البنك الأهلي المصري
(المملكة المتحدة)

NATIONAL BANK OF EGYPT (UK) LIMITED

ANNUAL REPORT
2011

National Bank of Egypt (UK) Limited

Board of Directors
Dr. Farouk Abdel Baki El-Okdah – Chairman
Mr. Kazem Hassan Barakat – Deputy Chairman and Managing Director
Mr. Mokhtar Abdel Gawad El Shennawy – Deputy Managing Director
Mr. Tarek Hassan Nour Eldin Aly Amer
Mr. Hussein Abdel Aziz Hussein (term of office expired 18th December 2010)
Mr. Christopher Hayward Davis
Dr. Ziad Ahmed Bahaa-Eldin
Mr. Raymond Seamer
Mr. Sherif Mohamed Aly Elwy
Mr. El Sayed Mohamed Marzouk El Kosayar (appointed 18th December 2010)

Company Secretary
Mr. Reg Egan

Management Committee
Dr. Farouk Abdel Baki El-Okdah – Chairman
Mr. Tarek Hassan Nour Eldin Aly Amer
Mr. Kazem Hassan Barakat – Deputy Chairman and Managing Director
Mr. Mokhtar Abdel Gawad El Shennawy – Deputy Managing Director
Mr. Ismail Saleh – General Manager

Management Committee Secretary
Mr. Ahmed Maksoud – Deputy General Manager

Audit Committee
Mr. Christopher Hayward Davis – Chairman
Mr. Raymond Seamer
Mr. Hisham Okasha

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

Solicitors
Denton Wilde Sapte
One Fleet Place
London EC4M 7WS

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

Registered Office
Trafalgar House
11 Waterloo Place
London SW1Y 4AU

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

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SWIFT: NBEGGB2L

Chairman's statement

On behalf of the Board of Directors it is my privilege to present the annual report and audited financial statements of National Bank of Egypt (UK) Limited for the year ended 30th June 2011. As the global economic environment remained fragile over the last 12 months, the Bank continued to implement the strategy that was put in place during 2009 to further strengthen its sound asset quality, stable liquidity and strong capital resources.

The year under review was another challenging year; the global economy showed some signs of recovery, with strong growth in emerging markets, but there was still a great deal of uncertainty as to whether or not that recovery was sustainable and the banking sector in particular still experienced many challenges. Many extraordinary austerity measures were undertaken by several governments and central banks around the world in order to reduce their deficits and public debts and to pull out of the economic slowdown.

Against this background the Bank has delivered improved financial results including a pre-tax profit of £8.2 million (2010: £7 million), an increase of 17% and a profit after tax of £5.8 million (2010: £5 million), an increase of 15% over its levels a year earlier, which reflected the underlying quality and strength of its business model. The bank enjoys a stable funding base, a strong liquidity position, a solid capital ratio of 35% with a significant capital buffer and a sound asset quality.

In the context of that challenging environment, the regulatory landscape has continued to shift dramatically whereby the Government driven restructuring of the Financial Services Authority (FSA) is progressing with the establishment of the Prudential Regulation Authority (PRA) and the Consumer Protection and Markets Authority that are to be in place by 2012. The Bank has responded to these changes in particular to the new capital and liquidity requirements, a new remuneration code, bribery act and regulations and significant restrictions on exposures to single entities and connected clients including banks.

Throughout the year, management continued the successful implementation of high standard risk management measures which were designed to strengthen the ability to meet future challenges and to protect the interest of the Bank's customers and its stakeholders.

Looking ahead and despite the clear challenges in this financial year the Bank is well positioned to take advantage of the potential opportunities in the coming year and pursue its business objectives in a prudent and focused manner.

On behalf of the Board of Directors I would like to express my gratitude to our shareholders for their support, and the bank's staff for their efforts and finally our customers for their continued loyalty and trust.

Dr. Farouk A. El-Okdah
Chairman

Directors' report and financial statements

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Directors' report

The Directors of National Bank of Egypt (UK) Limited ("the Company") have pleasure in presenting their annual report, together with the financial statements and auditor's report, for the year ended 30 June 2011.

Principal activities

National Bank of Egypt (UK) Limited was granted on 24 December 1992 the status of authorised institution under the UK Banking Act 1987 (since superseded by the Financial Services and Markets Act of 2000). The Company is a wholly-owned subsidiary of National Bank of Egypt, 1187 Corniche El Nil, Cairo, Egypt.

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

Business Review

As at 30 June 2011, the Company had total assets of £1,420 million, which was a decrease of £32 million compared to 30 June 2010. The Company made a profit of £5.8 million after tax and provisions, compared to £5.0 million in the previous year. The economic environment continued to be difficult in 2010/2011 following the market turmoil that started in 2008 in the UK and many other major economies. During the year under review, no new impairments were identified and therefore no additional provisions were made, although there were some adjustments to existing provisions, resulting in a net write-back of £1.8 million to the profit and loss account.

