National Bank of Egypt (UK) Limited

Annual report and financial statements

Registered number 2743734

For the year ended 30 June 2017

Board of Directors
Dr. Farouk Abdel Baki El-Okdah – Chairman
Mr. Hisham Ahmed Okasha – Deputy Chairman
Mr Yasser Adel Ibrahim - Chief Executive Officer and Managing Director (appointed on 16 November 2016)
Mr. Mokhtar Abdel Gawad El Shennawy – Deputy Managing Director
Mr. Mahmoud Montaser
Mr. Raymond Seamer (retired 31 December 2016 – end of his office term)
Mr. Nicholas Beecroft
Mr. Hussein Ismail El Rafaie
Dr. Ziad Bahaa-Eldin
Mr David Somers (appointed on 14 March 2017)

Company Secretary
Dentons Secretaries Ltd

Management Committee
Dr. Farouk Abdel Baki El-Okdah – Chairman
Mr. Hisham Ahmed Okasha – Deputy Chairman
Mr Yasser Adel Ibrahim - Chief Executive Officer and Managing Director (appointed on 16 November 2016)
Mr. Mokhtar Abdel Gawad El Shennawy – Acting Managing Director
Mr. Ismail Saleh – General Manager

Management Committee Secretary
Mr. Ahmed Maksoud – Deputy General Manager and Risk Officer

Audit and Risk Committee
Mr. Raymond Seamer – Chairman (retired on 31 December 2016 – end of his office term)
Mr. Nicholas Beecroft - Chairman
Dr. Ziad Bahaa-Eldin
Mr David Somers (appointed on 14 March 2017)

Audit Committee Secretary
Mr. Brian William Turner – Head of Internal Audit

Remuneration Committee
Dr Farouk Abdel Baki El-Okdah – Chairman
Mr. Hisham Ahmed Okasha
Mr Yasser Adel Ibrahim

Solicitors
Dentons
One Fleet Place,
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Auditor
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National Bank of Egypt (UK) Limited
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CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it gives me great pleasure to present the audited annual report and financial statements of National Bank of Egypt (UK) Limited ("NBEUK") for the year ending 30 June 2017.

The current year was marked by some significant shifts in global economic and political conditions. The UK economy held up well in the six months after the EU referendum, particularly as regards consumer spending. But, growth then slowed markedly in the first quarter of 2017 as both consumer spending and services growth moderated. A key factor behind this recent moderation has been an increase in the rate of Consumer Price Inflation (CPI), from 0.7% on average in 2016 to 2.6% in the year to June 2017, as global commodity prices have picked up somewhat from lows in early 2016, and the effects of the weak pound after the Brexit vote have fed through supply chains. Higher inflation has squeezed real household incomes and, despite a falling savings ratio, this has taken the edge off consumer-led growth. On the more positive side, investment has held up reasonably well since the Brexit vote, while exports should be boosted by an upturn in global growth, notably in the Eurozone. The weaker pound, although bad for UK consumers has been helpful to exporters and inbound Tourism.

The key credit challenge is the uncertainty as to whether the government can deliver a reasonably good outcome regarding the negotiations to leave the EU. The likelihood of an abrupt and damaging exit with no agreement has increased since the referendum, with the government so far pursuing objectives that would imply a "hard" exit. The economy has started to slow, and growth prospects could materially weaken if the UK fails to reach a free trade agreement with good access to the single market. The Board has considered the impact of the UK's Brexit vote on NBEUK and the assessment is the impact will be limited.

While 2017 has been a year of noticeable change for NBEUK, due to the continued strategy to restore the historical trend of the net interest income which outlines the key financial objectives out until June 2017, the results of the year have been encouraging; highlighting the progress that has been made in our underlying business and in the expansion of its related products.

As a consequence NBEUK posted a strong profit performance highlighted by an increased operating income to £24.9m or 73.83% higher than the level of £14.3m in 2016. Net interest income grew strongly increasing by 76.34% to £16.3m above the level of £9.2m in 2016. This is in line with projected extension of our portfolio of markets and products as per the approved budget for the year under review. Commission and fee generated from Trade Finance and other businesses including foreign exchange dealing profits was up 69.29% in 2017 to £8.6m compared to £5.1m in 2016. Subsequently, net profit after tax, grew by 148.30% to £11.5m compared to £4.6m a year earlier and at 80% above the budget. However, our fee income from trade finance is expected to be under pressure going forward with the improved stability of the political and economic situation in Egypt and the potential upgrade of sovereign and counterparty ratings.

Operating costs continues to be controlled and with the improved gross income ratio, has significantly improved gross income for this year, NBEUK's cost income ratio has significantly improved to 40.29% (2016: 61.57%). The marked improvement in the financial performance is based on the strength of our parent in their home market – Egypt, combined with our historical experience in emerging markets in terms of sourcing business and accepting risk.

We will continue to extend our trade based strategy selectively into new markets, initially focusing on our currently approved risk appetite for countries and counterparties in North Africa, the Gulf Region and Far East. We continue to enhance the efficiency of the NBEUK's operating environment, whereby, the Bank is investing in an upgrade of the core banking system which will be implemented during 2017/2018.

We have continued to focus on high asset quality, improving the diversity of our lending profile while maintaining our robust risk management processes to minimise shareholder exposure whilst ensuring enhanced shareholders' return and we continue to closely monitor the global macroeconomic events proactively as these play a key role in determining our financial projections and budget for the year ahead.

The regulatory environment remains challenging with the introduction of the Delegated Act by the European Commission for Liquidity Management coupled with the PRA's related CRD IV Liquidity Policy and Supervisory Statements together with the introduction of liquidity Pillar 2 add-ons which were implemented in July 2016. More stringent rules in relation to capital adequacy were introduced to ensure more resilient UK financial institutions with enhanced Pillar 2A and 2B capital, the PRA buffer, liquidity coverage ratio, net stable funding ratio to reflect the name-specific risk of regulated firms. The introduction of the new Senior Managers and Certification Regime, the Conduct and Cultural Risk Practises and Deposit Protection Revised Scheme and Recovery and Resolution directives will continue to add more evolving regulatory requirements to ensure banks are better prepared for future financial crisis. The Bank continues to benefit from the strong capital adequacy and liquidity positions with full compliance in relation to the new and additional reporting requirements as both the Board and Management continue to promote and maintain sound internal control and corporate governance in compliance with applicable regulations.

The Bank's risk appetite has been revised in line with the approved strategy and the Bank has delivered enhanced Risk Management infrastructure, framework and practices with the risk limits and policies aligned to the yearly budget and day to day running of business to protect the interest of the Bank's customers and its stakeholders. The Bank - will continue to be proactive in responding to the ongoing economic recovery and more stringent regulatory developments through its conservative approach to risk and business.

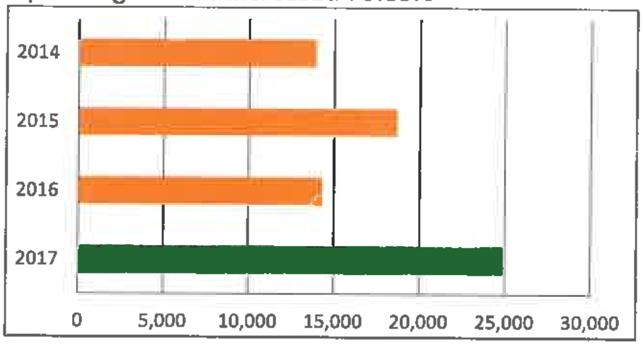
On behalf of the Board of Directors, I would like to express my thanks to the Bank's Management and staff for their valuable contribution to NBEUK's success in 2017 and we look forward to further improvements to the Bank's results in the year ahead.

