# HSBC Bank Egypt S.A.E.

Annual Report and Accounts 2022

HSBC Bank Egypt SAE (HBEG) is a 94.54 per cent subsidiary of HSBC Holdings plc and part of the HSBC Group. Headquartered in London, the HSBC Group is one of the world's largest banking and financial services organizations and one of the world's most valuable brands. HSBC is listed on the London, Hong Kong, New York and Bermuda stock exchanges.

HSBC provides a comprehensive range of banking products and services to meet the financial needs of more than 40 million personal, wealth and corporate customers through its global businesses: Wealth and Personal Banking, Commercial Banking, and Global Banking and Markets.

HSBC has an international network in 63 countries and territories around the world with around 219,000 employees.

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## Report of the Directors

The Board of Directors has the pleasure of presenting the Annual Report of HSBC Bank Egypt SAE (HBEG) for the year ended 31 December 2022.

## Economic Review and Future Outlook

2022 proved to be a challenging year for Egypt, with economy buffeted by higher commodity prices, and reduced global market risk appetite following Russia's invasion of Ukraine in the first quarter. As in other emerging markets, the geopolitical shock weighed on economic growth and macro balances, creating policy challenges that prompted the authorities to re-engage with the International Monetary Fund ('IMF') at the end of the year.

Official data show the economy grew by 6.6% in 2021/22. While this was the fastest pace of expansion in more than a decade, the outperformance was driven largely by a rebound from the disruption brought by Covid-19 over the previous year rather than an improvement in underlying performance. Tourism, for example, led a double-digit rebound in net exports as pandemic restrictions eased but overall demand remained below pre-pandemic levels. Household consumption was more robust, buoyed by continued population gains, but for the economy as a whole data show growth remained positive but lost momentum over the second half of the fiscal year as the unwinding of pandemic era restrictions was completed. High frequency data for the second half of the calendar year are consistent with the pace of growth dipping below its long term trend though encouragingly unemployment remained low into the third quarter.

Inflation pushed higher over the year, with urban inflation endings 2022 at 21.3%. Average inflation for the year was more muted, but at 13% printed above the central bank's target range with core as well as headline price measures all showing gains. The increases were led by higher prices for food, fuel and energy – a trend in line with inflationary pressures apparent across much of the developed and emerging world. However, sharp falls in the value of the Egyptian pound in real and nominal terms compounded the impact of rising global prices on local inflation. At the same time, dislocations in the FX market interrupted the supply of imported goods and disrupted domestic production, offsetting the impact of moderating local demand. In response to domestic price pressures and tightening global monetary conditions, the central bank hiked its policy rate by 800ps during the year, including 500bps of tightening in the last quarter. Policy agreed with the IMF also saw the central bank reduce the availability of discounted lending facilities for priority sectors, tightening credit conditions further.

The budget deficit narrowed according to provisional data for 2021-22, but remained wide at a little over some 6% of GDP with a strong primary surplus offset by high debt servicing costs. Data for the first months of 2022-23 suggest that the headline shortfall is likely to come under upward pressure as slower growth takes a toll on revenues and a combination of higher interest rates and FX weakness adds to the debt servicing burden. The initial data outturn for the current fiscal year is in line with assumptions laid out by the IMF who also estimate public debt little changed at around 90% of GDP. Despite rising import costs, the current account showed more marked improvements last year as oil and non-oil exports revenues strengthened, tourism recovered strongly and remittances from Egyptian workers remained high. These underlying gains were countered, however, by net capital outflows which resulted in central bank reserves and the net foreign asset position of the banking sector as a whole declining during the course of the year.

## Business and Operational Activities

### Financial performance

For the financial year ending 31 December 2022, the Bank reported profit before tax of EGP7,593.6m, which is a 52.6 per cent increase compared to 2021. Profit after tax increased by 61.31 percent, reaching EGP5,485.43m.

The Board of Directors proposed a cash distribution of EGP 2,194.05m to Shareholders (40 percent of the profits available for distribution for 2022) representing a coupon of EGP 36.86 per share.

In line with legal requirements, the Board of Directors also proposed a 'full year' distribution of EGP548.54m (10 percent of the profits available for distribution for 2022) to the Bank's employees being the profit sharing linked to performance.

As per the CBE Law, the Board of Directors also proposed a distribution to Banking System Support and Development Fund of EGP54.85m (1 percent of the profits available for distribution for 2022)

The remaining balance of profits available for appropriation, amounting to EGP2,687.99m, will be distributed according to the following regulations:

Statutory Reserve amounting to EGP 274.27m equivalent to 5%.

For supporting the bank's equity

- General Reserve amounting to EGP 274.27m
- Retained earnings amounting to EGP 2,139.45m

### Global Banking (GB)

GB provides tailored financial services and products to multinational corporates, governments and financial institutions worldwide. GB focuses on building partnerships with our clients to help them achieve consistent, long-term performance. We use the strength of HSBC's international network to connect emerging and mature markets, covering key growth areas. GB clients benefit from HSBC's unmatched capabilities and entrust the bank with their strategic and high profile investment banking transactions in Egypt.

GB offers financing and advisory services including debt and equity capital raising, advisory, corporate lending, leveraged and acquisition finance, export & asset finance and infrastructure finance.

Establishing the foundations for global growth requires companies to implement business strategy based on local knowledge and insight to enable them to operate at the highest global standard in full compliance with local regulations. To do that, they need the strength of a network that offers quality on-the-ground relationships for local knowledge and expertise.

These are the dynamics that we believe will drive the future of business in Egypt, and HSBC's Global Banking is focused on supporting clients meet their business requirements in country:

**Global scale, local knowledge:** Draw on HSBC's wide geographic reach and deep local knowledge to meet your banking needs

**Innovative solutions:** With sector-focused teams that work closely with product and regional specialists around the world, HSBC delivers solutions designed specifically for your organization.

**Long-term commitment:** Our bankers take the time to gain a deep understanding of clients' financial requirements and business goals for today and for the future.
GB has played a fundamental role during 2022 supporting the country's strategic actions for meeting the budgetary requirements through tapping international markets. HSBC has worked with the government in a number of strategic situations through mobilising our international network and expertise. GB continued building Egypt's leading sustainable finance platform with Environmental, Social and Governance ('ESG') assets. In 2022, we have led several Advisory and Export Finance transactions that are essential for Egypt's economy.
HSBC became a founding member of a new working group that will support the Egyptian government to deliver on its sustainability commitments. Egypt is committed to reducing its greenhouse gas emissions by 81 MtCO2e, with 90% of this reduction coming from transitioning its energy supply to renewable sources. Its Nexus for Water, Food and Energy (NWFE) programme was set up in July to identify priority projects across those 3 pillars that will give momentum to its transition. As 1 of 6 financial institutions in the working group, we will help identify ways of overcoming barriers to private investment and innovative approaches to attracting private finance at the necessary scale
HSBC has signed a Memorandum of Understanding with the Ministry of Petroleum and a coalition of energy transition leaders for a new initiative to support the de-carbonisation of select downstream facilities in Egypt. HSBC has also played an active role in participating in COP27 engagements and arrangements with external stakeholders.

**Global Markets (GM)**
**Markets & Securities Services:**
GM provides comprehensive foreign exchange services to corporate, institutional clients and offshore clients. We work on helping our corporate clients to find the best solutions to hedge foreign exchange, interest rate and precious metal exposures along with offering Fixed Income instruments as Treasury Bills and Bonds denominated in Egyptian Pound. After the termination of repatriation mechanism in 2019 we became one of the most active players in the local interbank market, which even improved in 2020 and 2021 on the back of massive outflows and inflows witnessed due to Global risk off/on mode.
We are as well the first bank to offer RMB currency for those clients who are trading with China in order to reduce their conversion cost and to offer an electronic Foreign Exchange platform where Corporate Clients can execute their FCY requirements online.
HBEG GM works closely with their Regional and Global counterparts to fulfil our institutional and Securities Services client base in terms of sovereign debt requirements and to ensure smooth entry and exit to and from the local market. From a Balance Sheet perspective, Market Treasury interacts actively with different lines of business to provide the required liquidity and to hedge the bank's overall interest rate risk while deploying excess of liquidity to ensure decent return at a minimum risk.
Securities Services business offers Direct Custody and Clearing product (DCC) with a range of Safe Keeping, Settlement and Asset Servicing Solutions. With 54 global institutional and top tier local clients and an average of USD 6 billion in assets under custody (AUC), HBEG is the only site in MENA region with full on-shore operations.

**Commercial Banking (CMB)**

In CMB we drive business through:

**Relationship management**: all CMB customers are managed by a dedicated Relationship Manager, ensuring that we provide the right solutions and expertise to our clients to help grow their business.

**International Connectivity:** supporting our customers in their domestic and overseas business by capitalizing on the Bank's connectivity within the wider HSBC Group and international corridors.

**Corporate Banking:** A true financial partner to reputable local Large and Middle Market corporate entities operating in Egypt, focusing on strategic sectors in line with the wider CMB strategy with an international footprint and ESG agenda while supporting Egypt's renewable energy transition and New Economy. Corporate Banking combines local insights and experience with strong support from HSBC Group network and expertise, we provide our corporate clients with exceptional Corporate Banking services, as well as Global Trade & Receivable Finance, Global Payment Services and Global Markets services.

**Customer Experience**: Ensure the delivery of our products and services in a fair and transparent manner, and giving our customers the tools to raise their voice and responding to their needs with the suitable solutions and products.

**Driving Digital Forward:** digital transformation sits in the heart of CMB's strategy to deliver trusted and reliable tools to support our customers in new ways of working. Our continued enhancements of our digital capabilities are playing a critical role in helping our clients to keep their businesses running and accelerating their adoption of digital solutions.

**Sustainability:** as businesses across the world look to reduce their carbon footprint and also drive socially beneficial outcomes, in CMB we considered the Sustainability as a key strategic driver for our business and made it available to our customers to exclusively facilitate environmentally and/or socially sustainable economic activities.

**Global Payments Solutions ('GPS'):**

Unique payments and cash management solutions that allow clients to more efficiently and securely process their day-to-day transactions on-line. Additionally, the team is ideally positioned to provide the full suite of treasury and cash management solutions and consultative services.

**Global Trade and Receivable Finance (GTRF):** providing a unique proposition to our customers with the most comprehensive trade and receivables finance solutions along with leveraging on the power of our network to deliver solutions tailored to comply with the local market, our industry-leading capabilities, and being a leading trade service provider that oversees financial institutions.

**Small and Medium Enterprises (SMEs)**: focusing on driving the SMEs initiative through our SMEs dedicated team as well as our engagement with microfinance companies directed to finance small and medium enterprises to support the Egyptian economy.

**Key highlights for 2022 include:**

- Successfully growing up double digit in all key corridors (USA, UAE, Saudi, China and Germany) leveraging on the power of our international network and connectivity. This was achieved through growing the base adding 35 new relationships and deepening the wallet with existing key relationships. Egypt was amongst the largest corridors in MENAT for China outbound business supported by our locally established China Coverage Desk. Monetizing Saudi opportunities was a key focus area and continues to be a priority.
- Global Payments Solutions (GPS) has newly released number of digital solutions and services to support our customers:
  - Instant Payment Network (IPN): HSBC Egypt launched real-time payment through InstaPay Application, whereby HSBC Wealth and Personal Banking (WPB) customers, can transfer between their EGP accounts instantly using their mobile device 24/7. From Corporate perspective IPN phase 1 is limited to receipt of inward payments, from retail and corporate network participant banks.
  - Streamlining Digital Governmental Payments: The integration between the government's e-Finance and HSBCnet has been successfully established in order to enable our corporate clients to pay their governmental payments through the bank's channel directly without leveraging on any other portals or systems.
  - Launching Same Day Batch Payments: the bank also launched the application of same day value Automated Clearing House (ACH) payments, which will allow corporate customers to streamline the processing of bulk payments all beneficiaries within the same day.
  - Online Deposit Booking: HSBC Egypt corporate customers are now able to book their short term time deposit requests through our digital platform, HSBCnet, eliminating the need for hard copy submissions and wet signatures.
  - Cross Border Cash Concentration (Credit sweep only): automates physical movement of funds between client accounts for the purpose of concentrating funds to a central point based on specific criteria and parameters given by the customer, which optimizes self-funding, enabling treasurers to reduce the need for external debt, lower borrowing costs and improve returns from excess cash
- Global Trade and Receivable Finance: Given the complexity of Trade processes and new CBE importation regulations More than 30 sessions of trade academies were provided for 170 clients and 655 attendees educating clients on letters of credit and providing clear guidance and extended customer knowledge. We continue to develop our product suite under Global Trade and Receivables Finance supporting Sustainable Finance by introducing Sustainable Trade Instruments. This help our clients to take advantage of tailored banking services to achieve sustainability goals for buyers and suppliers by leveraging the power of our network. Sustainable Trade Instruments are guarantees, letters of credit, or standby letters of credit issued under a sustainable trade facility made available to exclusively facilitate environmentally and/or socially sustainable economic activities (e.g. supply, production, of sustainable goods/services or support of a sustainable project) adhering to the HSBC Sustainable Trade Instrument Principles (STIP).
- During 2022, Egypt transformed the SME business to provide customers with tailored financial services, products and advisory role through our dedicated Relationship Managers and expertise in Sustainability and High growth technology startups.
- Launched "SME AFAQ" in September 2022 that includes 3 lending programs; Tech lending program, Isitdama lending program and Foras Trade Fund.

- A prominent achievement is "Istidama" where c50% of the EGP 1bn Green Financing target was already approved.
- "High Tech Growth" EGP 1bn lending program, HSBC are first market movers to launch this unprecedented lending Venture Debt program in the local market to support the High growth technology scale-ups,
- The only country in the Middle East that Launched the global Female Entrepreneur Fund and HSBC Roar in May'22 together with HSBC Group with a Marketing campaign & press release.

- SMEs has played a vital role in the ESG agenda through supporting key players in the renewable energy and mobility sectors.
  - HSBC has acted as a sole agent in financing the "Karm Solar" solar grid in Farafra providing sustainable source of energy to the area.
  - Another key player is ShiftEV an electric mobility start up developing technology to shift existing fleets to electric mobility, HSBC is supporting the company to unlock its potential and expand in different
- HSBC is the proud Sponsor of Nilepreneur Academy for 3 years now, a Central Bank of Egypt initiative, that aims to develop the skills and capabilities of young entrepreneurs.
- The completion of the first HSBC SME academy in collaboration with the Egyptian Banking Institute and Frankfurt School of Finance and Business, with 23 successful graduates.

**Wealth and Personal Banking**

HSBC Wealth and Personal Banking continues to deliver strong and robust performance throughout the years. While 2022 had considerable geopolitical and economic challenges on both the local and global levels, Wealth and Personal Banking proved resilience by delivering a 29% uplift in revenue stream demonstrating its financial strength and stability.

Our well-designed strategy that focus on widening our prospect pool in target segments, enabled us to grow our customer base by 8% to reach 252k building on the prosperous collaboration across the different lines of business. With more attention on Employee Banking Solutions driving high quality acquisitions through which we successfully acquired 80 new companies and managed to serve a wider customer base contributing by 79% to our new to Bank premium acquisitions. We expanded our offering to all MENA markets leveraging on our distinctive global connectivity resulting in the growth of our Non Resident Egyptians base to be 16k customer.

The expansion of our customer base was a great foundation for our thriving financial performance as we witnessed a record growth of balances in personal lending & cards by 35% & 30% respectively. This growth is evidently driven by our commitment to meet the rapidly evolving needs of our customers, providing a wide range of financial services throughout our various channels and our continuous efforts to provide Best-in-Class service.

We continue to focus on enriching customers' lives by providing comprehensive range of products to enable them manage their day to day finances and savings needs. Enhancing our Assets products features by increasing personal lending tenor and launching 0% instalment plans reflects our continuous efforts to create value for our clients.

Building on our collaboration with our strategic partners (e.g. Noon, Uber, Amazon and Booking) we successfully launched a wide range of opportunities, products and special offers to our customers. These partnerships come in alignment with our commitment to serve our customers in a meaningful way.

On the liabilities front, despite the prominent risk of balances runoffs coming from state banks introducing new certificates at negative margins with fierce competitive rates, we adopted adequate repricing strategies to offset balances outflows reflecting in an increase of 45% in our liabilities revenues.

2022 was a strong year on the Wealth side as well witnessing a 44% uplift in revenues, we continue to provide our customers with premium investment products positioning HSBC in a distinctive way for our customers, which is reflected in expanding our strategic partnerships to re-launch General Insurance business with Allianz and introduce New Fixed income fund with EFG Hermes. Alongside the re-open of HSBC's sponsored Money Market Fund attracting new subscriptions of EGP175m.

We have continued to differentiate HSBC by continuously enhancing our digital tools and capabilities, where the growth in digital enrolment is key in deepening our clients' relationship where 81% of our customers are now online registered and 62% of our New to Bank customers use the digital channels during their early relationship with the bank. Our overall digital utilization increased by 20% in digital transactions and 2% in ATM transactions with 96% of our telegraphic transfers executed online reflecting the utmost trust our customers have in our channels.

The Launch of the InstaPay service in line with the Central Bank of Egypt's strategy is another proof of our commitment to drive digital growth and leverage on our customers emerging needs for digital solutions.

In line with the country direction in providing all citizens across the country with access to financial services we successfully supported the country direction in providing all citizens across easy access to financial services for all citizens across Egypt.

We strengthened our market leadership position by supporting both HSBC and the country's strategy for inclusion, worked closely to provide ease of access to both our premises and products by ensuring it meets our customers' and work force special needs with a close eye on fairness and transparency. We proudly met our workforce special needs representation while we work persistently to enhance our premises accessibility covering 10% of our Branches and ATM fleet. Alongside we added braille stickers to our ATMs and availed headphones in our branches to support audio reader functionality.

Leveraging on our digital capabilities that have always been a powerful driver of our clients' engagement and satisfaction we launched Egypt web chat service and public website screen readers serving our customers with disabilities.

In line with HSBC leading role in the transition to a global net zero economy, we continue to focus on sustainable and transition finance for the greater good of our customers and communities. Wealth and Personal Banking Egypt has achieved "Silver Tier" status according to the Global Sustainability Strategy driven by our collaborative efforts to launch electric vehicle finance and phase out single-use cards to be replaced by recycled plastic cards.

We are committed to sustainable social and economic development across our business, operations and communities where we successfully partnered with several local vendors supporting green rewards and tree planting initiatives in Egypt committing to plant a tree for every personal loan issued with the aim of planting 17,200 trees by 2024.

Customer Experience remains to be our primary focus while we pursue operational excellence. In 2022 we have worked relentlessly in streamlining our systems and processes by identifying faster, simpler and more efficient ways to serve our customers while managing our risks effectively through the right controls.

## Risk Management

HSBC's risk management approach follows five steps:

- Define risk appetite and controls and enable risk culture and accountability,
- Identify and record risks to our business and assess the potential impact,
- Manage and control our risks within appetite,
- Aggregate and analyze data and reports to enable decision making, and
- Govern the risks through analysis, challenge and remediation.

We continue to maintain a consistent approach to risk, helping to ensure we protect customers' funds, lend responsibly and support the economy. By carefully aligning our risk appetite to our strategy, we aim to deliver sustainable long-term shareholder returns. All our people are responsible for the management of risk, with the ultimate accountability residing with the Board. Our Risk function, led by the Chief Risk Officer, plays an important role in reinforcing the Bank's culture and values. It focuses on creating an environment that encourages our people to speak up and do the right thing. Risk is independent from the global businesses, including our sales and trading functions, to provide challenge, oversight and appropriate balance in risk/ reward decisions. It oversees a comprehensive risk management framework that is applied throughout the HSBC Group, with governance and corresponding risk management tools, underpinned by the Group's culture and reinforced by the HSBC Purpose and Values.

## Risk Appetite

We define Risk Appetite as the articulation of the level and types of risks that we are willing to take in order to achieve our strategic objectives. The Bank's approach to risk is encapsulated within our Risk Appetite Statement (RAS) which is approved by the Board. It defines our desired forward-looking risk profile and informs the strategic and financial planning process. It assists senior management to make informed decisions on how to optimally allocate capital, funding and liquidity to finance strategic growth within acceptable risk levels, as well as supporting our monitoring of risk exposure. Key elements include:

- Risks that we accept as part of doing business, such as credit risk, market risk, and capital and liquidity risk;
- Risks that we incur as part of doing business, such as non-financial risks, which are actively managed to remain below an acceptable appetite; and
- Risks for which we have zero tolerance, such as knowingly engaging in activities where foreseeable reputational risk has not been considered.