The Company's traditional strengths of stable funding, good liquidity and strong capitalisation were maintained throughout the year. Despite the clear challenges in this financial year the Company is well positioned to take advantage of the potential opportunities in the coming year and pursue its business objectives in a prudent and focused manner.

Financial results

The financial statements for the year ended 30 June 2011 are shown on pages 10 to 29. The profit after taxation for the year amounts to £5,792,999 (2010: £5,031,012).

The Directors recommend that no dividend be paid this year (2010: £nil) and that the profit is retained in the Profit and Loss account.

Financial Highlights 2010/11

Year on year, operating income at £14,269,121 (2010: £13,145,218) was 9% higher than last year due to the increase in non-interest income by 26% to £6,334,097 (2010: £5,017,372) reflecting the improved volume of trade finance activities. Meanwhile, net interest income declined to £7,935,024 (2010: £8,127,846) or 2% lower than last year due to the continued lower interest rate environment.

Non-interest expense increased by only 0.5% from £6,488,848 in 2010 to £6,519,136 in 2011, due to the fact that the bank continued to focus on cost control. A number of major projects caused the slight increase.

During the year, the Bank fully utilised the brought forward tax losses against its corporation tax liability.

Total assets, at £1,419,560,329 were £32,761,264 lower than the previous year.

Risk Management

The Company has an established Risk Management Function and controls to ensure that all of its principal risks are identified and that policies and monitoring processes are in place to mitigate them. The Company's risks are managed taking into account several main principles including management responsibilities for the management of risk and controls, assessment and measurement of all identified risks with acceptable balance between risk versus return, and undertaking an annual review of risk policies and the control framework to ensure optimal capital allocation and utilisation for relevant risks.

The Company is primarily exposed to credit risk, interest rate risk, foreign currency risk, liquidity risk and operational risk. Various investment strategies and derivatives are used to mitigate these risks and optimise investment performance. The Company operates internationally and it is primarily exposed to credit risk, being the risk of loss that may occur from the failure of any obligor to make the required repayments of exposures due to the Company as and when they fall due.

Under the Capital Requirements Directive, the Company has adopted the Standardised Approach to credit risk and the Basic Indicator Approach to operational risk. Details of the Company's financial risk management objectives and policies, including those in respect of financial instruments, and details of the Company's indicative exposure to risks are given in note 18. There was no change to the authorised and paid up capital during the year and the Company remains adequately capitalised with a strong capital buffer above the approved Individual Capital Guidance ("ICG"). The Company undertakes an internal assessment of the amount of capital which it requires to support its activities (the "ICAAP" process). This assessment has identified a number of other risks faced by the Company, which do not attract capital under the Pillar 1 rules. The Company has allocated additional capital for these Pillar 2 risks ("the Pillar 2 capital requirements") totalling £27 million at 30 June 2011 (2010: £32million). The total capital requirement of the Company is determined as the sum of the Pillar 1 and the Pillar 2 capital requirements. The Company was in compliance with the ICG requirements throughout the year including the new requirements for Capital Planning Buffer ("CPB").

Under the new liquidity regulations the Company has implemented the underlining requirements for liquidity risk management including systems and controls. During the year under review the Company's approach to the liquidity risk management was documented in a comprehensive Individual Liquidity Adequacy Assessment ("ILAA") document, drawn up in accordance with regulatory requirements. This document describes the Company's liquidity risk tolerance, including the methodologies for ensuring that risk is restricted within that tolerance. It analyses the sources of liquidity risk, and describes the assumptions and approach taken to stress testing in light of those risks. It also incorporates the Company's liquidity contingency plans, liquid asset buffer amount and composition, and identifies those risks which have the potential to cause the Company to fail (reverse stress tests), as demanded by regulatory requirements.

At 30 June 2011, the Board of Directors was satisfied that the Company's liquidity resources were sufficient to survive the stresses identified in the ILAA document.

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

Customer Services

The Company offers banking services in the UK to Egyptian nationals, Egyptian embassies and related offices and Egyptian corporate customers operating 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.

Treasury

Treasury activity during the year has continued to focus primarily on liquidity management, including the management of a portfolio of investments to assist with liquidity and enhance income, despite the continuing difficult market conditions.

The Treasury area also transacts within pre-determined risk limits in the foreign exchange of all major currencies.

Documentary Credits

These activities have been 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.

Directors and company secretary

The names of the Directors and Company Secretary as at the date of this report and those who served during the year (except as stated otherwise) are as follows:

Dr. Farouk Abdel Baki El-Okdah, Chairman
Mr. Kazem Hassan Barakat, Deputy Chairman and Managing Director
Mr. Mokhtar Abdel Gawad El Shennawy, Deputy Managing Director
Mr. Tarek Hassan Nour Eldin Aly Amer
Mr. Hussein Abdel Aziz Hussein (term of office expired 18 December 2010)
Mr. Christopher Hayward Davis
Dr. Ziad Ahmed Bahaa-Eldin
Mr. Raymond Seamer
Mr. Sherif Mohamed Aly Elwy
Mr. El Sayed Mohamed Marzouk El Kosayar (appointed 18 December 2010)

Mr. Reg Egan (Company Secretary)

Directors' interests

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of the Company.

