National Bank of Egypt (UK) Limited

Annual report and financial statements

Registered number 2743734

For the year ended 30 June 2019

Board of Directors
Dr. Farouk Abdel Baki El-Okdah – Chairman
Mr. Hisham Ahmed Okasha – Deputy Chairman
Dr. Yasser Ismail Hassan – Chief Executive Officer and Managing Director (appointed 1st May 2019)
Mr. Yasser Adel Ibrahim – Chief Executive Officer and Managing Director (resigned 27th May 2019)
Mr. Mokhtar Abdel Gawad El-Shennawy – Deputy Managing Director
Mr. Mahmoud Montaser Ibrahim El-Sayed Al Asfar
Mr. Nicholas Beecroft
Mrs. Dalia Abdallah Mohamed El-Baz
Dr. Ziad Bahaa-Eldin
Mr. David Somers

Company Secretary: Dentons Secretaries Ltd

Steering Committee
Dr. Farouk Abdel Baki El-Okdah – Chairman
Mr. Hisham Ahmed Okasha – Deputy Chairman
Dr. Yasser Ismail Hassan – Chief Executive Officer and Managing Director
Mr. Mokhtar Abdel Gawad El-Shennawy – Deputy Managing Director
Mr Moataz Ghanem – Deputy Managing Director

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

Audit Committee
Mr. David Somers – Chairman
Dr. Ziad Bahaa-Eldin
Mr. Nicholas Beecroft

Audit Committee Secretary
Dentons Secretaries Ltd

Risk Committee
Mr. Nicholas Beecroft – Chairman
Dr. Ziad Bahaa-Eldin
Mr. David Somers

Risk Committee Secretary
Dentons Secretaries Ltd

Remuneration Committee
Dr. Farouk Abdel Baki El-Okdah – Chairman
Mr. Hisham Ahmed Okasha
Dr. Ziad Bahaa-Eldin

Solicitors
Dentons
One Fleet Place,
London, EC4M 7WS.

Auditor
Deloitte LLP, Statutory Auditor
Hill House,
1 Little New Street,
London, EC4A 3TR.

National Bank of Egypt (UK) Limited
Wholly-owned subsidiary of National Bank of Egypt
Registered in England No. 2743734

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CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the annual report and audited financial statements of National Bank of Egypt (UK) Limited (NBEUK) for the year ended 30 June 2019.

It has proven to be a challenging year for both business and banking due to the growing geopolitical uncertainty with the ongoing trade tensions between the United States of America and China which has an indirect impact on NBEUK via currency fluctuations, bond prices, and market confidence. The continuing difficulties in achieving a satisfactory Brexit agreement have had no material impact on the bank apart from volatility in the foreign exchange rates. At the time of preparing this statement, these uncertainties look set to continue for much of 2019.

The Bank's profitability for the financial year has been impacted by our net Interest income becoming increasingly restrained by tight margins, together with an increase in our operational costs. This increase in costs has derived from the Bank's commitment to enhancing its operational resilience in response to the recent regulatory publications on operational risk and its possible implication for the banking system and through its investment in new technology and systems. These strategic decisions have been taken to ensure that going forward NBEUK remains competitive, efficient and robust in comparison to its peer group.

The Bank continues to face a number of challenges in the form of a declining corporate loan portfolio and an increased cost of funding. Furthermore over 80% of the Bank's assets continue to be USD denominated which exposes the Bank to a foreign exchange translation risk in terms of its capital requirement.

As a consequence of the above factors NBEUK could only post a modest profit performance. Net interest income fell to £8.3m from the level of £13.2m in 2018. Given that interest income rose over the same period from £49.2m to £56mn highlights the deterioration in the cost of funding faced by the Bank during the year. Commission and fee income generated from trade finance and other businesses including foreign exchange dealing profits was down in 2019 to £5.3m compared to £5.5m in 2018. Our fee income from trade finance is expected to continue to be under pressure due to increased competition in the market.

Going forward, given the limited trade finance opportunities, the strategy of the Bank will be based on improving our net interest margin by focusing on augmenting and diversifying our loan portfolio while continuing to maintain our robust risk management processes. The Bank attempts to take a pro-active, risk adverse approach rather than a reactionary one - by looking to pre-empt events in the global macro economy the Bank strives to safeguard the integrity of the Banks asset book.

It is anticipated that the regulatory environment will continue to evolve and to make greater demands on Banks as the regulators strive to build a more resilient financial system, to this end there are a number significant legislative reviews currently taking place within the EU's regulatory framework. These include amendments to the Forth Capital Requirements Directive (CRD IV), the further development of Capital Requirements Regulation (CRR-2) and the Bank Recovery and Resolution Directive (BRRD). Whilst the extended Senior Managers and Certification Regime, the Conduct and Cultural Risk Practices and Deposit Protection Revised Scheme and Recovery and Resolution directives have been designed to future proof banks from financial shocks. The Board and Management continue to enhance the Bank's internal control and corporate governance to continue to comply with all applicable regulatory thresholds and requirements.

The Bank's capital and liquidity ratios remained above regulatory limits throughout the year.

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 as proactive as feasible in responding to the wider economic issues and the evolving regulatory landscape through its conservative approach to risk and business.

In 2019, we had a significant change to our Board with the CEO and Managing Director Mr Yasser Ibrahim stepping down. On 1st May, Dr Yasser Hassan was appointed the new CEO and Managing Director. Dr Hassan joins the Bank from National Bank of Kuwait (Egypt). I would like to take this opportunity to formally welcome Dr Hassan to the Bank and I look forward to working closely with him to further strengthen the NBEUK brand.

On behalf of the Board of Directors, I would like to express my thanks to the Bank's management and staff for their continued contribution to NBEUK's performance in 2019 and we look forward to a much improved set of results in the year ahead.