## Risk Environment

2022 was a challenging year from a global macro-economic perspective. The Risk function continued its forward-looking and dynamic approach to both the financial and non-financial aspects of our risk management in such an environment of economic and geopolitical uncertainty, heightened by the Russia/Ukraine conflict and the impact on emerging markets. Enhanced focus and investment into our non-financial risks including third-party risk management, fraud management, resilience risk, enhanced model risk oversight, and ongoing strengthening of cyber security and data integrity. We have regularly conducted stress tests to assess the resilience of our balance sheet and capital adequacy, as well actionable insights to our credit portfolios. A quarterly Forward Economic Guidance exercise is undertaken integrating macroeconomic scenarios into forward looking model estimates of IFRS 9 Estimated Credit Losses ('ECL'). The main 2023 Risk priority is the continuation of supporting our safe growth strategy in areas and sectors we're comfortable with while keeping a close eye on our portfolio resilience to changes in the internal and external environments including increased investment into Climate Risk and risk management support to the wider ESG standards.

## People Management & Development

### Employees

HBEG total headcount as of end of December 2022 reads 1583 which is 1% higher when compared to December 2021. Our Female representation across all global career bands ('GCB') is 38.2% which is slightly higher than December 2021 (37.7%).

Our Voluntary Turnover YTD December 2022 reading 5.6% compared to 4.4% in December 2021, and the highest reason remained to be "better job offers" in terms of moving to a job with higher responsibilities. Our average Tenure in service complements the low turnover rate as it reached an average of 15 years of service in our GCB 4-6 population which reflects our employees' loyalty to our brand yet may be considered as a main driver behind their concerns in both career progressions within the organization and the recurring concern about our pay-mix and the reliance on variable pay component when compared with fixed pay.

To address these issues we launched a couple of initiatives during 2022 that would be generating positive results when employees start feeling the benefit of them. On pay-mix we introduced a Profit Share Down Payment benefit which is a quarterly payment funded from HBEG Profit Share pool and paid in advance on quarterly basis to all active employees on GCB (4-7) aiming to secure a higher fixed cash flow to employees throughout the year and at the same time ensure that we maintain our commitment to be an organization which pays for performance based on meritocracy until we reach our goal of having a more balanced pay mix through the standard annual pay review process over the next few years.

192 employees were promoted in 2022 with 42% female representation and 131 promotions were within our Global Businesses (GB, CMB, and WPB). We also saw 7 individuals promoted to GE-3 roles and 19 promoted to GCB4.

2022 witnessed more activities in recruitment offering more career opportunities within HBEG especially with the newly created regional roles based in Egypt that provided a new kind of career opportunities as selected candidates are now exposed to different markets and not only Egypt.

Since the start of 2022, we advertised 302 job vacancies representing 366 positions/opportunities and 16 local secondments were advertised across multiple business lines throughout the year. We had a diversified pool of new joiners where 90 external hires joined HBEG since the beginning of 2022 in addition to 34 coming from Global Service Center Cairo and 5 international transfers. For Senior Roles, we had 5 Global Career Band 3 roles advertised and they were all filled by Internal talents showing the strength of our potential future leaders. In addition, we also had a total of 31 regional roles created within HBEG and were filled by internal candidates as well.

The strength of our brand as an employer was witnessed in the number of external applications received for our externally advertised roles, out of which 8283 were received for frontline WPB roles, which shows our strong positioning in the market as an employer of choice. We have also received circa 6000 internal applications for the different roles within the bank.

**Learning and Development**

2022 witnessed progress on many learning themes whether business led training programmes, Future Skills proramme s as well as learning offerings for our junior population of people with disabilities.

Total of 441 virtual training sessions from 97 programmes were attended by HBEG staff members. Number of training hours conducted are 17,086.25 across the bank. As of end of October 2022, we reached 13% seat utilization at a regional level out of the regional calendar share and 83% seat utilization at a local level representing the local and regional classes scheduled for Egypt specifically, from 1224 learner, out of which 1,178 are unique learner.

Two Major programmes considered as the highlight of 2022 would be HBEG SMEs Academy and HBEG Relationship Management Programme. SMEs Academy was launched in March 2022 for 8 months, in cooperation with EBI and Frankfurt school of Business, the program covered all aspects of SME knowledge certify the candidates. HBEG Relationship Management Programme was launched for the second time in Egypt, where 15 associate were hired (10 externals and 5 internals) to join the program, the program is mainly structured on Credit, Accounting and SMEs knowledge where at the end there will be the final desk presentations to determine the success rate of the associates.

To support our sustainability agenda, we started by the assignment of the first two modules around the Foundation Sustainable Finance to all HBEG population and the assignment of the 7 modules under The Foundation of Sustainable Finance to all GB and CMB relationship managers. Moreover, 14 CMB staff members were enrolled in the Green & Sustainable Finance certificate in September 2022.

We introduced "It's all about me" culture program across HBEG, a program which mainly discusses the self-accountability and how people should remove any barriers hindering them from achieving their potential, the program was launched in August 2022 where registrations were open for all staff.

**Talent**

For our more senior population we were able to launch, People Managers Skills review to help our people managers rate themselves against the key skills relevant for people managing roles and link the outcomes of their individual reports with their development plans and conversations with their managers.

We were also able to conduct a refreshed succession planning exercise to identify our Executive Committee (EXCO) and Exco -1 successors, where structured development conversations between managers and employees was advised.

Our EXCO team members were also given the opportunity to join the Cambridge Business Sustainability Management course, in which 4 EXCO members have been enrolled in the course.

We also remain focused on our employer branding within Egypt hence we launched the 2022 Summer Internship Program in July 2022 with a completely new concept, where interns got to learn about HSBC's different lines of business, products and services all in a hybrid environment; total of 25 interns worked on different projects (i.e. sustainability, corporate customers, retail customers, branding, and digital). We designed a robust learning plan for the interns where they attended various training programs enhancing their interpersonal skills. Worth mentioning that we received 4000 applications and selected 25 top notch students.

**Diversity and Inclusion**

Our gender diversity stands at healthy rates with 38.1% female representation across the organization and 36.7% across GCBE-3. To ensure the continuation and improvement of these ratios, our succession plan for critical roles (HBEG ExCo) includes a healthy pipeline in female talents representing 34% of all individuals identified as potential successors for such roles.

2022 Snapshot Survey response rate was 76% which is higher by 26% when compared to 2021 (50%). We have seen improvement across all indices when compared to 2021 and the highest scoring index is "change leadership" with 69% and a 12% increase compared to 2021 which reflects the efforts made by senior leaders in communicating openly and honestly about changes to the business and setting a positive example to their teams.

Employee Focus index has also improved when compared to 2021 and the biggest improvement was in employees looking forward to their working days which may be attributed to the gradual return of face to face meetings and office time versus working from home.

Strategy Index has improved compared to 2021 which reflects the effect of various forms and forums used to communicate our strategic pillars and initiatives have definitely helped in employees' sense of belonging and understanding of how we as a bank operate and aspire for.

Career Index is still below 50% which shows the impact of transformation programmes and the high level of anxiety coming from employees about on their Jobs' stability. Wellbeing scores is an area of focus for us

**Performance and Reward**

Our approach to reward is meritocratic and market competitive, underpinned by an ethical performance culture which aligns the interests of our employees, shareholders and regulators. The financial and non-financial measures incorporated focus on what is achieved in the short and medium term and are carefully considered to align with our long-term Group Strategy.

**Digital and Business Services (DBS) – The COO Organization**

In 2022, DBS functions played an instrumental role in enhancing systems, streamlining customers' journey, supporting business growth, building team members future skills as well as focusing on Net-Zero Carbon emission objectives.

## Digital Transformation Journey

Being one of the largest markets in the MENA region accounting for 23% of the MENA population, Egypt holds the opportunity to grow into a vibrant FinTech ecosystem and a regional leader.

To capture this opportunity, HBEG is becoming an active participant within the fintech, and sustainability innovation ecosystem. We continue to identify and establish fintech and sustainability partnerships. We continue to pursue our aspiration of becoming the bank of choice for successful, scalable, early stage tech and sustainability startups.

We continue to digitize at scale improve our systems resilience; performance; and features. We also successfully joined the National Instant Payment Network enabling instant payment features for all our retail customers.

## Net Zero – Carbon Emission

HBEG is committed to reduce paper consumption and carbon emission as part of our Net-Zero objectives. We succeeded in reducing paper consumption by five hundred thousand documents during 2022 in addition to the deployment of a revamped low energy consumption data center.

Furthermore, our procurement team is playing a vital role in supporting our third parties and supply chain partners transition to net zero; making sure that our vendors and partners are also adopting similar sustainability objectives as ours.

## Technology and Cyber

With continued focus on digitization, Instant Payment Network was launched to set a new bar of expectations on instant transfers and Web-Chat feature was introduced to our existing digital channels to support customers with special needs in addition to the ATM fleet that was upgraded with new supported features such as the contactless services, audio support and the dynamic currency exchange.

In response to regulatory requirements, different key regulatory projects were rolled out such as; the dormancy regulations, e-finance integration, same-day ACH and purpose of payment supporting our corporate customers.

Global world class cyber security professionals continue to provide end-to-end security solutions including proactive 24/7x365 monitoring, technical analysis, threat response, and cyber intelligence aligning with HSBC Group and Egypt regulatory framework/matrix.

## Procurement and External Third Party Risk Management

Our procurement function is proactively working to mitigate the challenges arising from currency devaluation and inflation to achieve the best commercial and fairer outcomes for our business partners and customers by identifying suitable third party suppliers that are able to deliver the required products or services in compliance with HSBC standards under the umbrella of Third Party Risk Management policies. As always we continue to review our internal processes and continue to streamline and simplify. This year we managed to simplify our employee expense reimbursements process making the process simpler, better, and faster for our colleagues.

### Protective Security (PS)

Protective Security continue to monitor physical security risks landscape across Egypt, fostering a secure and safe environment for our staff, customers, operations, and assets. The team continues to provide end-to-end security solutions including proactive and reactive 24/7 monitoring, incident management and threat response in coordination with local authorities as appropriate.

Protective Security team continue to implement of the latest and most advanced security technology and standards. Our fully integrated security systems across the country provides the highest levels of protection to our operation and is also fully complying with the country's regulatory standards.

### Operations, Transformation, and Process Excellence

As part of the simplification initiatives, Operations focused on customers' migration from paper to e-statements initiative which resulted in reducing around 22 thousand statements representing 44% of total monthly paper statements which as well mitigate the risk of confidential customer information breach associated with paper statements across all business lines.

Cards Operations team streamlined ledger accounts reconciliation process via the deployment of automated tool which optimized the customer experience and reduced the customer complaints for non-disputed transactions by 76% to align with HSBC automation direction.

### Corporate Services (CS)

We are at the final stages of refurbishing our Head Office which will transform the look/feel of our office space and will significantly improve our employee experience. The refurbishment includes new and improved energy efficient infrastructure, modern office design, high-end furniture, and the latest technology kits. We are making this significant investment in our office space and office daily amenities to support our ambition to becoming a top employer in Egypt. We aim to offer our employees the latest and greatest office spaces but also to choice to work flexibly as needed based on their personal and professional needs. HSBC Egypt employees are trusted, and have the freedom and choice to work flexibly whether in the office; at home; or at a pre-approved satellite location.

Our corporate service team continues maintain and uplift our branch network, this year we uplifted the look and feel of several of our branches and ATMs. Also we continue to prioritize special needs solutions, this year we deployed special needs solutions in five our branch network carefully selected to achieve optimum demographic coverage to better serve our customers with determination.

### Compliance Function

The compliance function previously segregated to Regulatory compliance and Financial crime compliance is now one compliance function with a new structure lead by the Chief Compliance Officer who is responsible for overseeing and managing both functions (regulatory compliance and financial crime compliance).

The Compliance function aims to continue to embed a sustainable approach to compliance risk management, including simplifying compliance risk related processes where possible. alongside this, the function will seek to develop and deliver an intelligence-led risk management capability, leveraging data and using advanced analytics and emerging technology, further to support HSBC to balance revenue and risk as the Group returns to growth mode. More generally, the Compliance function seeks to develop capabilities and activities in a way that aligns with and operates to industry-leading standards.

The purpose and vision of the Compliance function is to protect our customers, protect the organization and protect the integrity of the financial markets in which we operate.

To deliver on this purpose we are agile and responsive in a dynamic, constantly changing environment: where criminals get smarter and more determined, technology advances, customer expectations change and the regulatory environment continues to evolve.

**Financial Crime Risk**

HSBC is stably running an effective financial crime risk management framework as managing financial crime risk is becoming business as usual activity. HSBC has a global worldwide structure that is designed to enable HSBC manage financial crime risk effectively across the bank and to continue to strengthen financial crime detection and mitigating controls while remaining committed to high ethical standards. Our policies on anti-money laundering, sanctions, anti-bribery and corruption, internal & external fraud, and tax transparency risk aim to ensure that risks identified by the bank are appropriately mitigated.

The Compliance team works to fully satisfy the requirements of implementing a more consistent, comprehensive approach to assessing Financial Crime Risk. This includes working on enhancing and simplifying the governance under the business as usual status. HSBC embarked on a process of simplifying the financial crime policies and adapting a service-based operating model where expertise is consolidated into global functional capabilities to best operates to consistent standards, and provides additional insight and support to global businesses.

HBEG Financial Crime Compliance team continued to support the business and customers during 2022 in the middle of the surrounding ever changing exceptional circumstances and as threats to the global financial system grow, will continue to provide the required guidance and advice to the business to support and protect customers and employees while ensuring full compliance to regulatory expectations and prudent risk management standards.

HSBC Bank Egypt remains committed to fighting financial crime and remains with the aspiration to be the industry leader in this area and continue serve and protect our clients and the environment in which we operate.

### Regulatory Compliance (RC) Risk

The Regulatory Compliance (RC) sub-function provides independent, objective oversight and challenge and promotes a compliance-orientated culture.

The RC Statement of Purpose says: "We understand the regulatory landscape and work with the business to help them identify and manage their regulatory compliance risks. We provide independent and objective oversight and challenge, and promote a compliance-orientated culture, supporting the business in delivering fair outcomes for customers and achieving HSBC's strategic objectives."

The risk that we fail to observe the letter and spirit of laws, codes, rules, regulations and standards of good market practice relating to the provision of banking and financial services and incur fines, penalties and damage to our business as a consequence. Regulatory Compliance risk captures the risks associated with breaching our duty to clients and other counterparties, inappropriate market conduct and breaching other regulatory standards. This includes but is not limited to:

- Conflict Management, Market Abuse, Information Barriers
- Client Assets and Dealing, Managing & Execution
- Product Design, Marketing & Promotions and Post Sales Servicing
- Mis-selling and Complaint Handling
- Cross-Border Regulations
- Employee Compliance

Regulatory Compliance risk strategy maintains multiple procedure and methodology documents that provide a detailed overview of the risk assessment processes that are managed within regulatory compliance. These documents provide stakeholders with detailed information associated with the minimum standards and process steps associated with the RC risk assessments.

We regularly review our policies and procedures ensuring compliance with our local regulatory requirements. Global policies and procedures require the prompt identification and escalation of any actual or potential regulatory breach to RC. Reportable events are escalated to the Risk Management Meeting, the Audit and Risk Committees, as appropriate.

### Corporate Sustainability

HSBC's global sustainability strategy sets common themes to enable the Group to have maximum impact but our real strength is in the deployment of that strategy to address regional and local priorities. This global approach to local challenges helps us integrate sustainability across everything we do, supporting our clients, our communities and our employees.

We work with leading partner organizations to ensure our programmes deliver the highest impact for each dollar spent, and we do much more than just fund projects. We work with our partners throughout the design and implementation phase and we are actively involved in every step of the journey to build capabilities and ensure their continued success far beyond the tenure of the project.

We also understand that we can only achieve success by having a diverse and inclusive workforce, with different work styles, experiences and perspectives. This helps us to adapt and achieve our strategy and purpose.

Finally, we acknowledge the need to be transparent and open about our impact on people and the planet. Globally, we regularly publish information on our environmental, social and governance (ESG) performance on our corporate website, as part of our Annual Report and Accounts (ARA).

At HSBC, our Corporate Sustainability strategy is aligned with the core activities of the bank, allowing us to deploy our full potential across all of our operations. We have evolved our approach dramatically over the last few years, focusing on tackling issues at root and embedding sustainability in everything we do. We leverage on our capacity as the leading international bank in the region, bringing international expertise to address local issues.

HSBC has been present in Egypt for more than 40 years and we have a long standing commitment to our stakeholders to deliver on our philanthropic activities. We focus on the areas of Future Skills (for young adults and entrepreneurs) and in unlocking next-generation climate solutions to accelerate the transition to net zero. It is also worth mentioning that HSBC Bank Egypt won the "**Best ESG Bank in Egypt**" by the Euromoney Awards this year. A brief of some of the flagship programmes is presented below:

- **Diversity on Board ('DoB')**: is the first regional platform that curates highly accomplished Arab talents in business, government, civil society, and the sciences, to help organisations in the MENA region identify and appoint them to executive board positions. The programme aimed to equip DoB members with the necessary resources to be ESG leaders on Boards. Egypt had a total of 9 members joining the progamme in 2022.

- **Financial Capability for Low Income Workers**: The programme aimed to develop the financial capability of 650 low income workers across Egypt. It teaches them personal money management skills including the key elements of personal finance such as spending wisely, budgeting, saving, investing and using credit. 45% of the beneficiaries managed to open their first saving accounts.

- **Building a Financially Capable Generation**: Our new global financial literacy programme which has been piloted across several countries, including Egypt. It supports participants, aged 12-16, on their way to financial capability by helping them recognise how attitudes and beliefs impact their ability to make the best money management decisions. The students also had the chance to participate in the National Innovation Challenge to put in practice their learning by solving community related challenges around financial resilience.

- **<u>The ESG Trading Initiative</u>**: The Rotman Finance Research and Trading Lab (Rotman FRT-Lab) and HSBC Middle East launched The ESG Trading Initiative, in January 2022. Free of charge, the initiative gives participants a unique opportunity to perfect their investment skills in a safe – yet high stakes – environment, and their decision-making skills. The course focused on environmental and sustainable practice when making financial decisions, and used ESG ratings as a guide to embed sustainability and resilience within participants' portfolios. The initiative aimed to give talented students from the Middle East experience of the financial markets in a real-time environment using the Rotman Portfolio Manager (RPM) platform. It also offered students, and faculty, invaluable experience in intellectually stimulating environments using the RIT Market Simulator and associated Decision Cases platform. In Egypt, we have the top 3 public universities participating in the initiative and Cairo University came second place in the regional competition.

- **<u>C3 Social Impact Accelerator:</u>** this unique accelerator programme aims to support entrepreneurs with innovative concepts that help widen their impact on society and the environment at the same time enhancing their business growth and financial performance. The finalists are offered tailored training with impact investors and business leaders from the social enterprise world. In the 2022 edition, Egyptian start-up "I-School" won the third prize.

- **<u>Developing a Participatory Mangrove Ecosystem Restoration Model (MERS)</u>**: following our partnership with the American University in Cairo, we continued our Nature Based solution project to address climate change challenges and enhance the environmental, social and economic resilience of the local communities through the restoration and rehabilitation of mangrove ecosystem in Egypt. During 2022, we managed to plant a total of 6500 new seedlings, established 2 greenhouse facilities for research purposes, developed and implemented an introductory training workshop on climate change adaptation Development and implementation of an asset mapping training workshop for to foster businesses in Marsa Alam. Embedded the project at the American University in Cairo (AUC) Sustainable Development MSc programme, creating a multiplier effect and spreading knowledge on mangroves and NBS.

  Currently we are in the process of developing curriculum for advanced climate change adaptation program to be implemented at the end of this year.