Share capital

During the year, the Company's authorised share capital remained unchanged at £200,000,000. As at the reporting date Issued Share Capital, fully paid, amounted to £130,000,000 (2010: £130,000,000). Details of the Company's share capital are given in note 15.

Employees

As at 30 June 2011 the Company had 51 (2010: 54) permanent employees. Employees' compensation is related to performance and the Company encourages the involvement of all employees in the overall performance and profitability of the Company through an objectives-based appraisal system which focuses on qualitative as well as quantitative factors. The Company has a pension scheme whereby members are entitled to a minimum of 10% contribution of their basic salary to the Group Personal Pension scheme. All employees enjoy life insurance cover to the extent of 4 times their basic salary. The Company also has a private medical insurance scheme, which covers employees and their dependents.

The Company believes that it enjoys a good relationship with its staff.

Political and charitable contributions

The Company made no political contributions (2010: £nil) and charitable contributions of £1,480 (2010: £1,200) during the year.

Going Concern

The financial statements are prepared on a going concern basis. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions covering principal activities, strategic directions and challenges and uncertainties together with a review of the income statement, financial position and risk profile. In addition the Directors have considered the future projections of profitability, cash flows, asset quality, the outcome of various stress tests and capital resources in making their assessment. The Company is a wholly-owned subsidiary of National Bank of Egypt and the parent has shown continued support during the year by continuing to provide a line of credit amounting to $30 million. The latter is in the form of a subordinated debt and is for the term of 10 years, which was drawn down for the first time in November 2010. The Bank is liable to pay interest at Libor plus 2% on any drawn amount.

The Directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future.

Auditor

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

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

A resolution to reappoint Deloitte LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Reg Egan
Company Secretary

Trafalgar House
11 Waterloo Place
London SW1Y 4AU

23 September 2011

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

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

Independent auditors' report to the members of National Bank of Egypt (UK) Limited

We have audited the financial statements of National Bank of Egypt (UK) Limited for the year ended 30 June 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditors

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Manbhinder Rana ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

Date: 23 September 2011

Profit and loss account

for the year ended 30 June 2011

	Note	2011 £	2011 £	2010 £	2010 £
Interest receivable:					
Interest receivable and similar income arising from debt securities		**10,335,519**		11,871,979	
Other interest receivable and similar income		**7,085,512**		6,792,289	
			17,421,031		18,664,268
Interest payable			**(9,486,007)**		(10,536,422)
Net interest income			**7,935,024**		8,127,846
Fees and commissions receivable			**6,168,120**		4,939,601
Foreign exchange dealing profits			**165,977**		77,771
Operating income			**14,269,121**		13,145,218
Administrative expenses	2		**(3,910,756)**		(3,772,796)
Depreciation	10		**(64,862)**		(61,326)
Other operating charges			**(2,543,518)**		(2,654,726)
			7,749,985		6,656,370
Net write-back of provisions for bad and doubtful debts	8		**1,850,340**		–
(Loss)/gains on disposals of debt securities			**(1,401,954)**		352,952
Profit on ordinary activities before tax	3		**8,198,371**		7,009,322
Tax charge profit on ordinary activities	4		**(2,405,372)**		(1,978,310)
Profit on ordinary activities after tax			**5,792,999**		5,031,012

There is no difference between the retained profit for the year and the retained profit on an historical cost basis.

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

There were no other recognised gains and losses in the current or prior years other than the profit for the year. Accordingly, no statement of total recognised gains or losses has been prepared.

The notes on pages 13 to 29 form part of these financial statements.

Balance sheet

at 30 June 2011

	Note	2011 £	2011 £	2010 £	2010 £
Assets					
Cash and balances at central banks			**219,976**		212,140
Loans and advances to banks	6		**611,436,089**		547,980,095
Loans and advances to customers	7		**84,294,716**		76,026,935
Debt securities	9		**719,528,660**		813,147,037
Tangible fixed assets	10		**212,992**		139,624
Other assets	11		**998,236**		10,436,269
Prepayments and accrued income			**2,869,660**		4,379,493
Total assets			**1,419,560,329**		1,452,321,593
Liabilities and shareholders' funds					
Deposits by banks	12		**212,386,112**		217,191,968
Customer accounts	13		**1,052,446,860**		1,105,039,628
Other liabilities	14		**4,733,516**		4,520,503
Accruals and deferred income			**1,607,445**		1,647,909
Subordinated debt	22		**18,671,812**		–
Shareholders' funds:					
Called up share capital	15	**130,000,000**		130,000,000	
Profit and loss account		**(285,416)**		(6,078,415)	
			129,714,584		123,921,585
Total liabilities and shareholders' funds			**1,419,560,329**		1,452,321,593

	Note	2011 £	2010 £
Memorandum items			
Contingent liabilities:			
Acceptances and endorsements		**499,431**	777,167
Guarantees		**6,357,235**	4,876,165
Commitments:			
Other commitments	16	**50,226,429**	59,299,579
		57,083,095	64,952,911

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 2011 and were signed on its behalf by:

Director **Dr. Farouk Abdel Baki El-Okdah**
Chairman

Director **Mr. Kazem Hassan Barakat**
Deputy Chairman and Managing Director

The notes on pages 13 to 29 form part of these financial statements.

