Stage 1: 12 months Expected Credit Loss (ECL)

For exposures where there has been no significant increase in credit risk since initial recognition, the portion of expected long-term credit losses associated with the probability of default over the next 12 months is recognized.

Stage 2: Life Time Expected Credit Loss (ECL) – Non-impaired credit exposures where there has been a significant increase in credit risk since initial recognition, but not credit default, expected credit losses are recognized over the life of the asset.

Stage 3: Expected Credit Losses Financial assets are credit risk when one or more events have occurred that have a detrimental effect on the estimated future cash flows of those financial assets. Due to the use of the same standards in IAS 39, the Bank's methodology for specific provisions remains unchanged.

(b) Impairment

The Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

• To calculate ECL, the Bank estimates the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Bank under the contract, and

• The cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan.

The Bank groups its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

• Stage 1 – Performing loans: when loans are first recognized, the Bank recognizes an allowance based on 12-month expected credit losses.

• Stage 2 – Underperforming loans: when a loan shows a significant increase in credit risk, the Bank records an allowance for the lifetime expected credit loss.

• Stage 3 – Impaired loans: The Bank recognizes the lifetime expected credit losses for these loans. In addition, in Stage 3 the Bank accrues interest income on the amortized cost of the loan net of allowances.

The Bank will record impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statement of financial position, which will remain at fair value.

Instead, an amount equal to the allowance that would arise if the asset were measured at amortized cost will be recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

Additional details related to ECL calculation Under IFRS 9:

- **Default Definition for CIB**

Days Past Due: Exposures that have one or more instalment past due for more than 90 days both for Consumer and Business Banking assets. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Bank.

Rating: Customers rated 8 to 10 (applicable to both corporate and business banking as a whole)

Event driven defaults: this will be based on the customer specific factors such as breach of covenants which are deemed material, declaration of bankruptcy by the customer, death of borrower and other customer specific factors. This will be applied on a case-by-case basis, subject to IFRS 9 Committee approval.

Regulatory default: If in future, the local regulator prescribes the criteria of default for IFRS 9 purposes, the Bank will choose the criteria which is stricter of the criteria under this policy or regulatory purpose for defining default.

The definition should be applied to all financial instruments under the scope of IFRS 9 impairment with the exception of ‘Rating’ criteria which is only applicable for corporate and business banking facilities as the Bank does not currently maintain any rating or credit scoring for Consumer facilities.

- **Modification of Assets**

Consumer Banking

Stage 1 – Restructure: (within the policy) based on customer request (no credit reasons present)

Stage 2 – Restructure: In case of credit risk reasons and not in default will be classified into Stage 2. (The Impairment % of such accounts to follow the current bank's policy)

Stage 2 or Stage 3 – Reschedule: Already in delinquency (customer in debt repayment) Stage 2 or Stage 3 depending upon the policy (100% Impairment is taken and kept for six months – post six months the release of the Impairment depends on the customer good performance)

Corporate & Business Banking

Stage 1 – Restructure: Business Banking is complying with the modification rules in the policy, regarding collateralized asset under Restructure (within the policy) based on customer request (no credit reasons present)

Stage 2 – Restructure: In case of credit risk reasons and not in default will be classified into Stage 2. (The Impairment % of such accounts to follow the current bank's policy).

Stage 2 or Stage 3 – Reschedule: Reschedule already in delinquency (customer in debt repayment) Stage 2 or Stage 3 depending upon the policy (100% Impairment is taken and kept for six months – post six months the release of the Impairment depends on the customer good performance).

- **Individual vs Collective Assessment**

Corporate and Business Banking

For corporate exposures, CIB will assess SICR on an individual assessment at a facility/instrument level.