Dr. Farouk A. El Okdah
Chairman

Financial Highlights

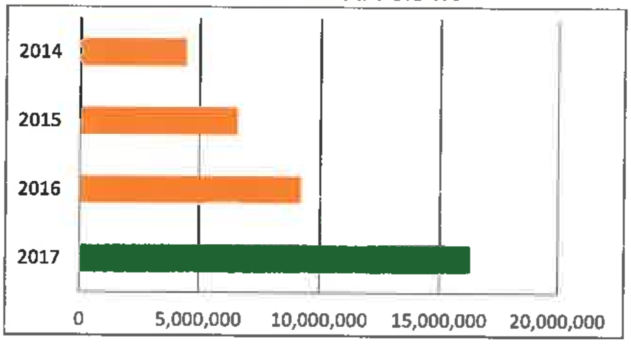
Operating Income
£24,890,647

Operating income increased 73.83%



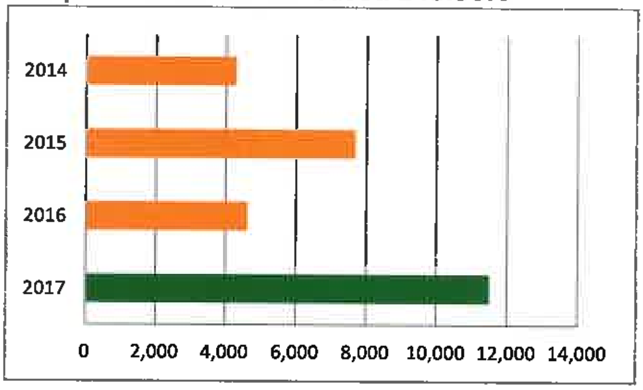
Net Interest Income
£16,273,481

Net interest income increased 76.34%



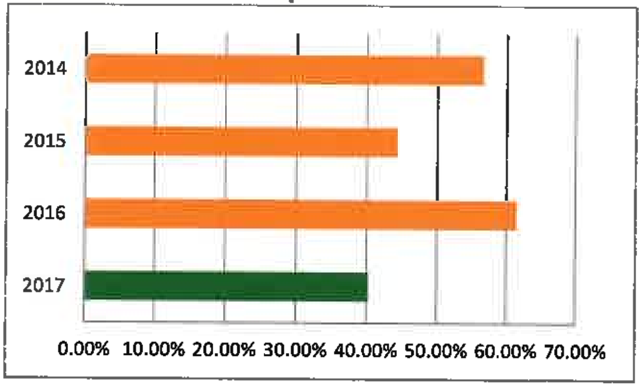
Net Profit after tax
£11,514,226

Net profit after tax increased 148.30%



Cost Income Ratio
40.29%

Cost Income Ratio improved 34.56%



£000's

	2017	2016	2015	2014
Financial Position				
Operating income	24,891	14,319	18,724	13,944
Net profit	11,514	4,637	7,875	4,291
Total assets	1,438,234	1,414,807	998,309	1,191,032
Total investments	604,679	662,460	507,016	583,487
Total loans to customer	110,146	98,348	88,887	68,111
Shareholders' funds	149,604	138,090	142,166	134,291
Tier 1 & 2 capital (eligible capital)	172,719	160,423	153,368	151,829
Ratios %				
Capital adequacy	21.90%	21.89%	32.63%	31.13%
Cost income ratio	40.29%	61.57%	46.76%	56.65%
Return on equity	8.86%	3.57%	6.06%	3.30%
Return on shareholders' funds	7.70%	3.36%	5.40%	3.20%

Strategic Report

NBE UK was granted on 24 December 1992 the status of authorised institution under the UK Banking Act 1987 (since superseded by the Financial Services and Markets Act of 2000).

The Bank is a wholly-owned subsidiary of the National Bank of Egypt, 1187 Corniche El Nil Street, Cairo, Egypt. NBEUK is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

The Company provides general banking services in the United Kingdom to private and public sector customers, particularly to the Egyptian community, and conducts international banking business world-wide. The Company participates actively in the inter-bank, foreign exchange and syndicated loans markets and in the finance of international trade and invests in gilt-edged securities and floating rate notes.

The Bank's approved three year strategic business plan 2015-2017 sets out the key financial objectives to restore the Bank's historical interest income trend and improve the overall profitability and earnings. According to the approved strategy, NBEUK's mission is to provide world-class international banking services to Egyptian and Middle Eastern related businesses and governmental agencies and in doing so, become the first choice UK and European bank for Egyptian counterparties and other relationships from the Gulf region and North Africa. With our strong base of experience and market presence, we aim to grow each of our various strategic business lines in both market and product extensions.

The Bank's primary business objective is to provide a range of banking services to both its UK and international customers. Its strategy for doing so is as follows:

- protect the Bank's capital and liquidity in line with PRA and FCA guidelines, and within internal risk management policies, with minimal exposure to market risk;

- to provide lending in trade finance to both financial institutions and large commodity corporate clients involved in trade predominantly to or from the Middle East and growing emerging markets;

- increase loans and advances, including syndicated facilities, and to be used as a penetrating tool for the purpose of future enhancement of trade relationships with NBEUK's existing counterparties and other future targeted relationships;

- to provide treasury services to customers and counterparties ; and

- to maintain asset quality whereby the overall investment grade of the balance sheet will be around 75%.

The strategy drivers are based on the strength of our parent in their home market, Egypt, combined with our historical experience in emerging markets in terms of sourcing business and accepting risk. In addition we are intent on building our funding base to be diversified, whilst maintaining liquidity and meeting all Regulatory requirements.

NBEUK operates a simple banking model. Primarily we take deposits from customers and then lend to borrowers through our various business units. Deposits are taken from governmental agencies, individuals, financial institutions and corporate businesses both in Egypt and the UK. NBEUK accumulates funds from deposits, equity and debt capital and these are lent to corporate business and financial institutions through different bank business channels e.g. loans, debt securities, trade finance and money market lending.

As a wholly-owned subsidiary of National Bank of Egypt, NBEUK is adequately funded by the sole shareholders.

Business Model

The Bank operates a number of business lines which are described below:

Customer Services: The Company offers banking services in the UK to Egyptian nationals, Egyptian embassies and related offices and Egyptian corporate customers operating primarily outside Egypt. The Customer Services area is able to offer fixed term deposits, plus current account services.

Lending*:* Syndicated loans are provided for general funding requirements to banks, corporates and sovereign entities. Bilateral and direct loans to customers are to support working capital financing, capital expenditure and trading activities. The bank is looking to rebuild this business in 2017/18. The Bank also offers corporate and institutional banking facilities to correspondent banks by way of club deals and bilateral lending activities.

Treasury: Treasury activity focused primarily on liquidity management, including the management of a portfolio of investments to assist with liquidity and enhance income, despite the previous difficult interest rate market conditions. The Treasury team operates a non- trading book. Foreign exchange services in all major currencies are also offered through traditional interbank channels within pre-determined risk limits. The Treasury team also manages the bank's interest rate exposure, in line with applicable internal policies.

Documentary Credits: These activities have continued to be expanded internationally from the traditional Egyptian markets over the last few years, and there are both corporate and financial institutions as customers. The business includes issuing, advising and confirming letters of credit and guarantees.

Business Review

As at 30 June 2017, the Company has total assets of £1,438m. This was an increase from the previous year's total assets of £23m or 2% higher, due to a significant increase - in customer and bank deposits during the current year together with the impact of the post Brexit vote whereby the Sterling Pound currency exchange rate deteriorated against the US Dollar which has inflated the bank's balance sheet where more than 84% of the assets are denominated in US Dollars. The company made a profit after tax of £11.5m compared to £4.6m the previous year, or an increase of 148.30% due to the significant improvement of net interest income throughout the year under review.

Net interest income increased from £9.2m in 2015/16 to £16.3m in 2016/17 or an increase of 76.34% reflecting the bank's strategy to restore the historical trend of the income split between interest income and fee income at 75% and 25% structure. Fees and commissions rose to £7.4m from £5.3m or a growth of 39.62% due to the increased volume and pricing of the trade finance business during the year under review.

The company maintained its traditional strengths during the year in terms of stable funding, adequate liquidity and robust capitalisation. The Company continues to be well positioned to take advantage of the potential opportunities in the coming year and pursue its business objectives in a prudent and focused manner.

Financial results

The financial statements for the year, ended 30 June 2017 are shown on pages 26 to 29. The profit after taxation for the year amounts to £11,514,226 (2016: £4,637,173).

Financial Highlights 2016/17

Year on year, operating income of £24,890,647 (2016: 14,318,746) was 73.83% greater than last year. There was an increase in net interest income of 76.34% to £16,273,481 (2016: £9,228,638). Non-interest income increased by 69.2% - from £5,090,108 in 2016 to £8,617,166 in 2017.

Operating expenses increased from £8,816,655 in 2016 to £10,029,323 in 2017.

The tax charge increased from £1,153,518 in 2016 to £2,923,858 in 2017, in line with the escalating operating profit for the year.

Total assets, at £1,438,234,209 were £23,426,912 higher, an increase of 1.66%, over the previous year.

Management Process

The Bank's performance is measured against a number of Key Performance Indicators (KPI's): Total assets, net profit, operating income, cost income ratio, net interest income, total deposits and return on Equity. The principal measurement is profitability against a predetermined budget which is set annually. Income results for the business are distributed daily, monthly and annually and are monitored closely by the Bank's senior management. The Directors of the bank receive profitability results at each board meeting, where a comprehensive review is undertaken. Other KPIs are also reported regularly, such as Capital Adequacy, net interest income and Liquidity. Regular stress tests (quarterly and with the capacity to increase the frequency of these tests in special circumstances, such as volatile market conditions or where requested by the regulatory body or by Senior Management and Board of Directors) are performed and reviewed on Capital positions and Liquidity by ALCO (Asset and Liability Committee), and senior management. Risk and Audits reports are prepared quarterly for the Audit and Risk Committee to review. In addition to the annual report, the MLRO provides monthly management information to Senior and Executive Management.

All exposures are managed within risk appetite parameters and policies agreed by the Board of Directors. Day-to-day exposure is monitored by Credit Control (for credit risk), and Financial Control (Capital and Liquidity) reporting any findings to the Risk Management Officer. The Board of Directors and Management continue to promote and maintain an effective corporate governance structure in compliance with the applicable regulatory requirements.

Expense payments follow guidelines set out in the Expense policy, and are regularly reviewed.

Principal Risks and Uncertainties

Within our simple business model, there are a number of potential risks and uncertainties that could have a severe impact on the Bank's performance and could cause actual results to differ materially from expected and historical achievements. NBEUK has a responsibility to identify these risks, understand the risks through analysis and put measures in place to mitigate these risks. This is to ensure that there are processes in place to minimise its impact.