Reconciliation of movements in shareholders' funds

at 30 June 2011

	Called up share capital £	Profit and loss account £	Total £
As at 1 July 2009	130,000,000	(11,109,427)	**118,890,573**
Profit on ordinary activities after tax	–	5,031,012	**5,031,012**
As at 30 June 2010	**130,000,000**	**(6,078,415)**	**123,921,585**
Profit on ordinary activities after tax	–	5,792,999	**5,792,999**
As at 30 June 2011	**130,000,000**	**(285,416)**	**129,714,584**

The notes on pages 13 to 29 form part of these financial statements.

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements:

(a) Basis of preparation and accounting convention

The financial statements have been prepared under the historical cost convention modified to include the revaluation of certain fixed assets and in accordance with applicable United Kingdom accounting standards.

Going Concern

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

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

(b) Cash flow statement

As a wholly-owned subsidiary whose parent produces publicly available accounts (see note 23), the Company has taken advantage of the exemption available within FRS 1 (revised), "Cash Flow Statements", and does not produce a cash flow statement.

(c) Loans and advances

Loans and advances are stated at cost after deduction of amounts which in the opinion of the Directors are required as specific or general provisions. Where loans have been acquired at a premium or discount, these premiums and discounts are amortised through the profit and loss account from the date of acquisition to the date of maturity on a straight-line basis.

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

Specific provisions

Specific provisions represent the quantification of the actual or expected 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. The amount of specific provision raised is the Company's estimate of the amount needed to reduce the carrying value of the asset to its expected net realisable value.

General provisions

General provisions augment specific provisions and provide cover for loans and debt securities on which there is no known impairment at the balance sheet date but which may be identified as impaired at some time in the future. The general provision is determined by taking into account the structure and risk of the Company's loan and debt securities portfolio. General provisions are deducted from loans and advances and debt securities in the balance sheet.

1 Accounting policies (continued)

(d) Securities

Securities intended for use on a continuing basis in the Company's activities are classified as investment securities and are stated at cost adjusted for any amortisation of premiums and discounts arising on acquisition and less provision for any permanent diminution in value.

Where dated investment securities have been purchased at a premium or discount, these premiums and discounts are amortised through the profit and loss account from the date of purchase to the date of maturity on a straight-line basis.

(e) 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.

(f) Tangible fixed assets

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

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

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

(g) Interest income and expense

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

(h) Fees and commission receivable

Fees and commissions are taken to income as received, or when debited to a customer's account.

(i) Fees and commission payable

Fees and commissions payable on borrowings are expensed to the profit and loss account over the life of the borrowing.

(j) 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 FRS 19.

1 Accounting policies (continued)

(k) Pension costs

The Company operates a defined contribution pension scheme. Contributions to the scheme are charged to the profit and loss account when paid.

(l) Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

(m) Off-balance sheet financial derivatives

Off-balance sheet financial derivatives are entered into by the Company for hedging purposes to reduce the risks arising on transactions entered into in the normal course of business. The income and expense arising from off-balance sheet financial derivatives entered into for hedging purposes is recognised in the accounts in accordance with the accounting treatment of the underlying transactions or transactions being hedged. All off-balance sheet financial derivatives are held for the period in which the underlying hedge matures.

2 Administrative expenses

	2011	2010
	£	£
Staff costs:		
Wages and salaries	**2,919,671**	2,786,167
Social security costs	**365,549**	347,011
Other pension costs	**347,219**	360,953
Other staff costs	**264,007**	257,037
Other administrative expenses	**14,310**	21,628
	3,910,756	3,772,796

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

The average number of persons employed by the Company during the year was 56 (2010: 57).

3 Profit/(Loss) on ordinary activities before tax

(a) Is stated after charging:

	2011	2010
	£	£
Audit Fees		
Fees payable to the Company's auditor for the audit of Company's annual accounts	**75,500**	68,000
Total audit fees	**75,500**	68,000
Non-audit Fees		
Tax Services	**8,250**	15,072
All other services	**10,000**	–
Total non-audit fees	**18,250**	15,072
Operating lease rentals		
Operating lease rentals were:		
Land and building	**448,508**	480,816
Others	**7,312**	7,312
Total operating lease rentals	**455,820**	488,128

(b) Segmental reporting

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

4 Taxation

(a) Analysis of tax charge in the year

	2011	2010
	£	£
Current tax		
UK Corporation tax at 27.5% (2010: 28%) on the taxable profit for the year	**507,509**	–
	507,509	–
Deferred tax charge		
Income statement charge	**1,765,710**	1,991,206
Difference in relation to tax rate change	**103,890**	–
Adjustment to prior year deferred tax	**28,263**	(12,896)
	1,897,863	1,978,310
Tax charge on profit on ordinary activities	**2,405,372**	1,978,310

4 Taxation *(continued)*

(b) Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2010: lower) than the standard rate of corporation tax in the UK of 27.5% (2010: 28%). Differences are explained below.

