the following conditions are met, and the asset is not classified as at fair value through profit or loss:

- Assets are retained in a business model that is intended to hold assets in order to collect contractual cash flows;
- The contractual terms of the financial assets on specific dates result in cash flows which are only payments of the principal amount and interest on the outstanding principal amount.

Debt instruments are measured at fair value through other comprehensive income only when both of the following conditions are met and are not classified as at fair value through profit or loss:

- Assets are retained in the business model, which is intended to achieve both the collection of contractual cash flows and the sale of financial assets.
- The contractual terms of the financial assets on specific dates result in cash flows that are only payments on the principal amount and interest on the outstanding principal amount.

Upon initial recognition of equity investments that are not held for trading, the group may irrevocably decide to measure subsequent changes in fair value in other comprehensive income. This choice is made for each investment on case by-case basis.

All other financial assets are classified at fair value through profit or loss.

In addition, upon initial recognition, the group may irrevocably specify a financial asset that satisfy the requirements of measuring it at amortized cost or fair value through other comprehensive income, as an asset measured at fair value through profit or loss, only in case such action shall eliminate or reduce to a large extent the accounting discrepancies that may arise if otherwise is made.

### Assessing the Business Model:

The Group assesses the objective of the business model in which the asset is maintained on the business portfolio level. This approach reflects the best manner of how the business is managed and how the information is presented to management. The following includes the information taken into consideration:

- The documented policies and objectives of the portfolio and the implementation of these policies in practice. In particular, whether the management strategy focuses only on the collection of the contractual cash flows of the asset or maintaining a specific rate of return to meet the maturities of the financial assets to be in agreement with the maturity dates of the liabilities that finance these assets or generate cash flows through the sale of these assets.

- How to assess the portfolio performance and presenting a report to management of the Bank in this regard.
- Risks affecting the performance of the business model and the financial assets held within that model in addition to the manner in which such risks are managed.
- The number of transactions, their volume and timing of sales in prior periods, the reasons for such sale, and expectations regarding future selling activities. However, information on sales activities is not considered separately, but as a part of a comprehensive assessment of how the documented objective of the Bank to manage the financial assets and how to generate cash flows is achieved.

The financial assets held for trading or their performance is assessed based on the fair value at fair value through profit or loss as they are not only held to collect contractual cash flows or not held to collect contractual cash flows along with selling the financial assets.

**Assessing whether the contractual cash flows are merely payments of the principal amount and interest or not:**

For the purpose of this assessment, the Bank defines the principal amount as the fair value of the financial asset at initial recognition. The return is defined as the time value of money and the credit risk associated with the principal amount outstanding over a specified period and other basic lending risk and costs (such as liquidity risk and administrative costs) in addition to the profit margin.
Within the framework of assessing whether the contractual cash flows of an asset are payments that are limited only to the asset of the principal amount and interest, the Bank takes into consideration the contractual terms of the instrument.
This includes assessing whether the financial asset includes contractual terms that may change the timing or amount of contractual cash flows, thereby not meeting that requirement.

### Impairment of Financial Assets Value:

According to the instructions of the Central Bank of Egypt issued on 26 February 2019, IFRS (9) shall replace the "recognized loss model" that was issued by virtue of the instructions of the Central Bank of Egypt issued on 16 December 2008, with the "expected loss model". The new impairment model also applies to all financial assets in addition to some loan commitments and financial guarantee contracts.

Based on IFRS (9), the credit losses are early recognized than before according to the instructions of the Central Bank of Egypt issued on 16 December 2008.

The Group applies a three-stage approach to measure expected credit losses for financial assets recorded at amortized cost and debt instruments classified as at fair value through other comprehensive income. Assets are transferred through the following three stages based on the changes in the quality of credit ratings since the initial recognition of these assets.

### Stage 1: Expected Credit Losses Over 12 Months

Stage 1 includes the financial assets at initial recognition where there has been no significant increase in credit risk since initial recognition or where the financial assets include relatively low credit risk.

As for these assets, the expected credit losses over 12 months are recognized and the interest is calculated for the total carrying value of assets (without deducting the credit provision). The expected credit losses over 12 months are the expected credit losses resulting from probable default cases within 12 months after the date of the financial statements.

### Stage 2: Lifetime Expected Credit Loss -Without Credit Value Impairment

Stage 2 includes the financial assets where there has been a significant increase in credit risk since initial recognition, but there is no objective evidence with respect to impairment of value. Lifetime expected credit losses are recognized over the lifetime of such assets. Nonetheless, the calculation of the interest based on the total carrying value of the assets shall continue. Lifetime expected credit loss over lifetime is the expected credit loss resulting from all cases of probable default over the expected lifetime of the financial instrument.

### Stage 3: Lifetime Expected Credit Loss - With Credit Value Impairment

Stage 3 includes the financial assets where there is objective evidence with respect to the impairment of value on the date of the financial statements. As for such assets the expected credit losses are recognized over lifetime of the assets. The interest on the accounts included in this stage are marginalized and the Bank keeps marginalizing as long as the mentioned accounts are still within this stage.

## B- Basis of consolidation

### (B/1) Investments in subsidiaries

Subsidiaries are entities (Including Special Purposes Entities / SPEs) which the bank exercises direct or indirect control over its financial and operating policies and usually have an ownership share of more than half of its voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the bank has the control over its investees.

Upon consolidation, transaction, balances and unrealized profits resulting from Intra-group transactions shall be excluded and the unrealized losses shall be excluded unless there is an evidence of impairment in the value of the transferred asset. The accounting policies of subsidiaries are changed whenever necessary to ensure the implementation of unified accounting policies within the companies of the group.

Accounting for acquisition of companies by the Bank is carried out according to the purchase method. The recognition of acquisition of companies by the Bank is measured at fair value or the value of assets given by the Bank in return for the purchase of companies and / or issued equity instruments and / or any other costs incurred by the Bank and / or any liabilities accepted by the Bank on behalf of the acquired company on the date of the asset exchange in addition to any costs directly attributed to the acquisition process. The net assets including the acquired determinable contingent liabilities are measured at fair value on the date of acquisition regardless of the existence of any minority interest / Noncontrolling interest. If the increase in acquisition cost is above the fair value of the Bank's share in net assets, it shall be considered as goodwill.

And if the acquisition cost is less than the fair value of aforementioned net assets, the difference is directly recorded in the income statement under the item of other operating revenues (expenses).

Due to the fact that the Bank is exercising control over its subsidiaries, the full consolidation method is the adopted basis of preparing the consolidated financial statements of the purposes of the Bank. The group financial statements are represented in the financial statements of:

- Societe Arab International de Banque (SAIB) with a participation percentage of 50.435 %
- Compagnie Arabe De Financement International (CAFI) with a participation percentage of 89.043 %

The participation of the Bank in the capital of Compagnie Arabe De Financement Internationale (CAFI) amounted to 89.043 % and the direct participation of the Bank in the capital of Société Arabe Internationale de Banque (SAIB) amounted to 46.075 % while the indirect participation of the Bank through Compagnie Arab De Financement International «CAFI» in the capital of Société Arabe Internationale de Banque (SAIB) amounted to 4.36% and thus the overall participation of the Bank amounted to 50.435%.

The control is realized based on the ability of the Bank to control the financial and operating policies of the investees to obtain benefits from their activities.

The bases of consolidation include the following:

- Excluding all the balances and transaction exchanged between the Bank and the company in addition to the unrealized profits resulting therefrom.
- The rights of the noncontrolling interest is represented in the other shareholders' equity who have no control in subsidiaries.

### Transactions with Minority Interest / Noncontrolling Interest:

- The Group considers the transactions with minority interest / noncontrolling interest as transactions with third parties outside the Group. The profits or losses resulting from sale to minority interest/ noncontrolling interest are recognized in the income statement. The purchase transactions of minority interest / noncontrolling interest result in a goodwill that represents the difference between the amount paid in return for the acquired shares and the book value of the subsidiary's net assets.
- If the share of the minority interest / noncontrolling interest in carried forward losses of a subsidiary is more than its equity in that subsidiary, such increase of share in carried forward losses shall be charged to the equity of the parent company except for the losses where the minority interest / noncontrolling interest has an obligation to incur on the condition of establishing additional investments to cover the losses. In case the subsidiary realizes profits in the future, such profits shall be added to the equity of the parent company to the extent of covering the losses previously incurred by majority interest on behalf of minority interest / noncontrolling interest.

### (B-2) Investments in associates

Associates are companies in which the Bank has, directly or indirectly, significant influence, but it does not reach the extent of control, and usually the Bank owns from 20% to 50% of the voting rights. Accounting for the associates is recorded first in the consolidated financial statements according to the cost method and then according to the equity method when subsequent to the date of initial recognition. Accordingly, investments of the Bank in associates are recorded at acquisition cost including any goodwill less any impairment loss in value that was determined at acquisition.

The share of the Bank in associates' profits and losses resulting after acquisition is recorded in the income statement. The share of the Bank in the movement occurring in associates' equity prior to acquisition is recognized in equity. The book value of the associate is adjusted in accordance with the accumulated movement subsequent to acquisition. If the Bank's share in associate's losses is equivalent to or more than its participation in the associate, including any unsecured debit balances, the Bank shall not record any other losses unless the Bank has a commitment to do so or incurred payments on behalf of the associate.

The unrealized profits from transactions with associates are excluded within the limits of the Bank's share in associates. The unrealized losses are excluded provided that the transaction provides an evidence of impairment in value of the exchanged asset. The accounting policies of subsidiaries are changed whenever necessary to ensure that the Bank is implementing a unified accounting policies.

The profits and losses resulting from a change in the ownership structure of associates are recognized in the income statement.

## 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 a segment which provides products or services within an economic environment that are subject to risks and returns different from those of segments operating in other economic environments.



### D- Functional currency, presentation, transactions and balances in foreign currencies

The financial statements of the Bank are presented in US Dollar pursuant to the stipulations of the law of establishing the Bank and its articles of association, while transactions are recorded in the books during the year according to the currency in which the transactions were carried out. For the purposes of presenting the financial statements of the Bank in US Dollar, all assets and liabilities of monetary nature and recorded at the end of the reporting period in various currencies (other than the Egyptian Pound) are translated into US Dollar based on the prevailing exchange rates on that date- as for the balances in the Egyptian Pound, they are translated into US Dollar based on the official exchange rates declared by the Central Bank of Egypt.
Foreign exchange gains and losses resulting from settlement and translation of such transactions and their differences are recognized in the income statement and reported under the following items:

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

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 (debt instruments) are analyzed into 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 instrument. Differences resulting from changes in the amortized cost are recognized and reported in the income statement under the item of "Interest on loans and similar income" whereas differences resulting from changes in foreign exchange rates are recognized and reported in "Other operating revenues (expenses)". The differences resulting from changes in fair value are recognized in equity under the item of " Fair value reserve of financial investments available-for-sale ".

Translation differences arising from the measurement of non-monetary items include gains or losses resulting from changes in fair value such as equity instruments held at fair value through profit or loss. Translation differences arising from the measurement of equity instruments classified as financial investments available for sale are recognized under the item of "Fair value reserve" in equity.

## E- Treasury bills

Treasury bills are recorded upon purchase at nominal value. The issuance discount that represents nonaccrual income of the treasury bills is recorded under other liabilities. The treasury bills are presented in the balance sheet less nonaccrual income that is measured at amortized cost using the effective interest rate. The treasury bills held to collect the contractual cash flows and sale are measured at fair value through other comprehensive income.

## F- Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; financial investments held-to-maturity; and financial investments available-for-sale. The Management determines the classification of its investments at initial recognition.

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

This category includes financial assets held for trading, financial assets designated at fair value through profit or loss at initial recognition and financial derivatives.

Financial assets are classified as held for trading if they are acquired or incurred principally for the purpose of selling in the near term or if they represent a part of a defined financial instruments portfolio managed together and there is evidence resulted from recent actual transaction that profit can be obtained in a short term.

Derivatives can be classified as held for trading unless they are identified as hedging instruments.

## Financials assets designated at fair value through profit or loss are recognized when:

Doing so significantly reduces measurement inconstancies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were valued at amortized cost for loans and facilities to customers or Banks and issued debt securities.

Equity investments that are managed and evaluated at the fair value basis in accordance with a risk management or investment strategy and preparing reports to top management on that basis are classified as fair value through profit and loss.

Financial instruments such as debt instrument which contain one or more embedded derivatives which may significantly affect the cash flows are classified at fair value through profit and loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are recorded in the «net income from financial instruments originally classified at fair value through profit and loss»

It is not permitted to reclassify any derivative out of the financial instrument valued at fair value through profit or loss category during its holding period. Also, it is not permitted to reclassify any financial instrument valued at fair value through profit or loss category if it is designated at fair value through profit or loss at initial recognition.

## (F/2) Loans and receivables:

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

Those that the Group intends to sell immediately or in the short term, and classified as held for trading, or those that the Group upon initial recognition designated as at fair value through profit or loss.

Those that the Group upon initial recognition classified as available for sale.

Those for which the Group may not substantially recover all its initial investment, due to reasons other than credit deterioration.

## (F/3) Held to maturity financial assets:

Held to maturity financial assets are non-derivative assets which carry fixed or determinable payments and where the Group has the intention and the ability to hold to maturity. Any sale of a significant amount of financial assets, held to maturity, would result in the reclassification of all held to maturity assets as available for sale except in cases of necessity.

## (F/4) Available for sale financial assets:

Available-for-sale assets are non-derivative financial assets that the Bank's management has intention to hold for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

## The following applies to financial assets:

- Regular-way purchases and sales of financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. In such case, the recognition shall apply to the assets classified as, at fair value through profit or loss, held to maturity investments and available for sale investments.

- Financial assets are initially recognized at fair value plus transaction costs for all financial assets other than financial assets originally classified at fair value through profit and loss. The financial assets originally classified at fair value through profit and loss, are recognized only at fair value, and transaction costs are expensed in the income statement in net income from trading.

- Financial assets are derecognized when the contractual rights to receive cash flows have expired or when the Group has substantially transferred all the risk and rewards of ownership. Financial liabilities are disposed upon disposal or cancellation or expiration of its contractual term.

- Available-for-sale financial assets and financial assets classified at fair value through profit or loss are subsequently measured at fair value while held-to-maturity assets, loans and receivables are measured at amortized cost.

- Gains and losses arising from changes in the fair value of assets at fair value through profit or loss are recognized in the income statement in the period it occurs. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity should be recognized in profit or loss.

- Interest income is recognized based on the amortized cost method in the income statement, the foreign currency revaluations differences related to monetary assets available for sale are recognized in the income statement. Dividends from available for sale equity instruments are recognized in the income statement when the Bank's right to receive the payment is established.

- Fair value of investments obtained from quoted market price in active market (Bid Price), where no active market exists, or quoted price are unobtainable, the fair value is estimated by the Group using a variety of valuation techniques – including recent sale prices, discounted cash flow analysis, option pricing models or any other valuation method commonly used by market participants. When the Group is unable to estimate the fair value of equity instruments classified as available for sale instruments, it is measured at cost less any impairment loss in value.

- The Group reclassifies the financial asset classified as an asset included in the category of the financial instruments available for sale which has the definition of loans and debts (debt securities or loans) and transfer it from the category of the financial instruments available for sale to the category of loans and debts or financial assets held to maturity – as the case may be - when the Group has the intention and ability to hold these financial assets in the near future or to the date of maturity. The reclassification is carried out at fair value on the date of reclassification. Any profits or losses related to such assets that were previously recognized in equity are treated as follows:

  1. In case of having reclassified financial assets with fixed and determinable payments and fixed maturity, gains and losses are amortized over the remaining life of the financial asset held to maturity using the effective interest method. The difference between the amortized cost and the maturity value is amortized over the remaining life of the financial asset, using the effective interest method. In case of subsequent impairment in financial asset value, the profits or losses that have been previously recognized in equity are recognized immediately in the income statement.