The Board of Directors and Executive Management promote a responsible approach to risk, whereby the overall risk appetite is established by the Board and reviewed on a regular basis. Such appetite for risk is always governed by high quality risk assets, a diverse lending portfolio, with a central oversight across the

Bank to ensure that the full spectrum of risks NBEUK is exposed to are adequately identified, measured, assessed, monitored, controlled and reported. The Risk Management function is complemented by all departments, business units and Board Committees in the process and management of certain categories of risks as detailed below.

The responsibility of Risk Management is fully vested in the Board of Directors, which in turn delegates this to Senior Management and the Board's Committees. NBEUK's management ensures that risk and risk management awareness is fully adhered to at all times. NBEUK avoids any business where associated risks cannot be objectively assessed, measured or managed. Various investment strategies and derivatives are used to mitigate the risks the Bank is exposed to and optimise investment performance.

The key risks inherent in our business model are:

- **Credit Risk**

The Bank is exposed to credit risk, in that counterparty will fail to fulfil their obligations. Credit risk is managed proactively by a robust Credit department and a Credit Committee comprised of senior management. Under the Capital Requirements Directive, the Company has adopted the Standardised Approach to credit risk.

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligations, resulting in a default situation and loss event. This risk is the main category of risk NBEUK is exposed to. Credit risk comprises counterparty risk, settlement risk and concentration risk. These risks arise in the Bank's normal course of business.

Over the last year, NBEUK has focused on operating within an environment and with counterparties with which it is not only familiar, but also comfortable. The focus has been on familiarising the business with its existing customers while continuing to gradually increase its market share within growing emerging markets - particularly for trade finance business.

The approach to credit risk management is based on the foundation to preserve the independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structure which guide the day-to-day initiation and management of the Bank's credit risk exposures. This approach comprises credit limits which are established for all customers after a careful assessment of their credit standing. This has enabled a greater understanding of the risks involved within the existing portfolios, while making sure an in-depth analysis and review is undertaken of new and existing transactions. Conscious efforts have also been made to increase staff awareness on risk factors within transactions.

- **Market Risk**

Market risk is the risk of a change in the market value, earnings or future cash flows of a portfolio of financial instruments, caused by the movements in market variables such as bond, equity or commodity prices, interest and exchange rates. NBEUK does not undertake proprietary trading activities therefore, no trading book is maintained.

Market risk exists for NBEUK where it holds securities that are affected by market fluctuations. Its investment and debt securities are held to maturity and therefore FRN's and other securities prices are of less concern. NBEUK is exposed through daily currency open positions, but this is mitigated by the restrictions placed on the maximum position allowed on each currency and enforced stop-loss positions.

The interest rate risk is managed as part of the daily monitoring within predetermined limits approved by the FCA. The majority of our interest-bearing liabilities and assets are based on floating rates, and so any interest rate mismatch is removed. Also, the majority of assets and liabilities are short dated, and therefore not subject to interest rate risk.

- **Liquidity Risk**

Liquidity risk is when NBEUK is unable to retain or create sufficient cash resources to meet its commitments. This happens when there is a shortfall in the amount available to NBEUK and the amount due to be paid out, which could either be due to a mismatch in funding versus deposits or a lack of liquid assets.

Daily monitoring is undertaken to make sure there is a good mix of wholesale and retail deposits coupled with the support of a strong stock of high quality liquid assets, including High quality Liquid Asset Buffer ("HQLA") which has been a dependable source of liquidity.

Liquidity risk is covered under the Bank's "Individual Liquidity Adequacy Assessment Process ("ILAAP") policy and regular stress tests are undertaken to ensure that we remain liquid at all times. Under the liquidity regulations the Company has fully implemented the requirements for liquidity risk management including systems and controls. During the current year the Company's approach to the liquidity risk management was reviewed and documented in a revised comprehensive "Individual Liquidity Adequacy Assessment Process ("ILAAP") document, drawn up in accordance with the regulatory requirements. This document describes the Company's liquidity risk tolerance, including the methodologies for ensuring that risk is restricted within that tolerance. It analyses the sources of liquidity risk, and describes the assumptions and approach taken to stress testing in light of those risks. It also incorporates the Company's liquidity contingency funding plans, liquid asset buffer and identifies those risks which have the potential to cause the Company to fail (reverse stress tests), as demanded by regulatory requirements.

- **Operational Risk**

Operational risk is defined as the "risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events". However, a defined operational risk management framework is effectively applied within the Bank, coupled with a high awareness of the underlying causes of operational risk at all levels within the business units, results in a control environment which is able to evolve with changing business needs, thereby ensuring operational losses within the business are kept to a minimum.

NBEUK has placed particular emphasis on improving in this area in recent years and has put in place both the structure and personnel to ensure steady and continual movement towards meeting this objective.

Operational risk is managed by all operational areas of the Bank on a day-to-day basis, but with oversight from Financial Control, Risk, and Internal Audit.

- **Regulatory Risk**

Regulatory risk is the risk to earnings, capital and reputation associated with a failure to comply with an increasing array of regulatory requirements and expectations from banking regulators.

Regulatory risk governance - begins at the Board level and cascade throughout the Bank. NBEUK ensures there is governance through its compliance and audit functions, which in turn ensures there is discipline and adherence towards maintaining regulatory requirements, while also deploying the effective resources needed to achieve them. In this way regulatory risk is minimised whilst the objective of NBEUK is taken into consideration and not hindered.

The Bank operates in a highly regulated environment and is therefore subject to regulatory risk in that it may find it does not comply with some aspect of the regulations, or wrongly reports figures to the regulators. Changes to the regulations are made frequently, and the Bank's Financial Control and Risk areas ensure that the Bank is compliant with the rules at all times. This risk is also mitigated by regular contact with the company's auditor, membership of trade organisations and various professional bodies. The regulatory environment during Current year remained as challenging as the previous years, especially with the advent of COREP, as UK regulators, together with other global regulators, continued to collaborate to establish more stringent banking rules in order to ensure banks are maintaining adequate capital and liquidity to survive any further global crisis and to promote financial stability going forward. Measures were implemented by the PRA and FCA to increase regulations within the financial sector, one of which included the requirements for recovery plans and resolution packs (RRP), which the Bank has updated, re-produced and re-submitted to the UK regulatory body during the year under review. Under the terms of the - approved capital directives (CRD IV), implementation of Basel III is largely complete which plays a significant role in determining how the Bank and other financial institutions globally undertake their business going forward. The introduced regulations require the Bank to apply common reporting standards (COREP) for capital adequacy, liquidity adequacy, leverage, liquidity coverage ratio, net stable funding ratio, asset encumbrance, capital forecast (capital +), single customer view, the minimum requirements for own funds and eligible liabilities (MREL), additional liquidity monitoring metrics and large exposures which involves significant system and control processes.

Current year continued to witness some significant regulatory changes in the UK banking industry. To ensure that the Bank remains proactive, and not reactive, to such changes we have a number of measures to enhance our commitment to our customers. The Bank has always been committed to treating our customers fairly and have an agreed measures, polices and internal governance to regularly review and monitor the application of treating the customers fairly and of conduct risk to all aspects of the Bank's customer business, with the aim of ensuring that management information is adequate to monitor the effectiveness of systems and controls designed to deliver fair treatment of customers, in compliance with data protection regulations. The Banking Reform Act received Royal assent in December 2013. It brings into law structural and cultural changes to the banking system, by:

- Introducing a 'ring-fence' around the deposits of people and small business, to separate the high street from trading floor and protect taxpayers when things go wrong;
- Making sure the new Prudential Regulation Authority can hold banks to account for the way the separate their retail and investment activities, giving it powers to enforce the full separation of individual banks;
- Imposing higher standards of conduct on banking industry by introducing a criminal sanction for misconduct that leads to bank failure;
- Giving depositors, protected under the Financial Services Compensation Scheme, preference if a bank enters insolvency;
- Giving the government power to ensure that banks are more able to absorb losses and remain self-sufficient at all time.

The bank has progressed with the implementation of the Senior Managers and Certification regimes, replacing the discredited Approved Persons Regime. The key features of the introduced regimes are:

- An approval regime focused on senior management, with requirements on firms to submit robust documentation on the scope of those individuals responsibilities;
- A statutory requirement for senior managers to take responsible steps to prevent regulatory breaches in their areas of responsibility;

- A requirement on firms to certify as fit and proper any individual who performs a function that could cause significant harm to the firm or its customers, both on recruitment and annually thereafter;
- A power for the regulator to apply enforceable Rules of Conduct to any individual who can impact their respective statutory objectives.

The Bank has identified, allocated and submitted the necessary applications for all selected senior managers at both grandfathering stage and after the effective date with the senior managers and certification staff training provided to all relevant staff to demonstrate their understanding of this important area.

- **IT System and Control Risk**

IT/Systems risk is the risk of a failure or an issue arising within a bank's primary systems, which might hinder the functionality of the business with unforeseeable consequences and eventually lead to a loss of revenue to the business.

NBEUK understands the risk and reputational risk, addresses these issues and maintains the most up to date systems and anti-virus software to ensure a high level of IT security is sustained. The Bank has internal controls and monitoring systems in place around operations and IT related projects and enhancements, including improved information security standards.