	2011	2010
	£	£
Current tax reconciliation		
Profit on ordinary activities before tax	**8,198,371**	7,009,322
Current tax at average UK Corporation Tax rate of 27.5% (2010: 28%)	**2,254,667**	1,962,610
Tax effects of:		
Expenses not deductible for tax purposes	**18,641**	38,563
Depreciation for year in excess of capital allowances	**(28,036)**	(6,890)
Utilisation of tax losses	**(1,737,763)**	(1,991,206)
Tax loss carried forward adjustment	**–**	(3,077)
Total current tax charge (see 4 (a) above)	**507,509**	–

(c) Factors that may affect future tax charge

The Directors of the Company are not aware of any factors which will have a material effect upon future tax charges apart from reversal of temporary differences.

(d) Deferred tax asset

	2011	2010
	£	£
At the beginning of the year	**2,831,086**	4,809,396
Income statement charge	**(1,765,710)**	(1,991,206)
Difference in relation to tax rate charge	**(103,890)**	–
Prior Year adjustment	**(28,263)**	12,896
As at end of the year (see note 11)	**933,223**	2,831,086
The deferred tax asset consists of the following amounts:		
Tax losses carried forward	**–**	1,772,346
Timing difference on creation of general provision for bad and doubtful debts	**910,000**	980,000
Capital allowances	**23,223**	78,740
Net Deferred tax asset (see note 11)	**933,223**	2,831,086

At the end of the year, all deferred tax assets were calculated at 26%. However, the rate is due to be reduced to 25% on 1 April 2012 – the amount of difference is considered to be immaterial and will be adjusted in the 2011/12 financial year.

5 Emoluments of directors

	2011	2010
	£	£
Directors' fees and emoluments	**801,837**	754,541

There is no Director accruing benefits under a money purchase pension scheme (2010: None). The total remuneration and benefits of the highest paid Director were £225,942 (2010: £214,498).

6 Loans and advances to banks

(a) Residual maturity

	2011	2010
	£	£
Banks		
Past due	**13,995,941**	7,619,899
Repayable on demand	**25,151,331**	14,316,599
	39,147,272	21,936,498
Other loans and advances with remaining maturity:		
5 years or less but over 1 year	**13,754,501**	23,721,865
1 year or less but over 3 months	**18,007,383**	33,486,097
3 months or less	**510,900,063**	438,097,799
	581,809,219	517,242,259
Related Parties		
Other loans and advances with remaining maturity:		
3 months or less	**44,812,348**	48,073,714
Total loans and advances to banks	**626,621,567**	565,315,973
Bad and doubtful debt provision – general (note 8)	**(500,000)**	(1,300,000)
Bad and doubtful debt provision – specific (note 8)	**(14,685,478)**	(16,035,878)
Total	**611,436,089**	547,980,095

b) Concentrations of exposure

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

	2011	2010
	£	£
Total gross advances to banks located in:		
Europe and North America	**528,482,466**	449,922,910
Middle East and Egypt	**68,032,422**	86,924,493
Rest of World	**30,106,679**	28,468,570
Total	**626,621,567**	565,315,973

7 Loans and advances to customers

(a) Residual maturity

	2011	2010
	£	£
Past due	**5,070,830**	–
Repayable on demand or at short notice	**587,528**	8,640,551
Other loans and advances with remaining maturity		
5 years or less but over 1 year (includes staff loans)	**35,746,916**	40,253,804
1 year or less but over 3 months	**5,540,561**	29,314,796
3 months or less	**40,133,029**	688,546
Sub-total	**87,078,864**	78,897,697
Bad and doubtful debt provision – general (note 8)	**(250,000)**	(200,000)
Bad and doubtful debt provision – specific (note 8)	**(2,534,148)**	(2,670,762)
Total	**84,294,716**	76,026,935

(b) Concentrations of exposure

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

	2011	2010
	£	£
Total gross advances to customers located in:		
Europe and North America	**17,398,703**	27,010,418
Middle East and Egypt	**64,996,627**	34,377,013
Rest of World	**4,683,534**	17,510,266
Total	**87,078,864**	78,897,697

8 Provisions for bad and doubtful debts

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

	Specific	General	Total
	£	£	£
Provisions at 30 June 2010	41,224,771	3,500,000	**44,724,771**
Additions during the year	866,756	–	**866,756**
Reversals of provision during the year	(2,717,096)	–	**(2,717,096)**
Write-off in year	(4,179,995)	–	**(4,179,995)**
Foreign exchange movement	146,067	–	**146,067**
Provisions at 30 June 2011	**35,340,503**	**3,500,000**	**38,840,503**
Of which:			
Provision against loans and advances to banks	14,685,478	500,000	**15,185,478**
Provision against loans and advances to customers	2,534,148	250,000	**2,784,148**
Provision against debt securities – banks	18,120,877	2,500,000	**20,620,877**
Provision against debt securities – customers (corporate)	–	250,000	**250,000**
	35,340,503	**3,500,000**	**38,840,503**