- **<u>Youth Financial Capabilities Development – Care Egypt:</u>** The project aims to develop young women and men financial capabilities and resilience to withstand changing life events; by improving knowledge on financial management, planning and saving; providing high quality educational services on financial education; improved prospect for employment through job creation opportunities (self- employment, entrepreneurship). The project targets young women and young men in Greater Cairo and Assuit to serve youth and increase their financial preparedness as they transition from education or under/unemployment into training and from training to work or entrepreneurship.

- **<u>Next Generation of Automotive Technicians in Green Jobs – Ghabbour Foundation:</u>** The objective of the project is to collaborate on the qualification and empowerment of a class of 25 young automotive technicians to become specialized in the maintenance of electric vehicles, an imperative requirement for the eminent deployment of electric vehicles in Egypt. The programme will represent the pioneer class of qualified technicians specialized in electric vehicles maintenance in time for the wide spread introduction of these vehicles in Egypt and also in preparation for the 2030 vision of Egypt's industry strategy. Employment of all participants will be handled by the Foundation's Career Office whose responsibilities include placement of the school graduates in leading automotive companies in Egypt and the region. Since this class of graduating technicians with unique skills highly demanded in the job market.

In 2022, we managed to publish various reports/studies as listed below:

- **Vulnerability Assessment and Adaptation Study & Investment Roadmap**
  The main objective of this project is to set the actual status of the Egypt exposure to climate vulnerability and pointing the investment opportunities in sectoral manner, building on the country contribution to climate change vulnerability and adaptation.

- **Recovering Better: A Green, Resilient and Just Recovery in the Middle East' Recovering Better**
  Mohammed Bin Rashid School of Government in partnership with HSBC Middle East published two regional studies on the subject: 'Aligning Policies with Green, Resilient, and Just Recoveries in the Middle East' and 'Financing a Green Transition in Middle East'.
  The reports put forward a series of regional and country-level recommendations for eight Middle Eastern countries: Bahrain, Egypt, Kuwait, Iraq, Oman, Qatar, Saudi Arabia, and the UAE that could aid in achieving the UN Sustainable Development Goals (SDGs) and contributing to the Paris Agreement on climate change.

- **Just Transition in Emerging Markets: Workshop Facilitation & Whitepaper**
  Following COP26, the just transition is now recognised as a critical enabling factor for the energy transition. With COP27 being held in Africa, the dialogue on emerging market representation, climate negotiation and action to protect their populations is at the front and center with key demands being made. To enable the greater collaboration that is required for a smoother and more socially just transition while meeting net zero commitments, World Green Economy Organisation and HSBC Middle East in partnership with the London School of Economics developed a strong, representative point of view on what a Just Transition means for Emerging Markets and what is required to achieve it.
  Ahead of COP27 we managed to hold a cross-sectoral workshop involving representation of NGOs, trade unions, private sector, chambers of commerce, tertiary institutions, think tanks, and local governments from Egypt, India, and South Africa to ideate on what a Just Transition means for Emerging Markets.
  And at COP27 we released the first draft of a whitepaper articulating key outcomes coming out of the workshops and primary research.

- **Green Skills Fund – Gap Analysis and Recommendation Project**
  Climate change is expected to impact 80 million jobs worldwide by 2030. The MENAT region will be highly impacted, with as many as 53% of its workforce employed in sectors that are highly vulnerable to climate change and ecosystem processes, including oil & gas, air transport, agriculture, etc. In parallel, the energy transition represents a unique skilling opportunity and can provide high quality jobs with up to 133 million jobs globally that will be created in industries that are gaining traction, including energy transition, in the next few years.
  As a result, skilling and reskilling for 'green jobs' will be instrumental in addressing the deepening inequalities likely to emerge from these changes and in helping the MENAT workforce benefit from the energy transition. The proposed Green Skills Fund aims to fund promising interventions aimed at re-skilling and up-skilling the workforce in sectors affected by climate change (like oil & gas) towards sectors with opportunities in green jobs (like green infrastructure, energy transition, etc). This phase of work will include landscaping of focus areas & promising interventions, design of the green skills fund and development of a road-map to implementation for such a fund. This year we managed to conclude the gap analysis and recommendations for Egypt along with Algeria, UAE, Turkey and Saudi Arabia.

## Customer Protection

HSBC Customer protection unit, aligned with CBE regulations, continues to focus on the following key areas:

- Treating customers fairly;
- Disclosure and Transparency in regards to features and pricing of all products and services offered by HSBC;
- Efficient complaints handling process;
- Enhancing the banking culture awareness; and
- Protecting our customers' data and information security.

HSBC continues to focus on complaint first contact resolution to be resolved within 1 business day achieving a progress of 3% YoY.

## Acknowledgment

Based on the financial results of 2022, the Board would like to extend their congratulations and thanks to the HSBC Egypt staff for their efforts and achievements.

## Shareholding

HSBC Bank Egypt SAE is a 94.5 per cent owned subsidiary of HSBC Holdings plc through HSBC Holdings B.V.

The shareholding structure is as follows:

| | |
|---|---|
| HSBC Holdings BV | 94.5% |
| Misr Insurance Company | 3.4% |
| Misr Life Insurance Company | 1.7% |
| Others | 0.4% |

**Equity Investments**

HSBC Bank Egypt also holds minority interests in the following companies:

- Egyptian Mortgage Refinance Company (EMRC)
- The Egyptian Credit Bureau (I-Score)
- Misr Company for Clearing, Settlement and Depository (MCDR)
- HSBC Securities Egypt S.A.E. (under liquidation)
- Swift Company
- Kol Yom' Money Market Fund

**Corporate Governance**

Corporate Governance at banks is of paramount importance to ensure sound practices, promoting transparency and efficiency, in consistency with the law. The HBEG Board ('The Board') and the management are committed to the long-term success of the Bank and generating stable and sustainable returns for the shareholders. Standards of Corporate Governance, in particular those defined by Central Bank of Egypt ('CBE') and other regulatory bodies, are fundamental in supporting HBEG to facilitate better execution of activities and creating sustainable shareholder value, without overlooking the interests of other stakeholders in the Bank and the business community at large.

HBEG has a comprehensive range of policies and procedures in place designed to help ensure that it is well managed. HBEG is continuously developing its Corporate Governance Framework ('The Framework') to meet the highest standards by leading professional bodies and regulatory authorities. The Framework outlines a consistent approach across the Bank infused into its culture and will be reviewed on a periodic basis by the Board of Directors. HBEG as a whole, along with the Board, Senior Management and employees are collectively responsible for integrating the Corporate Governance Framework into their day to day activities. The Board sets the "tone at the top", the management ensures that the Corporate Governance Framework is implemented through a robust set of policies and procedures, and employees follow the Corporate Governance requirements in their day-to-day business.

HSBC Bank Egypt is committed to complying with the highest standards of corporate governance principles, which is reflected in the relationships and responsibilities of the management, the Board and the shareholders in line with local regulatory requirements and global requirements of the HSBC Group. HBEG's Governance policies and practices cover all aspects of the Bank's daily operations including the creation and execution of strategies, the definition and application of risk appetite parameters and setting the balance between shareholders' obligations and depositors' interests. HBEG Management ensures that the daily activities of the Bank's operations are executed in a secure manner and in compliance with the prevailing laws and regulations.

HBEG's commitment to organizational governance is evidenced by:

- The composition of the HBEG Board of Directors and the inclusion of independent, non-executive Directors.
- The clear definition of Directors' duties.
- The operation and composition of Board's committees including the Audit Committee, the Risk Committee, the Governance and Nomination Committee and the Salaries and Remuneration Committee.
- The frequency of meetings of the Board and of the Board's Committees in line with local regulatory requirements.
- The internal control framework, reflected in the structure and operation of the Bank.
- The adoption and implementation of internal policies and procedures covering all business aspects.
- The existence of transparent communication and disclosure channels.

## The Board of Directors

The following changes took place to the HBEG Board of Directors during 2022:

### Resignation

- Resignation of Mr. Abdel Halim Assem, HSBC Bank Egypt S.A.E. Independent Non-Executive Director effective 1st of March 2022.

### Appointments

- Appointment of Mrs. Maha Abdel Razek as HSBC Bank Egypt S.A.E. Non-Independent, Non-Executive Director effective 26th of April 2022, representing Misr Insurance Company.
- Appointment of Mr. Tamer El Raghy as HSBC Bank Egypt S.A.E. Independent, Non-Executive Director effective 25th of July 2022.

### Mr. Nasser Alshaali

#### Non- Executive Chairman (since September 2021)

Nasser Alshaali was appointed HSBC Bank Egypt Chairman effective 7th of September 2021.

Mr. Alshaali's career spans 22 years with executive and board level experience in a range of private and public posts. He served as CEO of the Dubai International Financial Center, Managing Director of Sabertia Capital Partners, and is currently Executive Director at Stra-tical Associates in Dubai.

As COO, Mr. Alshaali helped establish the Dubai International Financial Exchange, before merging with Nasdaq. He also worked with Dubai government's "The Executive Office" in the setup of "Dubai Media Incorporated" (DMI), and economic expansion initiatives such as Dubai Internet City, Dubai Media City, and 13 others in diverse industries.

Mr. Alshaali also served as CEO of Gulf Craft after the financial crisis, turning around the firm, and helping it rank in the top ten global yacht manufacturers.

### Mr. Todd Wilcox

#### Executive Director (since June 2020)

Todd Wilcox is HSBC Bank Egypt Deputy Chairman and Chief Executive Officer.

Mr. Wilcox has an extensive international banking experience, the last 15 years of which have been with HSBC in a series of leadership roles.

He spent the first 2 years of his career with HSBC Canada helping to expand the Group's operations in western Canada before moving to HSBC Bermuda as Head of Retail Banking and Marketing in 2008.

In 2011, Mr. Wilcox was appointed as Chief Risk Officer for Asia-Pacific overseeing 11 markets in the region. He also served as Chief Operating Officer for Risk across all Asian markets over the same period.

He was appointed as Chief Executive Officer Brunei for the Hong Kong and Shanghai Banking Corporation Limited in 2012.

In August 2016, he moved to China to Head Remediation Management Office for HSBC China, prior to being appointed in August 2018 as Senior Executive Vice President and Deputy Chief Executive Officer of HSBC China and Executive Director of the Board, where he helped running all of HSBC's operations in China.

Prior to joining HSBC, Mr. Wilcox worked for Royal Bank of Canada for 16 years in a wide range of business and functional roles.

Mr. Wilcox was born in Calgary. He holds a Bachelor's degree in Economics from the University of Calgary and a Master's Degree in Business Administration from the University of Western Ontario.

**Mrs. Lamyaa El Bahy**

**Executive Director (since June 2019)**

Mrs. Lamyaa El Bahy is the Chief Financial Officer of HSBC Bank Egypt.

She joined the Finance Department of HSBC Bank Egypt as a Financial Analyst in 1989. Since joining the bank she has held various roles in the Finance Department and is accountable for a diversified range of finance activities including Operational Accounting, Group & Regulatory Reporting, Assets & Liabilities Management, Management Information, Planning & Analysis, in addition to full in-house tax services.

Lamyaa El Bahy chairs the Assets and Liabilities Committee of the bank.

In April 2014, she was appointed as a Director on the Board of HSBC Electronic Data Services S.A.E. She is also a member of the Supervisory Committee for the HSBC Bank Egypt Money Market Fund.

She holds a B.A. in Economics from the Faculty of Economics and Political Science, Cairo University.

**Mr. Stephen Moss**

**Non-Executive Director (since July 2021)**

Stephen Moss is the Regional Chief Executive Officer for the Middle East, North Africa and Turkey effective from April 2021.

Mr. Moss was appointed to the role of Regional Chief Executive in March 2020 and has been a Group Managing Director since December 2018. He also continues to oversee the Group's Mergers & Acquisitions activities, having held the role of Group Head of Mergers and Acquisitions from 2009 to 2019.

Mr. Moss started his career with HSBC in 1992 and has held a series of roles in Hong Kong and the UK. He took on the roles of Chief of Staff to the Group Chief Executive, and Group Head of Strategy and Planning in 2013, whilst retaining his role as Group Head of Mergers and Acquisitions.

Prior to joining HSBC, Mr. Moss worked for Price Waterhouse.

Mr. Moss currently sits on the boards of HSBC Bank Canada, HSBC Latin America Holdings, HSBC Middle East Holdings, HSBC Bank Middle East and the Saudi British Bank. Mr. Moss serves as an Advisory Board Member of the Hong Kong Red Cross.

Mr. Moss is a qualified Chartered Accountant of the Institute of Chartered Accountants in England and Wales. He is married with two children and his interests include theatre and reading.

**Mr. Christian Deseglise**

**Non-Executive Director (since August 2019)**

Christian Déséglise is Global Head of Sustainable Finance and Investments, Global Banking and Markets at HSBC. Previously, he held various positions within HSBC, including Global Head of Central Banks and Global Head of Emerging Markets at HSBC Global Asset Management. Christian is also a Non-Executive Director of HSBC Bank (Egypt).

Mr. Déséglise is a member of the One Planet Lab, a high level advisory group set up by President Macron to address challenges related to climate change. He is also the co-Chair of the WEF Global Future Council on SDG Investments.

Christian has been an Adjunct Professor at Columbia University's School of International and Public Affairs, teaching on Emerging Markets and Sustainable Finance, since 2009. He is also the co-founder and co-director of Columbia University's BRIC-Lab, which was set up to study the rise of Emerging countries.

Mr. Déséglise has also taught at Sciences Po in Paris and at the Institute for High Studies for Development in Bogotá, Colombia. He has written a book "Le Défi des Pays Emergents: Une Chance pour la France", which was published in France in April 2012. He has also written numerous articles on Emerging Markets and Sustainable Finance.

Christian is a Graduate from Sciences Po (Paris). He holds a Master's degree from La Sorbonne Nouvelle (Paris) and a Master of International Affairs from Columbia University in New York.

**Mrs. Hanan Abdel Meguid**

**Independent, Non-Executive Director (since July 2021)**

Mrs. Hanan Abdel Meguid is a known figure in the Middle East Internet world. She leads Kamelizer, an angel investment studio that aims to accelerate the Egypt startup scene, leveraging her twenty-five+ years of experience in technology and entrepreneurship.

Mrs. Hanan has served as Chief Executive Officer of Orascom Telecom Ventures (OTVentures) and as Vice President for digital transformation in the American University in Cairo (AUC). She led known projects in the digital transformation of governments across the Middle East region. Hanan contributed to boards both regional and global. She started her journey in 1996 in LINKdotNET, where she contributed immensely to its success and growth.

Mrs. Hanan is an active member of the Egypt entrepreneurship community; who believes that technology is a necessity and not a convenience in our region. She spends a lot of her time supporting startups and Women founders with disruptive business models using technology to improve quality of life.

### Mr. Nadim Ghanem

### Independent Non-Executive Director (since June 2019)

Mr. Nadim joined ExxonMobil in 1981 and has spent over 37 years of his career in the Midstream and Downstream. He held senior management positions in Sales, Marketing, Planning, Operations and Finance, for Egypt, Africa-Middle East and Europe.

During his tenure of Operations Manager for Egypt, he oversaw the revamping, modernization and automation of the Fuels Operational Logistics facilities between 1991 and 1995. In 1997 and during his tenure as head of the Lubricants division in Egypt, he oversaw the design, procurement, construction and operation of a grass root manufacturing Lubricating Oil Blending Plant in Asher that started in 1999.

Following the Esso and Mobil merger in 2000, he consolidated the sales and marketing automotive divisions for both brands in Egypt then in 2002 moved to Tunisia where he assumed responsibilities for the ExxonMobil Lubricants and Asphalt interests in Tunisia till 2004. Thereafter he became responsible for the Lubricants and Asphalt Logistics Distribution Operations for Europe, Africa and the Middle East where he directed the implementation of a network restructuring that caused significant improvements in customer service levels and optimized the supply chain.

In 2009, he joined the Downstream Business Development and Portfolio division that is also responsible for M&A where he contributed to the successful divestment of ExxonMobil operations in Austria, Switzerland as well as some interests in the UK and other geographies.

In 2013 he moved to Finance and became Business Services Manager and Controller for ExxonMobil in Egypt, Saudi Arabia and the UAE Downstream, having overall responsibility for the accounting, treasury and tax activities in these countries.

In addition, throughout the years, he served as Director and Board Member in many ExxonMobil regional entities and Joint Ventures.

Mr. Nadim holds a BSc. in Chemical Engineering from Cairo University and a Diploma (M Sc.) in Refining and Chemical Engineering from the "Institut Francais du Petrole-ENSPM" in Rueil Malmaison, France.

### Mrs. Maha Abdel Razek

### Independent, Non-Executive Director (since April 2022)

Ms. Maha is currently the CEO for Misr Real Estate Assets Management co., serves as a Non-Executive Board member at Egyptian Real Estate Fund and a Non-Executive Board member at the Industrial & Engineering Enterprises CO.

She started her professional career in the USA at Citibank, Vanguard Financial Institution and Washington Mutual, working in the primary and secondary mortgage market as well as managing several branches and SMEs in Southern and Northern California.
After moving back to Egypt in 2020 She headed the Retail Branches and Wealth Management at AAIB, started the mortgage department at HSBC Bank Egypt and bank Audit Egypt and was Managing Director at Al Oula Mortgage company.
She sat on a number of Boards including Egyptian Mortgage Federation, Al Ahly Mortgage company, Misr real estate development as well as Sharia Board at Audit bank
Ms. Maha was the Ambassador of Goodwill 2016 and was an active member at United Nations World Tourism Organization (UNWTO).
She was a member of Egypt National Competitiveness Council (ENCC) and headed the committee for Leasing/Mortgage Lending
Ms. Maha was a board member, elected vice chairperson and treasurer for Protocol Foundation of Orange County (California), overseeing business development and marketing analysis to promote business and cultural interaction between international visitors and the residents of Orange Country (California).
Ms. Maha currently trains professionals at the Egyptian Banking institute (EBI) and training at Arab Academy for Banking Financial and Sciences, and previously at the AUC, Ain-Shams University and OUDA. She also developed the retail curriculum approved by the Supreme Council of Universities-Egypt in cooperation with the American University in Cairo (AUC) and previously trained in the USA on how to assimilate with foreign cultures as well as understand the business protocol in the Middle East.

**Mr. Tamer El Raghy**

**Independent, Non-Executive Director (since July 2022)**

Tamer El-Raghy is the Founding MD of the Acumen Resilient Agriculture Fund (ARAF); a $58 million impact Agri VC fund and the world's first equity fund designed to build the climate resilience of African smallholder farmers utilizing blended finance. Tamer has more than 20 years of private equity, venture capital, M&A, entrepreneurial, and innovation experience in Africa, the Middle East, the United States, and Europe.

Prior to joining ARAF, Tamer was with responsAbility AG as head of the Agri & Food PE Fund in Africa where he co-led the structuring, due diligence, and closing of transactions in India and Africa. Before responsAbility AG, he led Cargill's growth strategy and M&A activities in Africa with a focus on animal nutrition, animal protein, and commodities value chains in Egypt, Morocco, Kenya, Zambia, and Ghana.

Tamer started his career as a materials engineer, where he co-invented a new class of materials, held 9 patents, and founded 3-ONE-2 LLC, as a joint venture, commercializing the technology for both civilian and defense applications. Tamer earned an MBA from the New York University (NYU) Stern School of Business, a PhD in Materials Engineering from Drexel University, and a BSc in Metallurgical Engineering from Cairo University.

## The Board Committees

The purpose of HSBC Bank Egypt's corporate structure, headed by the Board of Directors and led by the Chairman, is to deliver sustainable value to its shareholders. The Board sets the strategy for the Bank and approves the risk appetite and capital and operating plans presented by management to achieve the strategic objectives it has set. Implementation of the strategy set by the Board is delegated to the Executive Committee, led by the Chief Executive Officer. To achieve its strategic objectives, the Board has also appointed a number of Directors and Executive Management to serve on Board Committees. The responsibilities of these committees and its membership are as follows:

### Audit Committee

The Audit Committee is responsible for reviewing and monitoring financial and internal audit matters, and for ensuring that effective systems of internal control (including financial control) are in place. The members of the Audit Committee as at 31 December 2022 are Mr. Nadim Ghanem (Chairman), Mr. Christian Deseglise and Mrs. Maha Abdel Razek.