The Bank has an established integrated Risk Management Function that clearly assigns ownership and management of specific risks to business units heads and senior management. This ensures that all of the principal risks are defined and recognised and that policies and procedures are in place to mitigate any such risk. The Company's risks are managed taking into account several main principles, including management responsibilities for the management of risk and controls, assessment and measurement of all identified risks with acceptable balance between risk versus return, and undertaking an annual review of risk policies and the control framework to ensure optimal capital allocation and utilisation for relevant risks.

As at 30 June 2017 and during the year, NBEUK held adequate capital as required by the Prudential Regulation Authority. The Bank's regulatory capital resources as at 30 June 2017 including retained profit was as follows:

	June 2016 **£000's**	**June 2017** **£000's**
Tier 1 Capital	138,090	138,090
Tier 2 Capital	22,333	34,629
Total eligible capital resources	160,423	172,719

Tier 1 capital comprises share capital and the retained profit at the year-end 30 June 2017. Tier 2 capital comprises mainly issued term subordinated debt from the parent company which was increased during the year from USD$30 million to USD$60 million, for 10 years with 75% drawdown during the current year or USD$45 million.

The following table provides both the overall minimum capital requirements and capital adequacy position calculated in accordance with regulatory rules (the Pillar 1 requirements) in addition to NBEUK assessments of the Pillar 2 capital requests at the year-end:

	June 2016 £000's	**June 2017 £000's**
Credit risk capital	54,604	60,558
Market risk capital	86	90
Counterparty risk capital	110	43
Operational risk	2,418	2,349
Total Pillar 1 Capital requirement	57,218	63,082
Total Pillar 2A Capital requirement	47,490	52,358
Total Capital Requirements	104,708	115,440

Risk weighted assets (RWA) were higher as at 30 June 2017 in view of the increase in the balance sheet size, together with some increases in the average weightings applied to certain categories of the exposures. This increase in RWA led to a reduction in the amount of our capital surplus, the capital adequacy ratio and the leverage ratio as follows:

	June 2016	**June 2017**
Capital surplus (£000's)	51,885	57,280
Capital adequacy ratio	21.89%	21.90%
Leverage ratio	9.17%	9.5%

The Company was in compliance with the ICG requirements throughout the year including the requirements for the PRA buffer or the Capital Planning Buffer ("CPB").

The Bank maintains sufficient liquidity to meet all known and likely demands which could be made upon it by its clients and ensures that such liquidity is available on a day-to-day basis in accordance with the liquidity guidelines and rules as set out in the approved ILAAP.

Systematically, most developed financial markets improved during the year and as the year progresses; confidence in emerging markets began to wane particularly as reflected in the reduction of the quantitative easing in the USA and the UK.
The Bank regards itself as a stand-alone entity, not relying on any related party for future liquidity support in the event of stress. Liquidity is managed by the Bank's Treasury operation, overseen and guided by ALCO, Senior Management and reporting to the Management Committee and the Board of Directors.

The market risk the Bank has is kept to a minimum, with careful monitoring of our investment portfolio, and fixed rate investments are hedged with interest rate swaps which are now subject to the FRS102 accounting standard.

Further details of the Company's risk management policies, procedures and exposures, in compliance with the Pillar 3 requirements of the Capital Requirements Directive, are published on the Company's website, www.nbeuk.com.

The basis of the assessment of the Bank as a going concern is mentioned within the Directors' report.

Future Developments

The Directors expect the general activity to increase in the coming year. It is expected that our loan books are rebuilt, our assets and liabilities diversified to other geographic region, however, our risks continued to be controlled and monitored, and our regulatory requirements fulfilled. It is also expected that staffing levels are reviewed and resources realigned with the future needs to meet the Bank's strategy and plans. It is not foreseen that the balance sheet will grow substantially, but gradually as the Bank takes on more profitable assets. However the balance sheet total was inflated, following from the immediate Brexit shock whereby the Sterling Pound foreign exchange rate deteriorated to 1.29950 against the US Dollar at the year end. Key credit challenge is the uncertainty as to whether the UK government can deliver a reasonably good outcome regarding the negotiations to leave the EU. The likelihood of an abrupt and damaging exit with no agreement has increased since the referendum, with the government so far pursuing objectives that would imply a "hard" exit. The economy has started to slow and growth prospects could be materially weaker if the UK fails to reach any free trade arrangements with good access to the single market.

Given the complexity and sheer number of policy decisions in the coming years, the UK's institutional capacity will be tested. Moreover, political and fiscal risks have increased following the governments, loss of its parliamentary majority in early elections in June 2017 and the government is under significant pressure to increase spending. However, the UK also retains important credit strengths that are unaffected by the exit related uncertainties. The UK is a large, diversified and competitive economy with high wealth levels and flexible labour and product markets. Its legal system is strong and long established. The credibility of the Bank of England should ensure financial stability, while exchange rate flexibility provides some support for exports and the UK's external stability.

The Bank has to remain cautious, though, as potential upcoming challenges and risk to full recovery in the UK include the outcome of the UK's negotiations to leave the EU, economic instability in Russia and continued conflict in Syria and subdued growth in emerging markets such as China. Adding to this widespread market instability, NBEUK's core markets presented their own challenges, not least in the context of the continuing difficult political and business environment in the bank's target markets.

The Board recognised the importance of the Bank proceeding cautiously, and appropriate contingency plans were put in place.

By order of the board

Dentons Secretaries Limited

Dentons Secretaries Limited
Company Secretary

11 Waterloo Place
London SW1Y 4AU
18 September 2017

Directors' report

The Directors of National Bank of Egypt (UK) Limited ("the Company") have pleasure in presenting their annual report, together with the financial statements and auditor's report, for the year ended 30 June 2017.

Directors

The names of the Directors as at the date of this report and those who served during the year and to the date of this report are as follows:

Dr. Farouk Abdel Baki El-Okdah – Chairman
Mr. Hisham Ahmed Okasha – Deputy Chairman
Mr Yasser Adel Ibrahim - Chief Executive Officer and Managing Director (appointed on 16 November 2016).
Mr. Mokhtar Abdel Gawad El Shennawy – Deputy Managing Director
Mr. Mahmoud Montaser
Mr. Raymond Seamer (retired on 31 December 2016 – end of his office term)
Mr. Nicholas Beecroft
Mr. Hussein Ismail El Rafaie
Dr. Ziad Bahaa-Eldin
Mr David Somers (appointed on 14 March 2017)

Dentons Secretaries Limited – Company Secretary

Directors' Indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Share Capital

During the year, the Company's authorised share capital remained unchanged at £200,000,000. As at the reporting date Issued Share Capital, fully paid, amounted to £130,000,000 (2015: £130,000,000). Details of the Company's share capital are given in note 17.

Employees

As at 30 June 2017 the Company had an average of 65 (2016: 64) employees. Employees' compensation is related to performance and the Company encourages the involvement of all employees in the overall performance and profitability of the Company through an objectives-based appraisal system which focuses on qualitative as well as quantitative factors. The Company has a pension scheme whereby members are entitled to a minimum of 10% contribution of their basic salary to the Group Personal Pension scheme. All employees enjoy life insurance cover to the extent of four times their basic salary. The Company also has a private medical insurance scheme, which covers employees and their dependants.
The Company believes that it enjoys a good relationship with its staff.

Political and charitable contributions

The Company made no political contributions (2016: £nil) and charitable contributions of £100 (2016: £250) during the year.

Dividend

The Directors recommend that a dividend of 50% of this year's total comprehensive income to be paid based on the 2017 financial statements (2016: no dividend was paid).

Going Concern

The financial statements are prepared on the going concern basis. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions covering principal activities, strategic directions and challenges and uncertainties together with a review of the income statement, financial position and risk profile. In addition the Directors have considered the future projections of profitability, cash flows, asset quality, the outcome of various stress tests and capital resources in making their assessment. The Company is a wholly-owned subsidiary of National Bank of Egypt and the parent has shown continued support during the year by continuing to provide an additional Tier 2 Capital for USD30million as a contingency capital resource to mitigate the possible further deterioration of the sterling/dollar foreign exchange rate under the ongoing negotiations to leave the European Union. The Tier 2 additional subordinated debt of USD 30million is for the term of 10 years. The Bank is liable to pay interest at Libor plus 2% on any drawn amount.

The Directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. The political and economic conditions in Egypt have improved in the last few months and the Directors are comfortable that such positive developments and noticeable stability will be positively reflected on the Bank's performance during 2017/2018. Such a conclusion will be extended to cover the going concern assumptions and outcome inherent on the issued statement given that the Bank regards itself as a stand-alone, self-sufficient UK entity with adequate capital and liquidity resources that are sufficient in amount and quality to mitigate any unforeseeable implications of any uncertainties.

Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in the financial statements.