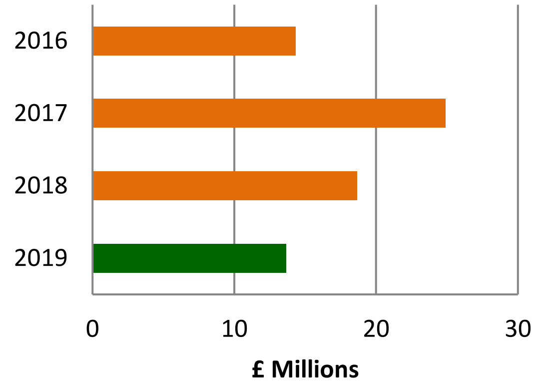
Dr. Farouk Abdel Baki El-Okdah
Chairman

Financial Highlights

Operating Income

£13,657,863

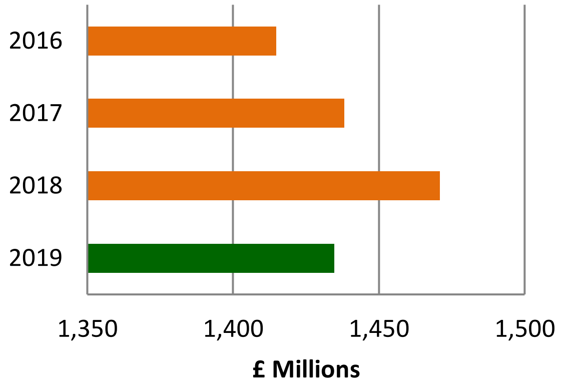
Operating income decreased by 26.71%



Total Assets

£1,434,692,984

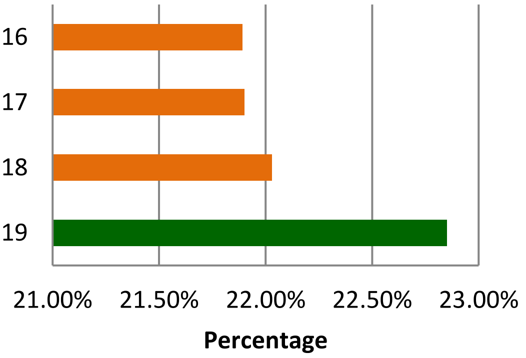
Total assets decreased 2.47%



Capital Ratio

22.79%

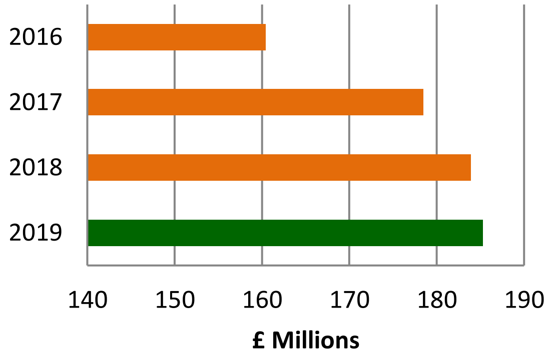
Capital Ratio remained above the ICG regulatory minimum of 16.1%



Tier 1 & Tier 2 Capital

£185,322,433

Capital strength increased by 0.8%



	2019	2018	2017	2016
Financial Position (£'000)				
Operating income	13,658	18,636	24,891	14,319
Net profit	130	6,009	11,514	4,637
Total assets	1,434,693	1,471,021	1,438,234	1,414,807
Total investments	662,988	723,466	604,679	662,460
Total loans to customers	75,815	65,617	110,146	98,348
Shareholders' funds	149,987	149,856	149,604	138,090
Tier 1 & 2 capital (eligible capital)	185,322	183,929	178,476	160,423
Ratios (Percentage %)				
Capital adequacy	22.79%	22.03%	21.90%	21.89%
Cost income ratio	98.69%	60.03%	40.29%	61.57%
Return on equity	0.10%	4.62%	8.86%	3.57%
Return on shareholders' funds	0.09%	4.01%	7.70%	3.36%

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Strategic Report

On 24 December 1992, NBEUK was granted 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 Bank 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 Bank 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 key financial objectives are 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 build upon existing relationships in 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:

- to 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;

- to 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 traditional 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 Bank 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 2019/20. 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 2019, the Bank had total assets of £1,435m. This was a decrease from the previous year's total assets of £37m or 2.5% lower, this was due predominately to a fall in customer deposits. The Bank remains sensitive to any deterioration in the value of the exchange rate between GB Sterling and the US Dollar, which can inflate the bank's balance sheet as circa 84% of the Bank's assets are denominated in US Dollars. The Bank made a profit after tax of £0.13m compared to £6.0m the previous year, or a decline of 97.83% due to the significant challenges throughout the year under review.

Net interest income declined from £13.1m in 2017/18 to £8.3m in 2018/19 or a drop of 36.8% reflecting the increased cost of funding due to changes in demand from the Bank's sources of funding. In addition, due to the strengthening of the Egyptian economy, the demand for funding from this region has decreased as the Bank faces increased competition to provide USD liquidity.

Fees and commissions remained relatively stable at £4.49m from £4.46m, which represents a modest rise of 0.68% predominately generated by the Bank's trade finance business during the year under review.

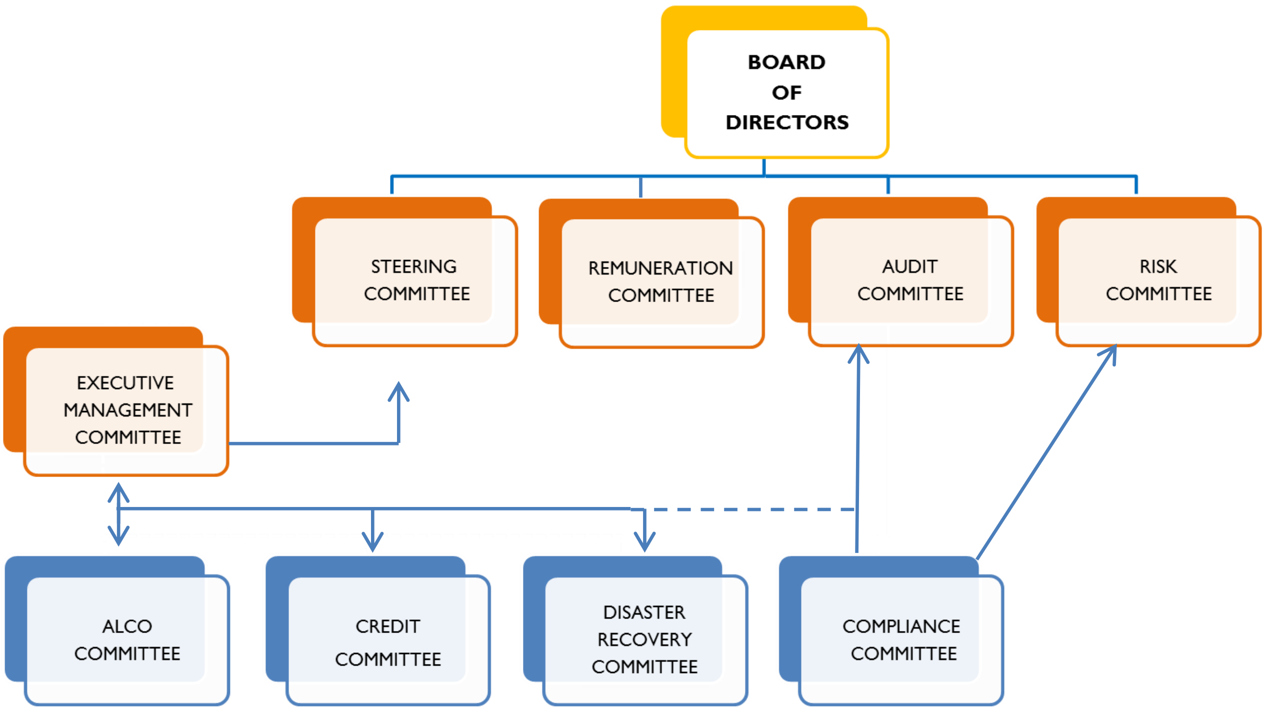
The Bank maintained its traditional strengths during the year in terms of stable funding, adequate liquidity and robust capitalisation. The Bank continues to be well positioned to take advantage of the potential opportunities in the coming year and pursue its business objectives in a prudent and focused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

Governance

The executive governance structure benefits from clearly articulated governance principles and risk management objectives, underpinned by an articulation of the principal risk types incurred by the Bank and associated minimum controls for the management and reporting of these risks in accordance with the Bank's overall risk appetite. The Bank has adopted the market accepted 'three lines of defence' model with the Internal Audit function acting as the third line of defence and providing independent assurance to the Audit and Risk Committee on the appropriateness and effectiveness of the system of internal control.

The Board has ultimate responsibility for establishing, approving and periodically reviewing the strategy of the Bank and its governance framework. The Board oversees senior management to ensure that they manage the Bank's activities in a manner which is consistent with the strategy and governance framework.

The Board has established a number of Sub-Committees in order to enhance and streamline its decision making, as outlined below.