  2. In case of financial assets without fixed or determinable maturity, gains and losses are held in equity until the asset is sold or disposed of, then removed from equity and recognized in the income statement. In case of subsequent impairment in financial asset value, the profits or losses that have been previously recognized in equity are directly recognized under the item of equity in the income statement.

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

- In all cases, if the Group reclassified the financial asset in accordance with what is referred to above and the Group subsequently increases its future cash proceeds estimates resulted from an increase in the recoverable amount from its cash receipts, this increase is recognized as an adjustment to the effective interest rate and not as an adjustment in the book value of the asset on the date of change in estimate.

### (F/5) Financial policy applied as of 1 January 2019

The Bank classifies its financial assets within the following groups: financial assets measured at amortized cost, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at fair value through profit or loss. In general, the classification is based on the business model according to which the financial assets and their contractual cash flows are managed.

### (F/5/1) Financial assets at amortized cost:

The financial asset is retained in the business model of financial assets held for collecting contractual cash flows.

The purpose of the business model is holding the financial asset to collect contractual cash flows represented in the principal amount of investment and returns.

Sale is an exceptional contingent event with respect to the purpose of this business model according to the conditions stipulated in the Standard and represented in:

- Existence of deterioration in the creditworthiness of the issuer of the financial instrument.
- Lowest sales in terms of turnover and value.
- The Bank makes clear and reliable documentation of the justifications for each sale transaction and the extent of its compliance with the requirements of the Standard.

### (F/5/2) Financial assets at fair value through other comprehensive income (FVOCI):

Business model of financial assets held to collect contractual cash flows and sales.

- Both the collection of contractual cash flows and sales are complementary to the objective of the business model.
- High sales in terms of turnover and value when compared to the business model retained for the collection of contractual cash flows.

### (F/5/3) Financial assets at fair value through profit or loss:

The financial asset is retained among other business models that include trading, management of financial assets at fair value, maximizing cash flows by selling.

- The objective of the business model is not to retain the financial asset for the collection of contractual cash flows or retain cash flows for the collection of contractual cash flows and sales.
- Collecting contractual cash flows is a contingent event for the business model objective.

### The characteristics of the business model are represented in the following:

- Structuring a group of activities designed to extract defined outputs.
- A business model that represents a complete framework of defined activity (inputs – activities – outputs).
- The single business model may include sub-business models.

## G- Off - setting financial instruments:

Financial assets and liabilities can be offset when, there is a currently enforceable legal right to set-off the recognized amounts and there is an intention to settle on a net basis, or to receipt the asset and settle the liability simultaneously.
Treasury bills, repos and reverse repos agreements are netted, and presented on the balance sheet under the item of treasury bills and other government notes.

## H- Interest income and expense

Interest income and expense related to the financial instruments are recognized under the item of loans interest income and similar income or deposits interest expense and similar charges using the effective interest method for all the financial instruments charged with interest, except for the instruments classified as held for trading assets or financial assets originally classified at fair value through profits and losses where their interests are recorded in changes in their fair value.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the related instrument. The effective interest rate is the rate that discounts estimated future cash flows payments or receipts over the expected life of the financial instrument or, a shorter period when appropriate to reach the precise net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, early payment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties of the contract that is considered part of the effective interest rate and the transaction costs shall include any other premiums or discounts.

When loans or debts are classified as non-performing or impaired, related interest income are not recognized but rather, they are carried off balance sheet in statistical records and are recognized as revenues according to cash basis as per the following:

- When collected and after recovery of all arrears for consumer loans, mortgage loans for personal housing, and small loans for economic activities.
- As for the loans granted to institutions, the cash basis of accounting is to be applied also where the interest income that is subsequently calculated according to the terms of the loan scheduling contract, they are recognized when 25% of the loan installments are paid with a regular performing period of at least one year and in case the customer keeps paying the installments on regular performing basis, the calculated interest income of the outstanding loans balance shall be recorded in revenues (interest income from regular scheduling balance) without the suspense interest before scheduling that is not recorded in revenues unless the entire loan balance is paid in full in the balance sheet prior to scheduling.

## I -Fees and commissions income:

Fees and commissions related to loan or facility are recognized as income when the service is rendered. Fees and commission income related to non-performing or impaired loans or debts (Stage 3) – are measured at amortized cost and they are suspended and carried off balance sheet in statistical records and recognized under income according to the cash basis, when interest income is recognized in accordance with note (G) above. As for fees and commissions, which represent a complementary part of the financial asset effective rate are recognized as adjustment to the effective interest rate.

Commitment fees of loans are deferred as revenue when there is probability that these loans will be used by the customer, as commitment fees obtained by the Group, represent compensation for the continuing interference to acquire the financial instrument. Subsequently, they are recognized as adjustments to the effective interest rate of the loan. If the commitment period passed without issuing the loan by the Group, the commitment fees are recognized as income at the end of the commitment period.

Fees and commissions related to debt instruments measured at fair value are recognized as income at initial recognition. Fees and commission related to marketing of syndicated loan are recognized as income when the marketing is completed, and the loan is fully used, or the Group did not keep any share of the syndicated loan or kept a share of effective interest rate that is available for the other participants.

Fees and commissions arising from negotiation or participating in a negotiation to the favor of a third party as in share acquisition arrangements, purchase of securities or purchase or sale of entities are recognized as income when the transaction is completed. Fees and commissions related to management advisory and other services are recognized as income based on the contract terms, usually on a time-appropriation basis over the financial period. The fees of financial planning and safe custody services provided over a long period of time are recognized over the year in which the service is provided.

## J- Dividend income

Dividends are recognized in the income statement when the right to receive those dividends is established.

## K-Impairment of financial assets

### K/1 Financial assets recorded at amortized cost:

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

The indicators used by the Group to determine whether there is objective evidence that a financial asset or a portfolio is impaired include the following:

- Significant financial difficulty facing the borrower or obligor.
- Breach of the loan agreement, e.g. default
- It became probable that the borrower will enter into bankruptcy, action for liquidation or restructuring of finance.
- Deterioration of competitive position of borrower.
- Granting privileges or assignments by the Group to the borrower, due to economic or legal reasons related to pecuniary difficulties, which are not granted by the Group in the normal course of business.
- Impairment of guarantee.
- Deterioration of creditworthiness.

An objective evidence for impairment loss of a category of financial assets is the existence of clear information indicating a measurable decline in the expected future cash flows of such category since initial recognition though such decline is not identifiable for each separate asset. For instance, the number of cases of default payment with respect to one of the banking products.

The Group estimates the period of confirming the loss that is represented in the period between identifying the loss event and identifying the loss for each specific portfolio and for implementation purposes, the period of confirming the loss shall be range between three to twelve months.

The Group first assesses whether objective evidence of impairment exists individually for each financial asset that is individually significant, while assessing whether objective evidence of impairment exists individually or collectively for financial assets that are not individually significant and, in this regard,, the Group shall consider the following:

- In case there is no objective evidence that an impairment loss has been incurred on a financial asset considered individually, being individually significant or not, the Group includes that financial asset in a group of financial assets having similar characteristics in terms of credit risk and tests the whole group of financial assets for impairment in value based on the historical probable default rates.
- In case there is objective evidence on a financial asset impairment determined by the Group, then it shall be considered individually to assess the impairment and if the study revealed the existence of impairment loss, the financial asset shall not be included in the group for which the impairment losses are collectively calculated.
- If the result of the previously study did not recognize impairment loss, then this asset will be added to the group of financial assets that are collectively evaluated for impairment.

Impairment loss amount is measured based on the difference between the carrying amount and the present value of the expected future cash flows while excluding future expected credit loss (ECL) that has not been charged yet and discounted at the financial assets' original effective interest rate. The carrying value of the asset is reduced by using an account for impairment loss provision and the impairment burden of credit loss is recognized in the income statement.

If a loan or financial assets classified as held to maturity carry variable rate, the discount rate will be the contract effective interest rate when there is objective evidence that an impairment loss has been incurred. For practical purposes, the Group may measure the impairment loss in value using the fair value of the instrument using the declared market rates. As for guaranteed financial assets, the present value for expected future cash flows has to be considered in addition to the proceeds that may result from executing and sale of guarantee after deducting the selling cost related thereof.

For the purposes of a collective evaluation of impairment, financial assets are grouped based on similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for that group of assets as they represent indicators of the debtors' ability to pay all amounts that fell due according to the contract terms for assets representing the subject matter of the study. When assessing the impairment of a group of financial assets based on the historical probable default rates, the future contractual cash flows of the group shall be assessed based on the contractual cash flows of the assets of the Group and the historical loss of assets with credit risk characteristics similar to the assets acquired by the Group. Historical impairment loss amount is adjusted based on the current declared information in a manner that reflects the effects of current circumstances that did not affect the period in which the historical impairment loss rates is estimated in addition to removing the effects of the circumstances existent in the historical periods and currently no longer exist.

The Group ensures that the estimates of changes in future cash flows for a group of financial assets are in consistence with changes in relative reliable data from year to year. The Group also reviews the methods and assumptions used to estimate the future cash flows on regular basis. The book value is directly reduced in impairment losses for all assets measured at amortized cost, except for the customers' balances, where the impairment in value is treated based on forming a provision.

When the customer's balance turns out to be uncollectable, it shall be written off and charged to the provision account in which the proceeds of debts previously written off are added and the change in provision estimates formed for customers' balances impairment is directly recognized in the income statement without customer's quittance.

### (K/2) Investments available for sale

On each balance sheet date, the Group estimates if there is an objective evidence that impairment loss for the value of a financial asset or a group of assets classified as available-for-sale financial investments has occurred. In case of investments in equity instruments classified as available for sale investments and there is significant or a prolonged decline in the fair value of the instrument below its book value, such significant or a prolonged decline is taken into consideration when an assessment of the asset's impairment is recognized. The decline in value is considered significant for the equity instruments if it reaches 10% of the book value of the financial instruments' cost, and it is considered prolonged if it extends for a period of more than 9 months. When the aforementioned objective evidences in the fair value of an available for sale financial asset has been recognized, the accumulated loss in equity shall be directly charged to income statement. Impairment loss in value recognized in the income statement with respect to equity instruments shall not be reversed if there is subsequent increase in fair value. In case of an increase in the fair value of debt instruments classified as available for sale and this increase can be objectively related to an event occurring after the recognition of impairment loss in profit or loss, the impairment shall be reversed in the income statement.

### Financial policy applied as of 1 January 2019

The Group reviews all its financial assets except for the financial assets measured at fair value through profit or loss to estimate the extent of impairment existence in value as indicated below.

**The financial assets are classified on the date of the financial statements within three stages as follows:**

- The first stage: includes the financial assets where there has been no significant increase in credit risk loss since initial recognition date where the expected credit risk is calculated for 12 months.
- The second stage: includes the financial assets where there has been significant increase in credit risk loss since initial recognition or the date of recognizing their functions where the expected credit risk is calculated over the lifetime of the asset.
- The third stage: the financial assets where there has been impairment in their value that requires calculating their expected credit risk over the lifetime of the asset based on the difference between the book value of the instrument and the present value of the expected future cash flows.

**The credit loss and the impairment loss in value related to the financial instruments are measured as follows:**

- The low risk financial instrument is classified at initial recognition in the first stage and the credit risk shall be continuously monitored by the credit risk department of the Bank.
- If there is no significant increase in credit risk since initial recognition, the financial instrument is to be transferred to the second stage as it shall not be considered as impaired financial instrument yet in this stage.
- In case of indicators of impairment in the value of the financial instrument, it shall be transferred to the third stage.
- The financial assets established or acquired by the Bank and include a higher rate of credit risk than the rates of the Bank for low risk financial assets at initial recognition, shall be directly classified in the second stage. Accordingly, their credit loss shall be measured based on the expected credit risk over the lifetime of the asset.

### Significant increase in credit risk (SICR):

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative factors related to default have been met.

### Quantitative criteria:

Quantitative criteria are applied when the probability of default (PD) increases over the remaining lifetime of the instrument starting from the date of the balance sheet, compared to the residual Lifetime PD expected at initial recognition according to the structure of credit risk levels accepted by the Bank.

### Qualitative criteria:

### For banking retail loans, small and micro finance enterprise

### If the borrower encounters one or more of the following events:

- The borrower requests to change short-term payment to long -term payment as a result of negative effects related to the cash flows of the borrower.
- Extending the grace period of payment upon a request provided by the borrower.
- Previous reiterated arrears within the last [12] months.
- Adverse future economic changes which affects the borrower's future cash flows.

### Loans granted to institutions and medium enterprises

### If the borrower is on the watchlist and/or the instrument meets one or more of the following events:

- Significant increase of interest of the financial asset as a result of increase in credit risk
- Significant adverse changes in business activity, financial and/or economic conditions in which the borrower operates
- Request of debt rescheduling as a result of difficulties encountering the borrower.
- Significant adverse change in actual or expected operating results or cash flows of the borrower
- Adverse future economic changes which affects the borrower's future cash flows.
- Early signs of cash flow/liquidity problems such as delay in servicing of creditors/ trade loan
- Cancellation of one of the direct facilities on the part of the Bank due to an increase in credit risk of the borrower

### Payment default

Loans and facilities granted to institutions, medium, small and micro finance enterprises and retail banking are included in the second stage if the default period exceeds (60) days at most and less than (90) days, while taking into consideration that this period (60 days) shall be reduced at a rate of (10) days per annum to become (30) days during (3) years from the date of implementation.

### Upgrade and transfer from the second stage to the first stage:

The financial asset shall not be transferred from the second stage to the first stage unless all elements of quantitative and qualitative criteria of the first stage have been met and the entire arrears of the financial asset and interests are paid

### Upgrade and transfer from the third stage to the second stage:

The financial asset shall not be transferred from the third stage to the second stage unless all following conditions are met:

- All quantitative and qualitative elements of the second stage are met.
- Paying 25% of the financial asset due balances including due suspense interests.
- Regular payment for a period of at least 12 months.

## L- Investment Property

Investment property is represented in lands and buildings owned by the Bank for obtaining rental income or capital increase and subsequently it does not include the real estate assets in which the Bank practices its business activity or the assets ownership reverted to the bank in settlement of debts. The initial recognition of the investment property is carried out at cost and includes the transaction cost. The accounting of the investment property is implemented in the same manner applied to the accounting of the fixed assets.

## M- Intangible assets (Computers software)

The expenses related to the development or maintenance of computers are recognized as an expense charged to income statement when incurred and it is recognized as an intangible asset with respect to the expenses directly related to specific software under the control of the Bank when it is expected to generate economic benefits thereof that exceeds its cost for more than one year.

The direct expenses include the cost of employees working in the software development team in addition to a reasonable share of the general expenses relevant thereto.

The expenses that lead to the increase or expansion in the performance of computers software when compared with the original specifications thereof is recognized as development cost and it is added to the original software cost.

The computers software cost recognized as an asset is amortized over the years expected to benefit from them provided that they shall not exceed three years.

## N- Fixed assets

They represent land and buildings related to head office, branches and offices. All fixed assets are reported at historical cost less depreciation and impairment losses. The historical cost includes all costs directly related to the acquisition of fixed assets items.

Subsequent costs are recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be reliably measured. Maintenance and repair expenses 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 cost to until it reaches the residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | from 20 to 50 years |
| Furniture | from 5 to 10 years |
| Computers | 5 years |
| Fixtures and fittings | from 5 to 10 years |
| Tools & equipment | from 5 to 10 years |
| Means of transport | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is reduced immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The redeemable value is represented in the net selling value of the asset or the use value of the asset whichever higher. Gains and losses on disposals are determined by comparing net proceeds with asset carrying amount. These gain and losses are included in other operating income (expenses) in the income statement.