Auditor

Each of the persons who are the Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.
A resolution to reappoint Deloitte LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Dentons Secretaries Limited

Dentons Secretaries Limited
Company Secretary
11 Waterloo Place
London SW1Y 4AU
18 September 2017

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NATIONAL BANK OF EGYPT (UK) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- **give a true and fair view of the state of the company's affairs as at 30 June 2017 and of its profit for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of National Bank of Egypt (UK) Limited (the 'company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and the Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Credit provisioning • Valuation of investments, derivatives and hedge accounting • Accounting for trade finance transactions
Materiality	The materiality that we used in the current year was £1,010,000 which was determined on the basis of 7% of profit before tax.
Scoping	Out audit was scoped by obtaining an understanding of the entity and assessing the risks of material misstatement.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	**We have nothing to report in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Credit provisioning	
Key audit matter description	Credit provisioning is an area where a high level of management judgement is applied in determining the necessity for and then estimating the size of the impairment. The total amount of provisions at year-end are £1.19m (2016: £0.744m) and they relate to the provision against one loan to a customer, which is now fully provided for. In the prior year provisions held against this loan represented 60% of its carrying value. We determined that a risk of fraud lies within loan loss provisioning. Management disclose information about credit risk in the Strategic Report as well as in the Accounting Policies in note 1 and in the Provisions note in note 5.
How the scope of our audit responded to the key audit matter	• We assessed the design and implementation and tested the operating effectiveness of key controls over credit provisioning cycle; • We assessed the completeness of the provisions by reviewing the list of all loans held and assessing whether management's decision for not providing a specific provision was reasonable; • We reviewed the key inputs and we challenged management's assessment of the level of provisions by comparing the provisions booked by management against our expectation formed based on reviewing correspondence with external parties; and • We reviewed the financial statement disclosures relating to the provisions for compliance with FRS 102 (the Financial Reporting Standard applicable for the UK and Ireland).
Key observations	Overall, we concluded that the level of provisioning is appropriate.

Valuation of derivatives and hedge accounting	
Key audit matter description	The derivatives balance is shown at fair value on the balance sheet. Derivative assets are £1.5m (2016: £0.5m) and derivative liabilities are £2.8m (2016: £16.8m). The valuation of derivatives involves management judgement such as the discount rates used. National Bank of Egypt (UK) Limited designates certain derivatives as hedging instruments in respect of the interest rate risk and there is a key audit risk associated with this, as hedge accounting is inherently complex and involves judgement in determining whether the economic hedge is one that qualifies for hedge accounting, which presents a heightened risk of error. Management disclose information about derivatives and hedge accounting in the Accounting Policies in note 1 and in notes 13 and 14.
How the scope of our audit responded to the key audit matter	• We have assessed the design and implementation and tested operating effectiveness testing of key controls over the treasury cycle (including hedge accounting); • We obtained the investment portfolio, which primarily relates to Gilts, Treasury Bills, Fixed Rate Notes, Floating Rate Notes and Covered Bonds. We analysed the investment portfolio for any indications of impairment, such as whether there is exposure to counterparties with poor credit-ratings or counterparties whose credit rating is unknown. In addition we reviewed the market prices for the investments by comparing them to independent sources; • We have used our financial instrument specialists in performing independent valuations for a sample of the derivatives held at year-end and in reviewing the methodology and key inputs such as discount rates applied by management; • We have performed testing of the hedge accounting, including reviewing management's assessment of the economic relationship between the hedged item and the hedging instrument commentary thereon and reviewing whether the documentation provided for the hedge is in compliance with the accounting standards.
Key observations	Overall, we concluded that the valuation of the derivatives balance and hedge accounting is appropriate.

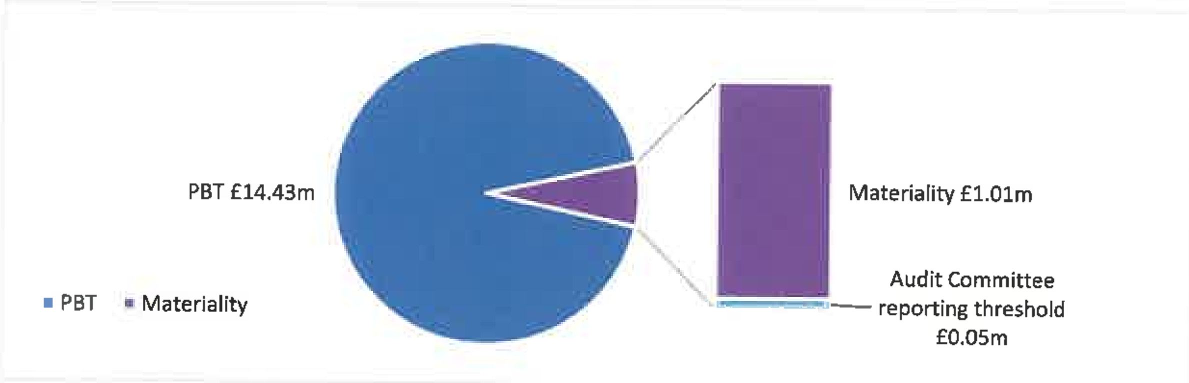
Accounting for trade finance transactions	
Key audit matter description	Trade finance activities undertaken include the issuance, confirmation and discounting of letters of credit and guarantees for corporate and financial institutions. There is an element of manual calculation relating to fees and commissions on trade finance transactions, which depends on inputs such as fees and commissions rates and tenor of the contracts and this increases the risk of potential misstatement. The total amount of fees and commissions at year-end are £7.5m (2016: £5.3m) per the Profit and Loss account. Management disclose information about fees and commissions in the Accounting Policies in note 1.
How the scope of our audit responded to the key audit matter	• We have assessed the design and implementation and tested the operating effectiveness testing on key controls; • We have performed analytical reviews on the movement of fees and commissions and assessed whether this is consistent with movements in the market; • We have carried out substantive procedures of the fee and commission balances on trade finance at year-end, including recalculation for a sample selected and also ensuring that the recognition is performed in line with the accounting standards.
Key observations	Overall, we concluded that the accounting for trade finance transactions is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£1,010,000
Basis for determining materiality	7% of profit before tax
Rationale for the benchmark applied	Materiality has been based on profit before tax given our assessment of this being the most reliable metric and the most applicable to the operation of the company.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £50,500, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of National Bank of Egypt (UK) Limited and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The directors are responsible for the other information. The other information comprises the chairman's statement and the highlights information included in the annual report other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the National Bank of Egypt (UK) Limited on 11 May 2010 to audit the financial statements for the year ending 30 June 2010 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 30 June 2010 to 30 June 2017.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Christopher Brough

Christopher Brough ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
18 September 2017

Profit and loss account
for the year ended 30 June 2017

	Notes	2017 £	2017 £	2016 £	2016 £
Interest receivable:					
Interest receivable and similar income arising from debt securities		14,811,344		18,897,121	
Other interest receivable and similar income		26,307,871		12,480,248	
			41,119,215		31,377,369
Interest payable			(24,845,734)		(22,148,731)
Net interest income			16,273,481		9,228,638
Fees and commissions receivable			7,465,865		5,259,891
Foreign exchange dealing profits			207,900		130,011
Fair value adjustment on financial instrument			943,401		(299,794)
			8,617,166		5,090,108
Operating income			24,890,647		14,318,746
Administrative expenses	3		(6,051,622)		(5,434,733)
Depreciation	4		(128,713)		(159,211)
Other operating charges			(3,848,988)		(3,222,711)
Operating Profit			14,861,324		5,502,091
Net impairment (debit)/credit	5		(423,240)		288,600
Profit on ordinary activities before tax			14,438,084		5,790,691
Tax charge on profit on ordinary activities	6		(2,923,858)		(1,153,518)
Profit on ordinary activities after tax			11,514,226		4,637,173
Other Comprehensive Income			-		-
Total Comprehensive Income			11,514,226		4,637,173

The result for the year is derived entirely from continuing activities.

There were no other comprehensive incomes in the current year or prior year other than the profit for the year. Accordingly, no separate statement of other comprehensive income has been prepared.

The notes on pages 30 to 48 form part of these financial statements.

Balance sheet
at 30 June 2017

	Notes	2017 £	2017 £	2016 £	2016 £
Assets					
Cash and balances at central banks			**221,507**		215,120
Loans and advances to banks	*7*		**716,887,832**		648,218,515
Loans and advances to customers	*8*		**110,146,028**		98,348,431
Debt securities	*9*		**604,679,228**		662,459,759
Derivatives	*13,14*		**1,500,757**		475,311
Tangible fixed assets	*10*		**130,347**		206,427
Other assets			**200,341**		639,577
Prepayments and accrued income			**4,468,169**		4,244,157
Total assets			**1,438,234,209**		1,414,807,297
Liabilities and shareholders' funds					
Deposits by banks	*11*		**396,703,504**		913,500,276
Customer accounts	*12*		**849,008,120**		320,895,747
Derivatives	*13,14*		**2,848,336**		16,829,681
Other liabilities and deferred income	*15*		**2,708,057**		1,573,134
Accruals			**2,733,355**		1,585,491
Subordinated debt	*16*		**34,628,703**		22,333,060
Shareholders' funds:					
Called up share capital	*17*	**130,000,000**		130,000,000	
Retained Earnings – Prior Year		**8,089,908**		3,452,734	
Profit and loss account		**11,514,226**		4,637,174	
			149,604,134		138,089,908
Total liabilities and shareholders' funds			**1,438,234,209**		1,414,807,297

		2017 £	2016 £
Memorandum items			
Contingent liabilities:			
Acceptances and endorsements		**80,748**	183,855
Guarantees		**1,596,209**	1,953,428
Commitments:			
Other commitments	*18*	**50,159,964**	75,473,750
		51,836,921	77,611,033

The notes on pages 30 to 48 form part of these financial statements.