While for business banking (all segments):

- Business Banking (all segments) exposures will assess SICR on an individual assessment at a Customer level.
- Business Banking assessment will be on each facility level but if any facility assessed as SICR or default all other facilities granted to one counterparty will be assessed as SICR or default (contagion)

Consumer Exposures

- The Bank will determine SICR at both instrument level and collective basis. SICR can be assessed at a collective/portfolio level if common risk characteristics are shared. Any instruments that are assessed collectively must possess shared credit risk characteristics. This is to prevent significant increases in credit risk being obscured by aggregating instruments that have different risks. CIB's Consumer exposures are grouped into different segments by
- Products (i.e. auto loan, personal loan etc.) and their employment status (self-employed, salaried etc.) for cards we have further segmented by Limit buckets (Less than 10k and greater than 10K). CIB may try alternate segmentations if deemed to be significant.

Significant Increase in Credit Risk (SICR):

Corporate and Business Banking:

CIB will use the following indicators to identify any significant increase in credit risks. The occurrence of any one of the indicators should be considered as an indicator of SICR and consequently the related financial instrument will be classified as Stage 2 and will attract a lifetime ECL:

- **Risk Ratings:** All facilities with internal rating of 7 (watch list) will be directly categorised in Stage 2 (absolute measure).
- **Transition in Risk Ratings:** All facilities that have been downgraded at the reporting date by:
    - 2 or more grades: for facilities which were internally rated 2 to 4 at inception.
    - 1 or more grade: for other facilities which were internally rated 5 or 6.
- **Delinquency Status:** The facilities will be considered as SICR and will be moved to Stage 2 if the following conditions re prevail:

- Outstanding exposure (or related interest) is 50 days past due ("DPD") at the reporting date irrespective of the rating OR;
- Internal rating is 5 or 6 And DPD>=30 for 3 times or more over the last 12 months OR;
- Internal rating is 5 or 6 And DPD>=50 once or more over the last 12 months

- **Industry**: Certain industries/sectors are considered high risk. If the following conditions prevail, the account will be categorized in stage 2:
  - Internal rating is 5 or 6 And Industry is classified as high risk, which will be determined and revised periodically.

Restructured Status: All facilities that have been restructured in the past period due to credit risk related factors or which were NPL in the past and now regular (subject to cooling period of 24 months) to be considered Stage 2.

- **Risk Parameters**

This section covers the calculation methodology of the risk parameters of Expected Credit Loss (ECL) measurement and this is complementary to all other individual policies on risk qualification.

The ECL methodology was detailed in the previous section on Expected Credit Loss Approach and the related scenario methodology is detailed in the next section on Scenarios and Forward Looking Information, this section restricts itself to the calculation methodology of PD, EAD and LGD, which are the key risk parameters for ECL calculation.

In the context of risk parameters, the key areas that need to be addressed are the following:

The Bank's Internal Rating and PD Estimation Process

The Bank's independent Credit Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rate from 1 to 10 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from Good Rating Agency. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

Exposure at Default – EAD

The Exposure at Default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12m ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

Loss Give Default Methodology

For corporate and investment banking financial instruments, LGD values are assessed at least every three months by account managers and reviewed and approved by the Bank's specialized credit risk department. The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group. The Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

(c) Hedge Accounting

Financial Assets and Liabilities:

1. **Initial Recognition and Measurement**

All "regular" purchases and sales of financial assets are recognized on the trade date, the date on which the Group commits to purchase or sell the asset. Regular purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally provided by law or by market norms.

Financial assets or liabilities are measured initially at fair value plus, in the case of an item not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue.

2. **Classification**

On initial recognition, financial assets are classified as measured at cost, carried at fair value through other comprehensive income or at fair value through profit or loss. Financial assets are measured at amortized cost when each of the following officers is satisfied and is not classified as at fair value through profit or loss:

- Assets are retained in the business model, which is intended to retain assets in order to collect contractual cash flows;

- The contractual terms of the financial assets on specific dates result in cash flows which are only payments on the original amount and interest on the original amount outstanding.

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

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

Upon initial recognition of equity investments that are not held for trading, the Bank may elect irrevocably to present changes in fair value in other comprehensive income. This choice is made on an investment-by-investment basis.
All other financial assets are classified at fair value through profit or loss.