- **<u>Steering Committee:</u>** The principal purpose of the Steering Committee is to assist the Board in making decisions on matters delegated to it by the Board.

- **<u>Audit Committee:</u>** The principal purpose of the Audit Committee is to act as an oversight over the Bank's internal control systems, regular and annual financial reporting and the internal and external audit programmes. In addition the committee will monitor the activities of the Bank to ensure that they are in-keeping with the principles and strategy of the Bank.

- **<u>Risk Committee:</u>** The principal purpose of the Risk Committee is to assess, review and identify the key risks of the Bank as articulated in the strategy and business plan and to assess the effectiveness of the controls in place to manage those risks. The Committee must satisfy itself that risks are in line with the Bank's risk profile, risk appetite and compliant with the risk policies and associated documents approved by the Board.

- **Remuneration Committee:** The Committee shall determine and agree significant developments for the remuneration of employees of the Bank.

- **Executive Management Committee (EXCO):** The principal purpose of EXCO is to oversee the day-to-day activities of the Bank including management of the Bank's Business and Compliance risks. In addition the committee will monitor the activities of the Bank to ensure that they are in keeping with the principles and strategy of the Bank.

- **ALCO Committee:** To manage effectively the assets and liabilities of the Bank and related market risks, ALCO's prudent broad risk management entails identifying, rationalising, measuring, managing, and reaffirming the risks that arise from both internal and external sources covering Pillar 1 risks and Pillar 2 risks.

- **Credit Committee:** The Credit Committee is the main body responsible for the credit process in the Bank and is the authority and reference in the determination of the quality and control of credit within the Bank and its relevant credit risk assessment.

- **Disaster Recovery Committee:** Ensuring business continuity in the event of a significant interruption or disaster is of critical importance to NBEUK. The Committee provides direction for plan update formats, risk assessments, communication methods, testing and training.

- **Compliance Committee:** The purpose of this committee is to oversee the compliance and financial crime risks in the Bank, to ensure that the management of the Bank understands compliance risks to which NBEUK may be exposed and to have in place appropriate policies and procedures to manage such risks.

Financial results

The financial statements for the year, ended 30 June 2019 are shown on pages 28 to 31. The profit after taxation for the year amounts to £130,300 (2018: £6,009,423).

Financial Highlights 2018/19

For the year ended 30 June 2019, operating income of £13,657,864 (2018: £18,636,298) was 26.71% lower than last year. There was a decrease in net interest income of 36.78% to £8,315,646 (2018: £13,154,429). Non-interest income fell by 2.55% - from £5,481,869 in 2018 to £5,342,218 in 2019.

Operating income decreased by 23.5% from £18,723,891 in 2018 to £14,381,746 in 2019 and operating expenses increased by 20.50% from £11,186,838 in 2018 to £13,480,152 in 2019.

Operating profit fell by 97.6% to £177,712 for the year ended 30 June 2019 from £7,449,460 for the year ended 30 June 2018.

The tax charge decreased from £1,440,437 in 2018 to £47,412 in 2019, in line with the decline in operating profit for the year.

Total assets for the year ended 30 June 2019, at £1,434,692,983 were £36,328,466 lower, a decrease of 2.47%, 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 results of these KPI's are shown in the Financial Highlights above. 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 Audit 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 counterparties may 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 Bank 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 Bank has fully implemented the requirements for liquidity risk management including systems and controls. During the current year the Bank's approach to the liquidity risk management was reviewed and documented in a revised comprehensive ILAAP document, drawn up in accordance with the regulatory requirements. This document describes the Bank'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 Bank's liquidity contingency funding plans, liquid asset buffer and identifies those risks which have the potential to cause the Bank 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. This risk is also mitigated by regular contact with the Bank'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 Bank has implemented the Senior Managers and Certification regimes, replacing the previous 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; and
- 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 Bank'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.

- **Compliance Risk**

The Bank's principal sources of Compliance Risk are:

- Enterprise-wide compliance risks including supervision and oversight, regulatory reporting and notifications, material outsourcing and / or failure to adequately implement existing and new regulatory requirements;

- Business related including the risk that the Bank fails to conduct its activities appropriately, which may include consumer treatment and / or complaints handling, as well as managing client money and assets; and

- Financial Crime matters which could include the Bank being used as a vehicle to facilitate financial crime, breaches of sanctions applicable to the Bank and market abuse.

The Bank's objective is to comply with the letter and spirit of all applicable regulations and laws, and to embed a robust risk and compliance culture throughout the organisation which recognises that a higher level of risk is attached to many of the countries with which the Bank transacts.

The Compliance Department is responsible for:

- developing applicable principles, standards and guidelines for compliance, communicating them and verifying adherence;
- providing advice to individual business units on applicable laws, directives, standards, and regulations as well as providing compliance support;
- monitoring trades, transactions and business processes in order to identify any potential compliance risks;
- implementing any measures arising from the anti-money laundering programme;
- ensuring that any occurrences which give reason to suspect money laundering or the financing of terrorism are identified and reported to the relevant authorities;
- providing regular training and education for staff on applicable regulations, rules and internal standards;
- regulatory scanning to ensure that any relevant developments or emerging risks are identified and appropriately addressed and communicating with regulators.

Compliance Risk is overseen by the Compliance Committee and Audit and Risk Committee, to whom the Head of Compliance provides a quarterly report. At an executive level, Compliance risk, including mitigation controls along with action and remediation plans, is overseen by the Governance and Control Committee.

The Bank seeks to minimise the risk of compliance failure by seeking to:

- ensure an up-to-date understanding of regulatory requirements which need to be complied with;
- ensure that procedures and controls are in place and designed to minimise the risk of breaching those requirements;
- provide training for staff throughout the organisation aimed at promoting a good understanding of compliance and financial crime matters;
- in respect of regulatory requirements relating to sanctions, anti-money laundering and terrorist financing in particular, enhancing both the quantity and calibre of resources in the first line who are responsible for ensuring compliance, subject to oversight, and in the case of higher risk cases, additional due diligence by the second line compliance team; and
- undertaking a risk-based monitoring programme aimed at detecting shortcomings in, or failures of, compliance controls or processes.

During the year the Bank has undertaken a significant review to implement proportionate and risk based policies and procedures in compliance with the Money Laundering Regulation 2017, the FCA Handbook and industry guidance, and following consultation with professional advisors, management has certainly come to the view no provision for a possible regulatory fine is required.

- **Reputational Risk**

NBEUK has a very limited appetite for Reputational Risk, however it is recognised Reputational Risk cannot be eradicated completely and such risk is inherent within the banking environment and, in particular, in some of the higher risk countries with which NBEUK operates and conducts business. It is recognised that Reputational Risk can arise from a wide variety of sources, some controllable, some less so.

The Bank recognises that some of the countries in which its counterparties operate results in an enhanced exposure to Reputational Risk. As a result, the Bank’s principal defence against Reputational Risk is through adherence to its compliance objectives of operating in conformity with applicable laws and regulations. Robust governance and risk management frameworks are intended to safeguard the Bank from reputational damage that might arise from trading related losses.

The Bank has implemented a range of initiatives to mitigate its exposure to Reputational Risks. These include:

- strategic alignment including strong Board oversight, integration of risk management into strategy setting and effective communications and brand building;
- cultural alignment built on strong corporate values, supported by appropriate performance incentives and a positive culture regarding compliance with laws and regulations;
- quality commitment including a focus on stakeholder interactions and open, transparent and quality public reporting;
- focusing on mainly non-complex products and a wholesale customer base, supported by a robust new product review and approval process;
- an operational focus on a strong control environment and appropriate organisational resilience; and
- a proactive corporate communications strategy designed to safeguard the reputation of the Bank.