These financial statements of National Bank of Egypt (UK) Limited (registered number 2743734) were approved by the Board of Directors and authorised for issue on 18 September 2017 and were signed on its behalf by:

Director Dr Farouk Abdel Baki El-Okdah,
Chairman

Director Mr Yasser Adel Ibrahim
Managing Director

Cash flow statement
for the year ended 30 June 2017

	Notes	2017 £	2016 £
Net cash (outflow)/inflow from operating activities	19	(82,121,022)	92,933,482
Taxation		(2,140,000)	(1,142,538)
Net cash inflow/(outflow) from investing activities	20	**46,612,758**	(96,452,151)
Cash flows from financing activities			
Dividends paid		-	(8,713,438)
Financing		11,542,901	-
Net cash inflow/(outflow) from financing activities		11,542,901	(8,713,438)
Net decrease in cash in the year		**(26,105,363)**	(13,374,646)
Cash and cash equivalents at the beginning of year		34,361,118	47,735,764
Cash and cash equivalents at the end of the year		8,255,755	34,361,118

Reconciliation of cash and cash equivalents

	At 30/06/2017 £	At 30/06/2016 £
Cash and balances at central banks	**221,507**	215,120
Loans and advances to other banks repayable on demand	**8,034,248**	34,145,998
Total cash and cash equivalents	8,255,755	34,361,118

The notes on pages 30 to 48 form part of these financial statements.

Statement of changes in equity
for the year ended 30 June 2017

	Called up share capital	Profit and loss account	Total
	£	£	£
As at 30 June 2015	130,000,000	12,166,172	142,166,172
Dividend paid	-	(8,713,438)	(8,713,438)
Profit on ordinary activities after tax		4,637,174	4,637,174
As at 30 June 2016	**130,000,000**	**8,089,908**	**138,089,908**
As at 30 June 2016	130,000,000	8,089,908	138,089,908
Dividend paid	-	-	-
Profit on ordinary activities after tax	-	11,514,226	11,514,226
As at 30 June 2017	**130,000,000**	**19,604,134**	**149,604,134**

The notes on pages 30 to 48 form part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

(a) Basis of preparation and accounting convention

National Bank of Egypt (UK) Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 2. The nature of the company's operations and its principal activities are set out in the strategic report on pages 7 to 15.

The financial statements have been prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards and with special provisions of the large and medium-sized companies and groups (accounts and reports) Regulations 2008 relating to banking companies and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of National Bank of Egypt (UK) Limited is considered to be pound sterling because that is the currency of the primary economic environment in which the Company operates.

Going Concern

The business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the Directors' report. The Directors' report also describes the financial position of the company, its cash flows, liquidity position and borrowing facilities, the Company's objectives, policies and procedures for managing its capital, its financial risk management objectives, details of financial instruments, hedging activities and its exposure to credit risk and liquidity risk.

The Directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(b) Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs).

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

(a) Returns to the holder are (i) a fixed amount; or (ii) a fixed rate of return over the life of the instrument; or (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or (iv) some combination of such fixed rate and variable rates, providing that both are positive.

(b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

1 **Accounting policies** *(continued)*

(c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.

(d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

Financial assets are derecognised when and only when: a) the contractual rights to the cash flow from the financial asset expire or are settled; b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or c) the Company, despite having retained significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(iii) Hedge accounting

The company designates certain derivatives as hedging instruments in respect of the interest rate risk for the fair value movements with recognised fixed rate debt instruments measured at amortised cost.

At inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with the clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge and on an ongoing basis, the Company assesses whether the hedging instrument is highly effective in offsetting the designated hedged risk.

The effective portion of changes in the fair value of the designated hedging instrument is not recognised in the Profit and Loss Account and is offset against the fair value of the hedged item due to interest rate risk. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

(c) Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit and loss as described below:

(i) Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher or its fair value less costs to sell and its value in use.

1 **Accounting policies** *(continued)*

(ii) Financial assets

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Loans are designated as non-performing as soon as management has doubt as to the ultimate collectability of principle or interest. When a loan is designated as non-performing, interest will be suspended and a specific provision will be raised if required.

(iii) Specific provisions

Specific provisions represent the quantification of the actual losses from identified accounts and are deducted from loans and advances on the balance sheet. The amount of the specific provision raised is assessed on a case-by-case basis and is the Bank's estimate of the amount needed to reduce the carrying value of the asset to its expected net realisable value.

(iv) General provisions

Consideration is given each year of whether an allowance for inherent losses is required for loans and debt securities for which no evidence of loss has been specifically identified on an individual basis (i.e. incurred but not yet reported) but are known from past experience to have deteriorated since the initial decision to lend or invest was made.

(d) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Income and expenses denominated in foreign currencies are converted into sterling at the month end rate for the month in which these transactions took place.

Forward foreign exchange contracts are valued at the market rates applicable to their respective maturities at the balance sheet date, and the resulting profits or losses included in the profit and loss account for the year. Where the contracts arise as part of a deposit swap, the profits or losses are recognised evenly over the life of the related loans and deposits.

(e) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation of tangible fixed assets is provided on a straight-line basis over estimated useful lives as follows:

Long leasehold buildings	20 years
Leasehold improvements	5 - 15 years
Furniture, fixtures and fittings	5 years
Computer hardware and software	3 - 5 years

(f) Interest income and expense

Interest receivable and payable is accrued over the period of the related loans and deposits.

1 Accounting policies *(continued)*

(g) Fees and commission receivable

Fees and commission receivable which represent a return for services provided or risk borne are credited to income when the related service is performed or over the period that the service is provided.

(h) Fees and commission payable

Fees and commissions payable on borrowings are charged to the profit and loss account when the related service is performed or over the life of the borrowing.

(i) Taxation

Current tax is provided on amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and for accounting purposes and which have arisen but not reversed by the balance sheet date, except as otherwise required by Section 29 FRS 102.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(j) Pension costs

The Company operates a defined contribution pension scheme. For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown in either accruals or prepayments in the balance sheet.

(k) Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease, even if the payments are not made on such a basis.

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Bank's accounting policies

The critical judgements that the directors have made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are discussed in detail in the financial instruments note (refer to Note 13).

Notes *(continued)*

3 Administrative expenses

	2017	2016
	£	£
Staff costs:		
Wages and salaries	**4,729,102**	4,171,557
Social security costs	**553,628**	427,330
Other pension costs	**362,738**	347,395
Other staff costs	**361,409**	452,921
Other administrative expenses	**44,745**	35,530
	6,051,622	5,434,733

The Bank currently participates in the National Bank of Egypt (UK) Limited Pension Scheme which is a defined contribution scheme.

The monthly average number of persons employed by the Bank during the year was 65 (2016: 64).

4 Profit on ordinary activities before tax

(a) Is stated after charging:

	2017	2016
	£	£
Audit Fees		
Fees payable to the Company's auditor for the audit of Company's annual accounts	**100,000**	95,000
Fees payable in respect of prior year audit (2016)	**5,000**	-
Total audit fees	**105,000**	95,000
Non-audit Fees		
Taxation compliance services	-	6,667
Other taxation advisory services	-	8,750
All other services	**45,000**	13,774
Total non-audit fees	**45,000**	29,191
Depreciation of tangible fixed assets	**128,713**	159,211
Operating lease rentals		
Operating lease rentals were:		
Land and building	**816,792**	430,531
Others	**7,580**	7,580
Total operating lease rentals	**824,372**	438,111

(b) Segmental reporting

The Company has one class of business and all other services provided are ancillary to this. All business is conducted from the United Kingdom.

Notes *(continued)*

5 Provisions for bad and doubtful debts

(a) Impairment Credit

	2017	2016
	£	£
Net (charge)/write back of provisions for bad and doubtful debts (see note 5(b))	**(423,240)**	3,950,965
Impaired assets written off	-	(3,662,365)
Net Impairment (Debit)/Credit	(423,240)	288,600

(b) Movements on provisions for bad and doubtful debts:

	Specific	General	Total
	£	£	£
Provisions at 30 June 2016	744,437	-	744,437
Additions during the year	423,240	-	423,240
Reversals of provision during the year due to recoveries	-	-	-
Foreign exchange movement	25,089	-	25,089
Provisions at 30 June 2017	**1,192,766**	-	**1,192,766**
Of which:			
Provision against loans and advances to banks	-	-	-
Provision against loans and advances to customers	1,192,766	-	1,192,766
	1,192,766	-	**1,192,766**

(c) Non-performing loans

	2017	2016
	£	£
Loans on which interest has been suspended (net of suspended interest)	**1,340,761**	1,214,071
Provisions for bad and doubtful debts	(1,192,766)	(744,435)
Total	147,995	469,636

Notes *(continued)*

6 Taxation

(a) Current tax and deferred tax:

Current tax:	**2017**	2016
UK corporation tax on profits for the period	**2,889,773**	1,179,779
Adjustment in respect of previous periods	**(7,241)**	(3,400)
Total current tax	**2,882,532**	1,176,379
Deferred tax:		
Origination and reversal of timing differences	**9,836**	(25,372)
Adjustment in respect of previous period	**24,443**	3,406
Effect of changes in tax rates	**7,047**	(896)
Total deferred tax	**41,326**	(22,862)
Total tax per income statement	**2,923,858**	1,153,517