(b) Non-performing loans

	2011	2010
	£	£
Loans on which interest has been suspended (net of suspended interest)	**25,700,881**	33,043,587
Provisions for bad and doubtful debts	**(17,219,626)**	(18,706,640)
Total	**8,481,255**	14,336,947

(c) Impaired Debt Securities

	2011	2010
	£	£
Debt Securities on which interest has been suspended (net of suspended interest)	**22,961,241**	30,974,049
Provisions for bad and doubtful debts	**(18,120,877)**	(22,518,131)
Total	**4,840,364**	8,455,918

9 Debt securities

	2011 £	2010 £
Investment securities		
Issued by public bodies – government securities	**124,770,000**	150,000,000
Other securities	**610,560,115**	687,665,168
	735,330,115	837,665,168
Related Parties	**5,069,422**	–
	740,399,537	837,665,168

	2011 £	2010 £
Investment securities listing information		
Listed on a UK recognised investment exchange	**176,099,881**	222,912,852
Other listed	**265,125,118**	322,417,411
Unlisted	**299,174,538**	292,334,905
	740,399,537	837,665,168

	2011 £	2010 £
Investment securities by maturity		
Past due	**22,961,241**	22,104,046
Due within one year	**431,917,184**	337,466,589
Due one year and over	**285,521,112**	478,094,533
	740,399,537	837,665,168
Impairment allowance - specific (note 8)	**(18,120,877)**	(22,518,131)
Impairment allowance - general (note 8)	**(2,750,000)**	(2,000,000)
	719,528,660	813,147,037

Investment securities – movement	Nominal value £	Net premium/ (discount) £	Net book value £
Balance at 30 June 2010	814,479,453	(1,332,416)	**813,147,037**
Purchases	753,037,297	730,667	**753,767,964**
Sales/maturities	(842,330,795)	131,281	**(842,199,514)**
Amortisation of premium/(discount)	–	441,360	**441,360**
Exchange movements	(9,273,145)	(2,296)	**(9,275,441)**
Impairment allowance	3,647,254	–	**3,647,254**
Balance at 30 June 2011	**719,560,064**	**(31,404)**	**719,528,660**

9 Debt securities (*continued*)

	2011 £	2010 £
Investment securities – market value		
Issued by public bodies – government securities	**124,671,015**	149,916,000
Other securities	**591,706,096**	650,260,574
	716,377,111	800,176,574

The Directors do not intend to provide for temporary diminution in value of the debt securities.

10 Tangible fixed assets

	Leases of 50 years or more unexpired £	Computer equipment and other fixed assets £	Total £
Cost or valuation			
At 30 June 2010	259,277	1,737,398	1,996,675
Additions	–	138,230	138,230
Disposals	–	(20,955)	(20,955)
At 30 June 2011	259,277	1,854,673	2,113,950
Accumulated depreciation			
At 30 June 2010	187,476	1,669,575	1,857,051
Charge for year	13,927	50,935	64,862
Related to disposals	–	(20,955)	(20,955)
At 30 June 2011	201,403	1,699,555	1,900,958
Net book value			
At 30 June 2011	**57,874**	**155,118**	**212,992**
At 30 June 2010	71,801	67,823	139,624

11 Other assets

	2011	2010
	£	£
Deferred tax asset (see note 4(d))	**933,223**	2,831,086
Foreign exchange contracts	**55,165**	52,637
Others	**9,848**	7,552,546
	998,236	10,436,269

12 Deposits by banks

	2011	2010
	£	£
With agreed maturity dates or periods of notice, by remaining maturity:		
Banks		
1 year or less but over 3 months	**6,272,850**	12,639,550
3 months or less but not repayable on demand	**126,165,223**	129,532,977
	132,438,073	142,172,527
Repayable on demand	**8,967,358**	5,986,028
	141,405,431	148,158,555
Related Parties		
1 year or less but over 3 months*	**64,755,592**	67,699,880
Repayable on demand	**6,225,089**	1,333,533
	70,980,681	69,033,413
Total		
1 year or less but over 3 months*	**71,028,442**	80,339,430
3 months or less but not repayable on demand*	**126,165,223**	129,532,977
	197,193,665	209,872,407
Repayable on demand	**15,192,447**	7,319,561
	212,386,112	217,191,968

* The maturity analysis of related parties balance has been reassessed and the balance has been reclassified from 3 months or less but not payable on demand to 1 year or less but over 3 months.