As at 30 June 2019 and throughout the year, NBEUK held capital levels in excess of that required by the Prudential Regulation Authority. The Bank's regulatory capital resources as at 30 June 2019 including retained profit was as follows:

	June 2019 £000's	June 2018 £000's
Tier 1 Capital	**149,987**	149,856
Tier 2 Capital	**35,336**	34,073
Total eligible capital resources	**185,323**	183,929

Tier 1 capital comprises share capital and the retained profit at the year-end 30 June 2019. Tier 2 capital comprises mainly issued term subordinated debt from the parent Bank.

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 2019 £000's	June 2018 £000's
Credit risk capital	**62,034**	60,975
Market risk capital	**59**	64
Counterparty risk capital	**52**	280
Credit Valuation Adjustment (CVA)	**23**	393
Operational risk	**2,892**	2,897
Total Pillar 1 Capital requirement	**65,060**	64,609
Total Pillar 2A Capital requirement	**45,542**	53,625
Total Capital Requirements	**110,602**	118,234

Risk weighted assets (RWA) were higher as at 30 June 2019 due to some increases in the average weightings applied to certain categories of exposure. The bank's Individual Capital Guidance (ICG) at the end of June 2019 declined to GBP110.6mn compared to GBP118.2mn in June 2018 or a fall of 6.4%. Following a SREP review by the PRA the Banks Internal Capital Guidance ("ICG") was reduced from 183% to 170%.

	June 2019	June 2018
Capital surplus (£000's)	**74,721**	59,686
Capital adequacy ratio	**22.79%**	22.03%
Leverage ratio	**10.0%**	9.4%

The Bank 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 Bank's risk management policies, procedures and exposures, in compliance with the Pillar 3 requirements of the Capital Requirements Directive, are published on the Bank'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.

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
23 September 2019

Directors' report

The Directors of National Bank of Egypt (UK) Limited (the Bank) have pleasure in presenting their annual report, together with the financial statements and auditor's report, for the year ended 30 June 2019.

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
Dr. Yasser Ismail Hassan – Chief Executive Officer and Managing Director (appointed 1st May 2019)
Mr. Yasser Adel Ibrahim – Chief Executive Officer and Managing Director (resigned 27th May 2019)
Mr. Mokhtar Abdel Gawad El-Shennawy – Deputy Managing Director
Mr. Mahmoud Montaser Ibrahim El-Sayed Al Asfar
Mr. Nicholas Beecroft
Mrs. Dalia Abdallah Mohamed El-Baz
Dr. Ziad Bahaa-Eldin
Mr. David Somers

Dentons Secretaries Limited – Company Secretary

Directors' Indemnities

The Bank 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 Bank'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 (2018: £130,000,000). Details of the Bank's share capital are given in note 18.

Employees

In the year ended 30 June 2019 the Bank had an average of 72 (2018: 72) employees. Employee compensation is related to performance and the Bank encourages the involvement of all employees in the overall performance and profitability of the Bank through an objectives-based appraisal system which focuses on qualitative as well as quantitative factors.

- The Bank 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 Bank also has a private medical insurance scheme, which covers employees and their dependants.
- The Bank believes that it enjoys a good relationship with its staff.

Political and charitable contributions

The Bank made no political contributions (2018: £nil) and charitable contributions of £254 (2018: £434) during the year.

Dividend

The Directors recommend that no dividend be paid based on the 2019 financial statements (2018: 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 Bank is a wholly-owned subsidiary of National Bank of Egypt and the parent has shown continued support and may provide additional Tier 2 Capital if required.

The Directors have a reasonable expectation that the Bank 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 2019/2020. 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. Brexit is not expected to have a material impact on the going concern status of the Bank.

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 Bank's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank'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.

Deloitte LLP has acted as the auditor of the Bank for 10 years covering the years ending 30 June 2010 to 30 June 2019. The Bank's Audit Committee will be conducting a qualified selection procedure for a statutory auditor for financial periods commencing after 30 June 2019 to meet the requirements of the Statutory Auditors and Third Country Auditors Regulations 2016.

Approved by the board of directors

Dentons Secretaries Limited

Dentons Secretaries Limited
Company Secretary
11 Waterloo Place
London SW1Y 4AU
23 September 2019

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 Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 Bank will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank 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 Bank 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 Bank'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 of National Bank of Egypt (UK) Limited (the 'company'):

- **give a true and fair view of the state of the company's affairs as at 30 June 2019 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 which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and 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 Financial Reporting Council's (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 matter that we identified in the current year was credit provisioning. There are no additional key audit matters identified in the year and credit provisioning is consistent with the prior year.
Materiality	The materiality that we used in the current year was £370k (2018: £496k) which is approximately 0.25% of net assets (2018: 7% of profit before tax).
Scoping	Our audit was scoped by obtaining an understanding of the entity and assessing the risks of material misstatement.

Significant changes in our approach	In our 2018 audit, we have determined materiality of £496k which was 7% of profit before tax. Due to the decrease in net profit for 2019, we have determined that profit (loss) before tax is not an appropriate benchmark for the 30 June 2019 audit. The audit partner has set the materiality at £370k and that works out to be approximately 0.25% of net assets as at 30 June 2019, based on professional judgment, the requirement of auditing standards, the performance of the business and the needs of the users of the financial statements.

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 significant management judgement is applied in determining the necessity for, and then estimating the size of the impairment. Therefore, we determined that a risk of fraud lies within credit provisioning. Management has determined that the majority of the loan book does not require impairment. The total amount of provisions at year-end is £1.21m (2018: £1.17m). Management disclose information about credit risk in the Strategic Report as well as in the Notes to the Financial Statements (Note 1 – Accounting Policies and Note 6 – Provisions).

How the scope of our audit responded to the key audit matter	• We understood the company's risk management and monitoring processes around credit provisioning. We obtained an understanding of relevant controls and tested the operating effectiveness. • We assessed the completeness of loan loss provisions by reviewing all loans held by the company and assessed whether the company's decision for not providing a specific provision in respect of each loan or a collective provision for the loan portfolio was reasonable. We challenged management's assessment considering the impairment indicators as described by IAS 39 as well as considering the change in the macroeconomic environment. • We assessed whether the level of nil incurred but not reported (IBNR) provision was appropriate by performing a benchmarking exercise to compare the provision for similar banks and by evaluating the history of loans in their 'good book' being delinquent and the quality of the loans that are currently part of the 'good book'. • We reviewed the financial statement disclosures relating to the provisions to evaluate whether they were in compliance with FRS 102 (the Financial Reporting Standard applicable for the UK and Ireland).
Key observations	Overall, we concluded that the level of provisioning and the disclosures presented in the financial statements are 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	£370k (2018: £496k)
Basis for determining materiality	The audit partner has set the materiality at £370k and that works out to be approximately 0.25% of net assets as at 30 June 2019, based on professional judgment, the requirement of auditing standards, the performance of the business and the needs of the users of the financial statements.
Rationale for the benchmark applied	In our 2018 audit, we have determined materiality of £496k which was 7% of profit before tax. Due to the decrease in net profit for 2019, we have determined that profit (loss) before tax is not an appropriate benchmark for the 30 June 2019 audit.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £18.5k (2018: £24.8k), 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

We have nothing to report in respect of these matters.