The charge for the year can be reconciled to the profit per the income statement as follows:

Profit for the period – continuing operations	14,438,084	5,790,691
Tax on profit at standard UK tax rate of 19.75% (2016: 20%)	**2,851,522**	1,158,138
Effects of:		
Expenses not deductible	**54,011**	2,269
Income not taxable	**(5,925)**	(6,000)
Adjustments from previous period	**17,203**	6
Tax rate changes	**7,047**	(896)
Tax charge for the period	**2,923,858**	1,153,517
Income tax expenses reported in the income statement	**2,923,858**	1,153,517

Notes *(continued)*

6 Taxation *(continued)*

(b) Note to the accounts – Balance sheet amounts

	30 June 2017	30 June 2016
Current liabilities:		
Corporation tax	**1,252,311**	509,779
	1,252,311	509,779
Deferred tax (assets)/liabilities:		
Provision at start of period	**(175,937)**	(153,075)
Adjustment in respect of prior year	**24,443**	3,406
Deferred tax charge to income statement for the period	**16,883**	(26,268)
Provision at end of period	**(134,611)**	(175,937)

	Booked 30 June 2017	Booked 30 June 2016
Accelerated tax deprecation	**3,639**	8,062
Amounts in relation the spreading of FRS 102 transitional adjustment	**(138,250)**	(183,999)
	(134,611)	(175,937)

NBEUK cannot be certain that its deferred tax asset will unwind before 2020, so it has been recognised at a rate of 17% (2016: 18%), being the rate announced by the UK government in the Budget 2016 for periods after that time.

Deferred tax (asset):		
Recoverable within 12 months	**(17,335)**	(18,400)
Recoverable after 12 months	**(120,915)**	(165,599)
	(138,250)	**(183,999)**
Deferred tax liabilities:		
Payable within 12 months	**3,639**	8,062
	3,639	**8,062**

Notes *(continued)*

7 Loans and advances to banks

(a) Residual maturity

	2017 £	2016 £
Banks		
Past due	-	-
Repayable on demand	**7,991,915**	34,145,998
	7,991,915	34,145,998
Other loans and advances with remaining maturity:		
5 years or less but over 1 year	-	44,666,122
1 year or less but over 3 months	**46,826,757**	367,945
3 months or less	**528,031,907**	438,762,266
	582,850,579	517,942,331
Related Parties		
Other loans and advances with remaining maturity:		
Repayable on demand	**42,332**	-
1 year or less but over 3 months	**7,023,009**	-
3 months or less	**126,971,912**	130,276,184
Total loans and advances to banks	**716,887,832**	648,218,515
Bad and doubtful debt provision – specific (see note 5)	-	-
Total	716,887,832	648,218,515

(b) Concentrations of exposure

The Company has the following concentrations of loans and advances to banks:

	2017 £	2016 £
Total gross advances to banks located in:		
Europe and North America	**116,354,199**	114,032,982
Middle East and Egypt	**404,686,721**	418,807,379
Rest of World	**195,846,912**	115,378,154
Total	716,887,832	648,218,515

Notes *(continued)*

8 Loans and advances to customers

(a) Residual maturity

	2017 £	2016 £
Past due	**1,340,761**	1,214,071
Repayable on demand or at short notice	**259,006**	236,684
Other loans and advances with remaining maturity		
5 years or less but over 1 year (includes staff loans)	**4,996,250**	5,625,694
1 year or less but over 3 months	**15,000**	3,333
3 months or less	104,727,777	92,013,084
Sub-total	**111,338,794**	99,092,866
Bad and doubtful debt provision – specific (see note 5)	(1,192,766)	(744,435)
Total	110,146,028	98,348,431

(b) Concentrations of exposure

The Company has the following concentrations of loans and advances to customers:

	2017 £	2016 £
Total gross advances to customers located in:		
Europe and North America	**94,986**	107,745
Middle East and Egypt	**106,091,090**	93,333,776
Rest of World	5,152,718	5,651,345
Total	111,338,794	99,092,866

Notes *(continued)*

9 Debt securities

	2017	2016
	£	£
Investment securities		
Issued by public bodies – government securities	**98,499,423**	131,887,888
Other securities	**506,130,319**	517,082,966
Fair value Adjustment (refer to note 14)	**49,486**	13,488,905
	604,679,228	662,459,759
Related Parties	-	-
	604,679,228	662,459,759
Listed on a UK recognised investment exchange	**38,417,673**	67,324,536
Other listed	**230,072,770**	235,624,124
Unlisted	**336,139,299**	346,022,194
Fair value Adjustment (refer to note 14)	**49,486**	13,488,905
	604,679,228	662,459,759
Investment securities by maturity		
Due within one year	**42,323,971**	-
Due one year and over	**562,305,771**	648,970,854
Fair value Adjustment (refer to note 14)	**49,486**	13,488,905
	604,679,228	662,459,759

Investment securities - movement	**Nominal value** £	**Net premium/ (discount)** £	**Net book Value** £
Balance at 30 June 2016	648,403,069	567,786	648,970,855
Purchases	510,672,951	1,502,599	512,175,550
Sales/maturities	(573,511,735)	(356,021)	(573,867,756)
Amortisation of premium/(discount)	-	(244,343)	(244,343)
Exchange movements	17,582,795	12,641	17,595,436
Fair value adjustment (refer to note 14)			49,486
Balance at 30 June 2017	603,147,080	1,482,662	604,679,228

	2017	2016
	£	£
Investment securities - market value		
Issued by public bodies – government securities	**98,375,096**	135,687,322
Other securities	**510,519,738**	519,264,206
	608,894,834	654,951,528

Notes *(continued)*

10 Tangible fixed assets

	Leases of 50 years or more unexpired £	Computer equipment and other fixed assets £	Total £
Cost			
At 30 June 2016	259,276	2,137,016	2,396,292
Additions	-	72,657	72,657
Disposals	-	(36,407)	(36,407)
At 30 June 2017	**259,276**	**2,173,266**	**2,432,542**
Accumulated depreciation			
At 30 June 2016	243,188	1,946,677	2,189,865
Charge for year	-	128,713	128,713
Related to disposals	-	(16,383)	(16,383)
At 30 June 2017	**243,188**	**2,059,007**	**2,302,195**
Net book value			
At 30 June 2017	**16,088**	**114,259**	**130,347**
Net book value			
At 30 June 2016	16,088	190,339	206,427

Notes *(continued)*

11 Deposits by banks

	2017 £	2016 £
With agreed maturity dates or periods of notice, by remaining maturity:		
Banks		
5 years or less but over 1 year	-	111,796,219
1 year or less but over 3 months	158,464,347	337,824,885
3 months or less but not repayable on demand	151,607,082	376,717,532
	310,071,429	826,338,636
Repayable on demand	9,644,209	13,225,320
	319,715,638	839,563,956
Related Parties		
5 years or less but over 1 year	-	-
1 year or less but over 3 months	74,319,238	72,688,297
3 months or less but not repayable on demand	-	-
Repayable on demand	2,668,628	1,248,023
Total		
5 years or less but over 1 year	-	111,796,219
1 year or less but over 3 months	232,783,585	410,513,182
3 months or less but not repayable on demand	151,607,082	376,717,532
	384,390,667	899,026,933
Repayable on demand	12,312,837	14,473,343
	396,703,504	913,500,276

12 Deposit by Customer accounts

	2017 £	2016 £
With agreed maturity dates or periods of notice, by remaining maturity:		
5 years or less but over 1 year	2,218,138	601,385
1 year or less but over 3 months	451,629,132	19,001,082
3 months or less but not repayable on demand	118,008,336	78,077,056
Repayable on demand	277,152,514	223,216,224
	849,008,120	320,895,747

Notes *(continued)*

13 Financial Instruments

The carrying value of the Bank's financial assets and liabilities are summarised by category below:

	2017	2016
Financial assets at fair value		
-Exchange rate related contracts	**163,649**	378,162
-Forward Rate Agreements	**7,599**	-
Measured at fair value and designated in an effective hedging relationship		
- Derivative financial assets	**1,329,509**	97,149
	1,500,757	475,311
Financial liabilities at fair value		
-Exchange rate related contracts	**31,537**	274,931
-Forward Rate Agreements	**64,415**	-
Measured at fair value and designated in an effective hedging relationship		
- Derivative financial liabilities	**2,752,384**	16,554,750
	2,848,336	16,829,681

The Bank enters into various derivative financial instruments as principal to manage balance sheet interest rate risk and forward foreign exchange risk. Interest rate contracts and forward foreign exchange contracts are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates

Fair values of financial assets and financial liabilities are determined as follows:

The fair values of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Other non-derivative financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions based on quoted prices for debt securities and dealer quotes for similar instruments. There has been no transfer of levels during the period.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – The best evidence of fair value is a quoted price for an identical asset in an active market. This category comprises of Foreign exchange contracts and floating rate agreements as observable prices are available in the market.
- Level 2 – When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted. This category comprises of interest rate swaps, valued using data such as yield curves and exchange rates, requiring little management judgement.
- Level 3 – If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Notes *(continued)*