## O- Other assets

This item includes the other assets that are not classified as defined assets in the balance sheet where accrued revenues, prepaid expenses, advance payments under the account of fixed assets purchase, deferred balance of the first day losses that is not amortized yet, current assets and noncurrent assets that their ownership reverted to the bank in settlement of debts (after deduction of impairment loss provision), deposits and imprests, gold bullions, commemorative coins, debit suspense accounts and balances that are not classified under any defined asset.

Most of the elements of other assets are measured at cost. If there is an objective evidence for impairment loss in the value of the said assets, then the loss is separately measured for each asset based on the difference between its carrying amount and its net selling value or the present value of the estimated expected future cash flows discounted at the current market rate of similar financial assets, which ever higher.

The book value of the asset is directly reduced, and the loss is recognized in the income statement under the item of other operating revenues (expenses). If the impairment loss is reduced in any subsequent period and such reduction can be objectively related to an event that occurred after the recognition of the impairment loss, then the impairment loss previously recognized is reversed to the income statement provided that such cancellation does not establish an asset book value, on the date of reversing the impairment loss, that exceeds the value of the asset which may be reached if the recognition of such impairment loss has not been recognized.

**With reference to the asset's ownership reverted to the bank in settlement of debts, the following has to be taken into consideration:**

In accordance with the provisions of Article No. (60) of the Central Bank Law and the law of Banking and Monetary System of the hosting state No. (88) for the year 2003, it is prohibited for banks to deal in movables or real estate whether by purchasing, selling or exchange, except for the real estate allocated for running the business of the Group, used for entertainment purposes of the employees of the Bank, movables or real estate reverted to the Group in settlement of debts due from third parties when the recognition thereof started from the date of conveyance of ownership (the date of debt reduction) and such real state is included in assets reverted to the Group in settlement of debts, provided that the Group shall dispose thereof according to the following:

- Within one year from the date of conveyance of ownership with respect to movables.
- Within five years from the date of conveyance of ownership with respect to real estate.
- The Board of Directors of the Central Bank of Egypt may approve the extension of the period whenever the circumstances deem necessary, in addition, the Board of Directors of the Central Bank of Egypt has the right to exempt some banks from such restriction based on the banks' nature of activity.
- The assets reverted to the Bank in settlement of debts are recorded at the value in which the said assets reverted to the Bank and represented in the value of debts which the Bank's Management decided to assign in return for such assets. If there is an objective evidence for impairment loss in the value of the said assets in the subsequent date of conveyance of ownership, then the loss is separately measured for each asset based on the difference between its carrying amount and its net selling value or the present value of the estimated expected future cash flows discounted at the current market rate of similar financial assets, which ever higher. The book value of the asset is reduced through the impairment account and the loss value is recognized in the income statement under the item of other operating revenues (expenses). If the impairment loss is reduced in any subsequent period and such reduction can be objectively related to an event that occurred after the recognition of the impairment loss, then the impairment loss previously recognized is reversed to the income statement provided that such cancellation does not establish an asset book value, on the date of reversing the impairment loss, that exceeds the value of the asset which may be reached if the recognition of such impairment loss has not been recognized.
- In the light of the nature of the movables or real estate which their ownership reverted to the bank pursuant to the provisions of the aforementioned article, the movables or real estate are classified in accordance with the plan of the Bank, the nature of expected benefits thereof among the fixed assets, investment property, shares, bonds or other assets available for sale, as the case may be. Accordingly, the bases relevant to the measurement of fixed assets, investment property, shares or bonds are applied to the assets reverted to the bank in settlement of debts and classified under any item of these items. As for the other assets, that are not included in any of these classifications and considered as other assets available for sale, they are measured at cost or fair value defined by the accredited experts of the Bank-less the selling costs –whichever is lower. The differences resulting from the valuation of these assets are recognized in the income statement under the item of other operating revenues (expenses) provided that such assets are to be disposed of within the period prescribed by virtue of law.

  If the said assets are not disposed of, within the period prescribed by virtue of law in accordance with the provisions of Article No. (60) of Law No. 88 of 2003, the banking risk reserve is to be supported by the equivalent of 10% of the value of the said assets on annual basis. The net revenues and expenses of assets reverted to the bank in settlement of debts during the period of their acquisition by the Group are recorded in the income statement under the item of other operating revenues (expenses).

## P- The impairment of non-financial assets

The financial assets that have no specific useful life are not depreciated – except for the goodwill – and their impairment is examined on annual basis. The impairment of assets that had been depreciated are to be considered whenever there are events or changes in the circumstances indicating that the book value may not be redeemable.

The impairment loss is to be recognized and the asset value shall be reduced with the amount by which the book value of the asset has been increased above the redeemable value. The redeemable value is represented in the net selling value of the asset or the use value of the asset whichever higher. For assessing the impairment, the asset is to be attached to the smallest possible cash-generating unit. The nonfinancial assets that have impairment are to be reviewed to examine whether there is reverse of impairment to the income statement or not on the date of preparing every financial statement.

## Q- Lease Contracts

All lease contracts concluded with the Group are operating lease contracts.

### (Q/1) Lessee

The payments settled under the account of operating lease less any discounts obtained from the lessor under the item of expenses are recognized in the income statement based on the straight-line method over the term of contract.

### (Q/2) Lessor

The assets leased out on operating lease basis that are included in the fixed assets in the balance sheet and depreciated over the expected useful life of the asset using the same manner applied to the similar assets. The rent income is recorded less any discounts granted to the lessee based on the straight-line method over the term of contract.

## R- Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents include balances due within three months from date of acquisition, cash and balances due from the Central Banks other than the mandatory reserve, balances with banks, treasury bills and other government notes.

## S- Other provisions

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

Where there is a number of similar obligations, the likelihood that an outflow is required to settle an obligation is determined taking into consideration the group of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any obligation in this group is minimal.

Provisions no longer required totally or partially are reversed in other operating income (expense).

Provisions are measured at the present value of the expected required expenditures to settle obligations after one year from balance sheet date using an appropriate rate in accordance with the terms of settlement which reflects the time value of money. If the settlement term is less than one year, the estimated value of the obligation is to be calculated unless it has a significant effect, then it shall be calculated using the present value.

## T- Employees' Benefits:

### Employees Share in Profits:

The Bank pays a percentage of cash profits expected to be distributed as the employees share in profits and recognizes that share as part of the dividends appropriation in equity and as liabilities when approved by the shareholders general assembly of the Bank and no liabilities shall be recorded in the undistributed employees share in profits.

### Employees' Pension Fund & End of Service Compensations

The Bank adopted special benefits plan until 17/4/2008. The Bank's contributory defined pension plan covers the permanent employees' pensions and other end of service benefits. The Bank's contribution to this fund is computed at a certain percentage of the employees' annual salaries, in addition to amounts required to the fund as decided by the Actuary to continue providing its services and maintain the minimum return on its invested funds. As for the employees appointed in the Bank after 17/4/2008, the Bank adopted special benefit plan with respect to the end of service compensation only without pensions and the Bank participates in such compensations by a percentage of the employees' wages who are working under the umbrella of this benefit plan on annual basis.



## U- Dividends

Dividends are recognized and deducted from equity in the period when approval thereof is declared by the Shareholders General Assembly. Those dividends include employees' share in the profits and the Board of Directors' remuneration as prescribed by the articles of association.

# 3- Financial Risk Management

The Group, as a result of the activities it exercises, is exposed to various financial risks; acceptance of risks is a basis in the financial activities. Some risks or group of risks are analyzed, evaluated and managed together. The Group objective is to balance between the risk and return and to reduce the possible negative effects on the Bank's financial performance. The most important types of risks are credit risk, market risk, liquidity risk and other operating risks. The market risk comprises foreign currency exchange rates, interest rate risk and other pricing risks.

The risk management policies have been set to determine and analyze the risks, set limits to the risk and control them through reliable methods and updated information systems. The Group regularly reviews the risk management policies and systems and amends them to reflect the changes in markets, products and services and the best updated applications.

Risks are managed by the Risk Management Department in the light of the policies approved by the Board of Directors. Risk Management Department identify, assess, and cover financial risks in close cooperation with other operating units in the Bank. Within framework of the principles of governance and the sound banking practices related to banking risks management, the Board of Directors provides an integrated supervisory structure of higher committees originated therefrom.

The Risk Management Department is in charge of the regular review of risk management and the control environment in an independent manner.

## A- Credit risk

The Group is exposed to credit risk, which is the risk resulting from failure of one party to meet its contractual obligations. Credit risk is considered the most significant risk for the Bank; therefore, the management is conservative and prudent in managing this risk exposure. Credit risks results mainly from lending activities that result in loans and facilities and from investment activities which consequently results in including such debt instruments in the Group's assets. Credit risk is also included in off balance sheet financial instruments, such as loan commitments. Managing and monitoring process of credit risk is represented in credit risk department reports presented to the Board of Directors, Top Management and Heads of operating units on regular basis.

### (A/1) Credit risk measurement

### Loans and facilities to Banks and customers

To measure credit risk on the loans and facilities to Banks and customers, the Bank considers the following three components:

- Probability of default by the client or third parties to fulfill its contractual obligations.
- The current position and its future development from which the Bank concludes the balance exposed to risk. (Exposure at default).
- Loss given default risk.

The daily management of the Group's activities involves measures of credit risk based on the Expected Loss Model required by the Basel Committee on Banking Supervision. Those operational measures could be inconsistent with the impairment loss burden according to EAS 26, which adopts the realized losses model and not the expected losses (Note A - 3/1)) on the date of the financial statements.

The Group evaluates the default risk for each customer using internal evaluation methods to determine the credit rating for the different customer's categories. These methods were internally improved and developed taking into consideration statistical analysis and the professional judgment of the credit officers to reach the appropriate rating. The customers of the Group are classified into four credit ratings. Rating scale (shown in the following table) reflects the possibility of defaults for each rating category, in which the credit positions may transfer from one rating to another depending on the change in the degree of possible risk. The customer's rating and the rating process are reviewed and improved whenever necessary.

The Group periodically evaluates the performance of the credit rating methods and their ability in expecting the customers' defaults.

**Bank's internal ratings scale**

| Rating description | Rating |
|---|---|
| Performing loans | 1 |
| Regular watching | 2 |
| Watch list | 3 |
| Non-performing loans | 4 |

The Position exposed to default depends on the outstanding balances expected at the time when a default occurs, for example, for the loans, where the position is the book value and for commitments, the Group includes all actual withdrawals in addition to any other expected withdrawals till the date of the late payment if any.

The expected losses or specific losses represent the Group's expectation of loss as of the date when the settlement is due, which is loan loss percentage that differs according to the type of debtor, claim priority , the availability of guarantees or any other means of credit cover.

## Debt instruments, treasury bills and other bills

For debt instruments and bills, the Bank is using the external classifications such as Standard & Poor's or equivalent to manage credit risk, in case such ratings are not available, methods similar to those applied to credit customers are used. Investments in securities and treasury bills are regarded as a way to get better credit quality and at the same time provides a source available to meet finance requirements.

## (A/2) Limiting and avoiding risks policies

The Group manages limits and controls credit risk concentrations on the levels of borrowers, groups, industries and countries.

The Group manages the credit risk it undertakes by placing limits on the amount of risk accepted in relation to every single borrower, or groups of borrowers, and on the levels of economic activities and geographic segments. Such risks are monitored on regular basis and subjected to annual or more frequent reviews, whenever necessary. The Board of Directors reviews on quarterly basis the levels of credit risk on the levels of the borrower, group of borrowers, product, segment and country.

The lines of credit are divided for any borrower including Banks, into sub limits based on amounts in and off-balance sheet, the daily limit risk on trading items such as forward foreign exchange contracts where the actual amounts are compared with the limit every day.

Exposure to credit risk is also managed through regular analysis of the existing and potential borrowers' ability to meet their obligations and through changing the lending limits whenever appropriate.

The following are other controls used by the Group to limit the credit risk.

## Collaterals

The Group use different methods to limit its credit risk. One of these methods is accepting collaterals against loans and facilities granted by the Bank. The Group implements guidelines for certain categories of collaterals to be accepted. The major types of collateral against loans and facilities are:

- Real estate mortgage.
- Business assets mortgage such as machines and goods.
- Financial instruments mortgage such as debt and equity instruments.

The long-term finance and loans to corporate entities are generally guaranteed while individual credit facilities are unsecured. In order to minimize the credit loss to the least, the Group will seek additional collaterals from all the concerned parties as soon as impairment indicators are noticed for a loan or facility.

The Group determines the type of collaterals held as a security for financial assets other than loans and facilities according to the nature of the instrument. In general, the debt securities and treasury bills are unsecured, except for Asset-Backed Securities and similar instruments secured by a financial instrument portfolio.

## Credit-related commitments

The primary purpose of these commitments is to ensure that funds are available to customer when required. Guarantees and Standby Letters of Credit contracts are of the same credit risks as loans. Documentary and commercial letters of credit – which are issued by the Group on behalf of the customer by which authorizing a third party to withdraw amounts within a certain limit from the Group in accordance to specific terms and conditions and guaranteed by the goods under shipment are of lower risk than a direct loan. Credit related commitments represent the unused portion of credit limit of loans, guarantees or letters of credit.

The Group is exposed to probable loss of amount equal to the total unused limit with respect to credit risk resulting from commitments related to granting the credit. However, the probable amount of loss is less than the unused limit commitments, as most commitments represent commitments to customers maintaining certain credit standards. The Group monitors the maturity term of the credit commitments because long-term commitments are usually of high credit risk than short-term commitments.

## (A/3) Impairment and provisioning policies

The internal rating systems described in Note (A - 3/1) focus on the planning of credit-quality to a large extent at the inception of recognizing the lending and investment activities. Otherwise, impairment losses incurred are only recognized on the balance sheet date for financial reporting purposes when losses are based on objective evidences of impairment as will be mentioned in this note. Due to the different methods applied, the amounts of incurred credit losses charged to the financial statements are usually lower than the estimated amount determined from the expected loss models used in the preparation of the financial statements in compliance with the rules of the Central Bank of Egypt.

The impairment loss provision appeared in the balance sheet at the end of the year is derived from the four internal rating grades. However, the majority of the impairment provision comes from the last rating. The table below shows the percentage of in-balance sheet items relating to loans, facilities and the related impairment for each rating:

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Ratings of The Group** | **Loans & facilities to customers and banks** | **Loans & facilities to customers and banks** |
| | % | % |
| Performing loans | 50.69 | 46.15 |
| Regular watching | 25.06 | 31.33 |
| Watch list | 7.67 | 15.53 |
| Non-performing loans | 16.58 | 6.99 |
| **Total** | **100** | **100** |

The internal evaluation instruments help the management to determine whether there are objective evidences of impairment according to the Egyptian Accounting Standard No. (26) and based on the following indicators as specified by the Group:

- Severe financial insolvency encountered by the borrower or the debtor.
- Violation of loan agreement such as default of payment.
- Expecting the Bankruptcy of the borrower, entering into liquidation case or restructuring the finance granted to him.
- Deterioration in the competitive status of the borrower.
- Granting concessions or privileges to the borrower due to economic, legal or financial insolvency encountered by the borrower which may not be given by the Group in normal circumstances.
- Impairment of guarantee value.
- Deterioration of the creditworthiness.