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

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, and the audit committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in using prudent estimates and judgements on credit provisioning; and
- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act, tax legislation and Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) regulations.

Audit response to risks identified
As a result of performing the above, we identified credit provisioning as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with FCA and PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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.

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 28 to the financial statements for the financial year ended 30 June 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

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 board of directors 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 10 years, covering the years ending 30 June 2010 to 30 June 2019.

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).

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.

Russel Davis, ACA (senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
23 September 2019

Profit and loss account
for the year ended 30 June 2019

	Notes	**2019**	2018
		£	£
Interest receivable:			

Interest receivable and similar income arising from debt securities		**21,913,460**	19,461,022
Other interest receivable and similar income		**34,131,798**	29,753,865
		56,045,258	49,214,887
Interest payable		**(47,729,612)**	(36,060,458)
Net interest income		**8,315,646**	13,154,429
Fees and commissions receivable		**4,488,574**	4,458,259
Profit on sale of investments and debt securities		**389,174**	632,188
Foreign exchange dealing profits		**349,984**	135,718
Fair value adjustment on financial instruments	14	**114,486**	255,704
		5,342,218	5,481,869
Operating income		**13,657,864**	18,636,298
Administrative expenses	3	**(8,062,945)**	(6,683,336)
Depreciation	4	**(262,174)**	(101,652)
Other operating charges	5	**(5,155,033)**	(4,401,850)
Operating Profit		**177,712**	7,449,460
Net impairment debit	6	**-**	-
Profit on ordinary activities before tax		**177,712**	7,449,460
Tax charge on profit on ordinary activities	7	**(47,412)**	(1,440,037)
Profit on ordinary activities after tax		**130,300**	6,009,423
Other comprehensive income		**-**	-
Total comprehensive income		**130,300**	6,009,423

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

There was no other comprehensive income 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 32 to 52 form part of these financial statements.

Balance sheet
As at 30 June 2019

	Notes	**2019**		2018	
		£	**£**	£	£
Assets					
Cash and balances at central banks			**283,962**		268,615
Loans and advances to banks	8		**686,418,347**		666,262,200
Loans and advances to customers	9		**75,814,873**		65,617,371
Debt securities	10		**662,987,580**		723,466,017
Derivatives	14,15		**1,248,117**		8,624,145
Tangible fixed assets	11		**654,010**		444,817
Other assets			**15,845**		19,062
Deferred tax assets			**103,580**		120,915
Prepayments and accrued income			**7,166,669**		6,198,308
- falling due within 1 year		**7,139,164**		6,109,305	
- falling due over 1 year		**27,505**		89,003	
Total assets			**1,434,692,983**		1,471,021,450
Liabilities and shareholders' funds					
Deposits by banks	12		**349,649,998**		443,279,770
Customer accounts	13		**885,146,080**		835,055,759
Derivatives	14,15		**4,141,652**		133,436
Other liabilities and deferred income	16		**2,282,632**		1,509,415
Current tax liabilities			**8,496**		777,201
Deferred tax liabilities			**48,081**		20,913
Accruals			**8,093,612**		6,315,673
Subordinated debt	17		**35,335,689**		34,072,840
Shareholders' funds:			**149,986,743**		149,856,443
- Called up share capital	18	**130,000,000**		130,000,000	
- Retained Earnings – Prior Year		**19,856,443**		13,847,020	
- Profit and loss account		**130,300**		6,009,423	
Total liabilities and shareholders' funds			**1,434,692,983**		1,471,021,450

Memorandum items		**2019**		2018	
		£	**£**	£	£
Contingent liabilities:					
- Acceptances and endorsements			**353,015**		575,243
- Guarantees			**3,217,467**		2,367,922
Commitments:					
- Other commitments	19		**59,035,339**		41,373,887
			62,605,821		44,317,052

The notes on pages 32 to 52 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 23 September 2019 and were signed on its behalf by:

Director Dr. Farouk Abdel Baki El-Okdah
Chairman

Director Dr. Yasser Ismail Hassan
CEO & Managing Director

Cash flow statement
for the year ended 30 June 2019

	Notes	**2019**		2018	
		£	**£**	£	£
Net cash (outflow)/inflow from operating activities	20		**(103,137,444)**		142,469,504
Taxation			**(780,110)**		(1,880,538)
Net cash inflow/ (outflow) from investing activities	21		**105,572,166**		(138,640,866)
Cash flows from financing activities					
Dividends paid			**-**		(5,757,114)
Financing			**-**		-
Net cash outflow from financing activities			**-**		(5,757,114)
Net increase/(decrease) in cash in the year			**1,654,612**		(3,809,014)
Cash and cash equivalents at the beginning of year			**4,446,741**		8,255,755
Cash and cash equivalents at the end of the year			**6,101,353**		4,446,741

Reconciliation of cash and cash equivalents

	2019		2018	
	£	**£**	£	£
Cash and balances at central banks		**283,962**		268,615
Loans and advances to other banks repayable on demand		**5,817,391**		4,178,126
		6,101,353		4,446,741

The notes on pages 32 to 52 form part of these financial statements.

Statement of changes in equity
for the year ended 30 June 2019

	Notes	**Called up share capital**	**Profit and loss account**	**Total**
		£	£	£
As at 30 June 2017		130,000,000	19,604,134	149,604,134
Dividend paid		-	(5,757,114)	(5,757,114)
Total comprehensive income		-	6,009,423	6,009,423
As at 30 June 2018		**130,000,000**	**19,856,443**	**149,856,443**
As at 30 June 2018		130,000,000	19,856,443	149,856,443
Dividend paid		-	-	-
Total comprehensive income		-	130,300	130,300
As at 30 June 2019		**130,000,000**	**19,986,743**	**149,986,743**

The notes on pages 32 to 52 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 England and Wales under the Companies Act 2006 whose financial statements comply with FRS102. The address of the registered office is given on page 1. The nature of the Bank's operations and its principal activities are set out in the strategic report on pages 6 to 17.

The financial statements have been prepared on a going concern basis under the historical cost convention modified to include the fair valuation of certain financial instruments. The following items are measured at fair value:

- Fixed rate bonds; and
- Derivative financial instruments.

The functional currency of National Bank of Egypt (UK) Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Bank 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 Bank, its cash flows, liquidity position and borrowing facilities, the Bank'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. Brexit is not expected to have any material impact on the Bank apart from volatility in foreign exchange movements.

The Directors have a reasonable expectation that the Bank 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 Bank 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

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or Loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale'(AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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). As at 30 June 2018 no financial assets were classified as 'AFS'.

Debt instruments, other than fixed rate bonds which are packaged in 'asset swaps' and measured at fair value, that 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 Bank transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or c) the Bank, 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 Bank uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Bank 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 Bank 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 fair value.

At inception of the hedge relationship, the Bank 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 Bank 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.

Hedge accounting is discontinued when the Bank 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 principal 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) Collective 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:

Leases of 50 years or more unexpired	15 - 20 years
Computer equipment and other fixed assets	3 - 5 years

(f) Interest income and expense

Interest receivable and payable is accrued over the period of the related loans and deposits and these amounts relate to all interest bearing financial assets and liabilities.

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) Profit on sale of investments and debt securities

Proceeds from the sale of investments and debt securities are credited to income and set against the net book value of those investments and debt securities at the time of sale.

(i) Foreign exchange dealing profits

Foreign exchange income arises from banking book foreign exchange transactions.