### Risk Committee

The Risk Committee has responsibilities to oversee and advise the Board on all high-level risk related matters in relation to risk governance; and to review the effectiveness of the bank's risk management framework and internal control systems. The members of the Risk Committee as at 31 December 2022 are Mr. Christian Deseglise (Chairman), Mr. Nadim Ghanem, Mrs. Hanan Abdel Meguid and Mr. Todd Wilcox.

### Governance and Nomination Committee

The Governance and Nomination Committee is responsible for leading the process for Board appointments and for identifying and nominating, for approval by the Board, candidates for appointment to the Board in addition to evaluating the bank's governance system. The members of the Governance and Nomination Committee as at 31 December 2022 are Mrs. Maha Abdel Meguid (Chairperson), Mrs. Hanan Abdel Meguid and Mr. Nadim Ghanem.

### Salaries and Remuneration Committee

The Salaries and Remuneration Committee considers remuneration matters for the bank in the context of the Group's remuneration policy, proposes the fees for directors for approval by the Board and the shareholders and reviews performance-based remuneration with reference to corporate goals and objectives. The members of the Salaries and Remunerations Committee as at 31 December 2022 are Mrs. Hanan Abdel Meguid (Chairperson), Mr. Nadim Ghanem and Mr. Christian Deseglise.

### Governance Committees

The Bank's main governance committees are the Risk Management Committee, the Executive Committee, the Assets and Liabilities Committee and the Country Impairment Forum, all of which have direct reporting lines to the Board of Directors and the Board's Committees with exception of the Executive Committee.

**Executive Committee (EXCO)**

The Executive Committee is an executive management committee that meets at least 6 times a year and operates as a general management committee with regards to the day-to-day management of the bank. The purpose of the Executive Committee is to maintain a reporting and control structure whereby all lines of business and functions are accountable to the individual members of the Committee who report to the Chief Executive Officer who chairs the Executive Committee.

**Risk Management Committee (RMM)**

HBEG Risk Management Meeting (RMM) is a formal governance committee established to provide recommendations and advice to HBEG Chief Risk Officer (CRO) on enterprise-wide risk management of all risks within HBEG. It supports the CRO's individual accountability for the oversight of enterprise risk as set out in the Group's Enterprise Risk Management Framework (ERMF).

RMM serves as the governance body for enterprise-wide risk management with particular focus on risk culture, risk appetite, overall risk profile and integration of risk management into HBEG's strategic objectives and is chaired by CRO. RMM reports to the Risk Committee of the Board of Directors.

**Assets and Liabilities Committee (ALCO)**

Assets and Liabilities Committee serves as the governance body to consider ALCO issues. ALCO issues are defined as issues and risks with regards to assets, liabilities, capital, liquidity and funding risk, interest rate risk in the banking book, structural foreign exchange risk, structural and strategic equity risk and ALCO books. The purpose of ALCO is to ensure that ALCO issues are captured, monitored and controlled by management. It is an advisory committee, chaired by the Chief Finance Officer (CFO), to support the CFO's individual accountability for ALCO issues in Egypt, and to recommend proposals and decisions for approval to the CFO.

**Country Impairment Forum (CIF)**

The main objective of the Country Impairment Forum is to oversee the calculation processes for impairments to ensure that impairment models are established in line with the IFRS9 policies and to approve the final impairment figures. The Committee ensures that an effective control environment exists around the entire impairment process. The Chief Risk Officer and the Chief Finance Officer co-chair the Country Impairment Forum, which reports to both the Audit and Risk Committees and reports material issues to the Board of Directors.

# Auditors’ report

## To: The shareholders of HSBC Bank, Egypt (SAE)

### Report on the separate financial statements

We have audited the accompanying separate financial statements of HSBC Bank - Egypt (S.A.E.), which comprises the separate statement of financial position of HSBC Bank – Egypt (S.A.E) as of 31 December 2022 and the separate statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management’s responsibility for the financial statements

These separate financial statements are the responsibility of Bank’s management. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the rules of preparation and presentation of the banks’ financial statements, basis of recognition and measurement issued by Central Bank of Egypt on December 16, 2008 as amended by the regulations issued on February 26, 2019 and in light of the prevailing Egyptian laws and regulations.

Management’s responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of separate financial statements that are free from material misstatement, whether due to fraud or error; management’s responsibility also includes selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

### Auditors’ responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

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

**Opinion**

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the separate financial position of the Bank as of December 31, 2022 and of its separate financial performance and its separate cash flows for the year then ended, in accordance with Central Bank of Egypt's rules, pertaining to the preparation and presentation of the banks' financial statements, issued on December 16, 2008 as amended by the regulations issued on February 26, 2019 and in light of the prevailing Egyptian laws and regulations relating to the preparation of these separate financial statements.

**Report on other legal and regulatory requirements**

No material contravention, during the financial year ended 31 December 2022, of the provisions of Central Bank of Egypt and the Banking System Law no 194 of 2020 in the light of our audit of the separate financial statements.

The Bank maintains proper books of accounts, which include all that is required by law and by the statutes of the bank. The separate financial statements are in agreement thereto.

The separate financial information included in the Board of Directors' report, prepared in accordance with law no. 159 of 1981 and its executive regulations, is in agreement with the Bank's books of account.

## Auditors

**Mohamed Elmoataz**
F.R.A. (133)
R.A.A. (12747)
CBE Register No. (231)
PricewaterhouseCoopers Ezzeldeen, Diab & Co.
Public Accountants
Plot No 211, Second Sector, City Center New Cairo 11835, Egypt

**Kamel Magdy Saleh**
F.R.A. (69)
R.A.A. (8510)
Saleh, Barsoum & Abdel Aziz - Grant Thornton
Accountants and Auditors

# Statement of financial position

**HSBC Bank Egypt SAE**

Separate statement of financial postition as at 31 December 2022

(All amounts in EGP000)

| | Note | 2022 | 2021 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Bank of Egypt | 15 | 13,242,044 | 8,643,628 |
| Due from banks | 16 | 70,031,725 | 35,635,993 |
| Financial assets at fair value through profit or loss | 20 | 76,050 | - |
| Loans and advances to banks | 17 | 142,411 | 337,144 |
| Loans and advances to customers | 18 | 37,924,418 | 32,811,375 |
| Financial derivatives | 19 | 309,020 | 189,285 |
| Financial investments at fair value through OCI | 21 | 15,061,265 | 17,059,513 |
| Treasury bills at fair value through OCI | 22 | 41,509,058 | 34,131,632 |
| Investment in subsidiary | 23 | 12,046 | 35,517 |
| Intangible assets | 24 | 498,839 | 346,367 |
| Other assets | 25 | 2,368,012 | 2,282,257 |
| Investment property | 27 | 52,246 | 62,091 |
| Fixed assets | 26 | 729,524 | 621,786 |
| Deferred tax assets | 32 | 221,994 | 108,816 |
| **Total assets** | | **182,178,652** | **132,265,404** |
| **Liabilities and shareholders' equity** | | | |
| **Liabilities** | | | |
| Due to banks | 28 | 3,269,418 | 1,415,553 |
| Customers' deposits | 29 | 151,146,980 | 106,451,121 |
| Financial derivatives | 19 | 200,978 | 267,191 |
| Subordinated loans | 40 | 2,072,000 | 2,072,000 |
| Other liabilities | 30 | 3,194,328 | 2,357,163 |
| Other provisions | 31 | 327,701 | 421,396 |
| Current income tax liabilities | | 1,198,878 | 843,444 |
| Defined benefits obligations liabilities | 33 | 705,514 | 566,319 |
| **Total liabilities** | | **162,115,797** | **114,394,187** |
| **Shareholders' equity** | | | |
| Paid-up capital | 34 | 5,000,000 | 2,795,567 |
| Amounts reserved under capital increase | 34 | - | 2,204,433 |
| Reserves | 35 | 3,894,681 | 4,423,133 |
| Retained earnings | 35 | 11,168,174 | 8,448,084 |
| **Total shareholders' equity** | | **20,062,855** | **17,871,217** |
| **Total liabilities and shareholders' equity** | | **182,178,652** | **132,265,404** |

The accompanying notes from 1 to 42 form an integral part of these financial statements and are to be read therewith.

# Statement of income

**HSBC Bank Egypt SAE**

Separate statement of income for the year ended 31 December 2022

(All amounts in EGP000)

| | Note | 2022 | 2021 |
|---|---|---|---|
| Interest income from loans and similar income | 6 | 12,409,389 | 9,144,465 |
| Interest expense on deposits and similar expense | 6 | (3,758,609) | (2,809,387) |
| **Net interest income** | | **8,650,780** | **6,335,078** |
| Fees and commissions income | 7 | 1,743,235 | 1,237,569 |
| Fees and commissions expense | 7 | (380,749) | (236,230) |
| **Net fees and commissions income** | | **1,362,486** | **1,001,339** |
| Dividends | 8 | 8,144 | 14,727 |
| Net trading income | 9 | 516,987 | 455,881 |
| Financial investment income | | (8,148) | 2,180 |
| Credit Loss impairment (charged) | 12 | (405,331) | (450,783) |
| Administrative expenses | 10 | (2,993,524) | (2,526,669) |
| Other operating income (expense) | 11 | 462,225 | 145,848 |
| **Profit before income tax** | | **7,593,619** | **4,977,601** |
| Income tax expenses | 13 | (2,108,182) | (1,576,994) |
| **Net profit for the year** | | **5,485,437** | **3,400,607** |
| **Earnings per share (EGP/share)** | **14** | **82.94** | **50.09** |

The accompanying notes from 1 to 42 form an integral part of these financial statements and are to be read therewith.

# Statement of comprehensive income

**HSBC Bank Egypt SAE**

Separate statement of comprehensive income for the year ended 31 December 2022

(All amounts in EGP000)

| | Note | 2022 | 2021 |
|---|---|---|---|
| Net profit for the Year | | 5,485,437 | 3,400,607 |
| Changes on fair value of financial investment through OCI | 35 | (881,446) | (82,145) |
| Deferred tax for financial investment at FVOCI | 32 | 85,828 | - |
| Expected credit loss on financial investment at fair value through OCI | 12 | 1,073 | 2,058 |
| Actuarial losses (after tax) | | (67,425) | (42,830) |
| **Total impact related to other comprehensive income** | | **(861,970)** | **(122,917)** |
| **Net fees and commissions income** | | **4,623,467** | **3,277,690** |

The accompanying notes from 1 to 42 form an integral part of these financial statements and are to be read therewith.

# Statement of cash flows

**HSBC Bank Egypt SAE**

Separate statement of cash flows for the year ended 31 December 2022

(All amounts in EGP000)

| | Note | 2022 | 2021 |
|---|---|---|---|
| **Cash Flows from operating activities** | | | |
| Net profit before income tax | | 7,593,619 | 4,977,601 |
| **Adjustments to reconcile net profit to net cash flows from operating activities** | | | |
| Depreciation and amortization | | 214,625 | 193,337 |
| Impairment of assets | | 405,331 | 450,783 |
| Other provisions(Formed) | | 54,477 | 48,765 |
| Other Provisions no longer required | | (171,621) | (41,455) |
| Revaluation differences for provisions in foreign currency other than loans provision | | 65,647 | (336) |
| Loss/(Gain) from sale of property and equipment | | 496 | (11,457) |
| Impairment of Investments in Subsidiaries | | 23,471 | - |
| Other differences on financial investments | | (219,676) | (19,731) |
| Dividends received | | 8,144 | 14,727 |
| **Operating income before changes in Assets and liabilities** | | **7,974,513** | **5,612,234** |
| **Net decrease (increase) in assets and liabilities** | | | |
| Due from banks | | (30,522,015) | (14,442,079) |
| Treasury bills at fair value through OCI | | 8,111 | (485,846) |
| Loans and advances to customers | | (5,503,660) | 3,055,887 |
| Loans and advances to banks | | 194,733 | (130,637) |
| Financial derivatives (net) | | (185,948) | (1,594) |
| Other assets | | (86,504) | (433,922) |
| Due to banks | | 1,853,865 | (1,046,783) |
| Customers' deposits | | 44,695,859 | 16,231,148 |
| Other liabilities | | 802,250 | (2,621,566) |
| Defined benefits obligations | | 71,770 | 106,159 |
| Utilized from other provisions | | (42,198) | (41,538) |
| Income tax paid | | (1,511,866) | (1,413,899) |
| **Net cash flows generated from operating activities** | | **17,748,910** | **4,387,564** |

| | | |
|---|---|---|
| **Cash flows from investing activities** | | |
| Payments to purchase fixed assets and branches preparation | (242,874) | (253,415) |
| Proceeds from sale of fixed assets | 6,427 | 16,206 |
| Payments to purchase intangible assets | (227,645) | (255,020) |
| Payments for purchase of financial investments | (3,771,672) | (6,011,176) |
| Proceeds from sales (redemption) of financial investments | 5,261,604 | 1,106,118 |
| Dividends collected | (8,144) | (14,727) |
| **Net cash flows (used in) generated from investing activities** | **1,017,696** | **(5,412,014)** |
| **Cash flows from financing activities** | | |
| Dividends paid | (2,742,591) | (367,333) |
| **Net cash flows (used in) financing activities** | (2,742,591) | **(367,333)** |
| Net change in cash and cash equivalents during the year | 16,024,015 | (1,391,783) |
| Cash and cash equivalents at the beginning of the year | 20,484,142 | 21,875,925 |
| **Cash and cash equivalents at the end of the year** | **36,508,157** | **20,484,142** |
| **Cash and cash equivalents are represented in:** | | |
| Cash and balances with Central Bank of Egypt | 13,244,246 | 8,644,566 |
| Due from Banks | 70,050,630 | 35,643,270 |
| Treasury bills at fair value through OCI | 41,509,058 | 34,131,632 |
| Balance with Central Bank of Egypt as statutory reserve | (11,365,183) | (6,936,453) |
| Due from banks of maturity more than 3 months from date of acquisition | (42,960,526) | (16,867,241) |
| Treasury bills at fair value through OCI of maturity more than 3 months from date of acquisition | (33,970,068) | (34,131,632) |
| **Cash and cash equivalents** | **36,508,157** | **20,484,142** |

The accompanying notes from 1 to 42 form an integral part of these financial statements and are to be read therewith.

# Statement of changes in the shareholders' equity

Separate statement of changes in equity for the year ended 31 December 2022

(All amounts in EGP 000)

| | Note | Paid up capital | Amounts Reserved Under Capital Increase | General Reserve | Legal Reserve | Capital Reserve | Reserve for excess over par value – issuance premium | Fair Value Reserve | General Risk Reserves | General Bank Risk Reserve | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balances as of 31 December 2020** | | **2,795,567** | **-** | **2,164,822** | **1,397,782** | **40,295** | **6,728** | **218,260** | **491,666** | **66,609** | **7,815,864** | **14,997,593** |
| Amounts reserved under capital increase | | - | 2,204,433 | - | - | - | - | - | - | - | (2,204,433) | - |
| Dividends paid for year 2020 | | - | - | - | - | - | - | - | - | - | (367,333) | **(367,333)** |
| Transferred to general reserve | | - | - | 183,667 | - | - | - | - | - | - | (183,667) | **-** |
| Transferred to general risk reserve | | - | - | - | - | - | - | - | - | (66,609) | 66,609 | **-** |
| Net change in investement at fair value through OCI | | - | - | - | - | - | - | (82,145) | - | - | - | **(82,145)** |
| ECL change in fair Value of investement through OCI | | - | - | - | - | - | - | 2,058 | - | - | - | **2,058** |
| Actuarial losses | | - | - | - | - | - | - | - | - | - | (42,830) | **(42,830)** |
| **Net change in OCI** | | **-** | **-** | **-** | **-** | **-** | **-** | **(80,087)** | **-** | **-** | **(42,830)** | **(122,917)** |
| Transfer to Banking System Support and Development Fund | | - | - | - | - | - | - | - | - | - | (36,733) | **(36,733)** |
| Net Profit for the year ended 31 December 2021 | | - | - | - | - | - | - | - | - | - | 3,400,607 | **3,400,607** |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as of 31 December 2021** | | **2,795,567** | **2,204,433** | **2,348,489** | **1,397,782** | **40,295** | **6,728** | **138,173** | **491,666** | **-** | **8,448,084** | | **17,871,217** |
| **Balance as of 31 December 2021** | | **2,795,567** | **2,204,433** | **2,348,489** | **1,397,782** | **40,295** | **6,728** | **138,173** | **491,666** | **-** | **8,448,084** | | **17,871,217** |
| Transfer to Capital account | **(34)** | 2,204,433 | (2,204,433) | - | - | - | - | - | - | - | - | - | **-** |
| Dividents paid for year 2021 | **(36)** | - | - | - | - | - | - | - | - | - | (2,398,834) | | **(2,398,834)** |
| Transferred to General Reserve | **(35)** | - | - | 164,975 | - | - | - | - | - | - | (164,975) | | **-** |
| Transferred to Capital Reserve | **(35)** | - | - | - | - | 11,457 | - | - | - | - | (11,457) | | **-** |
| Transferred to general bank risk reserve | (35) | - | - | - | - | - | - | - | - | 89,661 | (89,661) | | **-** |
| Net change in investement at fair value through OCI | | - | - | - | - | - | - | (881,446) | - | - | - | | **(881,446)** |
| Deferred tax for financial investment through OCI | | - | - | - | - | - | - | 85,828 | **-** | **-** | **-** | | **85,828** |
| ECL change in fair Value of investement through OCI | | - | - | - | - | - | - | 1,073 | - | - | - | | **1,073** |
| **Net Change in OCI** | | - | - | - | - | - | - | (794,545) | - | - | - | | (794,545) |
| Transfer to Banking System Support and Development Fund | (35) | - | - | - | - | - | - | - | - | - | (32,995) | | (32,995) |
| Net profit for the year ended 31 December 2022 | | - | - | - | - | - | - | - | - | - | 5,485,437 | | 5,485,437 |
| Actourial loss | | - | - | - | - | - | - | - | - | - | (67,425) | | (67,425) |
| **Balance as of 31 December 2022** | | **5,000,000** | **-** | **2,513,464** | **1,397,782** | **51,752** | **6,728** | **(656,372)** | **491,666** | **89,661** | **11,168,174** | | **20,062,855** |

The accompanying notes from 1 to 42 form an integral part of these financial statements and are to be read therewith.

# Proposed profit of appropriation statement

**HSBC Bank Egypt SAE**

Separate proposed profit of appropriation statement for the year ended 31 December 2022

(All amounts in EGP 000)

| | Note | 2022 | 2021 |
|---|---|---|---|
| Net profit for the year (as per income statement) | | 5,485,437 | 3,400,607 |
| **Less:** | | | |
| Gain from sale of fixed assets transferred to capital reserve according to law | 11 | - | (11,457) |
| General bank risk reserves | | - | (89,661) |
| **Net profit for the year available for appropriation** | | **5,485,437** | **3,299,489** |
| **Add:** | | | |
| Retained earnings at the beginning of the year | 35 | 5,750,162 | 7,294,740 |
| **Less:** | | | |
| Actuarial losses | 35 | (67,425) | (42,830) |
| Amounts reserved under capital increase | 34 | - | (2,204,433) |
| **Retained earning balance** | | **5,682,737** | **5,047,477** |
| **Total** | | **11,168,174** | **8,346,966** |
| **Appropriation:** | | | |
| Legal reserve | 35 | 274,272 | - |
| General reserve | 35 | 274,272 | 164,975 |
| Banking System Support and Development Fund | | 54,854 | 32,995 |
| Shareholders' dividends | 36 | - | 1,979,528 |
| Employees' profit share | 36 | 548,543 | 419,306 |
| Retained earnings at the end of the year | | 10,016,233 | 5,750,162 |
| **Total** | | **11,168,174** | **8,346,966** |

The accompanying notes from 1 to 42 form an integral part of these financial statements and are to be read therewith.

# Notes on the accounts

**HSBC Bank Egypt SAE**
**Notes to the separate financial statements for the year ended 31 December 2022**
**(In the notes, all amounts are shown in thousands of Egyptian pounds unless otherwise stated)**

## 1. Background

HSBC Bank Egypt SAE provides retail, corporate and investment banking services in the Arab Republic of Egypt through 49 branches and 7 small units served by 1,584 staff at the date of the financial position.