	2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Derivatives assets				
Foreign exchange contracts/FRAs	**171,248**	**171,248**	-	-
Interest rate swaps	**1,329,509**	-	**1,329,509**	-
Total Derivatives assets	**1,500,757**	**171,248**	**1,329,509**	-
Derivative liabilities				
Foreign exchange contracts/FRAs	**95,952**	**95,952**	-	-
Interest rate swaps	**2,752,384**	-	**2,752,384**	-
Total Derivatives liabilities	**2,848,336**	**95,952**	**2,752,384**	-

	2016			
	Total	Level 1	Level 2	Level 3
Derivatives assets				
Foreign exchange contracts	378,162	-	378,162	-
Interest rate swaps	97,149	-	97,149	-
Total Derivatives assets	475,311	-	475,311	-
Derivative liabilities				
Foreign exchange contracts	274,931	-	274,931	-
Interest rate swaps	16,554,750	-	16,554,750	-
Total Derivatives liabilities	16,829,681	-	16,829,681	-

Fair value gains and losses	**2017**	2016
On financial assets measured at fair value through profit or loss	**(206,915)**	212,015
On derivative financial assets designated in an effective hedging relationship	**(11,850,651)**	1,591,594
On derivative financial liabilities designated in an effective hedging relationship	**12,821,988**	(2,602,860)
On financial liabilities measured at fair value through profit or loss	**178,979**	499,457
Net fair value gain/ (loss)	943,401	(299,794)

Impairment losses		
On financial assets measured at amortised cost	-	-
On unlisted equity instruments measured at cost less impairment	-	-
Net impairment gain/ (loss)	-	-

Notes *(continued)*

14 Derivative financial instruments

The Bank enters into various derivative financial instruments as principal to manage balance sheet interest rate risk and forward foreign exchange risk. At the year end, the principal amounts of derivatives that are designated and effective as hedging instruments and those which are not carried at fair value were:

	Due within a year		More than one year	
	2017	2016	**2017**	2016
	£	£	**£**	£
Assets				
Interest rate contracts	-	-	**1,329,509**	97,149
Forward foreign exchange contracts	**163,649**	378,163	-	-
Forward rate agreements	**3,519**	-	**4,081**	-
	167,168	378,163	**1,333,590**	97,148
Liabilities				
Interest rate contracts	-	-	**2,752,385**	16,554,750
Forward foreign exchange contracts	**31,537**	274,931	-	-
Forward rate agreements	**39,331**	-	**25,083**	-
	70,868	274,931	**2,777,468**	16,554,750

All interest rate swap contracts exchanging fixed rate interest amounts for floating rate interest amounts are designated and effective as fair value hedges in respect of interest rates. During the period, the hedges were on average 99.96% effective in hedging the fair value exposures to interest rate movements and as a result a fair value adjustment of £49k was included in profit and loss.

During the period, the hedges were 99.96% effective in hedging the fair value exposure to interest rate movements and as a result £49k of profit on the loan amount was recognised in the profit or loss at the same time that £894k profit on the interest rate swap was included in the profit or loss.

15 Other liabilities and deferred income

	2017	2016
	£	£
Foreign exchange payables	-	-
Taxation	**1,252,311**	509,779
Other creditors	**1,452,107**	1,055,293
Deferred tax liabilities (see note 4 (c))	**3,639**	8,062
	2,708,057	1,573,134

16 Subordinated debt

On 2 November 2010, the Bank drew-down $30 million of unsecured subordinated debt from its parent company. The agreement stipulates that the debt will be subordinated to the Bank's senior liabilities. The debt is repayable on maturity. Interest is charged at 3 months LIBOR plus 200 basis points. The date of the maturity of the debt is 23 February 2024.

During the year in April 2017, the Bank drew-down additional $15 million of unsecured subordinated debt from its parent company. The agreement stipulates that the debt will be subordinated to the Bank's senior liabilities. The debt is repayable on maturity and interest is charged at 3 months LIBOR plus 200 basis points. The date of the maturity of the debt is 26 January 2027.

The interest payable during the year amounted to £854,542 (2016: £506,602).

Notes *(continued)*

17 Called up Share Capital

	2017 £	2016 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	**130,000,000**	130,000,000

18 Commitments

(a) Other commitments

	2017 £	2016 £
Letters of credit - confirmed	**11,244,817**	20,617,715
Letters of credit - participation purchased	**227,646**	36,464,181
Forward deposits taken	**211,164**	525,406
Forward assets purchased	**38,476,337**	17,866,448
Loan commitments (undrawn credit lines)	**-**	-
	50,159,964	75,473,750

Forward deposits taken and forward assets purchased generally replace maturing deposits by banks and loans and advances to banks.

Incurred on behalf of the parent company:

	2017 £	2016 £
Letters of credit – confirmed	**11,244,817**	20,617,715

(b) Significant concentrations of contingent liabilities and commitments

Approximately 23% (2016: 85%) of total contingent liabilities and commitments relate to counterparties in Egypt.

Notes *(continued)*

19 Reconciliation of operating profit to operating cash flows

	2017 £	2016 £
Operating profit	**14,861,324**	5,502,092
Accrued income and prepayments	**(224,011)**	546,677
Accruals and deferred income	**1,147,864**	712,245
Provision for bad and doubtful debts	**(423,240)**	3,950,965
Loans and advances written off net of recoveries	-	(3,662,366)
Depreciation and amortisation	**128,713**	159,211
Interest on subordinated debt	**854,542**	506,602
Profits on sale of investment debt and equity securities	**1,249,356**	(154,515)
Loss on disposal of tangible fixed assets	**20,024**	-
Provisions for liabilities and charges	**423,240**	(3,842,422)
Other non-cash movements	**(17,672,144)**	(53,854,057)
Net cash inflow/(outflow) from trading activities	365,668	(50,135,568)
Net cash inflow from operating activities comprises:		
Loans and advances to banks and customers	**(107,026,996)**	(270,630,826)
Deposits by banks and customer accounts	**11,315,602**	416,008,454
Debt securities in issue	**12,434,405**	(1,143,466)
Other assets	**393,485**	(320,215)
Other liabilities	**396,814**	(844,896)
Net cash inflow/(outflow) from trading and operating activities	(82,121,022)	92,933,482

20 Net cash flows from investing activities

	2017 £	2016 £
Capital expenditure and financial investment		
Purchase of investment securities	**(512,175,551)**	(533,522,531)
Sale and maturity of investment securities	**573,867,757**	435,980,412
Purchase of tangible fixed assets	**(72,657)**	(31,969)
Cash flows from derivatives	**(15,006,791)**	1,121,937
Net cash inflow	46,612,758	(96,452,151)

21 Operating lease commitments

As at 30 June 2017, the Company had the following non-cancellable operating lease commitments:

	2017		2016	
	£ Land and buildings	**£ Other**	£ Land and buildings	£ Other
Operating lease commitments which expire:				
Within 1 year	**769,040**	**7,580**	476,113	7,580
Between 1 and 5 years	**1,853,628**	**11,370**	1,675,113	18,950
More than 5 years	-	-	-	-
	2,622,668	18,950	2,151,226	26,530

Notes *(continued)*

22 Assets and liabilities denominated in foreign currencies

	2017	2016
	£	£
Denominated in Sterling	216,219,282	223,907,551
Denominated in US Dollar	1,214,027,484	1,189,416,038
Denominated in other currencies	7,987,443	1,483,708
Total assets	**1,438,234,209**	**1,414,807,297**
Denominated in Sterling	227,665,290	219,535,380
Denominated in US Dollar	1,195,734,043	1,180,799,870
Denominated in other currencies	14,834,876	14,472,047
Total liabilities	**1,438,234,209**	**1,414,807,297**

The functional currency of the Company's operations is Sterling.

23 Emoluments of directors

	2017	2016
	£	£
Directors' fees and emoluments	991,476	933,476

There is no Director accruing benefits under a money purchase pension scheme (2016: None). The total remuneration and benefits of the highest paid Director were £347,889 (2016: £422,329).

24 Related party disclosures

During the year, the Company received fees and commission of £3,686,056 (2016: £3,498,313), Interest income of £3,441,735 (2016: £920,308) and paid interest expenses £437,178 (2016: £260,466) to the parent National Bank of Egypt, Head office, Cairo.

As at the year end, the Company had loans outstanding of £134,037,254 (2016: £130,276,186) and deposits of £111,616,569 (2016: £96,269,381) from its parent National Bank of Egypt, Head office, Cairo.

There was no debt securities held at year end with National Bank of Egypt, Head office, Cairo or its subsidiaries (2016: nil). During the year, there were no new loans issued to officers of the Company (2016: nil).

There are no material related party transactions with key management, and persons connected with them, other than remuneration disclosed in Note 23.

25 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a wholly-owned subsidiary of National Bank of Egypt which is the smallest and largest group, for which consolidated accounts are prepared. The parent company is incorporated in Egypt. Copies of the group accounts for the National Bank of Egypt can be obtained from National Bank of Egypt, 1187 Corniche El Nil, Cairo, Egypt.

26 Subsequent events

There have been no material post-balance sheet events which would require disclosure or adjustment to the 30th June 2017 Financial Statements.