(j) 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.

(k) 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 Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(l) Pension costs

The Bank 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.

(m) 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.

The Bank reviews its loans and advances on an individual basis to assess impairment on a periodic basis unless a known circumstance occurs at or before the scheduled review date. In determining whether an impairment loss should be recorded in the profit and loss account the Bank makes a judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flow of a loan or advance. This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrower e.g. payment delinquency or default. Additional observable data that would be considered is set out in Note 1 (c).

Notes to the Financial Statements *(continued)*

3 Administrative expenses

	2019	2018
	£	£
Staff costs:		
- Wages and salaries	**6,493,118**	5,041,128
- Social security costs	**546,052**	611,226
- Other pension costs	**478,768**	430,595
- Other staff costs	**490,484**	548,953
Other administrative expenses	**54,523**	51,434
	8,062,945	6,683,336

Monthly average number of persons employed by the Bank		
- Retail	**11**	11
- Treasury	**4**	4
- Documentary Credits	**6**	7
- Support functions	**51**	50
	72	72

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

4 Profit on ordinary activities before tax

(a) Is stated after charging:

	2019	2018
	£	£
Audit Fees		
Fees payable to the Bank's auditor for the audit of Bank's annual accounts	**135,000**	120,000
Fees payable in respect of prior year audit	**802**	96
Total audit fees	**135,802**	120,096
Non-audit Fees		
Assurance services	**-**	30,000
Total non-audit fees	**-**	30,000
Depreciation of tangible fixed assets	**262,174**	101,652
Operating lease rentals		
Operating lease rentals were:		
- Land and building	**804,463**	733,170
- Others	**17,271**	12,760
Total operating lease rentals	**821,734**	745,930

(b) Segmental reporting

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

Notes to the Financial Statements *(continued)*

5 Other operating charges

	2019	2018
	£	£
Operations	**3,570,040**	2,905,402
Premises	**1,152,417**	1,074,797
External	**432,576**	421,651
Other operating charges	**5,155,033**	4,401,850

6 Provisions for bad and doubtful debts

(a) Impairment charge

	2019	2018
	£	£
Net charge of provisions for bad and doubtful debts (see note 6(b))	**-**	-
Impaired assets written off	**-**	-
Net Impairment debit/credit	**-**	-

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

	Specific	Collective	2019 Total
	£	**£**	**£**
Provisions at 30 June 2018	1,173,620	-	1,173,620
Additions during the year	-	-	-
Foreign exchange movement	43,498	-	43,498
Provisions at 30 June 2019	**1,217,118**	**-**	1,217,118
Of which:			
Provision against loans and advances to customers	1,217,118	-	1,217,118
	1,217,118	**-**	1,217,118

	Specific	Collective	2018 Total
	£	£	£
Provisions at 30 June 2017	1,192,766	-	1,192,766
Additions during the year	-	-	-
Foreign exchange movement	(19,146)	-	(19,146)
Provisions at 30 June 2018	1,173,620	-	1,173,620
Of which:			
Provision against loans and advances to customers	1,173,620	-	1,173,620
	1,173,620	-	1,173,620

(c) Non-performing loans

	2019	2018
	£	£
Loans on which interest has been suspended (net of suspended interest)	**1,208,871**	1,207,672
Provisions for bad and doubtful debts	**(1,217,118)**	(1,173,620)
Total	**(8,247)**	34,052

Notes to the Financial Statements *(continued)*

7 Taxation

(a) Current tax and deferred tax:

	2019	2018
	£	£
Current tax:		
UK corporation tax on profits for the period	**8,496**	1,405,428
Adjustment in respect of previous periods	**(5,587)**	-
Total current tax	**2,909**	1,405,428
Deferred tax:		
Origination and reversal of timing differences	**44,153**	38,681
Adjustment in respect of previous period	**4,998**	-
Effect of changes in tax rates	**(4,648)**	(4,072)
Total deferred tax	**44,503**	34,609
Total tax per profit and loss account	**47,412**	1,440,037

The charge for the year can be reconciled to the profit per the profit and loss account as follows:

	2019	2018
	£	£
Profit for the period – continuing operations	**177,712**	7,449,460
Tax on profit at standard UK tax rate of 19% (2018: 19%)	**33,765**	1,415,398
Effects of:		
Expenses not deductible	**18,883**	32,986
Income not taxable	**-**	(4,275)
Adjustments from previous period	**(589)**	-
Tax rate changes	**(4,648)**	(4,072)
Tax charge for the period	**47,412**	1,440,037
Income tax expenses reported in the profit and loss account	**47,412**	1,440,037

Notes to the Financial Statements *(continued)*

7 Taxation *(continued)*

(b) Balance sheet amounts

	30 June 2019 £	30 June 2018 £
Current liabilities:		
Corporation tax	**8,496**	**777,201**
	8,496	**777,201**
Deferred tax (assets):		
Provision at start of period	**(100,002)**	(134,611)
Adjustment in respect of prior year	**4,998**	-
Deferred tax charge to profit and loss account for the period	**39,505**	34,609
Provision at end of period	**(55,499)**	(100,002)

	Booked 30 June 2019 £	Booked 30 June 2018 £
Accelerated tax depreciation	**-**	-
Amounts in relation the spreading of FRS 102 transitional adjustment	**-**	-
Fixed asset timing differences	**48,081**	20,913
Short term timing differences	**(103,580)**	(120,915)
	(55,499)	(100,002)

NBEUK cannot be certain that its deferred tax asset will unwind before 2020, so it has been recognised at a rate of 17% (2018: 17%), 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)**	(17,335)
Recoverable after 12 months	**(86,245)**	(103,580)
	(103,580)	(120,915)
Deferred tax liabilities:		
Payable within 12 months	**48,081**	20,913
	48,081	20,913

8 Loans and advances to banks

(a) Residual maturity

	2019	2018
	£	£
Banks		
- Repayable on demand	**5,817,391**	4,135,860
	5,817,391	4,135,860
Other loans and advances with remaining maturity:		
- 5 years or less but over 1 year	**7,852,375**	22,715,227
- 1 year or less but over 3 months	**176,707,258**	-
- 3 months or less	**366,477,130**	507,360,670
	556,854,154	534,211,757
Related Parties		
Other loans and advances with remaining maturity:		
- Repayable on demand	**-**	42,266
- 1 year or less but over 3 months	**129,564,193**	132,008,177
- 3 months or less	**-**	-
Total loans and advances to banks	**129,564,193**	132,050,443
Bad and doubtful debt provision – specific (see note 6)	-	-
	686,418,347	666,262,200

(b) Concentrations of exposure

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

	2019	2018
	£	£
Total gross advances to banks located in:		
Europe and North America	**101,454,928**	100,025,353
Middle East and Egypt	**405,300,668**	373,021,408
Rest of the world	**179,662,751**	193,215,439
Total	**686,418,347**	666,262,200

9 Loans and advances to customers

(a) Residual maturity

	2019 £	2018 £
Past due	**1,520,796**	1,408,943
Repayable on demand	**7,928,931**	4,458,863
Other loans and advances with remaining maturity:		
- 5 years or less but over 1 year	**-**	80,000
- 1 year or less but over 3 months	**25,000**	39,703
- 3 months or less	**67,557,264**	60,803,482
Sub-total	**77,031,991**	66,790,991
Bad and doubtful debt provision – specific (see note 6)	**(1,217,118)**	(1,173,620)
Total	**75,814,873**	65,617,371