HSBC Bank Egypt SAE is established according to the Investment Law, in accordance with the decision no.60 for year 1982 taken by the minister of investment and international co-operation and published in "El Waqaa El Masria" newspaper on 17 May 1982 in the Arab Republic of Egypt. The head office is located in Cairo. The Bank started its operation on the 15th of December 1982. The Bank's shares have been delisted from the Egyptian stock exchange market on the 31st December 2009.

The financial statements for the year ended 31 December 2022 have been approved for issuance by the Board of Directors on 9 February 2023 and the GAM have the right to amend the statements after their issuance.

## 2. Summary of significant accounting policies

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

### A. Basis of preparation of financial statements

The financial statements are prepared in accordance with the rules of preparation and presentation of the banks' financial statements, basis of recognition and measurement issued by Central Bank of Egypt on December 16, 2008 as amended by the regulations issued on February 26, 2019 and in light of the prevailing Egyptian laws and regulations.

### B. Subsidiaries

- Subsidiaries are all companies (including special purpose entities) over which the Bank has owned directly or indirectly the power to govern the financial and operational policies and generally, the bank own more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank has the ability to control the entity.
- The purchase method is used to account for the acquisition of subsidiaries by the Bank. The cost of an acquisition is measured as the fair value of the assets, or/and asset given or/and equity instruments issued and loans assumed at the date of exchange, plus costs directly attributable to the acquisition. Net assets, including contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date, irrespective of the minority interest. The excess of acquisition cost over the Bank's share fair value in the net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the net assets, the difference is recognized directly in the income statement under the item 'Other operating income / (expenses).
- Investments in subsidiaries in the separate financial statements are accounted for using the cost method. According to this method, investments recorded at cost of acquisition including goodwill and less any impairment losses. Dividends are recorded in the income statement when the right of distribution is authorized.

### C. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns which are different from those of other business segments. A geographical segment is a segment which provides products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

### D. Functional and presentation currency

The Bank presents its financial statements in Egyptian pound and it is the functional and presentation currency.

### E. Foreign currency transactions and balances

The Bank keeps its accounting records in Egyptian pound. Foreign currency transactions are translated into Egyptian pound using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are retranslated at the end of each period at the exchange rates then prevailing. Foreign exchange gains and losses resulting from settlement of such transactions and valuation differences are recognized in the income statement under the following items:

- Net trading income for the assets/liabilities held for trading.
- Equity derivatives as a qualifying cash flow hedge or as a qualified net investment hedge.
- Other operating income (expenses) for the other items.

Changes in the fair value of monetary financial instruments in foreign currencies classified as investments through OCI (debt instruments) represents valuation differences resulting from changes in cost of the instrument and differences resulted from changes in applicable exchange rates and differences resulting from changes in the instrument fair value. Differences relating to changes in amortized cost are recognized in income statement under 'Interest and similar income', while differences relating to changes in exchange rates are recognized under item 'Other operating income (expenses)'. Differences resulting from changes in fair value are recognized under 'Fair value reserve – through OCI investments' in the equity caption.

Translation differences on non-monetary items carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets such as equities held at fair value through profit or loss are recognized in income statement as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as financial assets at FVOCI are recognized in equity reserves "Net change in investments at FVOCI".

### F. Financial assets

The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on:
(i) the Bank's business model for managing the related assets portfolio, and
(ii) the cash flow characteristics of the asset.

### G. Valuation of financial instruments

All financial instruments are recognized initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the bank recognizes the difference as a trading gain or loss at inception (a 'day 1 gain or loss').

In all other cases, the entire day 1 gain or loss is deferred and recognized in the income statement over the life of the transaction either until the transaction matures or is closed out, the valuation inputs become observable or the bank enters into an offsetting transaction.

### G.1. Financial instruments measured at amortized cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as loans and advances to banks and customers and some debt securities, are measured at amortized cost. In addition, most financial liabilities are measured at amortized cost. The bank accounts for regular way amortized cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognized over the life of the loan through the recognition of interest income.

### G.2. Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI.

These comprise primarily debt securities. They are recognized on the trade date when the bank enters into contractual arrangements to purchase and are normally derecognized when they are either sold or redeemed. They are subsequently re-measured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognized in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognized in the income statement as 'Gains less losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations and impairment is recognized in profit or loss.

### G.3. Equity securities measured at fair value with fair value movements presented in OCI

The equity securities for which fair value movements are shown in OCI are business facilitation and other similar investments where the bank holds the investments other than to generate a capital return. Gains or losses on de-recognition of these equity securities are not transferred to profit or loss. Otherwise equity securities are measured at fair value through profit or loss (except for dividend income which is recognized in profit or loss).

### G.4. Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- The use of the designation removes or significantly reduces an accounting mismatch;
- When a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- Where the financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognized when the bank enters into contracts with counterparties, which is generally on trade date, and are normally derecognized when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognized when the bank enters into contracts with counterparties, which is generally on settlement date, and are normally derecognized when extinguished. Subsequent changes in fair values are recognized in the income statement.

**Equity securities measured at fair value with fair value movements presented in OCI**

The equity securities for which fair value movements are shown in OCI are business facilitation and other similar investments where the bank holds the investments other than to generate a capital return. Gains or losses on de-recognition of these equity securities are not transferred to profit or loss. Otherwise equity securities are measured at fair value through profit or loss (except for dividend income which is recognized in profit or loss).

### H. Netting between financial instruments

Financial assets and liabilities are offset when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

### I. Financial Liabilities

#### I.1 Measurement categories

Financial liabilities are classified at Amortized cost, except for:

Financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognized by an acquirer in a business combination and other financial liabilities designated as such at initial recognition, and.

#### I.2 Derecognition

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

### J. Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that the bank can access at the measurement date.
- Level 2 - valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 - valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

**2022**

| | Level 2<br>Using observable inputs | Total |
|---|---|---|
| **Recurring fair value measurements assets** | | |
| Financial assets at fair value through other comprehensive income | 56,570,323 | 56,570,323 |
| Financial assets at fair value through profit or loss | 76,050 | 76,050 |
| Financial Derivatives - Assets | 309,020 | 309,020 |
| Financial Derivatives - Liabilities | (200,978) | (200,978) |

**2021**

| | Level 2<br>Using observable inputs | Total |
|---|---|---|
| **Recurring fair value measurements assets** | | |
| Financial assets at fair value through other comprehensive income | 51,191,145 | 51,191,145 |
| Financial Derivatives - Assets | 189,285 | 189,285 |
| Financial Derivatives - Liabilities | (267,191) | (267,191) |

### K. Derivative financial instruments

Derivatives are recognised at fair value at the date of the derivative contract and are subsequently revaluated at fair value. Fair values are obtained from quoted market prices in active markets, or according to the recent market deals, or the revaluation methods as the discounted cash flow modules and the pricing lists modules, as appropriate. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

- Derivatives that do not qualify for hedge accounting

Derivative instruments that do not qualify for hedge accounting and changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement under 'Net trading income'.

### L. Interest income and expense

Interest income and expense related to bearing interest financial instruments, except for investments at fair value through profit and loss, are recognised using effective interest rate method under 'Interest and similar income' or 'Interest and similar charges'.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the life of the financial instrument. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period when it is appropriate to reach the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows, considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties of the contract that are considered part of the effective interest rate. Transaction costs include all other premiums or discounts.

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

**L.1** When collected and after recovery of all arrears for retail loans, mortgage loans for personal housing and small loans for businesses

**L.2** For loans granted to corporates, interest income is recognised on a cash basis after the Bank collects 25 per cent of the scheduling instalments and after the instalments continued to be regular for at least one year. Interest income will not be recognised as revenue until full payment of the loan balance before the rescheduling and client is considered to be performing

**M. Fees and commission income**

Fees and commissions related to loan and advances are recognised as income when the service is rendered. Fees and commissions income related to non-performing or impaired loans or debts are suspended and are carried off-balance sheet and are recognised under income according to the cash basis when interest income is recognised in accordance with note (H/2) above. Fees and commissions that represent part of the financial asset effective rate are recognised as adjustment to the effective interest rate.

Commitment fees on loans are deferred when there is probability that this loan will be used by the customer, as commitment fees represent compensation for the continuing interfere to own the financial asset. Subsequently, it is recognised as adjustment to the effective interest rate of the loan. If the commitment period passed without issuing the loan, commitment fees are recognised as income at the end of the commitment period.

Fees and commissions related to debt instruments measured by fair value are recognised as income at initial recognition. Fees and commissions related to promtoing a syndicated loan are recognised as income when the marketing is completed and the loan is fully used or the Bank kept its share of the syndicated loan using the effective interest rate as used by the other participants.

Commissions and fees arising from negotiation or participating in a negotiation to the favour of a third party as in share acquisition arrangements or purchase of securities or purchase or sale of businesses are recognised as income when the transaction is completed. Commissions and fees related to management advisory and other services are recognised as income based on the contract terms, usually on a time-appropriation basis. Long period financial planning and custody services and management fees are recognised over the period in which the service is provided.

**N. Dividends income**

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

**O. Agreement for purchase and resale, and agreement for selling and repurchase**

Financial instruments sold according to Sale and Re-purchase agreements are presented in the assets in Treasury bills & other governmental instruments in the financial position. Difference between face value & purchase amount is recorded as interest realized over the contractual period using effective interest method.

**P. Impairment of financial assets**

**Expected Credit Loss**

**Credit-impaired (stage 3)**

The Bank determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily – whether:

- Contractual payments of either principal or interest are past due for more than 90 days;
- There are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- The loan is otherwise considered to be in default.

If such unlikeliness, even where regulatory rules permit default to be defined based on 90 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.
Interest income is recognized by applying the effective interest rate to the amortized cost amount, i.e. gross carrying amount less ECL allowance.

**Write-off**

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

**Renegotiation**

Loans are identified as renegotiated and classified as credit- impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognized.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognised events in these circumstances are considered to be purchased or originated credit-impaired (POCI) and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

**Loan modifications that are not credit-impaired**

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalized through an amendment to the existing terms or the issuance of a new loan contract) such that group's rights to the cash flows under the original contract have expired, the old loan is derecognized and the new loan is recognized at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

**Significant increase in credit risk (stage 2)**

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale.

However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor's customer risk rating, macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination CRR greater than 3.3).

The significance of changes in PD was informed by expert credit risk judgment, referenced to historical credit migrations and to relative changes in external market rates. The quantitative measure of significance varies depending on the credit quality at origination as follows:

| **Origination CRR to** | **Significance trigger – PD increase by** |
|---|---|
| 0.1 – 1.2 | 15 bps |
| 2.1 – 3.3 | 30 bps |
| Greater than 3.3 and not impaired | 2X |

For loans initiated prior to the adoption of IFRS 9, the quantitative comparison with the current limits based on the deterioration of the additional credit risk classification as shown in the table below.

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle (TTC) PDs. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

| **Origination CRR as significant CRR grade notches deterioration Deterioration 'Stage 2' > or equal to** | **Additional significance criteria – Number required to identify as significant credit** |
|---|---|
| 0.1 | 5 notches |
| 1.1 – 4.2 | 4 notches |
| 4.3 – 5.1 | 3 notches |
| 5.2 – 7.1 | 2 notches |
| 7.2 – 8.2 | 1 notch |
| 8.3 | 0 notch |

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgments are that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

**Unimpaired and without significant increase in credit risk – (stage 1)**

ECL resulting from default events that are possible within the next 12 months (12-month ECL) are recognised for financial instruments that remain in stage 1.

**Purchased or originated credit-impaired (POCI)**

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI.

This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

**Movement between stages**

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

**Measurement of ECL**

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the bank calculates ECL using three main components, a probability of default, and a loss given default and the exposure at default (EAD).

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead.

The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realized and the time value of money.

The bank leverages the Basel II IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as follows:

- While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

- The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as of the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realization of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the Bank and the judgment of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies are approximated and applied as an adjustment to the most likely outcome.

**Forward-looking economic inputs**

The bank applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and three, less likely, 'Outer' scenarios, referred to as the Upside, Downside scenarios and Additional Downside scenarios. The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests.

The Upside, Downside and Additional Downside are constructed following a standard process supported by a scenario narrative reflecting the bank's current top and emerging risks and by consulting external and internal subject matter experts. The relationship between the Outer scenarios and Central scenario will generally be fixed with the Central scenario, with the difference between the Central and Outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The Outer scenarios are economically plausible, internally consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years, after which the forecasts will revert to a view based on average past experience. The spread between the central and outer scenarios is grounded on consensus distributions of projected gross domestic product of Egypt. The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, and commercial property prices across all the countries in which the bank operates.

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly.

The bank recognizes that the Consensus Economic Scenario approach using three scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. If conditions warrant, this could result in a management overlay for economic uncertainty which is included in the ECL.

Critical accounting estimates and judgements
The calculation of the bank's ECL under IFRS 9 requires the bank to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements Estimates:

- Defining what is considered to be a significant increase in credit risk.
- Determining the lifetime and point of initial recognition of overdrafts and credit cards.
- Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions.
- Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss.

### Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the bank is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

### Credit-impaired (Stage 3)

A financial instrument is credit-impaired when there is observable data that the following events have taken place, which on their own or in combination would have a detrimental impact on its cash flows.

- Significant financial difficulty of the issuer or the borrower, eg known cash flow difficulties experienced by the borrower, or deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful;
- A breach of contract, such as a default or past due event, eg contractual payments of either principal or interest being past due for more than 90 days;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- Where relevant, the disappearance of an active market for that financial asset because of financial difficulties (experienced by the issuer); and
- A concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that HSBC would not otherwise consider, eg forgiveness or postponement of principal, interest or fees, where the concession is not insignificant.

It should be noted that a downgrade of an entity's external credit rating is not, of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information.

A financial instrument that is not Purchased or originated credit impaired (POCI) and meets any these criteria will be allocated to Stage 3. If the financial instrument no longer meets these criteria, it will be transferred to other stages as appropriate.

### Definition of default

IFRS 9 requires an assessment of the extent of increase in credit risk of a financial instrument since initial recognition. This assessment is performed by considering the change in the risk of default occurring over the remaining life of the financial instrument as a result, the definition of default is important.

IFRS 9 does not specifically define default, but requires it to be applied on a consistent basis with internal credit risk management practice for the relevant instruments and consider qualitative factors where appropriate. In addition, IFRS 9 also introduces a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate.

In addition, default is defined under Basel for regulatory reporting purposes. The Basel regulation provides a clear definition by referring to the number of days past due and criteria for unlikeliness to pay. The criteria for unlikeliness to pay are similar to the definition of credit-impaired under IFRS 9 and in general, default for regulatory reporting purposes does not occur later than when a financial asset is 90 days past due as well.

In view of the above, HSBC has decided to align the IFRS 9 definition of default and Basel definition of 'default' whenever possible. HSBC has decided not to rebut the presumption introduced by IFRS 9, i.e. default does not occur later than when a financial asset is 90 days past due. The use of the same default definition ensures that a single and consistent view of credit risk is applied for internal risk management, regulatory capital, and impairment calculations. In addition, since the criteria for credit-impaired under IFRS 9 can be interpreted consistently with the accounting default definition, all accounting defaults are considered to be credit-impaired and all credit-impaired assets are considered to be defaulted for accounting purposes.

**Upgrading from Stage 2 to Stage 1:**

The financial asset shall not be moved from Stage 2 to Stage 1 before meeting all the quantitative and qualitative elements of Stage 1 and full repayment of past-dues (principal & interest), and after the lapse of 3 months of regular repayment and fulfillment of Stage 1 requirements.

**Upgrading from Stage 3 to Stage 2:**

The financial asset shall not be moved from Stage 3 to Stage 2 before meeting all the following conditions:

- Meeting all the quantitative and qualitative elements of Stage 2;
- Paying 25 per cent of the outstanding balances of the financial asset after paying the reserved/suspended interest, as the case may be; and
- Punctual payment for 12 months at least.

**Forward- looking economic inputs**

The bank will in general apply four forward-looking global future economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and three, less likely, 'Outer' scenarios, referred to as the Upside and Downside and the extra downside scenarios (2). The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside and Downside are constructed following a standard process supported by a scenario narrative reflecting the Bank's current top and emerging risks and by consulting external and internal subject matter experts. The relationship between the Outer scenarios and Central scenario will generally be fixed with the Central scenario being assigned a weighting of 50% and the Downside and the extra downside 5% ,30% each, and 15% for the upside, with the difference between the Central and Outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The Outer scenarios are economically plausible, consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years, after which the forecasts will revert to a view based on average past experience. The spread between the central and outer scenarios is grounded on consensus distributions of projected gross domestic product of Egypt.

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly.

The bank recognizes that the Consensus Economic Scenario approach using four scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. If conditions warrant, this could result in a management overlay for economic uncertainty which is included in the ECL

**Critical accounting estimates and judgments**

In determining ECL, management is required to exercise judgment in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Judgment has been applied in determining the lifetime and point of initial recognition of revolving facilities.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of 'Upside scenarios' which have not generally been subject to experience gained through stress testing.

The exercise of judgment in making estimations requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive.

**Q. Investment property**

Investment property represents land and buildings owned by the Bank and used to earn rental income or increase capital. Investment property does not include properties used by the Bank during its normal course of operation or foreclosed assets. The accounting policy for investment property is the same as for fixed assets.

The depreciation of investment property is calculated by using fixed installment method to distribute the cost over the assets' residual values and useful lives as follows:

| | |
|---|---|
| Buildings | 20 Years |

**R. Intangible assets**

**Software (computer programmes)**

The expenses related to upgrading or maintenance of computer programmes are to be recognised as expenses in the income statement when incurred. The expenses connected directly with specific software, which are subject to the Bank's control and expected to produce economic benefits exceeding their cost for more than one year, are to be recognised as an intangible asset. The direct expenses include staff cost of software upgrading teamwork, in addition to a suitable portion of respective overhead expenses.

The expenses which lead to the increase or expansion of computer software beyond their original specifications are recognised as an upgrading cost and are added to the original software cost.

The computer software cost recognised as an asset shall be amortised over the expected useful life (not more than five years).

**S. Fixed assets**

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Maintenance and repair expenses are charged to other operating expenses during the financial year in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight line method to allocate their cost to their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 20 years |
| Leasehold improvements | 3 to 10 years or over lease tenor if less |
| Furniture and safes | 10 years |
| Typewriters calculators and air conditioners | 10 years |
| Motor vehicles | 5 years |
| Computers and core systems | 5 years |
| ATMs | 7 years |
| Fixtures and fitting | 3 years |

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The recoverable amount is the higher of the asset's fair value less costs to sell or value in use.

Gains and losses on disposals are determined by comparing net proceeds with asset carrying amount. These gain and losses are included in other operating income (expenses) in the income statement.

**T. Impairment of non-financial assets**

Assets having no fixed useful life shall not be amortized (Except goodwell), and their impairment shall be tested at least annually. The impairment of amortized assets is studied to determine if there are events or changes in the circumstances indicating that the book value may not be recoverable.

The impairment loss is recognised by the excess amount of book value over the recoverable value. The recoverable value represents net realisable value of the asset or the usage amount, whichever is higher. For the purpose of estimating the impairment, the asset is grouped with the smallest cash generating unit. At each balance sheet date, non-financial assets with impairment have to be reviewed to determine if there is impairment reversal made to the income statement.

**U. Leases**

The accounting treatment for the finance lease is in accordance with law 95 of year 1995. If the contract entitles the lessee to purchase the asset at a specified date and amount, and the contract term is more than 75 per cent of the asset's expected useful life, or the current value of the total lease payments represents at least 90 per cent of the value of the asset, then this lease is considered finance lease. Other than that, the lease has to be considered operating lease.

**U.1 Leasing**

For finance leases, the cost of the lease, including the cost of maintenance of the leased assets, is recognized as an expense in the income statement for the period in which it occurred.

If the Bank decides to purchase the right to purchase the leased assets, the cost of the purchase right is capitalized as an asset within the fixed assets and is depreciated over the remaining useful life of the asset in the same way as for similar assets.

Payments under operating lease less any discounts obtained from the lessor are recognized as expenses in the income statement on a straight-line basis over the period of the contract.

**U.2 Leasing out**

Operating lease assets are accounted for at the fixed assets caption in the balance sheet and depreciated over the asset expected useful life using the same method applicable to similar assets. The lease rent income less any discount granted to the lessee will be recognised in the income statement using the straight line method over the contract term.