The policies adopted by the Group require reviewing all the financial assets exceeding specific relative significance at least once a year or more when the circumstances necessitate to do so. The impairment charge shall be determined on the accounts that are evaluated on case by case basis through the evaluation of the loss realized on the date of the balance sheet. Such policies are expected to be implemented on all accounts attributed by relative significance on case by case basis. The evaluation usually includes the outstanding guarantee that embraces the reassurance of the implementation on the guarantee and expected collections from the said accounts. The impairment losses provision is formed based on a group of assets of similar kind using the historical empirical experience available, professional judgment and statistical methods.

## (A/4) Banking general risk measurement model

In addition to the four categories of the Bank's internal credit rating indicated in note (A - 3/1), management classifies loans and advances based on more detailed subgroups in accordance with the CBE requirements. Assets exposed to credit risk in these categories are classified according to detailed conditions and terms depending heavily on information related to the customer, his activities, financial position and commitment to the payment schedules.

The Group calculates required provisions for impairment of assets exposed to credit risk, including commitments relating to credit based on the rates determined by CBE. In case of having required increment in impairment losses provision according to the rules of the Central Bank of Egypt that exceeds the amount required for the purposes of preparing the financial statements in accordance with the Egyptian Accounting Standards, the General Banking Risk Reserve shall be set aside in the equity and deducted from the retained earnings with an amount equivalent to such increment. The said reserve shall be adjusted on regular basis as an increase or decrease in a manner that is always equivalent to the amount of increase when comparing the two provisions. The said reserve shall not be distributable.



The following are the categories of credit ratings for the institutions in accordance with the four internal rating grades compared to the bases of the CBE assessment and provisions percentage required for the impairment of assets exposed to credit risk:

| CBE Ratings | Rating Indications | Provision Percentage % Required | Internal Ratings | Internal Ratings Granting |
|---|---|---|---|---|
| 1 | Low risk | Zero | 1 | Performing loans |
| 2 | Moderate risk | 1 | 1 | Performing loans |
| 3 | Satisfactory risk | 1 | 1 | Performing loans |
| 4 | Appropriate risk | 2 | 1 | Performing loans |
| 5 | Acceptable risk | 2 | 1 | Performing loans |
| 6 | Marginally Acceptable risk | 3 | 2 | Regular watching |
| 7 | Watch list | 5 | 3 | Watch list |
| 8 | Substandard | 20 | 4 | Non-performing loans |
| 9 | Doubtful | 50 | 4 | Non-performing loans |
| 10 | Bad debt | 100 | 4 | Non-performing loans |

## (A/5) Maximum limits for credit risk before collaterals:

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Balance sheet items exposed to credit risks** | | |
| Treasury bills and other government notes | 3 078 301 | 2 587 262 |
| Loans & facilities to banks (net) | 24 109 | 35 677 |
| Loans & facilities to customers (net) | 2 017 057 | 2 395 488 |
| **Financial investments: (net)** | | |
| - Debt instruments | 1 355 183 | 1 549 523 |
| Other assets | 91 312 | 99 427 |
| **Total** | **6 565 962** | **6 667 377** |
| **Off-balance sheet items exposed to credit risk** | | |
| Letters of credit | 75 790 | 175 110 |
| Letters of guarantee | 219 873 | 206 324 |
| Loans commitments & irrevocable other liabilities related to credit | 25 089 | 17 244 |
| **Total** | **320 752** | **398 678** |

The above table represents the maximum exposure to credit risk on December 31, 2019 – December 31, 2018 before taking into account any held collateral. As for the items of the balance sheet, the amounts of exposures set out above are based on net carrying amounts as reported in the balance sheet. As shown above 31.09 % of the total maximum exposure is derived from loans and advances to Banks and customers as at December 31, 2019, compared to 36.46 % as at December 31, 2018 while investments in debt instruments represent 20.64 % as at December 31, 2019, compared to 23.23 % as at December 31, 2018.

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

On December 31, 2019, 74.97 % of the loans and facilities portfolio are concentrated in the top two grades of the internal credit risk rating system compared to 76.9 % on December 31, 2018.

- On December 31, 2019, 83.88 % of loans and facilities portfolio are considered to be neither past due nor impaired compared to 92.31 % on December 31, 2018.
- Loans and facilities assessed individually are valued at US$ 388 131 thousand on December 31, 2019 compared to US$ 180 881 thousand on December 31, 2018.
- The Group has implemented more prudent processes when granting loans and facilities during the financial year ended on December 31, 2019.
- On December 31, 2019 and on December 31, 2018, more than 99.5 % of the investments in debt instruments and treasury bills represent debt instruments of the Egyptian Government.

## (A/6) Loans and facilities

### Loans and facilities status based on credit rating are summarized as follows:

| | 31 December, 2019 | | 31 December, 2018 | |
|---|---|---|---|---|
| | Loans & facilities | | Loans & facilities | |
| | to customers | to banks | to customers | to banks |
| | | | | |
| Neither past due nor impaired * | 1 953 031 | 25 974 | 2 405 877 | 38 132 |
| Past due but not impaired | 27 094 | - | 19 459 | - |
| Past due but impaired | 385 588 | - | 179 872 | - |
| **Total** | **2 365 713** | **25 974** | **2 605 208** | **38 132** |
| Less: impairment loss provision ** | (326 496) | (211) | (189 529) | - |
| Prepaid interest | (21 804) | - | (20 191) | - |
| Unearned discount of discounted commercial papers | (356) | (1 654) | - | (2 455) |
| Net | 2 017 057 | 24 109 | 2 395 488 | 35 677 |

* Loans and facilities neither past due nor impaired

The credit quality for the loans and facilities portfolio (neither past due nor impaired) valued upon the internal valuation used by the Group.

** Impairment loss burden for loans and facilities to customers reached US$ 326 707 thousand on December 31, 2019 compared to US$ 189 529 thousand on December 31, 2018. Note No. (18) includes additional information with respect to the impairment loss provision for loans and facilities to customers.

### Loans and facilities status based on internal credit rating are summarized as at 31 December 2019 as follows:

### Neither past due nor impaired

| 31/12/2019 | Individuals | | | | Corporate | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Debit current accounts | Credit cards | Personal loans | Real estate loans | Debit current accounts | Direct loans | Syndicated loans | Other loans | Total loans and facilities to individuals & corporate |
| 1- Performing loans | - | - | 14 062 | 35 970 | 248 093 | 204 550 | 684 059 | 50 | 1 186 784 |
| 2- Regular watching | 50 606 | 6 996 | 128 989 | 4 507 | 78 405 | 179 656 | 137 535 | - | 586 694 |
| 3- Watch list | - | - | - | - | 487 | 108 894 | 70 172 | - | 179 553 |
| **Total** | **50 606** | **6 996** | **143 051** | **40 477** | **326 985** | **493 100** | **891 766** | **50** | **1 953 031** |

| 31/12/2018 | Individuals | | | | Corporate | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Debit current accounts | Credit cards | Personal loans | Real estate loans | Debit current accounts | Direct loans | Syndicated loans | Other loans | Total loans and facilities to individuals & corporate |
| 1- Performing loans | - | - | 16 968 | 21 861 | 207 690 | 215 876 | 731 458 | 49 | 1 193 902 |
| 2- Regular watching | 67 552 | 5 470 | 62 967 | 5 591 | 89 786 | 414 929 | 162 744 | 1 323 | 810 362 |
| 3- Watch list | - | - | - | - | 6 071 | 275 535 | 120 007 | - | 401 613 |
| **Total** | **67 552** | **5 470** | **79 935** | **27 452** | **303 547** | **906 340** | **1 014 209** | **1 372** | **2 405 877** |

The non-performing secured loans are not considered subject to impairment as their collaterals are collectable.

### - Past due loans and facilities and not impaired

They are loans and facilities having past due up to 90 days and not considered impaired, unless there is information to the contrary.

Upon the initial recognition of the loans & facilities, the collaterals fair value is valued as per the valuation benchmark usually used in valuation of similar assets. In the subsequent periods, the fair value will be adjusted as per the market value or the prices of the similar assets.

## Loans and facilities individually subject to impairment

### loans and facilities to customers

The balance of loans and facilities individually subject to impairment before taking into consideration cash flows from guarantees, amounted to US$ 388 131 thousand on December. 31, 2019 compared to US$ 180 881 thousand as of December. 31, 2018.

The breakdown of the total loans and facilities individually subject to impairment including the fair value of collaterals obtained by the Group in return for such loans are as follows:

| 31/12/2019 | Individuals | Corporate | Total |
|---|---|---|---|
| Individual loans subject to impairment | 3 071 | 385 060 | **388 131** |

| 31/12/2018 | Individuals | Corporate | Total |
|---|---|---|---|
| Individual loans subject to impairment | 3 073 | 177 808 | **180 881** |

There are not any restructured significant loans.

## - Past due loans and facilities and not impaired

They are loans and facilities having past due and not considered impaired, unless there is information to the contrary. Past due loans and facilities and not impaired are represented in the following:

| | Individuals | | | | |
|---|---|---|---|---|---|
| 31/12/2019 | Debit current accounts | Credit cards | Personal loans | Real estate loans | Total |
| Past due up to 30 days | - | 226 | 5 105 | 2 394 | 7 725 |
| Past due more than 30 to 60 days | - | - | 959 | 190 | 1 149 |
| Past due more than 60 to 90 days | - | - | 1 660 | 190 | 1 850 |
| Past due more than 90 days | - | - | - | - | - |
| **Total** | **-** | **226** | **7 724** | **2 774** | **10 724** |

| | Corporate | | | |
|---|---|---|---|---|
| 31/12/2019 | Debit current accounts | Direct loans | Other loans | Total |
| Past due up to 30 days | 194 | 3 630 | 878 | 4 702 |
| Past due more than 30 to 60 days | - | 7 313 | - | 7 313 |
| Past due more than 60 to 90 days | 302 | 3 267 | 786 | 4 355 |
| Past due more than 90 days | - | - | - | - |
| **Total** | **496** | **14 210** | **1 664** | **16 370** |

Past due loans and facilities represent the amounts that entirely or partially fall due and were not paid on the dates contractually agreed upon and they include past due amounts for periods exceeds one day.

Accordingly, the amounts presented in the Note represent the total balance of the loan or facility and not only the past due portion while the rest of the loans balances and other facilities granted to the customer are not included as long as the customer has not been entirely or partially in default.

On the date of initial recognition for the loans & facilities, the presented collaterals fair value is estimated – if any - as per the valuation methods usually used in valuation of similar assets provided that they shall not be recognized in the financial statement of the Bank as they do not represent assets of the Bank on that date. In subsequent periods, the fair value of such collaterals will be adjusted as per the price or the market prices of similar assets.

## (A/7) Debt instruments, treasury bills and other government notes

The table below shows an analysis of debt instruments, treasury bills and other government notes according to the rating agencies at the end of the financial year:

| | Treasury bills & other government notes | Investments in securities | Total |
|---|---|---|---|
| | | | |
| From (AA-) to (AA+) | - | 11 216 | **11 216** |
| From (A -) to (A+) | - | 147 | **147** |
| Less than (A-) | 3 078 301 | 1 343 820 | **4 422 121** |
| | **3 078 301** | **1 355 183** | **4 433 484** |

## (A/8) Acquisition of Collaterals

- The Group has not acquired assets based on the acquisition of collaterals during the current financial year.
- The assets acquired are classified under the item of other assets in the balance sheet and these assets are to be sold whenever applicable.

## (A/9) Concentration of financial assets risks exposed to credit risk Geographical sectors

The following table represents an analysis of the most significant credit risk limits of the Group at book value and their distribution according to the geographical sectors at the end of the current financial year. When we prepared this table, we distributed the risks over the geographical sectors based on the areas related to the customers of the Group.

| | Greater Cairo | Alexandria, Delta and Sinai | Upper Egypt | Other | Total |
|---|---|---|---|---|---|
| Treasury bills & other government notes | 3 092 196 | - | - | - | 3 092 196 |
| Loans & facilities to Banks | - | - | - | 25 974 | 25 974 |
| Loans and facilities to customers | 2 149 453 | 196 280 | 13 342 | 9 180 | 2 368 255 |
| Financial investments: | | | | | |
| - Debt instruments | 1 355 235 | - | - | - | 1 355 235 |
| **Total as at 31 December 2019** | **6 596 884** | **196 280** | **13 342** | **35 154** | **6 841 660** |
| **Total as at 31 December 2018** | **6 316 147** | **196 268** | **13 573** | **255 148** | **6 781 136** |

## Business Sectors

The following table represents an analysis of the most significant credit risk limits of the Bank at book value distributed according to the business activity practiced by the customers of the Bank.

| | Financial Institutions | Industrial Institutions | Commercial | Real Estate Activities | Government Sector | Other Activities | Total |
|---|---|---|---|---|---|---|---|
| Treasury bills & other government notes | - | - | - | - | 3 092 196 | - | 3 092 196 |
| Loans & facilities to banks | 25 974 | - | - | - | - | - | 25 974 |
| **Loans and facilities to customers:** | | | | | | | |
| Loans to individuals: | | | | | | | |
| - Debit current accounts | - | - | - | - | - | 50 694 | 50 694 |
| - Credit cards | - | - | - | - | - | 7 259 | 7 259 |
| - Personal loans | - | - | - | - | - | 152 753 | 152 753 |
| -Real estate loans | - | - | - | - | - | 44 220 | 44 220 |
| **Loans to Corporate:** | | | | | | | |
| - Debit current accounts | 23 575 | 155 451 | 99 149 | 888 | - | 66 482 | 345 545 |
| - Direct loans | 69 815 | 110 540 | 78 048 | 5 146 | 70 925 | 454 783 | 789 257 |
| - Syndicated loans | 22 666 | 83 348 | 8 479 | 6 978 | - | 845 976 | 967 447 |
| Other loans | 12 | 1 321 | - | 6 982 | - | 2 765 | 11 080 |
| **Financial investments:** | | | | | | | |
| Debt instruments | 11 363 | - | - | - | 1 343 872 | - | 1 355 235 |
| **Total as of 31 December 2019** | **153 405** | **350 660** | **185 676** | **19 994** | **4 506 993** | **1 624 932** | **6 841 660** |
| **Total as of 31 December 2018** | **195 520** | **446 666** | **112 200** | **27 693** | **4 220 759** | **1 778 298** | **6 781 136** |

## B - Market risk

The Bank exposed to market risks which is the risk of the fair value or future cash flow fluctuations resulted from changes in market prices. Market risks arise from open market positions related to interest rate, currency, and equity products of which each 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 instruments prices. The Group divides its exposure to market risk into trading and non-trading portfolios.

The market risk management resulting from trading and non-trading portfolios is concentrated in the Risk Department of the Group and they are followed up by two separate teams. Interim reports on market risk are presented to the Board of Directors and the heads of business activity units on regular basis.

Trading portfolios include transactions where the Group deals directly with clients or with the market; non-trading portfolios primarily arise from managing assets and liabilities interest rate relating to retail transactions. Non-trading portfolios also include foreign exchange risk and equity instruments risks arising from held-to-maturity and available for sale investments.

## (B/1) Market risk measurement techniques

As part of market risk management, the Group 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 measure and control market risk are outlined below:

### Value at Risk (VaR)

The Bank applies a 'value at risk' methodology (VaR) for trading and non-trading portfolios to estimate the market risk of the outstanding positions and the maximum expected loss based on a number of assumptions for various changes in market conditions. The Board of Directors sets limits for the value of risk that may be accepted by the Bank for trading and non- trading portfolios on separate basis and they are daily monitored by the Market Risk Management Department in the Bank. Value at Risk (VaR) is a statistic expectation of the current portfolio potential losses resulting from the adverse movements of the market and the maximum loss that may be incurred by the Bank based on using a specific confidence coefficient (98%). Subsequently, there is a statistical probability at a ratio of (2%) that the effective loss is higher than the expected Value at Risk (VaR). VaR model assumes a defined holding period of (ten days) before closing the open positions. It also assumes that the market movements during the defined holding period of (ten days) shall follow the same market movements model which occurred during the previous ten days. The Bank estimates the previous movements based on the data of the last five years. The Bank also applies such historic changes of ratios, prices and indicators in a direct manner on the current positions - this method is known as historic simulation. The effective outputs are regularly monitored to measure the soundness of assumptions and coefficients used to measure Value at Risk (VaR). However, applying such method does not overcome the loss of such limits in case of having greater movements in the market.