(b) Concentrations of exposure

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

	2019 £	2018 £
Total gross advances to customers located in:		
- Europe and North America	**65,167**	75,684
- Middle East and Egypt	**76,966,824**	66,715,307
- Rest of World	**-**	-
Total	**77,031,991**	66,790,991

Notes to the Financial Statements *(continued)*

10 Debt securities

	2019	2018
	£	£
Investment securities		
Investments at fair value	**274,116,438**	315,064,534
Investments at amortised cost	**388,871,142**	408,401,483
	662,987,580	723,466,017
Investment securities		
Issued by public bodies – government securities	**67,530,428**	79,503,294
Other securities	**593,282,214**	653,387,854
Fair value Adjustment (refer to note 15)	**2,174,938**	(9,425,131)
	662,987,580	723,466,017
Related Parties	**-**	-
	662,987,580	723,466,017
Listed on a UK recognised investment exchange	**35,324,042**	53,129,943
Other listed	**305,982,991**	314,195,972
Unlisted	**319,505,609**	365,565,233
Fair value Adjustment (refer to note 15)	**2,174,938**	(9,425,131)
	662,987,580	723,466,017
Investment securities by maturity		
Due within one year	**75,754,350**	39,455,227
Due one year and over	**585,058,292**	693,435,921
Fair value Adjustment (refer to note 15)	**2,174,938**	(9,425,131)
	662,987,580	723,466,017

	Nominal Value	**Net Premium / (Discount)**	**Fair Value Adjustment**	**Net Book Value**
	£	**£**	**£**	**£**
Investment securities - movement				
Balance at 30 June 2018	731,095,721	1,795,427	(9,425,131)	723,466,017
Purchases	127,161,366	-	-	127,161,366
Sales/maturities	(223,995,595)	(192,702)	-	(224,188,297)
Amortisation of premium/discount	-	(555,923)	-	(555,923)
Exchange movements	25,438,547	65,801	-	25,504,348
Fair value adjustment (refer to note 15)	**-**	**-**	11,600,069	11,600,069
Balance at 30 June 2019	**659,700,039**	**1,112,603**	**2,174,938**	**662,987,580**

Investment securities - movement	Nominal value £	Net premium/ (discount) £	Fair value adjustment £	2018 Net book Value £
Balance at 30 June 2017	603,147,080	1,482,662	49,486	604,679,228
Purchases	265,556,144	930,456	-	266,486,600
Sales/maturities	(128,643,901)	18,375	-	(128,625,526)
Amortisation of premium/discount	-	(612,898)	-	(612,898)
Exchange movements	(8,963,603)	(23,168)	-	(8,986,770)
Fair value adjustment (refer to note 15)			(9,474,617)	(9,474,617)
Balance at 30 June 2018	731,095,721	1,795,427	(9,425,131)	723,466,017

	2019 £	2018 £
Investment securities - market value		
Issued by public bodies – government securities	**68,611,825**	75,586,628
Other securities	**598,643,403**	644,873,069
	667,255,228	720,459,697

11 Tangible fixed assets

	Leases of 50 years or more unexpired £	**Computer equipment and other fixed assets £**	**Total £**
Cost			
At 30 June 2018	259,276	2,257,337	2,516,613
Additions	-	471,367	471,367
Disposals	-	-	-
At 30 June 2019	**259,276**	**2,728,704**	**2,987,980**
Accumulated depreciation			
At 30 June 2018	243,188	1,828,608	2,071,796
Charge for year	-	262,174	262,174
Related to disposals	-	-	-
At 30 June 2019	**243,188**	**2,090,782**	**2,333,970**
Net book value			
At 30 June 2019	**16,088**	**637,922**	**654,010**
Net book value			
At 30 June 2018	16,088	428,729	444,817

Notes to the Financial Statements *(continued)*

12 Deposits by Banks

With agreed maturity dates or periods of notice, by remaining maturity:	**2019 £**	2018 £
Banks		
- 5 years or less but over 1 year	**196,309,384**	189,293,556
- 1 year or less but over 3 months	**-**	-
- 3 months or less but not repayable on demand	**65,237,127**	22,158,800
	261,546,511	211,452,356
- Repayable on demand	**11,839,023**	6,009,985
	273,385,534	217,462,251
Related Parties		
- 5 years or less but over 1 year	**-**	**-**
- 1 year or less but over 3 months	**75,340,440**	73,516,325
- 3 months or less but not repayable on demand	**-**	151,434,845
	75,340,440	224,951,170
- Repayable on demand	**924,025**	866,349
	76,264,465	225,817,519
Total		
- 5 years or less but over 1 year	**196,309,384**	189,293,556
- 1 year or less but over 3 months	**75,340,440**	73,516,325
- 3 months or less but not repayable on demand	**65,237,127**	173,593,645
	336,886,951	436,403,526
- Repayable on demand	**12,763,047**	6,876,244
	349,649,998	443,279,770

13 Customer accounts

With agreed maturity dates or periods of notice, by remaining maturity:	**2019 £**	2018 £
Customer accounts		
- 5 years or less but over 1 year	**2,077,483**	4,879,733
- 1 year or less but over 3 months	**520,642,558**	504,314,347
- 3 months or less but not repayable on demand	**293,567,616**	268,742,217
	816,287,657	777,936,297
- Repayable on demand	**68,858,423**	57,119,462
	885,146,080	835,055,759

Notes to the Financial Statements *(continued)*

14 Financial Instruments

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

	2019 £	2018 £
Financial assets at fair value		
- Exchange rate related contracts	**1,257**	9,126
- Forward Rate Agreements	**552,589**	38,444
	553,846	47,570
Measured at fair value and designated in an effective hedging relationship		
- Derivative financial liabilities	**694,271**	8,576,575
	1,248,117	8,624,145
Financial assets at fair value		
- Exchange rate related contracts	**1,387**	**10,064**
- Forward Rate Agreements	**-**	**36,509**
	1,387	**46,573**
Measured at fair value and designated in an effective hedging relationship		
- Derivative financial liabilities	**4,140,266**	**86,863**
	4,141,652	133,436

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 debt securities, 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 to the Financial Statements ***(continued)***

	2019			
	Total	**Level 1**	**Level 2**	**Level 3**
	£	**£**	**£**	**£**
Derivative assets				
Foreign exchange contracts	**1,257**	**1,257**	**-**	**-**
Forward Rate Agreements	**552,589**	**-**	**552,589**	**-**
Interest rate swaps	**694,271**	**-**	**694,271**	**-**
Total Derivative assets	**1,248,117**	**1,257**	**1,246,860**	**-**
Derivative liabilities				
Foreign exchange contracts	**1,387**	**1,387**	**-**	**-**
Forward Rate Agreements	**-**	**-**	**-**	**-**
Interest rate swaps	**4,140,266**	**-**	**4,140,266**	**-**
Total Derivative liabilities	**4,141,652**	**1,387**	**4,140,266**	**-**

	2018			
	Total	Level 1	Level 2	Level 3
	£	£	£	£
Derivative assets				
Foreign exchange contracts	9,126	9,126	-	-
Forward Rate Agreements	38,444	-	38,444	-
Interest rate swaps	8,576,575	-	8,576,575	-
Total Derivative assets	8,624,145	9,126	8,615,019	-
Derivative liabilities				
Foreign exchange contracts	10,064	10,064	-	-
Forward Rate Agreements	36,509	-	36,509	-
Interest rate swaps	86,863	-	86,863	-
Total Derivative liabilities	133,436	10,064	123,372	-