13 Deposits by Customer accounts

	2011	2010
	£	£
With agreed maturity dates or periods of notice, by remaining maturity:		
5 years or less but over 1 year	**7,342,554**	427,322
1 year or less but over 3 months	**6,177,439**	30,475,214
3 months or less but not repayable on demand	**981,648,922**	1,032,135,437
Repayable on demand	**57,240,621**	42,001,655
	1,052,409,536	1,105,039,628
Related Parties		
Repayable on demand	**37,324**	–
	1,052,446,860	1,105,039,628

14 Other liabilities

	2011	2010
	£	£
Foreign exchange contracts	**50,077**	58,973
Taxation	**157,593**	–
Other creditors	**4,525,846**	4,461,530
	4,733,516	4,520,503

15 Called up Share Capital

	2011	2010
	£	£
Allotted, called up and fully paid		
Ordinary shares of £1 each	**130,000,000**	130,000,000

16 Commitments

(a) Other commitments

	2011	2010
	£	£
Letters of credit – confirmed	**28,128,679**	24,367,154
Letters of credit – participation purchased	**451,655**	7,676,363
Forward deposits taken	**21,643,367**	5,930,696
Forward assets purchased	**–**	20,030,714
Loan commitments (undrawn credit lines)	**2,728**	1,294,652
	50,226,429	59,299,579

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

	2011	2010
	£	£
Loan commitments – over one year	**–**	668,692
Loan commitments – one year or less	**2,728**	625,960
	2,728	1,294,652

Incurred on behalf of the parent company:

	2011	2010
	£	£
Letters of credit – confirmed	**3,784,320**	13,208,453

(b) Significant concentrations of contingent liabilities and commitments

Approximately 57% (2010: 90%) of total contingent liabilities and commitments relate to counterparties in Egypt.

(c) Foreign exchange contracts

In addition to the commitments disclosed above, there are outstanding forward foreign exchange contracts for purchases of £221,792,114 (2010: £297,348,636) and sales of £223,406,656 (2010: £289,658,128).

17 Operating lease commitments

As at 30 June 2011, the Company had the following non-cancellable annual operating lease commitments:

	2011		2010	
	£ Land and buildings	**£ Other**	£ Land and buildings	£ Other
Operating leases which expire:				
Within 1 year	**460,790**	**–**	–	–
Between 1 and 5 years	**1,893,444**	**6,260**	–	13,572
More than 5 years	**2,235,279**	**–**	4,896,105	–
	4,589,513	**6,260**	4,896,105	13,572

18 Risk management

Through its banking services the Company is exposed to a range of risks. To manage these risks the Company established the following committees and functions to assist the Board of Directors: Management Committee; Audit Committee; Credit Committee; Asset and Liability Committee; Investment Committee; and Internal Audit.

Major risks

Credit risk

Credit risk arises principally on the lending, trade finance and investment activities of the bank. Credit risk policies are applied by the Credit Committee which operates within the authority granted to it by the Board. Country and counterparty limits are established and monitored on a daily basis, with a detailed review at least once a year. Management receives regular reports on the utilisation of these limits.

Interest rate risk

Interest rate risk primarily arises on the mis-matching of the bank's assets with its funding. This is monitored daily and is managed by the Asset and Liability Committee. Principal limits have been established for the Company's assets and liabilities when allocated to time bands by reference to the next contractual repricing date.

Risks may also be hedged through the use of interest rate swaps and forward rate agreements (note 19).

At 30 June 2011, the interest rate risk comprises:

	Less than 3 months £	**More than 3 months but not more than 6 months £**	**More than 6 months but not more than one year £**	**More than one year but not more than 5 years £**	**More than 5 years £**	**Non-interest bearing £**	**Total £**
Assets	1,129,130,827	208,206,817	31,228,053	36,408,975	2,728,646	11,857,011	1,419,560,329
Liabilities	(1,236,467,405)	(30,863,868)	(7,189,381)	(4,687,776)	–	(140,351,899)	(1,419,560,329)
Off-balance sheet items	35,342,316	(3,912,491)	–	(31,429,825)	–	–	–
Gap	(71,994,262)	173,430,458	24,038,672	291,374	2,728,646	(128,494,888)	–
Cumulative	(71,994,262)	101,436,196	125,474,868	125,766,242	128,494,888	–	–

18 Risk management *(continued)*

At 30 June 2010, the interest rate risk comprised:

	Less than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than one year	More than one year but not more than 5 years	Non interest bearing	Total
	£	£	£	£	£	£
Assets	1,242,616,347	117,752,594	5,007,678	65,577,351	21,367,623	1,452,321,593
Liabilities	(1,243,363,201)	(53,819,887)	(20,328,162)	(427,322)	(134,383,021)	1,452,321,593
Off-balance sheet items	42,346,932	17,221,205	–	(59,568,137)	–	–
Gap	41,600,078	81,153,912	(15,320,484)	5,581,892	(113,015,398)	–
Cumulative	41,600,078	122,753,990	107,433,506	113,015,398	–	–

The figures do not demonstrate the exposure of the Company to particular interest rates as the assets and liabilities above have been consolidated across all currencies.

Liquidity risk

Liquidity risk arises on the mis-matching of the residual maturity of the Company's assets and funding. This is also monitored daily, and is managed by the Asset and Liability Committee. Limits have been established for each time band and incorporate FSA agreed limits.

Foreign exchange risk

Foreign exchange risk is managed within the treasury function. Policies and procedures are detailed in an operational procedures manual. This incorporates FSA agreed limits, and other regulatory bodies requirements. It is subject to periodic review by Internal Audit, and is approved by the Board.