Evaluation of Business Model

The Bank assesses the objective of the business model in which assets are maintained at the business portfolio level. This method better reflects how business is managed and how information is communicated to management. The information to be considered is as follows:

- Specific policies and objectives of the business portfolio and practical application of these policies. In particular, whether the management strategy focuses on the achievement of contractual interest income and the realization of cash flows through the sale or retention of assets for liquidity purposes;

- the risks that affect the performance of the business model (and the financial assets that are retained within that business model), how these risks are managed; the frequency, value and timing of sales in prior periods, the reasons for such sales, as well as their forecast for future sales activities. Information on sales activities cannot be taken into account alone from the rest of the activities. Rather, they are part of a comprehensive assessment of how the Bank achieves the objectives of managing the financial assets as well as how to achieve cash flows.

Financial assets held for trading or managed, whose performance is measured at fair value, are measured at fair value through profit or loss where they are not held for the purpose of collecting contractual cash flows and are not held for the purpose of collecting cash flows and the sale of financial assets.

Assess whether the contractual cash flows are only payments of the original amount and interest on the original amount outstanding

For the purpose of this valuation, the original amount is determined on the basis of the fair value of financial assets at initial recognition. Interest is determined on the basis of the time value of the money and the credit risk associated with the original principal over a given period of time or other basic lending risk and costs (eg liquidity risk and administrative costs), as well as profit margin.

Reclassification

Financial assets are not recognized after initial recognition, unless the Bank changes the business model to manage financial assets.

3. **De-recognition**

Financial Assets

The Bank derecognizes financial assets upon expiry of the contractual rights of cash flows from the financial asset or transfers its rights to receive the contractual cash flows in accordance with the transactions in which all significant risks and rewards of ownership relating to the transferred financial asset are transferred or when the Bank has not transferred or retained all the risks The fundamental benefits of ownership and did not retain control of financial assets.

When the financial asset is derecognized, the difference between the carrying amount of the financial asset (or the carrying amount allocated to the financial asset excluded) and the total of the consideration received (including any new acquired asset) In other comprehensive income is recognized in profit or loss.

Gain / Loss recognized in other comprehensive income in respect of investment securities in equity securities is not recognized in profit or loss on disposal of such securities. Any interest on transferred financial assets that are eligible for disposal that are created or retained by the Group as a separate asset or liability is recognized.

If the terms of the financial assets are modified, the Bank assesses whether the cash flows of the financial assets are substantially different. If there are significant differences in cash flows, the contractual rights to the cash flows from the original financial assets are past due. In this case, the original financial assets are derecognized and the new financial assets are recognized at fair value.

The financial asset (in whole or in part) is derecognized when

- Expiration of rights to receive cash flows from the original;

- The Bank has transferred substantially all the risks and rewards of the asset or (b) has not transferred or retained the cash flows; All the material risks and benefits of the assets but transferred control over the assets.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged, canceled or expires.

Investments held for trading

Investments held for trading are subsequently measured at fair value with any gain or loss arising from the change in fair value recognized in the consolidated statement of income or loss in the period in which they arise. Interest earned or dividends received are included in net trading income.

(8) Leasing

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Bank as a Lessee

Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they it is incurred.

Bank as a Lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-Of-Use Assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Lease Liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate is recognized as expenses in the period in which the event or condition that triggers the payment occurs.

(9) Recognition of Income and Expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(i) Interest and Similar Income and Expense

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and Interest and similar expense for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and Commission Income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Fee income can be divided into the following two categories:

Fee Income Earned from Services that are Provided Over a Certain Period of Time.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Dividend Income

Revenue is recognized when the Bank's right to receive the payment is established, which is generally when the shareholders approve the dividend.

(iv) Net Trading Income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading.