	2019	2018
Fair value gains and losses	**£**	£
On financial assets measured at fair value through profit or loss	**513,620**	(131,022)
On derivative financial assets designated in an effective hedging relationship	**3,033,878**	(1,852,996)
On derivative financial liabilities designated in an effective hedging relationship	**(3,470,855)**	2,183,000
On financial liabilities measured at fair value through profit or loss	**37,842**	56,723
Net fair value gain	**114,485**	255,705

Notes to the Financial Statements *(continued)*

15 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**	
	2019	2018	**2019**	2018
	£	£	**£**	£
Assets				
Interest rate contracts	**125,127**	-	**569,144**	8,576,575
Forward foreign exchange contracts	**1,257**	9,126	**-**	-
Forward rate agreements	**552,589**	38,444	**-**	-
	680,973	47,570	**567,144**	8,576,575
Liabilities				
Interest rate contracts	**-**	-	**4,140,265**	**86,863**
Forward foreign exchange contracts	**1,387**	10,064	**-**	**-**
Forward rate agreements	**-**	36,509	**-**	**-**
	1,387	46,573	**4,140,265**	86,863

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 99.85% effective in hedging the fair value exposures to interest rate movements and as a result a fair value adjustment of £114k (2018: £256k) was included in profit and loss.

During the period as a result of hedging £2.17m (2018:£9.47m) of loss on the bond amount was recognised in the profit or loss at the same time that £2.74m (2018:£9.73m) profit on the interest rate swap was included in the profit or loss.

16 Other liabilities and deferred income

	2019	2018
	£	£
Taxation	**8,496**	777,201
Other creditors	**2,282,632**	1,509,414
Deferred tax liabilities (see note 7 (b))	**48,081**	20,913
	2,339,209	2,307,528

17 Subordinated debt

On 2 November 2010, the Bank drew-down $30 million of unsecured subordinated debt from its parent Bank. 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.

In April 2017, the Bank drew down additional $15 million of unsecured subordinated debt from its parent Bank. 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 £1,591,612 (2018: £1,212,631).

Notes to the Financial Statements *(continued)*

18 Called up Share Capital

	2019	2018
	£	£
Allotted, called up and fully paid		
Ordinary shares of £1 each	**130,000,000**	130,000,000
	130,000,000	130,000,000

19 Commitments

(a) Other commitments

	2019	2018
	£	£
Letters of credit - confirmed	**35,846,586**	16,538,393
Letters of credit - participation purchased	**23,188,753**	24,832,305
Loan commitments (undrawn credit lines and unused overdraft facilities)	**-**	3,189
	59,035,339	41,373,887

Incurred on behalf of the parent Bank:

	2019	2018
	£	£
Letters of credit - confirmed	**12,341,209**	1,251,938
Letters of credit - participation purchased	**21,608,112**	22,715,227
	33,949,321	23,967,165

(b) Significant concentrations of contingent liabilities and commitments

Approximately 97% (2018: 91%) of total contingent liabilities and commitments relate to counterparties in Egypt.

Notes to the Financial Statements *(continued)*

20 Reconciliation of operating profit to operating cash flows

	2019 £	2018 £
Operating profit	**177,712**	7,449,460
Accrued income and prepayments	**(968,360)**	(1,730,140)
Accruals and deferred income	**1,777,940**	3,582,317
Depreciation	**262,174**	101,652
Interest on subordinated debt	**1,591,612**	1,212,631
Profit on sale of investment debt and equity securities	**389,174**	632,188
Other non-cash movements	**(25,723,813)**	7,199,129
Net cash inflow from trading activities	**(22,493,561)**	18,447,237
Net cash inflow/(outflow) from operating activities comprises:		
Loans and advances to banks and customers	**(28,757,882)**	91,317,314
Deposits by banks and customer accounts	**(43,539,450)**	32,623,905
Debt securities in issue	**(9,131,480)**	(19,290)
Other assets	**3,215**	43,030
Other liabilities	**781,714**	57,308
Net cash inflow/(outflow) from operating activities	**(103,137,444)**	142,469,504

21 Net cash flows from investing activities

	2019 £	2018 £
Capital expenditure and financial investment		
Purchase of investment securities	**(127,161,366)**	(266,486,601)
Sale and maturity of investment securities	**223,995,595**	128,625,526
Purchase of tangible fixed assets	**(471,366)**	(416,122)
Cash flows from derivatives	**9,209,303**	(363,671)
Net cash (outflow)/inflow	**105,572,166**	(138,640,866)

22 Operating lease commitments

As at 30 June 2018, the total future minimum lease payments are as follows:

	2019		2018	
	£ Land and Buildings	£ **Other**	**£** Land and Buildings	£ Other
Operating lease commitments which expire:				
- Within 1 year	**775,141**	**15,905**	802,673	13,230
- Between 1 and 5 years	**778,941**	**38,924**	1,550,324	9,911
- More than 5 years	**-**	**-**	-	-
	1,554,082	**54,829**	2,352,997	23,142

Notes to the Financial Statements *(continued)*

23 Assets and liabilities denominated in foreign currencies

	2019	2018
	£	£
Denominated in US Dollar	**1,200,097,844**	1,226,552,520
Denominated in other currencies	**6,509,455**	16,588,614
Total assets	**1,206,607,299**	1,243,141,134
Denominated in US Dollar	**1,199,469,377**	1,226,945,520
Denominated in other currencies	**6,473,325**	16,190,677
Total liabilities	**1,205,942,702**	1,243,136,197

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

24 Emoluments of directors

	2019	2018
	£	£
Directors' fees and emoluments	**1,248,888**	1,128,146

There is no Director accruing benefits under a money purchase pension scheme (2018: None). The total remuneration and benefits of the highest paid Director were £492,728 (2018: £441,802).

25 Related party disclosures

During the year, the Bank received fees and commission of £3,278,975 (2018: £3,342,563), Interest income of £5,034,823 (2018: £4,146,768) and paid interest expenses £3,414,983 (2018: £3,540,242) to the parent National Bank of Egypt, Head office, Cairo.

As at the year end, the Bank had loans outstanding of £129,564,193 (2018: £132,050,443) and deposits of £111,600,154 (2018: £225,817,519) 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 (2018: nil). During the year, there were no new loans issued to officers of the Bank (2018: nil).

There are no material related party transactions with key management, and persons connected with them, other than remuneration disclosed in Note 24.

26 Ultimate parent Bank and parent undertaking of larger group of which the Bank is a member

The Bank 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 Bank 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.

27 Subsequent events

There have been no material post-balance sheet events which would require disclosure or adjustment to the 30 June 2019 Financial Statements.

28 Country by Country Disclosures

The Capital Requirements (Country-by-Country) Regulations came into effect on 1 January 2014 and places certain reporting obligations on financial institutions that are within the scope of the European Union's Capital Requirements

Directive (CRD IV). The objective of the reporting requirements is to provide increased transparency regarding the activities of the institution.

The National Bank of Egypt (UK) Ltd is a UK registered entity with no subsidiaries and has filed a UK Country-by-Country report in accordance with the accounting framework FRS 102.

The Bank received no public subsidies during the year to 30 June 2019 (2018: Nil).

Country	Type of Operations	Net Income from Continuing operations (£)	Profit/(loss) before tax (£)	Corporation tax paid (£)	Average number of employees
United Kingdom	PRA and FCA regulated Banking	13,657,864	177,712	780,110	72