### V. Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents include balances due within three months from the date of acquisition, cash and balances due from the CBE other than the mandatory reserve, and current accounts with banks and Treasury bills

### W. Other provisions

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

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

Provisions no longer required are reversed in other operating income (expense). Provisions are measured at the present value of the best estimate of the consideration required to settle the obligations after one year from the financial statement date using the appropriate rate in accordance with the terms of settlement ignoring the tax effect which reflects the time value of money. If the settlement term is less than one year, the provision is booked using the present value unless time consideration has a significant effect.

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. Overall, the bank calculates the ECL at the same way shown in previous points.

### X. Financial guarantees contracts

Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortized balance of the amount at initial recognition. In addition, an ECL loss allowance is recognized for fees receivable that are recognized in the statement of financial position as an asset.

### Y. Employees' benefits

#### End of service benefits

The Bank contributes to the social insurance scheme related to the social insurance authority for the benefit of its employees according to the social insurance law number 79 of 1975 and its amendments. The income statement is charged with these contributions on an accrual basis.

Based on the Bank's internal scheme, employees are granted end of service bonus according to the service year. Provision is provided based on the present value in light of the actuarial assumptions determined at balance sheet date and is recognised in the consolidated profit or loss under the caption of general and administrative expenses. This provision is presented in the balance sheet under 'other provisions caption'.

#### Share-based payments

HSBC Holding plc (UK) grants shares to eligible employees under a share-based payment scheme, 'equity settled'. HSBC Egypt bears the cost of these shares which are charged in the income statement in light of the bank's shares in the expenses sent from the head office which are paid by the bank.

## Z. Income tax

The income tax on the Bank's income or loss at the end of year includes both the current and deferred taxes. Income tax is recognised in the income statement, except income taxes related to shareholders' equity items that are recognised directly in the shareholders' equity.

The income tax is calculated on the net taxable income using the effective tax rate at the balance sheet date in addition to prior year tax adjustments.

Deferred tax is recognised due to the temporary differences resulting from reporting the value of assets and liabilities in one year for tax purpose and in another year for financial accounting purpose. Deferred tax is determined based on the method used to realise or settle the current values of these assets and liabilities using the tax rates prevailing at the balance sheet date.

The deferred tax assets shall be recognised if it is probable that sufficient taxable profits shall be realised in the future whereby the asset can be utilised, and the value of deferred tax assets shall be reduced by the value of portion not yielding the expected tax benefit. However, in case tax benefit is highly expected, the deferred tax assets shall increase to the extent of previous reduction.

## AA. Capital

### AA.1 Capital cost

Issuance cost directly related to issuing new shares or issuing shares related to acquisition or share options is charged to shareholders' equity of total proceeds net of tax.

### AA.2 Dividends

Dividends are recognized as a liability when declared by the General Assembly of shareholders. Those dividends include employees' share in the profits and the Board of Directors' remuneration as prescribed by the articles of association and law.

## AB. Custody activities

The Bank practises the custody activities that result in ownerships or management of assets on behalf of individuals, trusts, and retirement benefit plans. These assets and related income are excluded from the Bank's financial statements as they are assets not owned by the Bank.

## AC. Earnings per share

Earnings per share are calculated by dividing profit related to the shareholders by the ordinary shares' weighted average issued during the period after, excluding the average repurchased shares during the year and kept as Treasury stocks.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

## AD. Corresponding figures

The corresponding figures shall be reclassified, when necessary, to be in conformity with the changes to presentation used in the current year.

## 3. Financial risk management

The Bank, as a result of the activities it exercises, is exposed to various financial risks. Since the basis of financial activity is to accept risks, some risks or group of risks are analysed, evaluated and managed altogether. The Bank intends to strike a balance between the risk and return and to reduce the probable adverse effects on the Bank's financial performance.

The most important types of risks are credit risk, market risk, liquidity risk and other operating risks. Market risk comprises foreign currency exchange rates, interest rate risk and other pricing risks.

The risk management policies have been laid down to determine and analyse the risks, set limits to the risk and control them through reliable methods and updated systems.

The Bank regularly reviews the risk management policies and systems and amends them to reflect the changes in market, products and services, and the best updated applications.

Those risks are managed by the Risk department in the light of policies approved by Board of Directors. The Risk department determines, evaluates and covers the financial risks, in collaboration with the Bank's various operating units, and the Board of Directors provides written policies for management of risks as a whole, in addition to written policies covering specific risk areas like credit risk, foreign exchange rate risk, interest rate risk and using the financial derivative and non-derivative instruments. Moreover, the Risk department is independently responsible for annual review of risk management and control environment.

### A. Credit risk

The Bank is exposed to the credit risk, which is the risk resulting from failure of one party to meet its contractual obligations towards the Bank. The credit risk is considered to be the most significant risk for the Bank. The Bank sets specific procedures to manage that risk. The credit risk in the lending and investments activities that are representing the Bank's assets contains debt instruments. The credit risk is also found in off-balance sheet financial instruments, like loan commitment. The managing and monitoring process on credit risk is centralised at credit risk team management at the Risk department, which prepares reports for the Board of Directors and heads of units on a regular basis.

#### A.1. Credit risk measurement

#### Loans and advances to banks and customers

Loans to customers and banks, financial investments debt securities, current accounts and deposits at banks, rights and obligations from others are considered financial assets exposed to credit risk represented in the inability of those parties to settle part or whole of their indebtedness on the date of maturity. The Bank minimises the effect of this risk by the following:

- Preparing detailed credit studies about customers and banks before dealing with them to assess and determine the rates of the credit risk rates related to these
- Obtaining adequate guarantees to reduce the possibility of loss in case of a customer or bank default
- Monitoring and preparing regular studies on customers in order to evaluate their financial and credit position and estimate the required provisions for non-performing balances
- Diversifying loans portfolio among various sectors to minimise the concentration of credit risk

Note No. (A/8) shows the sector diversification of the loans and advances portfolio.

The Bank evaluates the customer risk using internal policies for different customer categories. These policies are updated taking into consideration financial analysis and statistical analysis for each customer category in addition to the personal judgement of the credit officer to reach the appropriate grading. The customers are classified into 10 grading, which are divided into four ratings.

**Bank's internal ratings scale**

The amount of default represents the outstanding balances at the time when a late settlement occurred, for example the loans expected amount of default represents its book value. For commitments, the default amount represents all actual withdrawals in addition to any withdrawals occurred until the date of the late payment, if any.

The expected losses or specific losses represent the Bank's loss expectation of when the settlement is due, which is loan loss percentage that differs according to the type of facility, the availability of guarantees and any other credit cover.

**Debt instruments and Treasury bills**

The same methods used for credit customers are used for debt instruments and Treasury bills. They represent better credit method and a readily available source to meet the funding requirements bills. The Bank uses external ratings, such as Standard and Poor's rating, MERIS MODES rating and Fitch rating to manage its credit risk.

**A.2. Limiting and preventing risks policies**

The Bank manages and controls credit concentrations at the borrowers' level, groups of borrowers' level, industries level and countries level.

The Bank manages the credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower or groups of borrowers and to the geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review when considered necessary. The top management reviews on regular basis the sectoral and country credit concentration.

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

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

**Collaterals**

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

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

The Bank is keen to obtain the appropriate guarantees against corporate entities of long-term finance while individual credit facilities are generally unsecured.

In addition, to minimise the credit loss, the Bank will seek additional collaterals from all counterparties as soon as impairment indicators are noticed for a loan or advance.

The Bank determines type of collaterals held to secure financial assets other than loans and advances according to the nature of the instrument. Generally, debt securities and Treasury bills are unsecured, except for asset-backed securities and similar instruments that are secured by a financial instrument portfolio.

**Derivatives**

The Bank maintains strict control limits over amounts and terms for the net value of opened derivative positions, ie the difference between purchase and sale contracts. In all cases, the amount subject to credit risk is limited to the current fair value of instruments in which the Bank could gain a benefit from it (ie assets that have positive fair value), which represents a small value of the contract or the notional value. The Bank manages this credit risk, which is considered part of the total customer limit with expected market changes risk all together. Generally, no collateral is obtained for credit risk related to these instruments, except for marginal deposits required by the Bank from other parties.

Settlement risk arises when cash, equity instruments or other financial papers are used in the settlement process or if there is expectation to receive cash, equity instruments or other financial papers. Daily settlement limits are established for each counterparty to cover the aggregate settlement risk arising from the daily Bank transactions.

**Master netting arrangements**

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties of significant volume of transactions. Generally, no netting is made between assets and liabilities at the balance sheet date relating to the master netting arrangements as aggregate settlements are made. However, the credit risk related to contracts to the favour of the Bank is reduced by a master netting arrangement as netting will be made with the counterparty to settle all transactions. The value of the credit risk faced by the Bank changes substantially within a short period of time as it is affected by each transaction occurring in the arrangement.

**Credit-related commitment**

The primary purpose of these commitments is to ensure that funds are available to customer when required. Guarantees and standby letters of credit are of the same credit risks as loans.

Documentary and commercial letters of credit, which are issued by the Bank on behalf of customers, by which authorising a third-party to draw within a certain limit in accordance to specific terms and conditions and guaranteed by the goods under shipment, are of lower risk than a direct loan.

Credit-related commitment represents the unused portion of credit limit of loans, guarantees or letters of credit. With respect to credit risk related to credit-related commitments, the Bank is exposed to probable loss of amount equal to the total unused limit. However, the probable amount of loss is less than the unused limit commitments as most commitments represent commitments to customers maintaining certain credit standards. The Bank monitors the maturity term of the credit commitments because long-term commitments are of higher credit risk than short-term commitments.

**A.3. Impairment and provisioning policies**

The internal rating systems described in Note (A.1) focus more on credit quality at the inception of lending and investment activities. Otherwise, impairment provisions recognized at the balance sheet date using expected credit loss, as will be mentioned below. Due to the different methodologies applied, the amounts of incurred credit losses charged to the financial Statements are usually lower than the expected amount determined from the expected loss models used.

**Credit quality of financial instruments**

Credit Review and Risk Identification teams regularly review exposures and processes in order to provide an independent, rigorous assessment of the credit risk management framework across HSBC Bank, reinforce secondary risk management controls and share best practice. Internal audit, as a tertiary control function, focuses on risks with a global perspective and on the design and effectiveness of primary and secondary controls, carrying out oversight audits via the sampling of global/regional control frameworks, themed audits of key or emerging risks and project audits to assess major change initiatives.

The five credit quality classifications defined below each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending businesses, as well as the external ratings attributed by external agencies to debt securities.

There is no direct correlation between the internal and external ratings at granular level, except to the extent each falls within a single quality classification.

### Credit quality classification

| Quality classification | Debt securities and other bills External credit rating | Wholesale lending internal credit rating* | Retail lending internal credit rating** |
|---|---|---|---|
| Strong | A - and above | CRR0.1 to CRR2 | Band 1 and 2 |
| Good | BBB + to BBB - | CRR3 | Band 3 |
| Satisfactory | BB + to B and unrated | CRR4 to CRR5 | Band 4 and 5 |
| Sub-standard | B – to C | CRR6 to CRR8 | Band 6 |
| Impaired | Default | CRR9 to CRR10 | Band 7 |

* Customer risk rating

** 12-month point-in-time (PIT) probability weighted probability of default (PD).

Distribution of loans and facilities to customers for which the impairment requirements of IFRS9 are applicable in terms of credit quality and allocation at the stage.

| 31 December 2022 | Loans and advances to customers | Allowance / provision for ECL |
|---|---|---|
| Stage 1 | 37.13% | 0.27% |
| Stage 2 | 57.27% | 4.77% |
| Stage 3 | 5.60% | 79.48% |
| | **100%** | **7.28%** |
| **31 December 2021** | **Loans and advances to customers** | **Allowance / provision for ECL** |
| Stage 1 | 71.30% | 0.31% |
| Stage 2 | 19.48% | 5.73% |
| Stage 3 | 9.22% | 65.21% |
| | **100%** | **7.35%** |

Reconciliation of changes in allownaces for loans and advances customers including the loans, advances and financial guarantees.

(All amounts in EGP 000)

| | Non Credit impaired | | | | Credit impaired | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
| **December 2022** | **Gross carrying / nominal amount** | **Allowance for ECL** | **Gross carrying / nominal amount** | **Allowance for ECL** | **Gross carrying / nominal amount** | **Allowance for ECL** | **Gross carrying / nominal amount** | **Allowance for ECL** |
| As at 1 January 2022 | 25,249,817 | (77,511) | 6,898,719 | (395,386) | 3,264,252 | (2,128,516) | **35,412,788** | **(2,601,413)** |
| Transfer from stage 1 to stage 2 | (9,949,555) | (44,509) | 10,161,537 | 117,674 | - | - | **211,982** | **73,165** |
| Transfer from stage 2 to stage 1 | 978,996 | 7,110 | (1,060,707) | (8,542) | - | - | **(81,711)** | **(1,432)** |
| Transfer from stage 2 to stage 3 | (24,774) | (10) | (220,560) | (18,559) | 289,832 | 34,176 | **44,498** | **15,607** |
| Transfer from stage 3 to stage 2 | 488 | (47) | 72,936 | (7,247) | (258,635) | (7,323) | **(185,211)** | **(14,617)** |
| ECL(Charges)/ Reversal | - | 74,161 | - | (804,577) | - | 279,380 | **-** | **(451,036)** |
| Balance volume movement | (1,068,003) | - | 7,572,498 | - | (1,002,697) | - | **5,501,798** | **-** |
| **As at 31 December 2022** | **15,186,969** | **(40,806)** | **23,424,423** | **(1,116,637)** | **2,292,752** | **(1,822,283)** | **40,904,144** | **(2,979,726)** |

| | Non Credit impaired | | | | Credit impaired | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
| **December 2021** | **Gross carrying / nominal amount** | **Allowance for ECL** | **Gross carrying / nominal amount** | **Allowance for ECL** | **Gross carrying / nominal amount** | **Allowance for ECL** | **Gross carrying / nominal amount** | **Allowance for ECL** |
| As at 1 January 2021 | 26,309,774 | (71,634) | 9,884,949 | (495,743) | 2,765,900 | (2,078,578) | **38,960,623** | **(2,645,955)** |
| Transfer from stage 1 to stage 2 | (11,194,949) | 25,328 | 11,194,949 | (25,328) | - | - | **-** | **-** |
| Transfer from stage 2 to stage 1 | 8,266,427 | (44,489) | (8,266,427) | 44,489 | - | - | **-** | **-** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Transfer from stage 2 to stage 3 | - | - | (1,316,674) | 53,309 | 1,316,674 | (53,309) | **-** | **-** |
| Transfer from stage 3 to stage 2 | - | - | 358,981 | (81,870) | (358,981) | 81,870 | **-** | **-** |
| ECL other movement | - | 13,284 | - | 109,757 | - | (78,499) | **-** | **44,542** |
| ECL(Charges)/ Reversal | 1,868,565 | - | (4,957,059) | - | (459,341) | - | **(3,547,835)** | **-** |
| **As at 31 December 2021** | **25,249,817** | **(77,511)** | **6,898,719** | **(395,386)** | **3,264,252** | **(2,128,516)** | **35,412,788** | **(2,601,413)** |

## Gross balances and Expected credit losses by stages

| | 31 December 2022 | | | | |
|---|---|---|---|---|---|
| | **Gross balance subject to ECL** | **Stage One** | **Stage two** | **Stage three** | **Total** |
| Cash and balances at CBE | 11,365,183 | 2,202 | - | - | 2,202 |
| Due from banks / Loans to banks | 70,193,041 | 18,474 | 431 | - | 18,905 |
| Loans and advances to Customers | 40,904,144 | 40,806 | 1,116,637 | 1,822,283 | 2,979,726 |
| Accrued revenues | 1,466,546 | 537 | 1,939 | - | 2,476 |
| Financial Investment | 56,570,323 | 14,456 | - | - | 14,456 |
| Credit Commitments | 47,295,897 | 57,730 | 159,323 | 40,884 | 257,937 |
| **Total** | **227,795,134** | **134,205** | **1,278,330** | **1,863,167** | **3,275,702** |

| | 31 December 2021 | | | | |
|---|---|---|---|---|---|
| | **Gross balance subject to ECL** | **Stage One** | **Stage two** | **Stage three** | **Total** |
| Cash and balances at CBE | 6,936,453 | 938 | - | - | 938 |
| Due from banks / Loans to banks | 35,980,414 | 7,277 | - | - | 7,277 |
| Loans and advances to Customers | 35,412,788 | 77,511 | 395,386 | 2,128,516 | 2,601,413 |
| Accrued revenues | 1,452,299 | 1,597 | 130 | - | 1,727 |
| Financial Investment | 51,191,145 | 13,383 | - | - | 13,383 |
| Credit Commitments | 34,069,269 | 48,603 | 286,554 | 31,732 | 366,889 |
| **Total** | **165,042,368** | **149,309** | **682,070** | **2,160,248** | **2,991,627** |

**Quality classification definitions**

- 'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- 'Good' exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.
- 'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- 'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.
- 'Impaired' exposures have been assessed as impaired. These also include retail accounts classified as Band 1 to Band 6 that are delinquent by more than 90 days, unless individually they have been assessed as not impaired; and renegotiated loans that have met the requirements to be disclosed as impaired and have not yet met the criteria to be returned to the unimpaired portfolio.

**Risk rating scales**

The customer risk rating (CRR) 10-grade scale summarizes a more granular underlying 23-grade scale of obligor probability of default (PD). All HSBC customers are rated using the 10- or 23-grade scale, depending on the degree of sophistication of the Basel II approach adopted for the exposure.

Previously, retail lending credit quality was disclosed under IAS 39, which was based on expected-loss percentages. Now, retail lending credit quality is disclosed on an IFRS 9 basis, which is based on a 12-month point-in-time (PIT) probability weighted probability of default (PD).

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications. The ratings of Standard and Poor's are cited, with those of other agencies being treated equivalently. Debt securities with short-term issue ratings are reported against the long-term rating of the issuer of those securities. If major rating agencies have different ratings for the same debt securities, a prudent rating selection is made in line with regulatory requirements.

**A.4. Measurement module banking general risk**

In addition to the four categories of credit rating indicated in note (A.1), the management makes more detailed groups in accordance with the CBE requirements. Assets exposed to credit risk in these categories are classified according to detailed conditions and terms depending on the information related to the customer, their activities, financial position and payment schedules.

The Bank calculates the provisions required for impairment of assets exposed to credit risk, including commitments relating to credit on the basis of rates determined by CBE. In case, the provision for impairment losses according to credit worthiness rules issued by CBE exceeds the provision required according to discounted cash flow and historical default rates methods, this increase shall be debited from the retained earnings and credited to the 'general banking risk reserve' under the equity caption. This reserve is regularly adjusted with this increase and decrease, to equal the amount of increase and decrease in the two provisions. This reserve is not distributable. Note 35 shows the 'general banking risk reserve' movement during the period.

Below is a statement of institutional worthiness according to internal ratings, compared to CBE ratings and rates of provisions needed for assets' impairment related to credit risk

| CBE Classification | CBE Categorization | CBE Rating |
|---|---|---|
| 1 | Low risk | - |
| 2 | Average risk | 1% |
| 3 | Satisfactory risk | 1% |
| 4 | Reasonable risk | 2% |
| 5 | Acceptable risk | 2% |
| 6 | Marginally | 3% |
| 7 | Watch list | 5% |
| 8 | Substandard | 20% |
| 9 | Doubtful | 50% |
| 10 | Bad debts | 100% |

Credit characteristics that used to determine the staging is different from ORR customer classification.