Senior management also monitors the positions taken on a daily basis.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal process, people and systems or from external events. The Company's operational risk framework is subject to documented procedural policies, with senior management being responsible for their implementation and maintenance. Adherence to these policies is also subject to periodic review by Internal Audit.

19 Derivative and exchange rate contracts

The Company enters into various financial instruments as principal to manage balance sheet interest rate and foreign exchange rate risk. At the year end, the principal amounts and fair values of the instruments were:

	2011 Principal amount £	**2011 Positive fair values £**	**2011 Negative fair values £**	2010 Principal amount £	2010 Positive fair values £	2010 Negative fair values £
Interest rate related Contracts:						
Interest rate swaps	**40,765,731**	**-**	**2,283,184**	59,568,137	-	4,108,759
Exchange rate related Contracts	**221,792,114**	**646,926**	**2,081,532**	297,348,636	8,610,189	979,985

Interest rate related contracts represent interest rate swap transactions which generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts.

Exchange rate related contracts are predominantly spot transactions but will also include currency swaps and forwards. The Company's currency swap transactions generally involve an exchange of currencies and an agreement to re-exchange the currency at a future date where the swaps relate to assets and liabilities denominated in different currencies.

Derivatives contracts are used for hedging purposes only and are executed with bank counterparties for whom volume and settlement limits have been approved. Group limits are approved for connected exposures. Under the Company's current treasury policy, derivative contracts are restricted to Interest Rate Swaps, Forward Rate Agreements and Currency Swaps.

At 30 June 2011, there were 5 swaps outstanding (2010: 7). There was no swap unrealised gain or loss outstanding at year end (2010: £ Nil).

Maturity analysis:

	2011 Interest rate swaps Notional values £	**2011 Interest rate swaps Fair values £**
Maturity:		
1 year or less	**5,423,414**	**(120,880)**
5 years or less but over 1 year	**35,342,317**	**(2,162,304)**

	2010 Interest rate swaps Notional values £	2010 Interest rate swaps Fair values £
Maturity:		
1 year or less	6,676,905	(147,730)
5 years or less but over 1 year	52,891,232	(3,961,029)

20 Assets and liabilities denominated in foreign currency

	2011	2010
	£	£
Denominated in Sterling	**256,741,420**	256,386,731
Denominated in US Dollar	**920,731,668**	844,071,816
Denominated in other currencies	**242,087,241**	351,863,046
Total assets	**1,419,560,329**	1,452,321,593
Denominated in Sterling	**259,926,413**	238,341,182
Denominated in US Dollar	**1,078,320,832**	1,103,032,120
Denominated in other currencies	**81,313,084**	110,948,291
Total liabilities	**1,419,560,329**	1,452,321,593

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

21 Related party disclosures

The Company has taken advantage, under FRS 8, "Related Party Disclosures", of the exemption not to disclose related party transactions with group companies, as it is a wholly owned subsidiary of the National Bank of Egypt.

During the year, there were no new loans issued to officers of the Company (2010: £nil). As at the year end, there were no loans outstanding (2010: £nil).

22 Subordinated debt

On 2 November 2010, the Bank drew-down $30 million of unsecured subordinated debt from its parent company. The agreement stipulates that the debt will be subordinated to the Bank's senior liabilities. The debt is repayable on maturity. Interest is charged at 3 months LIBOR plus 200 basis points. The date of the maturity of the debt is 22 February 2019. The interest payable during the year amounted to £285,980.

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

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

Five-Year Summary

	2011	2010	2009	2008	2007
	£m	£m	£m	£m	£m
Net Operating Income	7.7	6.7	14.0	12.5	7.8
Provisions and Write-Offs	1.9	0.0	(40.0)	(0.4)	0.0
Profit before taxation	8.2	7.0	(26.0)	12.1	8.3
Taxation	(2.4)	(2.0)	7.4	(3.6)	(2.5)
Profit after Taxation	5.8	5.0	(18.6)	8.5	5.8
Issued Share Capital	130	130.0	130.0	100.0	65.8
Total Shareholders' Funds	129.7	123.9	118.9	112.5	75.0
Deposits by Banks	212	217	363	594	742
Customer Accounts	1,052	1,105	856	630	541
Loans and Advances to Banks	611	548	368	543	797
Loans and Advances to Customers	84	76	106	108	144
Debt Securities	720	813	858	687	454
Total Assets	1,420	1,452	1,347	1,351	1,407
Capital Ratios %					
– Risk Asset Ratio	35.4	25.5	21.7	16.3	21.5
– Shareholders Funds to Total Assets	9.1	8.5	8.8	8.3	5.3
Return on Share Capital %					
– profit before taxation	6.3	5.4	(20.0)	12.1	12.7
– profit after taxation	4.5	3.9	(14.3)	8.5	8.8
Return on Total Shareholders' Funds %					
– profit before taxation	6.3	5.7	(21.9)	10.8	11.1
– profit after taxation	4.5	4.1	(15.6)	7.6	7.7