(10) Cash and Cash Equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non–restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

(11) Property and Equipment

Property and equipment (including equipment under operating leases where the Bank is the lessor) is stated at cost excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	20 years.
Leasehold improvements	3 years, or over the period of the lease if less
Furniture and safes	3/5 years.
Typewriters, calculators and air-conditions	5 years
Vehicles	3/5 years.
Computers and core systems	3 years
Fixtures and fittings	3 years

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

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in other operating income in the income statement in the year the asset is derecognized.

(12) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the income statement in the year of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash– generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 Operating Segments.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative fair values of the disposed operation and the portion of the CGU retained.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument

Recognition and Measurement, is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to OCI. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Bank re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

(13) Intangible assets

The Bank's other intangible assets include the value of computer software and customer core deposits acquired in business combinations.

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful life of intangible assets is assessed to be either finite or indefinite. Intangible assets with a finite life is amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial yearend. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is presented as a separate line item in the income statement.

Amortization is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives.

(14) Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

(15) Share–Based Payment Transactions

Employees (including senior executives) of the Bank receive remuneration in the form of share–based payment transactions, whereby employees render services as consideration for equity instruments (equity–settled transactions).

Equity–Settled Transactions

The cost of equity–settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date) the cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period is recorded in administrative expense and represents the movement in cumulative expense recognized as at the beginning and end of that period.

Where the terms of an equity–settled award are modified, the minimum expense recognized in administrative expense is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share–based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity–settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non–vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

(16) The Bank's Contributions to the Employees' Social Insurance Fund

Bank employees benefit from the Social Insurance Fund that has been established under the Law No. 64 of year 84 regarding alternative social insurance systems. This system is considered an alternative to state regulations and is subject to the supervision of the Ministry of Social Insurance. A Ministerial Resolution No. 22 of year 83 was issued regarding approval of the establishment of the Social Fund for Employees. The bank is obliged to pay to the fund the contributions due for each month represented in the employer's share and the share of the insured and pay his obligations towards the fund in implementation of the provisions of the fund system. This is a system of benefits enjoyed by employees, a system of specific benefits for the bank, according to the Egyptian Accounting Standards.

(17) Taxes

(i) Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

(ii) Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(18) Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost also any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

(19) Dividends on Ordinary Shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

(20) Equity Reserves

The reserves recorded in equity (Other comprehensive income) on the Bank's statement of financial position include financial investment at FVOCI reserve, which comprises changes in fair value of financial investment at FVOCI.

(21) Segment Reporting

The Bank's segment reporting is based on the following operating segments: Corporate Banking, SME's, Investment Banking and Retails Banking.

(22) Investment Property

"Investment Property" is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply services or for administrative purposes. The bank holds some investment property as a consequence of the ongoing rationalization of its retail branch network. Other property has been acquired through the enforcement of security over loans and advances. Investment property is initially measured at cost and tested for impairment through fair valuation to be allocated through fair value, in profit or loss.

Any gain or loss on disposal of an investment property (Calculated as the difference between the net proceeds from disposal and the carrying amount if the item) us recognized in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the fate of reclassification becomes its cost for subsequent accounting.

(23) Earnings Per Share

The bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(24) Financial Guarantees and Loan Commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(25) Deposits

Deposits issued are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

(26-1) Non-Current Assets Held for Sale

IFRS 5 requires a non-current asset (or disposal group) to be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Determining whether (and when) an asset stops being recovered principally through use and becomes recoverable principally through sale.

For an asset (or disposal group) to be classified as held for sale:

(a) It must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets (or disposal groups) ;(b) Its sale must be highly probable; (c) It must genuinely be sold, not abandoned.

The standard requires that non-current assets (and, in a 'disposal group', related liabilities and current assets,) meeting its criteria to be classified as held for sale be:

(a) Measured at the lower of carrying amount and fair value less costs to sell, with depreciation on them ceasing; and

(b) Presented separately on the face of the statement of financial position with the results of discontinued operations presented separately in the statement of comprehensive income.

(26-2) Discontinued operation

Discontinued operation as 'a component of an entity that either has been disposed of, or is classified as held for sale, and

(a) Represents a separate major line of business or geographical area of operations,

(b) Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or

(c) Is a subsidiary acquired exclusively with a view to resale.