### A.5. Maximum limits for credit risk before collaterals

| | 2022 | 2021 |
|---|---|---|
| **Balance sheet items exposed to credit risks** | | |
| Due from banks | 70,050,630 | 35,643,270 |
| Financial investment at FVPL | 76,050 | - |
| Loans and advances to banks | 142,411 | 337,144 |
| **Loans and advances to customers:** | | |
| **Retail loans:** | | |
| Overdrafts | 92,602 | 78,256 |
| Credit cards | 2,064,948 | 1,545,576 |
| Personal loans | 5,509,229 | 4,139,475 |
| Mortgage loans | 719 | 1,019 |
| **Corporate loans:** | | |
| Overdrafts | 3,831,433 | 2,493,786 |
| Direct loans | 19,308,241 | 17,464,880 |
| Syndicated loans | 10,096,972 | 9,689,796 |
| Financial derivative instruments | 309,020 | 189,285 |
| **Financial investments:** | | |
| Debt instruments | 56,582,607 | 51,131,200 |
| Other assets | 1,466,546 | 1,559,016 |
| **Total** | **169,531,408** | **124,272,703** |
| **Off-balance sheet items exposed to credit risk** | | |
| Loan commitments and other irrevocable commitments related to credit | 1,889,412 | 2,595,251 |
| Letters of credit | 3,468,705 | 2,172,329 |
| Letters of guarantee | 41,937,780 | 29,301,689 |
| **Total** | **47,295,897** | **34,069,269** |

The above table represents the maximum limit for credit risk as of 31 Dec 2022 and 31 December 2021, without taking into consideration any collateral. For on-balance-sheet items, amounts stated depend on net carrying amounts shown in the balance sheet.

As shown in the preceding table, 24.13% as of 31 December 2022, of the total maximum limit exposed to credit risk resulted from loans and advances to customers against 28.87% as of 31 December 2021 while 33.42% as of 31 December 2022 represents investments in debt instruments against 40.93% as of 31 December 2021.

The management is confident of its ability to maintain control on an ongoing basis and maintain the minimum credit risk resulting from loan and advances, and debt instruments as follows:

- 90.89% as of 31 December 2022, of the loans and advances portfolio having no past due or impairment indicators against 85.69% as of 31 December 2021.
- Loans and advances that have been assessed for impairment individually reached an amount of EGP 3,126,805 thousand as of 31 December 2022, against EGP 3,912,141 thousand as of 31 December 2021.
- Investments in debt instruments and Treasury bills due from the Egyptian government reached 100%.

### A.6. Debt instruments and treasury bills

The table below shows an analysis of debt instruments and Treasury bills (with Egyptian government) according to the rating agencies at the end of the financial year (MERIS-Reuters).

| December 2022 | Treasury Bills | Investments In Securities | Total |
|---|---|---|---|
| Less than A- | 41,509,058 | 15,073,549 | 56,582,607 |
| **Total** | **41,509,058** | **15,073,549** | **56,582,607** |

### A.7. Concentration of risks of financial assets exposed to credit risk

#### Geographical sectors

The following table represents a breakdown of the Bank's significant credit risk limits at their carrying amounts distributed by geographical sector.

| | Arab Republic of Egypt | | | | | |
|---|---|---|---|---|---|---|
| | **Cairo** | **Alexandria and Delta** | **Upper Egypt, Sinai and Red sea** | **Total** | **Other countries** | **Total EGP (000)** |
| Due from banks | 43,144,859 | - | - | 43,144,859 | 26,905,771 | **70,050,630** |
| Financial assets at fair value through profit or loss | 76,050 | - | - | 76,050 | - | **76,050** |
| Loans and advances to bank | - | - | - | - | 142,411 | **142,411** |
| **Loans and advances to customers** | | | | | | |
| **Retail:** | | | | | | |
| Overdrafts | 81,086 | 10,156 | 1,360 | 92,602 | - | **92,602** |
| Credit cards | 2,064,948 | - | - | 2,064,948 | - | **2,064,948** |
| Personal loans | 4,901,214 | 457,003 | 151,012 | 5,509,229 | - | **5,509,229** |
| Mortgage loans | 719 | - | - | 719 | - | **719** |
| **Corporate:** | | | | | | |
| Overdrafts | 3,585,485 | 245,904 | 44 | 3,831,433 | - | **3,831,433** |
| Direct loans | 15,856,817 | 3,487,751 | (36,327) | 19,308,241 | - | **19,308,241** |
| Syndicated loans | 10,050,527 | - | 46,445 | 10,096,972 | - | **10,096,972** |
| Derivative financial instruments | 309,020 | - | - | 309,020 | - | **309,020** |
| **Financial investment:** | | | | | | |
| Debt instruments | 56,582,607 | - | - | 56,582,607 | - | **56,582,607** |
| Other assets | 1,440,881 | 24,778 | 887 | 1,466,546 | - | **1,466,546** |
| **Total as at 31 December 2022** | **138,094,213** | **4,225,592** | **163,421** | **142,483,226** | **27,048,182** | **169,531,408** |
| **Total as at 31 December 2021** | **104,167,329** | **3,192,988** | **272,106** | **107,632,423** | **16,640,280** | **124,272,703** |

### Business sectors

The following table represents breakdown of the most significant credit risk limits at their carrying amounts distributed according to the business of the Bank's customers:

| | Industrial sector | Commercial sector | Service sector | Governmental sector | Other activities | Individuals | Total |
|---|---|---|---|---|---|---|---|
| Due from banks | - | - | - | 70,050,630 | - | - | **70,050,630** |
| Financial investment at fair value through profit or loss | - | - | - | 76,050 | - | - | **76,050** |
| Loans and advances to banks | - | - | - | - | 142,411 | - | **142,411** |
| **Loans and advances to customers** | | | | | | | |
| **Retail:** | | | | | | | |
| Overdrafts | - | - | - | - | - | 92,602 | **92,602** |
| Credit cards | - | - | - | - | - | 2,064,948 | **2,064,948** |
| Personal loans | - | - | - | - | - | 5,509,229 | **5,509,229** |
| Mortgage loans | - | - | - | - | - | 719 | **719** |
| **Corporate:** | | | | | | | |
| Overdrafts | 1,935,577 | 735,869 | 1,154,636 | 5,351 | - | - | **3,831,433** |
| Direct loans | 9,149,252 | 3,383,741 | 6,775,248 | - | - | - | **19,308,241** |
| Syndicated loans | 2,713,075 | - | 1,050,092 | 4,880,196 | 1,453,609 | - | **10,096,972** |
| Derivative financial instruments | - | - | 309,020 | - | - | - | **309,020** |
| **Financial investment:** | | | | | | | |
| Debt instruments | - | - | - | 56,582,607 | - | - | **56,582,607** |
| Other assets | - | - | - | - | 1,466,546 | - | **1,466,546** |
| **Total as at 31 December 2022** | **13,797,904** | **4,119,610** | **9,288,996** | **131,594,834** | **3,062,566** | **7,667,498** | **169,531,408** |
| **Total as at 31 December 2021** | **13,997,384** | **3,857,123** | **6,188,819** | **90,687,672** | **3,777,379** | **5,764,326** | **124,272,703** |

### B. Market risk

The Bank is exposed to market risk, which is the risk of fair value or future cash flow fluctuations from changes in open market price changes. Market risks arise from open market related to interest rate, currency, and equity products of which each is exposed to general and specific market movements and changes in sensitivity levels of market rates or prices, such as interest rates, foreign exchange rates and equity instrument prices. The Bank divides its exposure to market risk into trading and non-trading portfolios.

The Bank Treasury is responsible for managing the market risks arising from trading and non-trading activities which are monitored by two separate teams. Regular reports about market risk are submitted to the Board of Directors and each business unit head yearly.

Trading portfolios include transactions where the Bank deals direct with clients or with the market; non-trading portfolios primarily arise from managing assets and liabilities interest rate price relating to retail transactions. Non-trading portfolios also include foreign exchange risk and equity instruments risks arising from the Bank's held-to-maturity and available-for-sale investments portfolios.

### B.1. Market risk measurement techniques

As part of market risk management the Bank undertakes various hedging strategies and enters into swaps to match the interest rate risk associated with the fixed-rate long-term loans if the fair value option has been applied. The major measurement techniques used to measure and control market risk are outlined below:

#### Value at risk

The Bank applies a 'value-at-risk' methodology (VAR) for trading and non-trading portfolios to estimate the market risk of positions held and the maximum expected losses based on several assumptions for various changes in market conditions. The Board sets separate limits for the value of risk that may be accepted by the Bank for trading and non-trading portfolios and monitored by the ALCO committee.

VAR is a statistical estimation of the expected losses on the current portfolio from adverse market movements in which it represents the 'maximum' amount the Bank expects to lose using confidence level of 98 per cent. Therefore, there is a statistical probability of 2 per cent that actual losses could be greater than the VAR estimation. The VAR module assumes that the holding period is 10 days before closing the opening position. It also assumes that market movements during the holding period will be the same as 10 days before. The Bank's assessment of past movements is based on data for the current year. The Bank applies these historical changes in rates, prices, indicators etc directly to its current positions. This approach is called historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and factors used in the VAR calculation.

The use of this approach does not prevent losses from exceeding these limits if there are significant market movements.

As VAR is considered a primary part of the Bank's market risk control technique, VAR limits are established by the Board annually for all trading and non-trading transactions and allocated to business units. Actual values exposed to market risk are compared to the limits established by the Bank and reviewed by the ALCO committee.

The average daily VAR for the Bank during the current period was EGP 386,171 thousand against EGP 344,101 thousand for 31 December 2021.

The quality of the VAR model is continuously monitored through examining the VAR results for the trading portfolio, and results are reported to the top management and Board of Directors.

#### Stress testing

Stress testing provides an indicator of the expected losses that may arise from sharp adverse circumstances. It is designed to match business using standard analysis for specific scenarios. It is carried out by the Bank Treasury. It includes risk factor stress testing where sharp movements are applied to each risk category and tests emerging market stress as emerging market portfolios are subject to sharp movements and special stress, including possible stress events to specific positions or regions, for example, the stress outcome to a region applying a free currency rate.

The results of the stress testing are reviewed by top management and Board of directors.

### B.2. VAR summary

#### Total VAR according to risk type

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Average | High | Low | Average | High | Low |
| Foreign exchange risk | 385,082 | 1,497,025 | 2,672 | 343,724 | 1,112,758 | 20,086 |
| Interest rate risk | 1,089 | 2,276 | 148 | 377 | 864 | 63 |
| **Total VAR** | **386,171** | **1,499,301** | **2,820** | **344,101** | **1,113,622** | **20,149** |

### Trading portfolio VAR by risk type

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Average | High | Low | Average | High | Low |
| Foreign exchange risk | 171,175 | 1,497,025 | 2,672 | 343,724 | 1,112,758 | 20,086 |
| Interest rate risk | 297 | 1,064 | 25 | 409 | 676 | 236 |
| **Total VAR** | **171,472** | **1,498,089** | **2,697** | **344,133** | **1,113,434** | **20,322** |

### Non-trading portfolio VAR by risk type

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Average | High | Low | Average | High | Low |
| Foreign exchange risk | 505,656 | 704,766 | 234,048 | - | - | - |
| Interest rate risk | 1,163 | 2,351 | 99 | 409 | 817 | 47 |
| **Total VAR** | **506,819** | **707,117** | **234,147** | **409** | **817** | **47** |

The above three VAR results are calculated independently from the underlying positions and historical market movements. The aggregate of the trading and non-trading VAR results does not represent the Bank's VAR due to correlations of risk types and portfolio types and their effect. (The above three VAR results are before stress testing.)

#### B.3. Foreign exchange volatility risk

The Bank is exposed to foreign exchange rate volatility risk in terms of the financial position and cash flows. The Board of Directors sets aggregate limits for foreign exchange in the total value (summation value) for each position at the end of the day and during the day that is controlled on a timely basis. The following table summarises the Bank's exposure to foreign exchange volatility risk at the end of the year. The following table includes the carrying amounts of the financial instruments in their currencies:

(All amounts equivalent in EGP 000)

| 2022 | EGP | USD | EUR | GBP | Other | Total |
|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | |
| Cash and balances with Central bank | (12,624,626) | (491,163) | (81,950) | (29,104) | (15,201) | **(13,242,044)** |
| Due from banks | (35,776,730) | (31,433,737) | (291,457) | (2,267,082) | (262,719) | **(70,031,725)** |
| Financial assets at fair value through profit or loss | (76,050) | - | - | - | - | **(76,050)** |
| Loans and advances to banks | (34,453) | (107,958) | - | - | - | **(142,411)** |
| Loans and advances to customers | (23,782,193) | (8,381,148) | (5,729,181) | (31,896) | - | **(37,924,418)** |
| Derivative financial instruments | (309,020) | - | - | - | - | **(309,020)** |
| **Financial investments:** | | | | | | |
| Financial investment at Fair value through other comprehensive income | (11,179,491) | (3,881,774) | - | - | - | **(15,061,265)** |
| Treasury bills at fair value through OCI | (28,113,543) | (13,395,515) | - | - | - | **(41,509,058)** |
| Other financial assets | (1,202,993) | (224,334) | (32,508) | (6,684) | (27) | **(1,466,546)** |
| **Total financial assets** | **(113,099,099)** | **(57,915,629)** | **(6,135,096)** | **(2,334,766)** | **(277,947)** | **(179,762,537)** |

| Financial liabilities | | | | | | |
|---|---|---|---|---|---|---|
| Due to banks | 3,079,641 | 189,658 | - | 119 | - | **3,269,418** |
| Customer deposits | 85,059,852 | 57,217,341 | 6,109,295 | 2,152,886 | 607,606 | **151,146,980** |
| Financial derivative | 200,978 | - | - | - | - | **200,978** |
| Other financial liabilities | 2,860,647 | 52,149 | 1,415 | 575 | 203 | **2,914,989** |
| **Total financial liabilities** | **91,201,118** | **57,459,148** | **6,110,710** | **2,153,580** | **607,809** | **157,532,365** |
| **Net financial position – Balance sheet** | **(21,897,981)** | **(456,481)** | **(24,386)** | **(181,186)** | **329,862** | **(22,230,172)** |
| **Commitments related to credit and contingent liabilities** | **16,757,213** | **22,411,923** | **7,726,074** | **63,393** | **337,294** | **47,295,897** |
| **2021** | | | | | | |
| **Total financial assets** | **(89,577,975)** | **(34,504,304)** | **(4,499,429)** | **(1,565,533)** | **(220,345)** | **(130,367,586)** |
| **Total financial liabilities** | **67,639,748** | **37,435,974** | **3,906,428** | **1,547,601** | **407,224** | **110,936,975** |
| **Net financial position – balance sheet** | **(21,938,227)** | **2,931,670** | **(593,001)** | **(17,932)** | **186,879** | **(19,430,611)** |
| **Commitments related to credit and contingent liabilities** | **14,930,635** | **14,868,714** | **2,141,558** | **10,781** | **302,645** | **32,254,333** |

### B.4. Interest rate risk

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

The table below summarises the Bank’s exposure to interest rate risks. It includes the Bank’s financial instruments at carrying amounts categorised by the earlier repricing or maturity dates:

| **2022** | **Up to one month** | **1-3 Months** | **3-12 Months** | **1-5 years** | **5 years or more** | **Without Interest** | **Total** |
|---|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | | |
| Cash and balances with Central bank | - | - | - | - | - | (13,242,044) | **(13,242,044)** |
| Due from banks | (59,897,079) | (7,107,072) | - | - | - | (3,027,574) | **(70,031,725)** |
| Financial assets at fair value through profit or loss | - | (10,493) | (6,351) | (59,206) | - | - | **(76,050)** |
| Loans and advances to banks | - | (142,411) | - | - | - | - | **(142,411)** |
| Loans and advances to customers | (13,346,866) | (1,460,345) | (3,191,371) | (19,925,836) | - | - | **(37,924,418)** |
| Financial derivatives | (309,020) | - | - | - | - | - | **(309,020)** |
| Financial investment At fair value through other comprehensive income | - | (2,463,264) | (6,740,268) | (4,169,872) | (1,624,095) | (63,766) | **(15,061,265)** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Treasury bills at fair value through OCI | - | - | (41,509,058) | - | - | - | **(41,509,058)** |
| Other financial assets | - | - | - | - | - | (1,466,546) | **(1,466,546)** |
| **Total financial assets** | **(73,552,965)** | **(11,183,585)** | **(51,447,048)** | **(24,154,914)** | **(1,624,095)** | **(17,799,930)** | **(179,762,537)** |
| **Financial liabilities** | | | | | | | |
| Due to banks | - | - | - | - | - | 3,269,418 | **3,269,418** |
| Customer deposits | 44,226,311 | 10,473,801 | 11,016,875 | 12,742,357 | 5,574 | 72,682,062 | **151,146,980** |
| Financial derivatives | 200,978 | - | - | - | - | - | **200,978** |
| Other financial liabilities | 14,625 | - | - | - | 2,072,000 | 828,364 | **2,914,989** |
| **Total financial liabilities** | **44,441,914** | **10,473,801** | **11,016,875** | **12,742,357** | **2,077,574** | **76,779,844** | **157,532,365** |
| **Interest repricing gap** | **(29,111,051)** | **(709,784)** | **(40,430,173)** | **(11,412,557)** | **453,479** | **58,979,914** | **(22,230,172)** |
| **2021** | | | | | | | |
| **Total financial assets** | **(41,944,710)** | **(6,448,559)** | **(39,678,557)** | **(30,492,936)** | **(103,452)** | **(11,699,372)** | **(130,367,586)** |
| **Total financial liabilities** | **37,873,349** | **6,125,451** | **6,694,820** | **13,249,373** | **2,076,486** | **44,917,496** | **110,936,975** |
| **Interest repricing gap** | **(4,071,361)** | **(323,108)** | **(32,983,737)** | **(17,243,563)** | **1,973,034** | **33,218,124** | **(19,430,611)** |

### C. Liquidity risk

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

**Liquidity Risk Management Organization and Measurement Tools**

Liquidity Risk is governed by Asset and Liability Committee (ALCO) and Board Risk Committee subject to provisions of Investment Policy Guide.

**Board Risk Committee:**

Provides oversight of risk management functions and assesses compliance to the set risk strategies and policies approved by the Board of Directors through periodic reports submitted by the Risk Group. The committee makes recommendations to the with regards to risk management strategies and policies (including those related to capital adequacy, liquidity management, various types of risks: credit, market, operation, compliance, reputation and any other risks the Bank may be exposed to).

**Asset & Liability Committee (ALCO):**

Optimizes the allocation of assets and liabilities, taking into consideration expectations of the potential impact of future interest rate fluctuations, liquidity constraints, and foreign exchange exposures. ALCO monitors the Bank's liquidity and market risks, economic developments, market fluctuations, and risk profile to ensure ongoing activities are compatible with the risk/ reward guidelines approved by the Board of Directors.

### Liquidity risk management process

The Bank's liquidity management process carried out by the Bank Treasury department includes the following:

- Daily funding managed by monitoring future cash flows to ensure that all requirements can be met when due. This includes availability of liquidity as they due or to be borrowed to customers. To ensure that the Bank reaches its objective, the Bank maintains an active presence in global money markets.
- The Bank maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow.
- Monitoring liquidity ratios in relation with internal requirements and CBE requirements.
- Managing loans' concentration and dues.

Monitoring and reporting takes the form of cash flow measurement and projections for the next working day, week and month respectively, as these are key periods for liquidity management. The starting point of calculating these expectations is analysing the financial liabilities dues and expected financial assets collections.

The Credit Risk department monitors the mismatch between medium-term assets, the level and nature of unused loans limits, overdraft utilisations, and the effect of contingent liabilities such as letters of guarantees and letters of credit.

### Non-derivative cash flows

The below table represents the undiscounted contractual cash flows distributed over the remaining term of the contractual benefits.

| **2022**<br>**Financial liabilities** | **Up to 1 month** | **Over than 1 month to 3 months** | **Over than 3 months to 1 year** | **Over than 1 year to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Demand deposits | 69,864,712 | - | - | - | - | **69,864,712** |
| Saving deposits | 30,639,292 | - | - | - | - | **30,639,292** |
| Accrued interest on saving deposits | 97,306 | - | - | - | - | **97,306** |
| Time deposits and Saving certificates | 13,148,005 | 10,749,822 | 11,567,598 | 15,442,373 | - | **50,907,798** |
| Other deposits | 3,658,983 | - | - | - | - | **3,658,983** |
| Due to banks | 3,269,418 | - | - | - | - | **3,269,418** |
| Other loans | 19,762 | 37,611 | 175,307 | 931,357 | 1,955,780 | **3,119,817** |
| **Total of financial liabilities according to maturity date** | **120,697,478** | **10,787,433** | **11,742,905** | **16,373,730** | **1,955,780** | **161,557,326** |

| **2021**<br>**Financial liabilities** | **Up to 1 month** | **Over than 1 month to 3 months** | **Over than 3 months to 1 year** | **Over than 1 year to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Demand deposits | 42,845,955 | - | - | - | - | **42,845,955** |
| Saving deposits | 24,942,200 | - | - | - | - | **24,942,200** |
| Accrued interest on saving deposits | 74,925 | - | - | - | - | **74,925** |
| Time deposits and Saving certificates | 10,677,921 | 6,266,404 | 7,126,829 | 15,778,177 | - | **39,849,331** |
| Other deposits | 2,115,057 | - | - | - | - | **2,115,057** |
| Due to banks | 1,415,553 | - | - | - | - | **1,415,553** |
| Other loans | 19,762 | 37,611 | 175,307 | 931,357 | 2,188,460 | **3,352,497** |
| **Total of financial liabilities according to maturity date** | **82,091,373** | **6,304,015** | **7,302,136** | **16,709,534** | **2,188,460** | **114,595,518** |

**Funding approach**

Sources of liquidity are regularly reviewed by managing the Bank Treasury to maintain a wide diversification by currency, geography region, source, products and terms.