### Stress Testing

Stress testing provides an indicator of the expected loss that may arise from sharp adverse circumstances. Stress testing is designed to match business using standard analysis for specific scenarios.

The stress testing carried out by the Risk Management Department of the Group includes: risk factor stress testing where sharp movements are applied to each risk category and test of emerging market stress, as emerging market are subject to sharp movements; and subject to special stress test including possible stress events affecting 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 the Top Management and the Board of Directors.

## (B/2) Foreign exchange volatility risk

The Group is exposed to foreign exchange rate 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.

| 31 December 2019 | USD | Euro | GBP | L.E | Other | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and balances with the Central Bank | 20 974 | 6 124 | 1 572 | 726 668 | 502 | 755 840 |
| Due from Banks | 1 259 408 | 103 337 | 71 777 | 392 917 | 4 653 | 1 832 092 |
| Treasury bills | 761 003 | 150 740 | - | 1 930 098 | - | 2 841 175 |
| Loans and facilities to customers | 985 733 | 16 094 | 33 | 1 015 198 | - | 2 017 057 |
| Loans and facilities to banks | 24 109 | - | - | - | - | 24 109 |
| **Financial investments:** | | | | | | |
| - At fair value through other comprehensive income | 184 912 | - | - | 340 570 | - | 525 482 |
| - At amortized cost | 109 741 | - | - | 996 824 | - | 1 106 565 |
| Investments in associates | 83 829 | - | - | 103 430 | - | 187 259 |
| Other assets | 22 744 | 97 | 87 | 117 893 | - | 140 821 |
| **Total financial assets** | **3 452 452** | **275 726** | **73 469** | **5 623 598** | **5 155** | **9 430 400** |
| **Financial liabilities** | | | | | | |
| Due to Banks | 135 476 | 65 231 | 4 581 | 498 461 | 891 | 704 640 |
| Customers deposits & certificates of deposits | 2 497 546 | 201 918 | 68 734 | 4 903 558 | 3 943 | 7 675 699 |
| Other loans | 30 300 | 1 123 | - | 30 739 | - | 62 162 |
| Other liabilities | 35 605 | 399 | 58 | 67 697 | 23 | 103 782 |
| **Total financial liabilities** | **2 698 927** | **268 671** | **73 373** | **5 500 455** | **4 857** | **8 546 283** |
| **Net financial position** | **753 525** | **7 055** | **96** | **123 143** | **298** | **884 117** |

| 31 December 2018 | USD | Euro | GBP | L.E | Other | Total |
|---|---|---|---|---|---|---|
| **Total financial assets** | **3 865 207** | **358 488** | **75 163** | **4 500 069** | **8 670** | **8 807 597** |
| **Total financial liabilities** | **3 039 866** | **356 251** | **75 156** | **4 390 458** | **8 492** | **7 870 223** |
| **Net financial position** | **825 341** | **2 237** | **7** | **109 611** | **178** | **937 374** |



## (B/3) Interest rate risk

The Group is exposed to the effect of fluctuations in the prevailing levels of market interest rates. The interest rate risk is the cash flow interest rate risk that is represented in the fluctuation of the future cash flows of a financial instrument due to the changes in market interest rates of the instrument. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of such changes but the profit may decrease if unexpected movements arise. The Board of Directors of the Group sets limits on the level of mismatch of interest rate re-pricing that may be undertaken by the Group, the matter that is monitored on daily basis by the Group's Risk Management Department.

| 31 December 2019 | Up to 1 month | More than 1 month to 3 Months | More than 3 months to 12 Months | More than 1 year to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **Financial Asset** | | | | | | | |
| Cash and balances with the Central Bank | 372 044 | - | - | - | - | 383 796 | 755 840 |
| Due from Banks | 1 066 751 | 562 672 | 202 669 | - | - | - | 1 832 092 |
| Treasury bills & government notes | 19 549 | 854 581 | 1 962 899 | 4 146 | - | - | 2 841 175 |
| Loans and facilities to customers | 1 106 480 | 351 475 | 101 492 | 183 711 | 273 899 | - | 2 017 057 |
| Loans and facilities to banks | - | - | 15 689 | 8 420 | - | - | 24 109 |
| **Financial investments:** | | | | | | | |
| - At fair value through other comprehensive income | - | - | 11 649 | 277 126 | 227 216 | 9 491 | 525 482 |
| - At amortized cost | - | 24 918 | 302 796 | 763 986 | 14 865 | - | 1 106 565 |
| Investments in associates | - | - | - | - | 187 259 | - | 187 259 |
| Other assets | - | - | 65 460 | - | - | 75 361 | 140 821 |
| **Total financial assets** | **2 564 824** | **1 793 646** | **2 662 654** | **1 237 389** | **703 239** | **468 648** | **9 340 400** |
| **Financial liabilities** | | | | | | | |
| Due to Banks | 704 640 | - | - | - | - | - | 704 640 |
| Customers' deposits & certificates of deposits | 4 301 384 | 702 064 | 742 570 | 1 601 647 | 9 244 | 318 790 | 7 675 699 |
| Other loans | 698 | 640 | 20 839 | 17 686 | 22 299 | - | 62 162 |
| Other liabilities | - | - | 43 199 | - | - | 60 583 | 103 782 |
| **Total financial liabilities** | **5 006 722** | **702 704** | **806 608** | **1 619 333** | **31 543** | **379 373** | **8 546 283** |
| **Interest re-pricing gap** | **(2 441 898)** | **1 090 942** | **1 856 046** | **(381 944)** | **671 696** | **89 275** | **884 117** |

| 31 December 2018 | Up to 1 month | More than 1 month to 3 Months | More than 3 months to 12 Months | More than 1 year to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| Total financial assets | 2 016 893 | 2 110 495 | 2 054 825 | 1 610 189 | 714 499 | 300 696 | 8 807 597 |
| Total financial liabilities | 3 569 507 | 861 861 | 1 127 444 | 1 874 608 | 10 742 | 426 061 | 7 870 223 |
| Interest re-pricing gap | (1 552 614) | 1 248 634 | 927 381 | (264 419) | 703 757 | (125 365) | 937 374 |

## C- Liquidity risk

Liquidity risk represents difficulty encountering the Group in meeting its financial commitments when they fall due and replace funds when they are withdrawn. This may result in failure in fulfilling the Group obligation to repay the depositors and fulfilling lending commitments.

### Liquidity risk management

The liquidity risk management control process carried out by the Department of Risk Management of the Group includes:

- Daily funding managed by monitoring future cash flows to ensure that all requirements can be met when due. This includes availability of liquidity as they fall due or when lent to customers. To ensure that the Group achieves this objective, the Group maintains an active presence in global money markets.
- The Group maintains a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow.
- Monitoring liquidity ratios in relation with internal requirements and the requirements of the Central Bank of Egypt.
- Managing loans concentration and dues.
- The main period for liquidity management is the next day, week and month. The Bank calculates the expected cash flow for those periods for monitoring and reporting purposes. The starting point to calculate these expectations, is analyzing the contractual dues of the financial liabilities and expected dates of the financial assets collections.
- The Department of Assets and Liabilities Management monitors the mismatch between medium term assets, the level and nature of unused loans commitments, debit current accounts utilizations extent, and the effect of contingent liabilities such as letters of guarantee and letters of credit.

### Funding approach

Sources of liquidity are regularly reviewed by a separate team from the Department of Risk Management of the Group to maintain a wide diversification of currencies, geographical sectors, sources, products and terms.

## D- Operating risk:

The definition of operating risk comprises "the risk of a change in value caused by the fact that actual direct losses and / or indirect losses incurred due to inadequacy or failure of internal processes, systems, human factor or external events including legal risk or any operating events that impact negatively on the reputation of the Group, the continuity of the business as a going concern and / or the market value of the Bank."

### The Framework of the Operating Risk Department

The Operating Risk Department is considered as a significant part that supports the various activities of the Bank with respect to its role in identifying and assessing the relevant risks and the required controls to prevent and mitigate the operating losses in addition to participating in enhancing the competency and efficiency of utilizing the various resources of the Group.

The policy of the Operating Risk Department aims at laying out a general framework to consolidate its efficiency and providing support to the governance system through enlightenment and spreading the risk culture among all employees, providing complete awareness of the targets of the Operating Risk Department, how to classify risks, the difference between the operating risk and the other kinds of risks, the duties and responsibilities of management and supervision, the methods and approaches used inside the Group in determination, measurement, reporting and follow up to limit and mitigate the operating risks.

The Operating Risk Department is concentrating its attention on the spreading of risk culture and the awareness of the importance of identifying, reviewing, examining policies, procedures and work systems, making researches to enhance systems and their security methods, the efficiency of the oversight controls to prevent and mitigate the operating risks.

Meanwhile, the Operating Risk Department is taking the lead in cooperation with all the departments of the Group to identify indications that give early warning concerning the events that may expose the Group to any sort of possible risks.

The Operating Risk Department has started working on establishing operating events database along with their classification that is in conformity with the standards laid out by "Basel II" Accords and the classification of operating risks stated therein. The data collection process relies on the internal operating events reports in addition to all relevant external events. The said data are used in analyzing and monitoring the root causes of the operating risks, the frequency of events, evaluating the corrective measures and the controls adopted by the Bank to prevent and mitigate the operating risks.

## E- Fair value of financial assets and liabilities

### Due from banks

The fair value of overnight variable interest deposits represents their current value. The expected fair value of variable interest deposits is assessed based on the discounted cash flows through the use of the prevailing rate in the financial markets for the debts attributed by credit risk and similar maturity date.

### Loans and facilities to customers

Loans and facilities are recorded at net after deducting the impairment losses. The expected fair value of loans and facilities represent the value the discounted future cash flows expected to be collected. The cash flows are discounted based on the market current interest rate to determine the fair value.

### Investment in securities

Available for sale assets are valued at fair value, except for the equity instruments that the Bank could not estimate their fair value in a reliable manner while the fair value of the financial assets held to maturity is determined based on the market prices or the prices provided by the brokers. In case the said information is not available, the fair value shall be estimated based on the financial markets of the floating securities that are attributed by similar credit profile, maturity dates and rates of interest.

### Due to other banks and customers

The fair value of deposits with unspecified date of maturity which include non-bearing interest deposits represents the amount that shall be paid on demand.

The fair value of the fixed interest deposits and other non-current loans in an active market is determined based on the discounted cash flows through the use of the interest rate on new debts attributed by similar maturity date.

## F- Capital management

The Group's objectives behind managing the capital include elements other than equity shown in the balance sheet and they are represented in the following:

- Compliance with the legal requirements of capital in The Arab Republic of Egypt.
- Protecting the Group's ability to continue as a going concern and enabling it to generate yield for shareholders and other parties dealing with the Group.
- Maintaining a strong capital base to enhance growth.
- Capital adequacy and capital uses are reviewed on a monthly basis according to the regulatory authority's requirements (CBE) by the Group's management through models based on Basel Committee for Banking Control instructions and these data are submitted to CBE on quarterly basis.

CBE requires the following from the Bank:

Maintaining L.E 500 million as a minimum requirement for the issued and paid up capital.

Maintaining a ratio between risk-weighted elements of capital and elements of assets, and contingent liabilities that are credit risk, market risk and operating risk weighted including a percentage of 12% as a conservation buffer.

### The numerator in capital adequacy comprises the following two tiers:

### Tier 1:

It is the primary capital comprising of paid up capital (after deducting the carrying amount of the treasury stocks) if any, retained earnings and reserves resulting from profit appropriations less any goodwill previously recognized, and any carried forward losses.

### Tier 2:

It is the supplementary capital (Tier 2 Capital) that is comprised of the equivalent of the general risk provision which is formed based on the Obligor Risk Rating and Provisioning Rules issued by the Central Bank of Egypt in a manner that does not exceed 1.25% of the total risk-weighted assets and contingent liabilities, subordinated loans / deposits of more than five-year-maturity period (while amortizing 20% of their value in each year of the last five years of their maturity period) in addition to 45% of the increase resulting from the difference between the fair value and the carrying value of both financial investments available for sale and held to maturity date as well as investments in subsidiaries and associates.

When calculating the total numerator of the capital adequacy ratio, it should be taken into consideration that the supplementary capital does not exceed in any way the primary capital and that subordinated loans (deposits) do not exceed half of the primary capital.

Assets are risk-weighted ranging from zero to 100% classified according to the nature of each asset of the debtor to reflect the credit risk associated with it, and taking in consideration the cash collaterals. In addition, the same treatment is used for off-balance amounts after adjustments to reflect the contingent nature and the potential loss of those amounts. The Group has been in compliance with the local capital requirements. The following table summarizes the components of the primary and supplementary capital in addition to the capital adequacy percentages as at 31 December 2019.

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Tier 1 Capital (primary capital)** | | |
| Paid up capital | 600 000 | 600 000 |
| Reserves | 219 192 | 215 163 |
| Risk reserve (IFRS 9) | - | 37 193 |
| Retained earnings | 37 686 | 92 604 |
| General risk reserve | - | - |
| Total balance of items of the accumulated other comprehensive income after regulatory amendments | (95 391) | - |
| Quarterly interim profits | 40 478 | 47 897 |
| Minority interest / Non-controlling interest | 164 413 | 162 253 |
| Difference between nominal value and current value of subordinated loans (deposit) | 854 | - |
| **Total Primary Capital** | **967 232** | **1 155 110** |
| **Less:** | | |
| **Investments in financial institutions:** | | |
| Amount exceeding 10 % of the issued capital of the company for each separate investment (shares) | (63 819) | (52 083) |
| Amount exceeding 10 % of the fund assets for each separate investment (mutual funds) | (3 665) | (4 192) |
| Intangible assets | (4 419) | (684) |
| Disregarded elements: | | |
| Reserve balance of fair value for investments available for sale (if negative) | - | (12 206) |
| Reserve for foreign currencies translation differences (if negative) | - | (129 370) |
| **Total Tier 1 Capital** | **895 329** | **956 575** |
| **Tier 2 Capital (primary capital)** | | |
| Significant elements of required allowances for debt instruments, loans, credit facilities and contingent liabilities included in stage 1 | 18 321 | 51 251 |
| 45 % of the specific reserve | 31 | - |
| **Total Tier 2 Capital** | **18 352** | **51 251** |
| **Total Capital Base (1)** | **913 681** | **1 007 826** |
| **Risk-weighted assets & contingent liabilities** | | |
| Credit risk of included in and off-balance sheet items | 4 598 513 | 5 789 318 |
| Market risk - exchange rates | 331 339 | 169 973 |
| Operating risk | 362 732 | 395 118 |
| **Total risk-weighted assets & contingent liabilities (2)** | **5 292 584** | **6 354 409** |
| **Capital adequacy ratio (1) / (2)** | **17.26%** | **15.86%** |

* Capital Adequacy Ratio was prepared for the balances of the consolidated financial statements of the Bank in compliance with the instructions of the Central Bank of Egypt issued on 24 December 2012.