When presenting discontinued operations in the income statement, the comparative figures should be adjusted as if the operations had been discontinued in the comparative period.

(27) Comparatives

Comparative figures have been adjusted to conform to changes in presentation in the current period where necessary.

Standards Issued but not yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4). IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. This standard is not applicable to the Bank.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.
Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'
The amendments to the definition of material is not expected to have a significant impact on the Bank's consolidated financial statements.

Changes in Liabilities Arising from Financing Activities:

Cash Flow from Financing Activities	1/1/2020	New loans	Settlement	FX	Capital Increase	31/12/2020
Long term loans	3,272,746	4,580,526	(44,446)	(61,880)	-	7,746,946
Issued and paid in capital	14,690,821	-	-	-	85,992	14,776,813
Total	17,963,567	4,580,526	(44,446)	(61,880)	85,992	22,523,759

Cash Flow from Financing Activities	1/1/2019	New loans	Settlement	FX	Capital Increase	31/12/2019
Long term loans	3,699,637	-	(63,851)	(363,022)	-	3,272,764
Issued and paid in capital	11,618,011	-	-	-	3,072,810	14,690,821
Total	15,317,648	-	(63,851)	(363,022)	3,072,810	17,963,585

3 . Net interest income

	Dec.31, 2020 EGP Thousands	Dec.31, 2019 EGP Thousands
Interest and similar income		
- Banks	2,204,633	3,308,719
- Clients	12,696,383	14,630,606
Total	14,901,016	17,939,325
Treasury bills and bonds	26,597,741	24,277,671
Repos	4,067	-
Financial investments at amortized cost and fair valuethrough OCI	693,411	383,961
Total	42,196,235	42,600,957
Interest and similar expense		
- Banks	(458,210)	(597,877)
- Clients	(16,070,642)	(19,893,262)
Total	(16,528,852)	(20,491,139)
Repos	(209,975)	(232,055)
Finance expense related to financial lease contract	(83,783)	(31,740)
Other loans	(284,988)	(299,144)
Total	(17,107,598)	(21,054,078)
Net interest income	25,088,637	21,546,879

4 . Net fee and commission income

	Dec.31, 2020 EGP Thousands	Dec.31, 2019 EGP Thousands
Fee and commission income		
Fee and commissions related to credit	1,189,068	1,258,672
Custody fee	159,082	141,907
Other fee	1,711,114	2,051,109
Total	3,059,264	3,451,688
Fee and commission expense		
Other fee paid	(983,450)	(1,170,893)
Total	(983,450)	(1,170,893)
Net income from fee and commission	2,075,814	2,280,795

5 . Dividend income

	Dec.31, 2020 EGP Thousands	Dec.31, 2019 EGP Thousands
Financial assets at fair value through P&L	10,596	7,307
Financial assets at fair value through OCI	36,879	46,116
Associates	2,700	-
Total	50,175	53,423

6 . Net trading income

	Dec.31, 2020 EGP Thousands	Dec.31, 2019 EGP Thousands
Profit from foreign exchange transactions	445,272	749,591
Profit (Loss) from forward foreign exchange deals revaluation	37,439	(85,657)
Loss from interest rate swaps revaluation	(5,744)	(29,521)
Profit (Loss) from currency swap deals revaluation	(5,577)	3,238
Profit (Loss) from financial assets at fair value through P&L	11,616	50,408
Total	483,006	688,059

7 . Administrative expenses

	Dec.31, 2020 EGP Thousands	Dec.31, 2019 EGP Thousands
Staff costs		
Wages and salaries	**(2,371,973)**	(2,140,136)
Social insurance	**(123,625)**	(95,408)
Other benefits	**(1,127,575)**	(1,465,513)
Stock option	**(552,438)**	(464,539)
Depreciation *	**(924,667)**	(525,170)
Maintenance	**(565,799)**	(468,897)
Premises & Vehicles improvements and maintenance	**(541,389)**	(573,558)
Internship expense	**(13,187)**	(45,719)
Board Meeting & Director's expense	**(2,987)**	(2,743)
Other administrative expenses	**(653,663)**	(686,877)
Total	**(6,877,303)**	(6,468,560)

*include depreciation related to financial lease contracts

8 . Other operating (expenses) income

	Dec.31, 2020 EGP Thousands	Dec.31, 2019 EGP Thousands
Forex (losses) gains from non-trading assets and liabilities revaluation	**24,845**	91,769
Gains from selling property, plant and equipment	**1,094**	1,439
Charges of Provisions	**(1,287,326)**	(361,649)
Care Service & Cash Trans. Expense	**(147,144)**	(237,519)
Regulatory Expense	**(372,017)**	(407,185)
Consultants	**(55,369)**	(48,784)
IT communications	**(195,057)**	(238,308)
Utilities	**(131,642)**	(150,728)
Other income/expenses	**(338,207)**	(347,582)
Total	**(2,500,823)**	(1,698,547)

9 . Impairment release (charges) for credit losses

	Dec.31, 2020 EGP Thousands	Dec.31, 2019 EGP Thousands
Loans and advances to customers	**(4,806,518)**	(1,610,878)
Due from banks	**(7,081)**	(9,503)
Financial investments	**(205,182)**	184,921
Total	**(5,018,781)**	(1,435,460)

10 . Income Taxes

10.1 . Adjustments to calculate the effective tax rate

	Dec.31, 2020 EGP Thousands	Dec.31, 2019 EGP Thousands
Profit before tax	**14,333,195**	14,767,380
Tax rate	**22.5%**	22.5%
Income tax based on accounting profit	**3,224,969**	3,322,660
Add / (Deduct)		
Non-deductible expenses	**3,026,120**	1,864,075
Tax exemptions	**(4,224,616)**	(1,493,292)
10% Withholding tax	**2,973,512**	1,040,443
Income tax / Deferred tax	**4,999,985**	4,733,886
Effective tax rate	**34.88%**	32.06%

10.2 . Deferred tax assets (liabilities)

Deferred tax assets and liabilities are attributable to the following:

			Balance at 31 December 2020		
	Net balance at 1 January	OCI	Recognised in Income statement	Net	Deferred tax assets/Liability
Fixed assets (depreciation)	(79,162)	-	(5,256)	(84,418)	(84,418)
Provisions (excluded loan loss, contingent liabilities and income tax provisions)	146,675	-	63,851	210,526	210,526
Intangible Assets & Good will	-	-	-	-	-
Other investments impairment	76,407	-	21,518	97,925	97,925
Reserve for employee stock ownership plan (ESOP)	216,709	-	22,836	239,545	239,545
Interest rate swaps revaluation	6,642	-	(5,350)	1,292	1,292
Trading investment revaluation	(35,477)	-	15,418	(20,059)	(20,059)
Forward foreign exchange deals revaluation	18,545	-	(25,584)	(7,039)	(7,039)
Total Assets (Liabilities)	350,339	-	87,433	437,772	437,772

	Assets (Liabilities) Dec.31, 2020 EGP Thousands	Assets (Liabilities) Dec.31, 2019 EGP Thousands
Movement of Deferred Tax Assets and Liabilities:		
Beginning Balance	350,339	308,370
Effect of applying IFRS 9	-	136,491
Additions / disposals	87,433	(94,522)
Ending Balance	437,772	350,339

			Balance at 31 December 2019		
	Net balance at 1 January	OCI	Recognised in Income statement	Net	Deferred tax assets/Liability
Fixed assets (depreciation)	(49,750)	-	(29,412)	(79,162)	(79,162)
Provisions (excluded loan loss, contingent liabilities and income tax provisions)	53,552	-	93,123	146,675	146,675
Intangible Assets & Good will	53,657	-	(53,657)	-	-
Other investments impairment	65,788	-	10,619	76,407	76,407
Reserve for employee stock ownership plan (ESOP)	166,122	-	50,587	216,709	216,709
Interest rate swaps revaluation	4,695	-	1,947	6,642	6,642
Trading investment revaluation	7,394	-	(42,871)	(35,477)	(35,477)
Forward foreign exchange deals revaluation	6,912	-	11,633	18,545	18,545
Total Assets (Liabilities)	308,370	-	41,969	350,339	350,339