The following table summarizes the financial leverage ratio:

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Tier 1 Capital after disposals (1)** | **895 329** | **956 575** |
| | | |
| Cash and Due from Central Bank | 1 255 728 | 892 053 |
| Balances due from Banks | 1 332 992 | 1 041 855 |
| Loans and credit facilities to banks | 24 109 | 35 677 |
| Treasury bills & other government notes | 2 841 175 | 2 385 677 |
| Financial assets at fair value through other comprehensive income | 525 482 | 159 742 |
| Financial assets at amortized cost | 1 106 565 | 1 623 279 |
| Investments in subsidiaries & associates | 187 259 | 167 695 |
| Loans & credit facilities granted to customers | 2 017 057 | 2 428 446 |
| Fixed assets (after deducting impairment loss provision and (accumulated depreciation | 99 067 | 93 279 |
| Other assets | 145 240 | 142 492 |
| The amount of exposure deducted (after disposing the first (tier of the capital base) | (293 378) | (56 960) |
| **Total bank's exposure of items in the balance sheet after deducting the disposals of the first tier** | **9 241 296** | **8 913 235** |
| | | |
| Letters of credit - imports | 287 | 11 589 |
| Letters of credit - exports | 633 | 23 365 |
| Letters of guarantee | 5 829 | 84 070 |
| Letters of guarantee upon other Banks' request or by their warranty | 824 | 18 651 |
| Accepted bills | 5 130 | 25 102 |
| Rediscounted bills | - | - |
| **Total contingent liabilities** | **12 703** | **162 777** |
| **Total commitments** | **8 248** | **98 061** |
| **Total off- balance sheet exposure** | **20 951** | **260 838** |
| **Total balance sheet & off- balance sheet exposure (2)** | **9 262 247** | **9 174 073** |
| **Financial leverage ratio (1/2)** | **9.67%** | **10.43%** |

## 4- Significant accounting estimates and assumptions

The implementation of the financial policies disclosed in Note No. (3) requires that management uses judgements, estimates and assumptions with respect to the carrying value of some assets and liabilities that other sources cannot provide. The said estimates and accompanied assumptions are based on historical experience in addition to other relevant factors. However, the actual results may differ from such estimates.

The assumptions and estimates are reviewed on regular basis and recognition of change in accounting estimates shall take place either in the period in which the change is occurring, in case its effect is confined to such period only, or in the period in which the change is occurring and the future periods, if the change in accounting estimates affects both of current period and the subsequent periods.

The following is a summary of the most prominent assumptions related the future and the sources of unconfirmed information at the end of the financial period that are attributed by high risk leading to a significant amendment introduced to the fair value of assets and liabilities during the following financial period.

### (4/1) Impairment losses for loans and facilities (expected credit loss)

The Bank reviews the portfolio of loans and facilities on quarterly basis at least. The Bank uses personal judgment in determining whether it is necessary to recognize impairment charge in the income statement, to identify if there are reliable evidences indicating a decline that can be measured in the expected future cash flows from loan portfolio before identifying any decline on the level of each separate loan in the portfolio. These evidences include data indicating negative changes in borrowers' portfolio ability to repay the Bank, or local or economic circumstances related to default in the assets of the Bank. On rescheduling future cash flows, the management uses the previous experience with respect to assets loss of similar credit risk to determine the credit impairment loss for assets when there is objective evidence of impairment similar to that of the portfolio in question. The method 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 the management experience.

### (4/2) Financial derivatives fair value

The fair value of financial derivatives that are not quoted in active markets are determined by using valuation techniques. When these valuation techniques are used (such as pricing models), they shall be examined and periodically reviewed by qualified personnel who are independent from the entity which prepared them. All models are certified after trial and before they are used to ensure that the results reflect reliable data and prices which can be compared with those of the market. The said models use the data taken from the market only, whenever it is possible to be practically obtained. However, some factors such as credit risk related to the Bank, counterparty, volatilities and correlations require that the management uses its personal judgement. Changes in assumptions of these factors may affect the disclosed fair value of the financial instruments.

### (4/3) Debt instruments at amortized cost

The Bank classifies non-derivative financial assets with fixed determinable payments or fixed maturity as debt instruments at amortized cost included in "the business model of financial assets held to collect contractual cash flows".

## 5. Net interest income

| Interest from loans and similar revenues: | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Loans and facilities:** | | |
| - To banks | 4 697 | 7 174 |
| - To customers | 247 106 | 301 589 |
| | **251 803** | **308 763** |
| Bonds & treasury bills | 527 681 | 481 747 |
| Deposits with Banks | 90 602 | 50 778 |
| **Total** | **870 086** | **841 288** |

| Cost of Deposits and similar costs from: | 31/12/2019 | 31/12/2019 |
|---|---|---|
| **Deposits and current accounts:** | | |
| - To banks | (32 793) | (33 413) |
| - To customers | (660 481) | (636 854) |
| - Other loans | (2 172) | (6 757) |
| **Total** | **(695 446)** | **(677 024)** |
| **Net** | **174 640** | **164 264** |

## 6- Net fees and commission income

| Fees and commission income: | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Fees and commissions related to credit | 27 213 | 30 539 |
| Institution's finance services fees | 3 237 | 2 898 |
| Custody and bookkeeping activities fees | 126 | 178 |
| Other fees | 6 655 | 5 790 |
| **Total** | **37 231** | **39 405** |
| **Fees and commission expenses:** | | |
| Other fees paid | (2 229) | (1 813) |
| **Net** | **35 002** | **37 592** |

## 7- Dividends income

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Equity instruments at fair value through other comprehensive income | 336 | - |
| Securities at fair value through other comprehensive income | 1 002 | 1 264 |
| Subsidiaries & Associates | - | 611 |
| Financial investments | 2 | - |
| | **1 340** | **1 875** |

## 8- Net trading income

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Forex gain | 7 427 | 5 778 |
| | **7 427** | **5 778** |

## 9- Administrative expenses

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Staff costs** | | |
| Wages & salaries and their equivalents | (88 037) | (70 755) |
| Amortization of staff pension subordinated loan | - | - |
| The Bank contribution in employees fund | (3 915) | (3 747) |
| Social insurance | (1 086) | (746) |
| | **(93 038)** | **(75 248)** |
| Amortization & depreciation | (12 893) | (10 957) |
| Other administrative expenses | (30 472) | (26 289) |
| **Total** | **(136 403)** | **(112 494)** |

## 10- Other operating income (expenses)

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Profits (Losses) of revaluation of assets & liabilities other than for trading or originally classified at fair value through profit or loss | 564 | (37) |
| Other income | 1 669 | 1 391 |
| Finance lease* | (340) | (259) |
| Operating lease | (362) | (246) |
| Other provisions reverse (charges) | 5 781 | (13 710) |
| Other expenses | (13 010) | (1 448) |
| Gains from fixed assets sale | 4 018 | 133 |
| **Total** | **(1 680)** | **(14 176)** |

* Finance lease expenses are represented in cars installments by virtue of finance lease contracts concluded with the International Company for Leasing S.A.E – Incolease.

## 11- Income tax

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Current tax * | (38 535) | (40 733) |
| Deferred tax | 612 | (397) |
| **Balance** | **(37 923)** | **(41 130)** |

* The current tax is represented in the amount of due tax imposed on the income of treasury bonds and dividends appropriation of contributions for the financial period then ended of SAIB Bank, in addition to other taxes of CAFI Company.

## 12- Credit losses impairment charge

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Loans & facilities to customers | (10 372) | (14 012) |
| Loans & facilities to banks | 667 | - |
| Due from banks | 2 436 | - |
| Treasury bills | 2 657 | - |
| Debt instruments at amortized cost | (223) | - |
| **Total** | **(4 835)** | **(14 012)** |

## 13- Classification and measurement of financial assets & liabilities

The following table indicates total financial assets & liabilities (before deducting any impairment provisions) according to the classification of the business model:

| 31 December 2019 | Amortized cost | Debt instruments at fair value through other comprehensive income | Equity instruments at fair value through other comprehensive income | Financial assets at fair value through profit or loss | Total carrying value |
|---|---|---|---|---|---|
| Cash and balances with CBE | 755 840 | - | - | - | 755 840 |
| Balances with banks | 1 832 880 | - | - | - | 1 832 880 |
| Treasury bills | 1 129 543 | 1 876 127 | - | - | 3 005 670 |
| Loans and facilities to customers | 2 368 255 | - | - | - | 2 368 255 |
| Loans to banks | 25 974 | - | - | - | 25 974 |
| Financial investments at fair value through other comprehensive income | - | - | 525 482 | - | 525 482 |
| Financial investments at amortized cost | 1 107 373 | - | - | - | 1 107 373 |
| Other Financial assets | 81 541 | - | - | - | 81 541 |
| **Total financial assets** | **7 301 406** | **1 876 127** | **525 482** | **-** | **9 703 015** |
| Balances due to banks | 704 640 | - | - | - | 704 640 |
| Customers' deposits | 7 675 699 | - | - | - | 7 675 699 |
| Other financial liabilities | 44 596 | - | - | - | 44 596 |
| **Total financial liabilities** | **8 424 935** | **-** | **-** | **-** | **8 424 935** |

The following table indicates net financial assets & liabilities according to the instructions of the Central Bank of Egypt issued on 16 December 2008 and IFRS 9 according to the instructions of the Central Bank of Egypt issued on 26 February 2019:

| 1 January 2019 | Measurement according to the instructions of CBE on 16 DECEMBER 2008 | Measurement according to IFRS 9 | Carrying value according to the instructions of CBE on 16 DECEMBER 2008 | Reclassification after IFRS 9 | Remeasurement of financial reports | Carrying value according to IFRS 9 |
|---|---|---|---|---|---|---|
| Cash and balances with CBE | Amortized cost | Amortized cost | 359 841 | - | - | 359 841 |
| Balances with banks | Amortized cost | Amortized cost | 1 638 372 | - | (3 250) | 1 635 122 |
| Treasury bills | Amortized cost | Amortized cost | 1 849 143 | - | (5 348) | 1 843 795 |
| Treasury bills | Amortized cost | Fair value through other comprehensive income | 536 534 | 3 574 | - | 540 108 |
| Loans and facilities to customers | Amortized cost | Amortized cost | 2 566 744 | - | (301 864) | 2 264 880 |
| Loans and facilities to banks | Amortized cost | Amortized cost | 135 677 | - | (1 382) | 134 295 |
| Debt instruments - bonds | Amortized cost | Amortized cost | 1 623 279 | (486 215) | (585) | 1 136 479 |
| Equity instruments | At fair value through profit or loss | Fair value through other comprehensive income | 335 | - | - | 335 |
| Equity instruments | Available for sale | Fair value through other comprehensive income | 159 407 | 492 335 | - | 651 742 |
| Other financial assets | Amortized cost | Amortized cost | 99 859 | - | - | 99 859 |
| **Total financial assets** | | | **8 969 191** | **9 694** | **(312 429)** | **8 666 456** |
| Balances due to banks | Amortized cost | Amortized cost | 597 386 | - | - | 597 386 |
| Customers' deposits | Amortized cost | Amortized cost | 7 173 417 | - | - | 7 173 417 |
| Other financial liabilities | Amortized cost | Amortized cost | 85 455 | - | - | 85 455 |
| Other provisions | Amortized cost | Amortized cost | 16 332 | - | (1 773) | 14 559 |
| **Total financial liabilities** | | | **7 872 590** | **-** | **(1 773)** | **7 870 817** |

* Remeasurement is related to the adjustments of the expected credit loss while reclassification includes adjustments related to the changes introduced to the measurement bases.

## 14- Cash and Due from Central Bank

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Cash | 43 083 | 59 636 |
| Due from Central Bank (within the mandatory reserve percentage in L.E) | 712 757 | 300 205 |
| **Balance** | **755 840** | **359 841** |
| | | |
| **Non-interest-bearing balances** | **755 840** | **359 841** |

## 15- Due from Banks

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Current accounts | 70 303 | 66 855 |
| Deposits | 1 762 577 | 1 471 535 |
| **Total** | **1 832 880** | **1 538 390** |
| Less: impairment loss provision | (788) | - |
| **Balance** | **1 832 092** | **1 538 390** |
| Due from central Bank (other than the mandatory reserve percentage in L.E) | 499 888 | 532 212 |
| Local Banks | 671 797 | 472 523 |
| Foreign Banks | 661 195 | 533 655 |
| **Total** | **1 832 880** | **1 538 390** |
| Less: impairment loss provision | (788) | - |
| **Balance** | **1 832 092** | **1 538 390** |
| Non- interest-bearing balances * | 274 557 | 28 854 |
| Variable interest balances | 10 926 | 41 962 |
| Fixed interest balances | 1 547 397 | 1 467 574 |
| **Total** | **1 832 880** | **1 538 390** |
| Less: impairment loss provision | (788) | - |
| **Balance** | **1 832 092** | **1 538 390** |
| Current balances | 1 832 880 | 1 538 390 |
| Non-current balances | - | - |
| **Total** | **1 832 880** | **1 538 390** |
| Less: impairment loss provision | (788) | - |
| **Balance** | **1 832 092** | **1 538 390** |

* On 1 April 2019, the Central Bank of Egypt sent a notification to the effect of obligating the Société Arabe Internationale de Banque (SAIB) to place non-bearing -interest cash deposit at the Central Bank of Egypt as a result of granting credit facilities within the framework of the Central Bank of Egypt Initiative, at a reduced interest rate of 5% to small enterprises of high creditworthiness or companies affiliated to big entities provided that the deposit shall take place starting from the first of April 2019. Meanwhile it is to be taken into consideration that such facilities were granted in previous years as shown in the following tables:

| The financial portion in million L. E | Term of deposit with the Central Bank of Egypt |
|---|---|
| **25.0** | **4 months** |
| **0.5** | **6 months** |
| 1 318,0 | One year |
| 32.8 | One year and half |

### Analysis of due from banks impairment loss provision

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Balance at the beginning of the year | - | - |
| Impact of changes resulting from initial implementation of IFRS 9 | 3 250 | - |
| **Balance as at 1 January 2019 after the impacts of the initial implementation of IFRS 9** | **3 250** | **-** |
| Net impairment charge | (2 436) | - |
| Foreign exchange differences | (26) | - |
| **Balance at the end of the year** | **788** | **-** |

## 16- Treasury bills & other government notes

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **A – Treasury bills at amortized cost** | | |
| 30 days maturity | - | 23 821 |
| 90 days maturity | - | 88 775 |
| 270 days maturity | - | - |
| 273 days maturity | 2 871 | - |
| 352 days maturity | - | 2 791 |
| 356 days maturity | 1 309 | - |
| 357 days maturity | 3 821 | 14 584 |
| 358 days maturity | - | 2 680 |
| 362 days maturity | - | 1 786 |
| 364 days maturity | 1 121 542 | 2 377 180 |
| **Total** | **1 129 543** | **2 511 617** |
| Less: unearned interest | (20 817) | (125 940) |
| Less: impairment loss provision | (2 669) | - |
| **Net (1)** | **1 106 057** | **2 385 677** |

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **B – Treasury bills at fair value through other comprehensive income** | | |
| 270 days maturity | 59 648 | - |
| 364 days maturity | 1 816 479 | - |
| **Total** | **1 876 127** | **-** |
| **Less: unearned interest** | **(150 116)** | **-** |
| Reserve of change in fair value | 9 107 | - |
| **Net (2)** | **1 735 118** | **-** |
| **Net (1+2)** | **2 841 175** | **2 385 677** |

### Analysis of treasury bills impairment loss at amortized cost

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Balance at the beginning of the year | - | - |
| Impact of changes resulting from initial implementation of IFRS 9 | 5 348 | - |
| **Balance as at 1 January 2019 after the impacts of the initial implementation of IFRS 9** | **5 348** | **-** |
| Net impairment charge | (2 657) | - |
| Foreign exchange differences | (22) | - |
| **Balance at the end of the year** | **2 669** | **-** |