Recognised deferred tax assets

Recognition of deferred tax assets is based on management's profit forecasts (which are based on the available evidence, including historical levels of profitability), which indicates that it is probable that the Group's entities will have future taxable profits against which these assets can be utilised.

11 . Earning per share

(a) Basic earnings per share

	Earning per share	
	Dec.31, 2020	Dec.31, 2019
	EGP Thousands	EGP Thousands
(i) Profit attributable to ordinary shareholders (basic)		
Net profit for the year attributable to equity holders of the bank	9,335,044	10,033,494
(ii) Weighted - average number of ordinary shares (basic)		
Average number of shares	1,467,555	1,467,555
Basic earning per share	6.36	6.84
(b) Diluted earnings per share		
(i) Profit attributable to ordinary shareholders (diluted)		
Net profit for the year attributable to equity holders of the bank	9,335,044	10,033,494
(ii) Weighted - average number of ordinary shares (diluted)		
Issued ordinary shares	1,467,555	1,467,555
Effect of ESOP program	6,111	6,111
Weighted - average number of ordinary shares diluted	1,473,666	1,473,666
Diluted earning per share	6.33	6.81

12 . Bank's share in the profits of associates

	Dec.31, 2020 EGP Thousands	Dec.31, 2019 EGP Thousands
- International Co. for Security and Services (Falcon)	10,767	1,135
- Fawry Plus	8,537	-
- Al Ahly Computer	3,122	-
Total	22,426	1,135

13 . Cash and balances at the central bank

	Dec.31, 2020 EGP Thousands	Dec.31, 2019 EGP Thousands
Cash	6,023,849	5,876,652
Obligatory reserve balance with CBE		
Current accounts	27,744,700	22,397,310
Total	33,768,549	28,273,962

14 . Due from banks*

	Dec.31, 2020 EGP Thousands	Dec.31, 2019 EGP Thousands
Current accounts	2,950,002	3,704,142
Deposits	84,500,488	24,666,041
Expected credit losses	(24,189)	(16,817)
Total	87,426,301	28,353,366
Central banks	54,425,073	9,945,682
Local banks	1,681,684	1,348,559
Foreign banks	31,319,544	17,059,125
Total	87,426,301	28,353,366
Non-interest bearing balances	19,515	1,460
Floating interest bearing balances	8,872,165	9,085,184
Fixed interest bearing balances	78,534,621	19,266,722
Total	87,426,301	28,353,366
Current balances	87,426,301	28,353,366
Total	87,426,301	28,353,366

* Due from banks

	Stage 1
Gross due from banks	87,450,490
Expected credit losses	(24,189)
Net due from banks	**87,426,301**

* All due from banks is high grade

Below is an analysis of outstanding balance:

Balance	Rating
87,426,301	B-

15 . Loans and advances to banks, net

	Dec.31, 2020 EGP Thousands	Dec.31, 2019 EGP Thousands
Time and term loans	786,605	629,780
Impairment provision	(9,625)	(4,516)
Net	776,980	625,264
Current balances	776,980	625,264
Net	776,980	625,264

Analysis for impairment provision of loans and advances to banks

	Dec.31, 2020 EGP Thousands	Dec.31, 2019 EGP Thousands
Beginning Balance	(4,516)	(3,246)
Addition during the year	(5,109)	(1,270)
As of 31 December 2020	(9,625)	(4,516)

Below is an analysis of outstanding balance:

Dec.31, 2020	
Balance	**Rating**
776,980	B-

Dec.31, 2019	
Balance	Rating
625,264	B-