## 17- Loans and facilities to banks

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Discounted commercial papers | 25 974 | 38 132 |
| Less: | | |
| Unearned discount of discounted commercial papers | (1 654) | (2 455) |
| Impairment loss provision | (211) | - |
| Total | **24 109** | **35 677** |

### Analysis of impairment loss provision of loans and facilities to banks

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Balance at the beginning of the year | - | - |
| Impact of changes resulting from initial implementation of IFRS 9 | 729 | - |
| Balance as at 1 January 2019 after the impacts of the initial implementation of IFRS 9 | **729** | **-** |
| Net impairment charge | (518) | - |
| **Balance at the end of the year** | **211** | **-** |

## 18- Loans and facilities to customers

| **Individuals** | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Personal loans | 152 753 | 85 459 |
| Debit current accounts | 50 694 | 67 619 |
| Credit cards | 7 259 | 5 681 |
| Real estate loans | 44 220 | 31 280 |
| **Total (1)** | **254 926** | **190 039** |
| **Corporate loans including small loans granted to economic activities:** | | |
| Direct loans | 789 257 | 1 057 625 |
| Syndicated loans | 967 446 | 1 037 336 |
| Debit current accounts | 345 545 | 309 738 |
| Other loans | 11 081 | 11 480 |
| **Total (2)** | **2 113 329** | **2 416 179** |
| **Total loans and facilities to customers (2+1)** | **2 368 255** | **2 606 218** |
| **Less:** Impairment loss provisions | (326 496) | (189 529) |
| **Less:** Unearned discount of discounted commercial papers | (356) | - |
| **Less:** Suspense interest | (2 542) | (1 009) |
| Prepaid interest | (21 804) | (20 192) |
| **Net** | **2 017 057** | **2 395 488** |

### Provision for impairment losses

The Provision for impairment losses movement analysis for loans and facilities to customers is as follows:

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Balance at the beginning of the year | 189 529 | 175 844 |
| Impact of changes resulting from initial implementation of IFRS 9 | 130 608 | - |
| | **320 137** | **175 844** |
| Impairment charge during the year | 9 869 | 13 501 |
| Foreign exchange differences | 4 339 | (116) |
| Debts written off | (7 934) | (173) |
| Proceeds from loans previously written off | 4 | 11 |
| Amounts reimbursed during the year | 81 | 462 |
| Balance at the end of the year | **326 496** | **189 529** |

**Analysis of the provision of impairment loss for loans and facilities to customers categorized into stages**

| Description | Stage 1 ECL over 12 months | Stage 2 ECL over lifetime | Stage 3 ECL over lifetime | Total |
|---|---|---|---|---|
| Individuals | 2 572 | 57 | 2 111 | 4 740 |
| Corporate | 10 479 | 83 820 | 227 457 | 321 756 |
| **Total** | **13 051** | **83 877** | **229 568** | **326 496** |

## 19- Financial investments

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **1 - Financial investments at fair value through other comprehensive income** | | |
| **A - Debt instruments - at fair value** | | |
| - Debt instruments – quoted in the market | 485 744 | 129 099 |
| - Equity instruments at fair value through other comprehensive income | | |
| - Quoted | 3 236 | 2 584 |
| - Unquoted | 31 563 | 26 003 |
| - Mutual funds | 4 939 | 1 721 |
| **Total financial investments at fair value through other comprehensive income (1)** | **525 482** | **159 407** |
| 2 - Financial investments at fair value through profit or loss | - | 335 |
| **Total financial investments at fair value through profit or loss** | **-** | **335** |
| **3 - Financial investments at amortized cost** | | |
| A - Debt instruments: | | |
| - Quoted | 1 107 373 | 1 622 009 |
| Less: Impairment loss provision | (808) | - |
| B - Mutual fund certificates at cost: | | |
| - Unquoted | - | 1 270 |
| **Total financial investments at amortized cost (3)** | **1 106 565** | **1 623 279** |
| **Total financial investments (1+2+3)** | **1 632 047** | **1 783 021** |
| - Current balances | 822 949 | 299 017 |
| - Noncurrent balances | 809 098 | 1 484 004 |
| **Total financial investments** | **1 632 047** | **1 783 021** |
| Fixed interest debt instruments | 1 592 309 | 1 751 108 |
| Variable interest debt instruments | - | - |
| | **1 592 309** | **1 751 108** |

### Analysis of financial investments impairment loss provision at amortized cost:

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Balance at the beginning of the year | - | - |
| Impact of changes resulting from initial implementation of IFRS 9 | 585 | - |
| **Balance as at 1 January 2019 after the impacts of the initial implementation of IFRS 9** | **585** | **-** |
| Net impairment charge | 223 | - |
| Foreign exchange differences | - | - |
| **Balance at the end of the year** | **808** | **-** |

### Gains (Losses) of financial investments:

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Equity instruments at fair value through other comprehensive income | 2 471 | 24 |
| Gains / Losses of financial investments | 30 | 54 |
| Impairment in associates | (12 000) | - |
| Impairment in unlisted companies | (932) | (702) |
| Impairment loss reverse (charge) of financial assets at fair value through other comprehensive income | 100 | - |
| Profits from the sale of treasury bills | 27 | 38 |
| Amortization of the fair value reserve allocated for bonds reclassified from investments available for sale into financial investments held to maturity | - | (6 786) |
| **Balance** | **(10 304)** | **(7 372)** |

| 31 December 2019 | Financial investments at fair value through other comprehensive income | Financial investments at amortized cost | Total |
|---|---|---|---|
| Balance as at 1 January 2019 | 159 407 | 1 623 279 | **1 782 686** |
| Impacts of changes resulting from the initial implementation of IFRS 9 | 492 671 | (486 234) | **6 437** |
| Additions | 5 638 | 60 366 | **66 004** |
| Disposals | (222 230) | (207 923) | **(430 153)** |
| Impairment in investment value | (932) | - | **(932)** |
| Amortized issue premium / issuance discount for the year | 843 | 1 824 | **2 667** |
| Translation differences for assets of monetary nature in foreign currency | 49 411 | 116 094 | **165 505** |
| Change in fair value | 40 674 | - | **40 674** |
| Impairment (charge) of financial investments at amortized cost | - | (33) | **(33)** |
| Less: impairment loss provision | - | (808) | **(808)** |
| **Balance as at 31 December 2019** | **525 482** | **1 106 565** | **1 632 047** |

| 31 December 2018 | Financial investments available for sale | Financial investments held to maturity | Total |
|---|---|---|---|
| **Balance as at 31 January 2018** | 72 005 | 1 824 530 | **1 896 535** |
| Additions | 103 863 | - | **103 863** |
| Disposals | (3 560) | (189 019) | **(192 579)** |
| Amortized issue premium / issuance discount for the year | (5) | 5 614 | **5 609** |
| Translation differences for assets of monetary nature in foreign currency | (104) | (17 846) | **(17 950)** |
| Change in fair value | (12 091) | - | **(12 091)** |
| Impairment in investment value | (701) | - | **(701)** |
| **Balance as at 31 December 2018** | **159 407** | **1 623 279** | **1 782 686** |

## 20- Investments in associates

Equity participations where the Bank holds 20% or more than its capital shares are as follows:

| Name of Company | Assets | Liabilities (without equity) | Revenues | Net Profits (losses) | Country of company's premises | Balance as at 2018/12/31 | Balance as at 2019/12/31 | Share % |
|---|---|---|---|---|---|---|---|---|
| Suez Canal Co. For Technology | 116 545 | 11 663 | 36 347 | 29 712 | A.R.E | 16 491 | 21 119 | 24.08% |
| International Company for Tourist Investments (ICTI) | 97 547 | 8 755 | 15 587 | 8 119 | A.R.E | 17 897 | 17 434 | 20% |
| World Trade Centre (WTC)* | 145 335 | 12 522 | 2 218 | 662 | A.R.E | 66 276 | 66 342 | 50% |
| Suez Canal Bank (CSB) | 3 242 612 | 3 036 385 | 355 278 | 33 800 | A.R.E | 66 868 | 82 310 | 41.50% |
| Cairo National Company for Brokerage and Securities | 253 | 86 | 87 | (50) | A.R.E | 62 | 54 | 32% |
| Cairo Factoring Company | 4 027 | 4 442 | 675 | (999) | A.R.E | 101 | - | 40% |
| **Total of associates** | | | | | | **167 695** | **187 259** | |

*The Bank participation in the capital of the World Trade Centre (WTC) Company amounted to 50% and the Bank does not have control over the Company, hence, the investment in the World Trade Centre (WTC) is considered as an investment in associates.

## 21- Intangible Assets

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Net book value at the beginning of the year | 3 424 | 3 596 |
| Additions | 3 444 | 1 272 |
| Amortization for the year | (2 449) | (959) |
| Adjustments of amortization for the year 2018 | - | (485) |
| **Net book value at the end of the year** | **4 419** | **3 424** |

## 22- Other Assets

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Accrued revenue | 81 541 | 94 462 |
| Accrued dividends | 2 438 | 1 170 |
| Prepaid expenses | 4 333 | 3 714 |
| Prepaid amounts to employees under the account of profits appropriations | 8 313 | 7 897 |
| Advance payments to purchase fixed assets | 23 279 | 17 059 |
| Assets reverted to the Bank in return for customers debts (after deducting the impairment) | 2 481 | 1 433 |
| Deposits and imprests | 352 | 318 |
| Other (after deducting of impairment) | 18 084 | 14 200 |
| **Total** | **140 821** | **140 253** |

## 23- Fixed Assets

| | Land | Buildings & Improvements | Furniture Fittings & Office Equipment | Vehicles | Computers | Total |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2018** | **29 944** | **40 543** | **12 926** | **294** | **7 614** | **91 321** |
| Additions | - | 1 151 | 1 862 | - | 4 591 | 7 604 |
| Disposals | - | (2) | - | - | (9) | (11) |
| Depreciation cost as at 31 December 2018 | - | (2 498) | (3 985) | (90) | (2 884) | (9 457) |
| Adjustments - Depreciation cost for the year 2018 | - | (47) | (2) | - | (9) | (58) |
| **Net Book Value as at 31 December 2018** | **29 944** | **39 147** | **10 801** | **204** | **9 303** | **89 399** |
| Additions | 6 693 | 10 398 | 2 242 | 1 | 1 210 | 20 544 |
| Disposals | - | (110) | (263) | - | (171) | (544) |
| Depreciation during the year | - | (3 440) | (3 819) | (86) | (3 097) | (10 442) |
| Disposals accumulated depreciation | - | 110 | - | - | - | 110 |
| **Net Book Value at 31/12/2019** | **36 637** | **46 105** | **8 961** | **119** | **7 245** | **99 067** |

## 24- Due to Banks

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Current Accounts | 186 443 | 151 912 |
| Deposits | 518 197 | 345 474 |
| **Balance** | **704 640** | **497 386** |
| Local Banks | 661 827 | 202 701 |
| Foreign Banks | 42 813 | 294 685 |
| **Balance** | **704 640** | **497 386** |
| Non - interest bearing balances | 107 084 | 52 549 |
| Fixed interest bearing balances | 597 556 | 444 837 |
| **Balance** | **704 640** | **497 386** |
| Current balance | 704 640 | 497 386 |
| Non – current balance | - | - |
| **Total** | **704 640** | **497 386** |

## 25- Customers deposits

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Demand deposits (current accounts) | 876 785 | 926 197 |
| Time and call deposits | 4 491 953 | 4 109 836 |
| Certificates of deposits | 1 499 137 | 1 506 397 |
| Saving deposits | 527 922 | 438 278 |
| Other deposits | 279 902 | 189 832 |
| | **7 675 699** | **7 170 540** |
| Financial Institutions deposits | 4 363 562 | 4 038 090 |
| Individual deposits | 3 312 137 | 3 132 450 |
| **Balance** | **7 675 699** | **7 170 540** |
| Non-interest-bearing balances | 400 236 | 458 237 |
| Fixed interest-bearing balances | 5 355 634 | 4 911 324 |
| Variable interest-bearing balances | 1 919 829 | 1 800 979 |
| **Balance** | **7 675 699** | **7 170 540** |
| Current balances | 3 743 898 | 4 962 158 |
| Non-current balances | 3 931 801 | 2 208 382 |
| **Balance** | **7 675 699** | **7 170 540** |

## 26- Other loans

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Social Fund for Development loan - development of small enterprises (new & existing) | 5 860 | 5 384 |
| Environmental compliance projects loan- (the leading bank / NBE) | - | 19 |
| Agricultural development loan – (the leading bank / CIB) | 3 174 | 2 175 |
| (CBE) Mortgage finance initiative to low income individuals | 13 972 | 10 612 |
| Arab Fund for Economic and Social Development loan | 30 000 | 30 000 |
| Performing MEs financing initiative to fund new machinery, equipment and production lines for industrial and agricultural purposes (CBE) | 9 156 | 9 827 |
| China Development Bank (CDB) loan | - | 40 000 |
| **Total other loans** | **62 162** | **98 017** |

## 27- Other liabilities

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Accrued interest | 44 596 | 53 067 |
| Unearned revenues | 3 082 | 4 617 |
| Employees' fund | 2 704 | 2 103 |
| Alternative employees benefit plan | 11 157 | 8 180 |
| Accrued expenses | 2 369 | 423 |
| Dividends payable | 24 | 24 |
| Sundry credit balances | 39 850 | 34 591 |
| **Balance** | **103 782** | **103 005** |

## 28- Other Provisions

| | 31/12/2019 | | | | | | | 31/12/2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Beginning of the year balance | Impact of changes resulting from initial implementation of IFRS 9 | Adjusted balance as at 1/1/2019 | Exchange differences | Formed during the year | Used during the year | Year ending balance | Beginning of the year balance | Exchange differences | Formed during the year | Exchange differences | Year ending balance |
| Potential claims provision | 14 844 | - | **14 844** | 202 | (7 421) | (2 236) | 5 389 | 1 871 | (12) | 13 902 | (917) | 14 844 |
| Contingent liabilities provision | 5 398 | (1 702) | **3 696** | 62 | 221 | - | 3 979 | 5 620 | (31) | (191) | - | 5 398 |
| Commitments and facilities provision | - | 366 | **366** | 10 | (312) | - | 64 | - | - | - | - | - |
| **Total** | **20 242** | **(1 336)** | **18 906** | **274** | **(7 512)** | **(2 236)** | **9 432** | **7 491** | **(43)** | **13 711** | **(917)** | **20 242** |

## 29- Cash and cash equivalents

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

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Cash at hand & due balances from the Central Bank of Egypt | 43 083 | 59 636 |
| Balances with Banks | 1 682 536 | 1 327 822 |
| Treasury bills | - | 111 276 |
| **End of year balance** | **1 725 619** | **1 498 734** |

## 30- Commitments for loans, guarantees and facilities

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Letters of guarantee | 219 873 | 206 324 |
| Letters of Credit - import | 23 316 | 57 943 |
| Letters of Credit - export | 52 474 | 116 824 |
| Money market papers for facilities to suppliers | 849 | 343 |
| Commitments for corporate loans | 1 175 479 | 824 533 |
| Accepted and endorsed bills of exchange | 82 625 | 24 759 |
| **Total** | **1 554 616** | **1 230 726** |

## 31- Related parties' transactions

Transactions with related parties have been conducted by the Group, at arm's length in accordance with the norms and the normal course of banking rules in practice. Related parties' transactions and balances on the balance sheet date are as follows:

| | Associates | |
|---|---|---|
| | 31/12/2019 | 31/12/2018 |
| Loans & facilities to customers and banks | 7 484 | 8 674 |
| Customers' deposits | 294 256 | 249 409 |
| Due from banks | 113 168 | 8 821 |
| Due to banks | 255 532 | 320 725 |
| Other balances | 328 | 224 |

## 32- Owners' Equity

### A- Paid in Capital

The Issued Capital as at December 31, 2015 amounted to US$ 600 Million distributed over 30 000 common shares of US$ 20 000 each and the paid-up capital amounted to US$ 450 Million. On March 6, 2016, the Board of Directors of the Bank decided to call up the second and last portion of the issued capital increase that amounted to US$ 150 million paid as at June 30, 2016.

Thus, the fully paid issued and paid in capital of the Bank became US$ 600 million as at December 31, 2019 that is distributed over 30,000 common shares whose value is US$ 20 000 each.

The issued and subscribed share capital is as follows:

| | No. Of shares | Nominal value | % | Paid |
|---|---|---|---|---|
| Arab Republic of Egypt | 11 628 | 232 560 | 38.76 | 232 560 |
| Libya | 11 628 | 232 560 | 38.76 | 230 560 |
| Abu Dhabi Investment Authority | 3 751 | 75 020 | 12.503 | 75 020 |
| State of Qatar | 1 495 | 29 900 | 4.984 | 29 900 |
| State General Reserve Fund of Sultanate of Oman | 747 | 14 940 | 2.49 | 14 940 |
| International Capital Trading Co. | 751 | 15 020 | 2.503 | 15 020 |
| **Total** | **30 000** | **600 000** | **100** | **600 000** |

## B- Reserves

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Legal Reserve (Analytical Note No. B-1) | 130 970 | 127 008 |
| General Reserve | 87 578 | 87 578 |
| Capital reserve | 644 | 577 |
| Special reserve | 69 | 1 683 |
| Fair value reserve - financial investments – at fair value through other comprehensive income (Analytical Note No. B-2) | 27 687 | (10 913) |
| General banking reserve (Analytical Note No. B-3) | 96 | 4 798 |
| Risk reserve (IFRS 9) * | - | 37 193 |
| **Total of reserve at the end of the year** | **247 044** | **247 924** |

### (B-1) Legal Reserve

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Balance at the beginning of the year** | **127 008** | **119 626** |
| Transferred from the profit of the year | 3 962 | 7 382 |
| **Balance at the end of the year** | **130 970** | **127 008** |

### (B-2) Fair value reserve of financial investments at fair value through other comprehensive income

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Balance at the beginning of the year | (10 913) | (8 252) |
| Net change in fair value of investments at fair value through other comprehensive income | 27 753 | - |
| Impact of changes resulting from initial implementation of IFRS 9 on ECL | 10 847 | - |
| Fair value reserve - financial investments - at fair value through other comprehensive income | - | (6 084) |
| Amortization of the fair value reserve allocated for bonds reclassified from investments available for sale into financial investments held to maturity | - | 3 423 |
| **Balance at the end of the year** | **27 687** | **(10 913)** |

### (B–3) General banking risk reserve

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **Balance at the beginning of the year** | 4 798 | 3 702 |
| Transferred to general banking reserve | 478 | 1 096 |
| Transferred to general risk reserve | (5 180) | - |
| **Balance at the end of the year** | **96** | **4 798** |

## C- Retained earnings

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Balance at the beginning of the year | 134 134 | 114 805 |
| Net profit of the year | 50 888 | 41 971 |
| Dividends appropriations | (10 410) | (13 546) |
| Transferred to legal reserve | (3 962) | (7 382) |
| Transferred to capital reserve | (67) | (4) |
| Transferred to banking risk reserve | (478) | (1 096) |
| Adjustments of retained earnings | (471) | (441) |
| Foreign exchange translation differences | - | (173) |
| Impact of implementing (IFRS9) | (81 060) | - |
| **Balance at the end of the year** | **88 574** | **134 134** |

## 33- Investment Funds - financial investments at fair value through other comprehensive income

### SAIB Fund 1 - accumulated income fund:

SAIB Fund 1 is one of the banking activities authorized to be practiced by the Bank by virtue of the Capital Market Law No. 95 of 1992 and its executive regulations and it is managed by Prime Investments Asset Management Company (S.A.E.)

The Bank has established Fund 1 by virtue of the license issued by the Egyptian Financial Supervisory Authority (currently known as the Financial Regulatory Authority) No. (133) dated 28 February 1996 at a nominal value of L.E 500 per certificate. On 13 March 2007, the Capital Market Authority approved splitting the value of the certificate at a percentage of 1:5 and thus the nominal value of the certificate became L.E 100 instead of L.E 500, accordingly, article No. (6) of the prospectus of Fund 1 was amended as at 29 March 2007.

The number of investment certificates of this fund reached 178 901 certificates and their nominal value amounted to US$ 1 115 238. The Bank allocated 73 075 certificates with a nominal value of US$ 455 537 to carry out the activity of the fund.

The redemption value of the certificate the financial position date amounted to L.E 195.61 that represents the equivalent of US$ 12.19

### SAIB Fund 2 - accumulated income fund with recurring revenue and bonus certificates:

SAIB Fund 2 is one of the banking activities authorized to be practiced by the Bank by virtue of the Capital Market Law No. 95 of 1992 and its executive regulations and it is managed by Prime Investments Asset Management Company (S.A.E.)

The Bank has established Fund 2 by virtue of the license issued by the Egyptian Financial Supervisory Authority (currently known as the Financial Regulatory Authority) No. (178) dated 4 September 1997 at a nominal value of L.E 100 per certificate. On 6 March 2018, the Financial Regulatory Authority approved splitting the value of the certificate at a percentage of 1:5 and thus the nominal value of the certificate became L.E 20 instead of L.E 100

The number of investment certificates of this fund reached 211 218 certificates and their nominal value amounted to US$ 263 339. The Bank allocated 101 175 certificates with a nominal value of US$ 126 142 to carry out the activity of the fund.

The redemption value per certificate on the financial position date amounted to L.E 132.19 that represents the equivalent of US$ 8.24

### SAIB Fund 3 - El Rabah Fund - fund with recurring revenue:

- The fund is one of the banking activities authorized to be practiced by the Bank by virtue of the Capital Market Law No. 95 of 1992 and its executive regulations and it is managed by EFG Hermes Asset Management instead of Prime Investments Asset Management Company (S.A.E.) due to the termination of the management contract as at 4 November 2013.
- The Bank has established Fund 3 by virtue of the license issued by the Egyptian Financial Supervisory Authority (currently known as the Financial Regulatory Authority) No. (248) dated 31 December 1998 at a nominal value of L.E 100 per certificate.
- The name of the fund was changed into El Rabah Fund based on the approval of the Egyptian Financial Supervisory Authority (currently known as the Financial Regulatory Authority) dated 22 April 2007.
- The number of investment certificates of this fund reached 193 510 certificates and their nominal value amounted to US$ 1 206 308. The Bank allocated 50 000 certificates with a nominal value of US$ 311 691 to carry out the activity of the fund.
- The redemption value per certificate on the financial position date amounted to L.E 186.62 that represents the equivalent of US$ 11.63

### SAIB Fund 4 - Sanabil Islamic Fund - accumulated income fund with recurring revenue:

- The fund is one of the banking activities authorized to be practiced by the Bank by virtue of the Capital Market Law No. 95 of 1992 and its executive regulations and as of 21 December 2011, the fund turned out to be managed by HC Securities & Investment instead of Prime Investments Asset Management Company (S.A.E.), due to the termination of the management contract as at 20 December 2011.
- The Bank has established Sanabil Islamic Fund based on the provisions of the Islamic law (sharia) in cooperation with Abu Dhabi Islamic Bank (ADIB) –Egypt (formerly The National Bank for Development –NBD) by virtue of the license issued by the Capital Market Authority No. (377) dated 20 December 2006 at a nominal value of L.E 100 per certificate.
- The number of investment certificates of this fund reached 178 736 certificates and their nominal value amounted to US$ 1 114 210. The Bank allocated 25 000 certificates with a nominal value of US$ 155 846 to carry out the activity of the fund.
- The redemption value per certificate on the financial position date amounted to L.E 130.66 that represents the equivalent of US$ 8.15

### SAIB Fund 5 - Youmy Fund - accumulated daily income fund:

- The fund is one of the banking activities authorized to be practiced by the Bank by virtue of the Capital Market Law No. 95 of 1992 and its executive regulations and it is managed by Beltone Asset Management Company for investment funds management.
- The Bank has established the daily cash fund (Youmy Fund) by virtue of the license issued by the Egyptian Financial Supervisory Authority (currently known as the Financial Regulatory Authority) No. (691) dated 4 September 2014 at a nominal value of L.E 10 per certificate.
- The number of investment certificates of this fund reached 1 223 509 certificates and their nominal value amounted to US$ 762 715. The Bank allocated 500 000 certificates with a nominal value of US$ 311 691 to carry out the activity of the fund.
- The redemption value per certificate on the financial position date amounted to L.E 18.37 that represents the equivalent of US$ 1.15

## 34- Employees’ Pension fund

The Bank has a funded defined benefit contributory pension plan covering all full-time employees until 17 April 2008. The benefits provided by the plan are determined by the Board of Directors. The value of the vested benefit liability according to the plan and the adequacy of the reserve are annually determined by an Actuary.

On 8 December 2013, the Board of Directors of the Bank, approved the Voluntarily Early Retirement Plan based on the new conditions and benefits instead of the adopted regulations of the end of service compensation, social insurance and pension plan program through the complete withdrawal from the Bank and the Employees’ Pension Fund (without pension) provided that the proposed benefits shall be granted pursuant to the insurance wage as at 31 December 2013.

In addition, the Bank shall finance the Employees’ Pension Fund by a subordinated loan within the limit of US$ 55 million that represents the difference between the total employees’ benefits amounts after being granted the additional benefits of the Voluntarily Early Retirement according to the regulations and the actuarial pension reserve allocated for such age categories. The settlement of the subordinated loan occupies the second priority after the fulfillment of the Fund’s obligations that are established upon the actuarial calculations while taking into consideration that the balance of the subordinated loan is included in the assets of the Fund that are allocated for the fulfillment of its obligations. The subordinated loan balance shall be reduced on monthly basis with an amount equivalent to the surplus resulting from the Voluntarily Early Retirement Plan.

The share of the year of the surplus resulting from the implementation of the Voluntarily Early Retirement Plan as at 31 December 2017 was calculated and amounted to US$ 4 991 thousand, hence, the subordinated loan granted to the Employees’ Pension Fund was reduced by the same amount of the surplus share for the year 2017. Based on the Actuary’s Report issued in 2017, the Bank postponed the payment of the last portion of the subordinated loan paid in 2017 (reverse of amounts previously paid during the year 2017) and reimbursed the amount to the pension reserve fund as of December 31, 2017 provided that the said portion of the subordinated loan shall be settled during the coming years when the pension reserve fund is capable of fulfilling the said obligation as recommended by the actuary.

The employees’ pension reserve fund on December 31, 2019 amounted to US$ 99 418 thousand corresponding to US$ 97 909 thousand as at December 31, 2018. The Actuary’s Report stated that there is no deficit in the pension reserve fund on December 31, 2019, after the completion of the realized actual investment return difference that amounted to US$ 2 663 thousand in order to reach the minimum limit that should be achieved at a rate of 7% of the total reserve fund along with the postponement of settlement of the last portion of the subordinated loan, that amounted to US$ 4 991 thousand and in case the Bank approves to add the annual increment of 2019, there will be a deficit with an amount of US$ 42 thousand in the fund.

Based on the Actuary’ opinion, that Employees’ Pension Fund has been supported by US$ 2 663 thousand that represents the investment return difference (7%) that is guaranteed by the Bank and the realized investment return (2019) referred to in the Actuary’s Report in addition to the amount of US$ 42 thousand being the cost of adding the annual increment of 2019 and deducted from the income statement of this year, along with the postponement of settlement of the last portion of the subordinated loan, that amounted to US$ 4 991 thousand and adding its value to the Employees’

Pension reserve fund provided that the said portion will be settled during the following years when the pension reserve fund is quite adequate to cover such settlement according to the directives of the Actuary Expert referred to above.

## 35- Comparative figures

Some comparative figures were adjusted as at 31 December 2018 to be in agreement with the comparative figures of the financial statements as at 31 December 2019 in accordance with the amendments made on the comparative figures of the financial statements of subsidiaries.

## 36- Significant events subsequent to the end of the financial year and do not require adjustments in the financial statements

The recent outbreak of Novel Coronavirus Disease (COVID-19) is still having a heavy impact on economy and the global markets and the implications of its negative impact on various aspects that includes among several ones, the manpower, operating processes and the available liquidity in the Bank. Accordingly, the management of the Bank formed a team to develop and execute emergency plans to encounter such extraordinary circumstances. Currently, we are closely following up and exercising ongoing assessment of all the developments related to the outbreak of (COVID-19). As we shall take all the necessary actions to maintain our operating processes and more importantly, to protect our employees, customers of the Bank and all the stakeholders related with the Bank.

In the light of our present knowledge and available information, we expect that Novel Coronavirus Disease (COVID-19) shall have no impact on the capability of the Bank to continue in business as a going concern in the foreseeable future.

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# **Interconnection** with the Bank



## Branches

### Head Office
35 Abd El-Khalik Tharwat, Cairo, Arab Republic of Egypt.
Swift Code: ARIBEGCX 001
E-mail: cairobranch@aib.com.eg

### Cairo Governorate

#### Cairo Main Branch
35 Abd El-Khalik Tharwat, Cairo, Arab Republic of Egypt.
Fax:23938743 – 23938179
Telephone:23970286 – 23970248 - 23970241
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E-mail:cairobranch@aib.com.eg

#### Zamalek Branch
55 Mohammed Mazhar st., Zamalek, Giza, Arab Republic of Egypt.
Fax:27369615
Telephone:27369616 – 27369617
Swift Code:ARIBEGCX 017
Email:ZAMALEKBRANCH@aib.com.eg

#### Heliopolis Branch
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Telephone:22902069 - 22907592
Swift Code: ARIBEGCX 005
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#### Nasr City Branch
77 B Nasr Road, Nasr City, Cairo, Arab Republic of Egypt.
Fax:24034904
Telephone:22605914 – 22606359
Swift Code: ARIBEGCX 004
E-mail: nasrcitybranch@aib.com.eg

#### Maadi Branch
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Fax:25178353
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E-mail: maadibranch@aib.com.eg

#### Abo Dawood Branch
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#### Ammar Ibn Yasser Branch
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Fax:26227429
Telephone:26227431- 26227432 - 26227433
Swift Code:ARIBEGCX 014
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#### Down Town Branch
Down town 5th settlement S4 building , Cairo, Arab Republic of Egypt.
Fax:23146396
Telephone: 23146399 - 23146398
Swift Code:ARIBEGCX 020
Email:DownTownBranch@aib.com.eg

#### Stella Branch
Stella Compound, first settlement, 9 Mohamed Naguib Axis, next to The Waterway, Cairo, Arab Republic of Egypt.
Fax:25308129
Telephone: 25308127 - 25308128
Swift Code:ARIBEGCX 013
Email:STELLABRANCH@aib.com.eg

### Giza Governorate

#### El Tahrir Branch
5 Weisa Wasef Street, El Riyadh Tower, Giza, Arab Republic of Egypt.
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E-mail: tahrirbranch@aib.com.eg

#### Mohandessin Branch
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#### El-Sheikh Zayed Branch
Americana Plaza Mall, First Floor, El-Sheikh Zayed, Giza, Arab Republic of Egypt.
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#### 6 Oct University Branch
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## Branches

#### Sodic Branch
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### Alexandria Governorate

#### Alexandria Branch
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#### Smouha Branch
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### Port Said Governorate

#### Port Said Branch
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### South Sinai Governorate

#### Sharm El-Sheikh Branch
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### Dakahlia Governorate

#### Mansoura Branch
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