**Off-balance sheet items**

According to the table below and note 38

**2022**

| | Up to 1 year | Over 1 year and less than 5 years | More than 5 years | Total |
|---|---|---|---|---|
| Loan commitments and other irrevocable commitments related to credit | 1,889,412 | - | - | **1,889,412** |
| Letters of credit | 2,733,705 | - | - | **2,733,705** |
| Letters of guarantee | 39,538,111 | - | - | **39,538,111** |
| Operating lease commitments | 11,824 | 19,185 | **5,496** | **36,505** |
| **Total** | **44,173,052** | **19,185** | **5,496** | **44,197,733** |

**2021**

| | Up to 1 year | Over 1 year and less than 5 years | More than 5 years | Total |
|---|---|---|---|---|
| Loan commitments and other irrevocable commitments related to credit | 2,595,251 | - | - | **2,595,251** |
| Letters of credit | 1,961,344 | - | - | **1,961,344** |
| Letters of guarantee | 27,697,738 | - | - | **27,697,738** |
| Operating lease commitments | 10,476 | 10,820 | - | **21,296** |
| **Total** | **32,264,809** | **10,820** | - | **32,275,629** |

## D. Fair value of financial assets and liabilities

### D.1. Financial instruments measured at fair value using a valuation method

The change in estimated fair value of financial investments measured at FVOCI using valuation methods for the year amounted to EGP (885,266) thousand as of 31 December 2022, against EGP 84,823 thousand for the year ended 31 December 2021.

### D.2. Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values for those financial assets and liabilities not presented on the Bank’s balance sheet at their fair value.

**2022**

| | Book value | Fair value |
|---|---|---|
| **Financial assets** | | |
| Due from banks | 70,031,725 | 70,031,725 |
| Loans and advances to banks | 142,411 | 142,411 |
| **Loans and advances to customers** | | |
| Retail | 7,667,498 | 7,629,364 |
| Corporate | 33,236,646 | 30,340,904 |
| **Financial liabilities** | | |
| Due to banks | 3,269,418 | 3,440,593 |
| **Customer deposits** | | |
| Retail | 69,937,224 | 70,624,497 |
| Corporate | 81,209,756 | 82,007,805 |
| Subordinated loans | 2,072,000 | 2,072,000 |

**Due from banks**

Fair value of placements and deposits bearing variable interest rate for one day is its current value. The expected fair value for deposits bearing variable interest is based on the discounted cash flow using the rate of similar asset of similar credit risk and due dates.

**Loans and advances to customers**

Loans and advances are net of provisions for impairment losses. Fair value expected for loans and advances represents the discounted value of future cash flows expected to be collected, and cash flows are discounted using the current market interest rate to determine fair value.

**Due to banks and customers**

The estimated fair value of deposits of indefinite maturity, which includes interest-free deposits, is the amount paid on call. The estimated fair value of fixed interest-bearing deposits and other loans not traded in an active market is based on discounted cash flows using interest rates for new debts of similar maturity dates.

## E. Capital management

The Bank’s objectives behind managing capital include elements in addition to the equity shown in the balance sheet are represented in the following:

- Compliance with capital legal requirements in Egypt.
- Protecting the Bank’s ability to continue as a going concern and enabling it to generate yield for shareholders and other parties dealing with the Bank.
- Maintaining a strong capital base to enhance growth.

Capital adequacy and uses are reviewed according to the regulatory authority's requirements (CBE) by the Bank's management through models based Basel committee for banking control instructions. These data are submitted to CBE on a quarterly basis.

CBE requires the following from the Bank:

- Maintaining EGP 500 million as a minimum requirement for the issued and paid-up capital
- Maintaining a ratio between capital elements and asset and contingent liability elements weighted by risk weights at 10 per cent or more

The numerator in capital adequacy comprises the following two tiers:

- **Tier 1**: It is the basic capital comprising of (going concern capital and additional going concern capital)
- **Tier 2**: It is the going concern capital comprising:
  - 45 per cent of the increase between the fair value and carrying amount for (fair value reserve if positive, available-for-sale investments, held-to-maturity investments, investments in subsidiaries)
  - 45 per cent of the special reserves
  - 45 per cent of positive different foreign currency reserves
  - Hybrid financial instruments
  - Loans (deposits) subordinated
  - Provision for impairment losses for loans and contingent liabilities (not exceeding 1.25 per cent of total assets and contingent liabilities applying the risk weights, the provision for the non-performing loans, contingent liabilities) must be enough to face any liabilities it formed for

The denominator of the capital adequacy comprises:

1. Credit risk
2. Market risk
3. Operational risk

Assets are weighted by risk in a range from 0 per cent to 100 per cent. Classification is made according to the debit party for each asset to reflect the related credit risk, taking into consideration cash guarantees. The same treatment is used for the off-balance sheet amounts after making relevant adjustments to reflect the contingent nature and the potential loss for these amounts.

The Bank complied with all internal requirements during the last years. The schedule below shows the calculation of tier 1 & tier 2 of the capital adequacy according to Basel II:

| | **2022** | **2021** |
|---|---|---|
| **Capital** | | |
| **Tier 1 after disposals (going concern capital) (1)** | | |
| Share capital | 5,000,000 | 2,795,567 |
| Reserves | 3,962,998 | 3,786,566 |
| General risk Reserve | 491,666 | 491,666 |
| Retained earnings | 5,682,738 | 7,236,320 |
| Additional going concern capital | 4,882,040 | 208,113 |
| Change in fair value for investments at fair value through OCI | (656,372) | 138,173 |
| Total disposals from going concern capital | (1,572,139) | (1,088,379) |
| **Total going concern capital after disposals (common equity)** | **17,790,931** | **13,568,026** |

| | | |
|---|---|---|
| **Tier 2 after disposal (gone concern capital) (2)** | | |
| Subordinated (deposits) loans | 1,712,000 | 2,072,000 |
| Impairment losses provision for performing loans and advances contingent liabilities | 134,202 | 149,309 |
| **Total tier 2 after disposals (gone concern capital)** | **1,846,202** | **2,221,309** |
| **Total capital adequacy after disposals (1+2)** | **19,637,133** | **15,789,335** |
| **Risk (credit, market and operational)** | | |
| Credit risk | 66,204,924 | 53,674,394 |
| Capital requirements for market risk | 16,260 | 452,040 |
| Capital requirements for operational risk | 7,961,175 | 12,841,230 |
| **Total credit, market and operational risks** | **74,182,359** | **66,967,664** |
| **Capital adequacy ratio (%)** | **26.47%** | **23.58%** |

### F. Financial Leverage ratio

Central Bank of Egypt Board of Directors had approved in its meeting held on July 7, 2015 the special supervisory instructions related to leverage ratio while ensuring maintaining a minimum level of leverage ratio of 3 per cent to be reported on a quarterly basis as follows:

- Guidance ratio started from reporting period September 2015 till December 2017
- Obligatory ratio started from year 2018

This ratio will be included in Basel requirement tier 1 in order to maintain Egyptian Banking system strong and safe, as long to keep up with best international regulatory treatments.

Leverage ratio reflects relationship between tier 1 for capital that is used in capital adequacy ratio (after disposals) and other assets (on-balance sheet and off-balance sheet) that are not risk weighted assets.

**Ratio elements**

A) **The numerator elements**

The numerator consists of tier 1 capital that is used in capital adequacy ratio (after disposals) in accordance with the requirements of the regulatory authority represented by the Central Bank of Egypt (CBE).

B) **The dominator elements**

The dominator consists of all bank assets (on-balance sheet and off-balance sheet) according to the financial statements, called "Bank exposures" which include total the following:

1. On-balance sheet items after deducting some of tier 1 exclusions for capital base
2. Derivatives contracts exposures
3. Financing financial papers operations exposures
4. Off-balance sheet exposures (weighted by conversion factor)

The table below summarizes the leverage financial ratio:

| | **2022** | **2021** |
|---|---|---|
| **Tier 1 after disposals (going concern capital)** | **17,790,031** | **13,568,026** |
| Total on-balance sheet exposures, derivatives contracts and financial papers operations | 180,763,289 | 131,359,691 |
| Total off- balance sheet exposures | 30,290,761 | 21,340,795 |
| **Total on-balance sheet and off-balance sheet exposures** | **211,054,050** | **152,700,486** |
| **Leverage financial ratio (%)** | **8.43%** | **8.89%** |

### G. Measurement uncertainty and sensitivity analysis of ECL estimates

- Expected credit loss impairment allowances recognized in the financial statements reflect the effect of a range of possible economic outcomes, calculated on a probability-weighted basis, based on the economic scenarios described below. The recognition and measurement of ECL involves the use of significant judgment and estimation. It is necessary to formulate multiple forward-looking economic forecasts and incorporate them into the ECL estimates. HSBC Bank Egypt uses a standard framework to form economic scenarios to reflect assumptions about future economic conditions, supplemented with the use of management judgment, which may result in using alternative or additional economic scenarios and/or management adjustments.

**Methodology for Developing Forward Looking Economic Scenarios**

- The Bank in general use three economic scenarios representative of HSBC's view of forecast economic conditions, sufficient to calculate unbiased expected loss in most economic environments. In 2020, and due to the economic effects of Covid-19 outbreak, the Bank applied four forward-looking global scenarios. They represent a 'most likely outcome', (the Central scenario) and three, less likely, 'outer' scenarios referred to as the Upside and Downside and Additional Downside scenarios. The probability weight between Other scenarios and Central scenario was fixed with the Central scenario being assigned a weighting of 50 per cent, the Downside scenario 30 per cent, the Upside 5 per cent and Additional Downside 15 per cent each.
- For the Central scenario, HSBC Bank Egypt sets key assumptions such as GDP growth, using either the average of external forecasts (commonly referred to as consensus forecasts) for most economies, or market prices. An external provider's global macro model, conditioned to follow the consensus forecasts, projects the other paths required as inputs to credit models. This external provider is subject to HSBC Bank Egypt's risk governance framework, with oversight by a specialist internal unit.

**Wholesale analysis**

- HSBC has developed a globally consistent methodology for the application of economic scenarios into the calculation of ECL by incorporating those scenarios into the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of economic guidance to default rates for a particular industry in a country. For LGD calculations we consider the correlation of economic guidance to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.
- For impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants where available, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on impaired loans that are individually considered not to be significant, HSBC incorporates economic scenarios proportionate to the probability-weighted outcome and the central scenario outcome for non-stage 3 populations.

| | 2022 | 2021 |
|---|---|---|
| **IFRS 9 ECL sensitivity to future economic conditions*** | | |
| **ECL coverage of financial instruments as at 31 December 2022**** | | |
| Reported ECL (EGPm) | 791 | 505 |
| Gross carrying/nominal amount (EGPm)*** | 269,003 | 116,193 |
| Reported ECL coverage (percentage) | 0.29% | 0.26% |
| **Coverage ratio by scenario (percentage)** | | |
| Consensus Upside scenario | 0.18% | 0.16% |
| Consensus Downside scenario | 0.32% | 0.35% |
| Consensus Additional downside scenario | 0.52% | 0.44% |
| Consensus Central scenario | 0.22% | 0.22% |

* excludes ECL and financial instruments relating to defaulted obligors
** includes off-baance sheet financial instruments that are subject to significant measurement uncertainty
*** includes low credit risk financial instruments such as debt instruments at FVOCI, which have low ECL coverage ratios under all the above scenarios

**Retail analysis**

- HSBC has developed and implemented a globally consistent methodology for incorporating forecasts of economic conditions into ECL estimates. The impact of economic scenarios on PD is modelled at a portfolio level. Historic relationships between observed default rates and macro-economic variables are integrated into ('IFRS 9 ECL') estimates by leveraging economic response models.
- The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset or assets. The impact on (LGD) is modelled for mortgage portfolios by forecasting future loan-to-value ('LTV') profiles for the remaining maturity of the asset by leveraging national level forecasts of the house price index and applying the corresponding LGD expectation.

| | 2022 | 2021 |
|---|---|---|
| **IFRS 9 ECL sensitivity to future economic conditions*** | | |
| **ECL coverage of financial instruments as at 31 December 2020**** | | |
| Reported ECL (EGPm) | 47 | 44 |
| Gross carrying/nominal amount (EGPm) | 7,667 | 5,774 |
| Reported ECL coverage (percentage) | 0.61% | 0.77% |
| **Coverage ratio by scenario (percentage)** | | |
| Consensus Upside scenario | 0.35% | 0.49% |
| Consensus Downside scenario | 0.50% | 0.75% |
| Consensus Additional downside scenario | 0.59% | 0.82% |
| Consensus Central scenario | 0.38% | 0.56% |

* ECL sensitivities exclude portfolios utilizing less complex modelling approaches
** ECL sensitivity includes only on-balance sheet financial instruments to which IFRS 9 impairment requirements are apllied

**Economic scenarios sensitivity analysis of ECL estimates**

- The ECL outcome is sensitive to judgment and estimations made with regards to the formulation and incorporation of multiple forward looking economic conditions described above. As a result, management assessed and considered the sensitivity of the ECL outcome against the forward looking economic conditions as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100 per cent weighting to each scenario in turn. The weighting is reflected in both the determination of significant increase in credit risk as well as the measurement of the resulting ECL.

## 4. Significant accounting estimates and assumptions

The Bank makes subjective estimates and judgements that affect the reported amounts of assets and liabilities in the next financial year. Consistent estimations and judgements are continually evaluated and are based on historical experience and other factors, including the expectations of future events that are believed to be reasonable through the available information and circumstances.

### A. Expected credit loss measuremet

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note “N. Impairment of financial assets”. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default (“PD”), exposure at default (“EAD”), and loss given default (“LGD”), as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. The Bank used supportable forward looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model.

### B. Fair value of derivatives

Fair value of financial instruments not quoted in an active market is determined using valuation techniques. These techniques (as models) are tested and reviewed yearly using qualified independently personnel other than those who prepared the techniques. All the models were prepared before and after using them to ensure that their results reflect accurate data and prices comparable to the market. These models are used to the extent it is practical actual data; however, some areas such as credit risk related to the Bank and counterparty volatility and correlations require management estimations. Changes in these estimation factors can affect the financial instrument's fair value disclosure. For example, to the extent that management uses credit marginal less than 20 points, the estimated net fair value of derivative amounted to EGP 309,020 thousand in assets against EGP 200,978 thousand in liabilities that represent its fair value. note (19)

### C. Income tax

The Bank is subject to income tax which requires the use of estimates to calculate the income tax provision. There are a number of complicated processes and calculations to determine the final income tax. The Bank records a liability related to the tax inspection estimated results. When there is a difference between the final result of the actual tax inspection and the amounts previously recorded by the Bank, such differences will be recorded in the year where differences are noted. Income tax and deferred tax will be recorded in that year.

## 5. Segment analysis

### A. By activity segment

Activity segment includes operations and assets used in providing banking services and managing related risks and yields which may differ from other activities. The segmentation analyses of operations according to the Banking activities are as follows:

- **Large enterprises medium and small**

  Activities include current accounts deposits, overdraft loans credit facilities and financial derivatives.

- **Investment**

  Includes merging of the company’s purchase of investments, financing company’s restructure and financial instruments.

- **Individuals**

  Activities include current account savings deposits, credit cards, personal loans and mortgage loans.

- **Other activities**

  - Includes other banking activities such as fund management
  - Inter-segment transactions occur in the normal course of the Bank’s business. Assets and liabilities include the operating assets and liabilities as presented in the balance sheet.

**31 December 2022**

| | Corporate | Investment | Retail | Other activities | Total |
|---|---|---|---|---|---|
| **Income and expenses according to activity segment** | | | | | |
| Income activity segment | 5,347,110 | 2,287,424 | 3,202,987 | 37,809 | **10,875,330** |
| Expenses by activity segment | (1,274,598) | (213,707) | (1,423,330) | (81,889) | **(2,993,524)** |
| Provisions | (177,877) | (87,925) | (19,112) | (3,273) | **(288,187)** |
| **Profit before tax** | **3,894,635** | **1,985,792** | **1,760,545** | **(47,353)** | **7,593,619** |
| Tax | (1,290,167) | (255,282) | (314,770) | (247,963) | **(2,108,182)** |
| **Profit for the year** | **2,604,468** | **1,730,510** | **1,445,775** | **(295,316)** | **5,485,437** |
| **Assets and liabilities according to activity segment** | | | | | |
| Assets activity segment | 39,382,484 | 123,781,129 | 7,646,913 | 11,368,126 | **182,178,652** |
| **Total assets** | **39,382,484** | **123,781,129** | **7,646,913** | **11,368,126** | **182,178,652** |
| Liabilities of activity segment | 78,385,918 | 2,793,167 | 66,241,711 | 14,695,001 | **162,115,797** |
| **Total liabilities** | **78,385,918** | **2,793,167** | **66,241,711** | **14,695,001** | **162,115,797** |

**31 December 2021**

| | Corporate | Investment | Retail | Other activities | Total |
|---|---|---|---|---|---|
| **Income and expenses according to activity segment** | | | | | |
| Income activity segment | 3,461,553 | 2,099,150 | 2,250,754 | 158,678 | **7,970,135** |
| Expenses by activity segment | (1,046,972) | (210,404) | (1,204,709) | (78,763) | **(2,540,848)** |
| Provisions | (470,118) | (6,791) | 19,189 | 6,034 | **(451,686)** |
| **Profit before tax** | **1,944,463** | **1,881,955** | **1,065,234** | **85,949** | **4,977,601** |
| Tax | (908,474) | (358,854) | (309,666) | - | **(1,576,994)** |
| **Profit for the year** | **1,035,989** | **1,523,101** | **755,568** | **85,949** | **3,400,607** |
| **Assets and liabilities according to activity segment** | | | | | |
| Assets of activity segment | 33,463,584 | 85,539,048 | 6,001,823 | 7,260,949 | **132,265,404** |
| **Total assets** | **33,463,584** | **85,539,048** | **6,001,823** | **7,260,949** | **132,265,404** |
| Liabilities of activity segment | 48,393,228 | 1,364,427 | 54,720,433 | 9,916,099 | **114,394,187** |
| **Total liabilities** | **48,393,228** | **1,364,427** | **54,720,433** | **9,916,099** | **114,394,187** |

## B. Analysis according to the geographical segment

### 31 December 2022

| | Arab Republic of Egypt | | | |
|---|---|---|---|---|
| | Cairo | Alexandria and Delta | Upper Egypt, Sinai and Red sea | Total |
| **Income and expenses according to geographical segment** | | | | |
| Income by geographical segment | 10,311,294 | 506,878 | 57,158 | **10,875,330** |
| Expenses by geographical segment | (2,913,129) | (62,133) | (18,262) | **(2,993,524)** |
| Provisions | (225,561) | (108,921) | 46,295 | **(288,187)** |
| **Profit before tax** | **7,172,604** | **335,824** | **85,191** | **7,593,619** |
| Tax | (2,024,989) | (59,288) | (23,905) | **(2,108,182)** |
| **Profit for the year** | **5,147,615** | **276,536** | **61,286** | **5,485,437** |
| **Assets and liabilities according to geographical segment** | | | | |
| Assets of geographical segment | 177,582,186 | 3,912,381 | 684,085 | **182,178,652** |
| **Total assets** | **177,582,186** | **3,912,381** | **684,085** | **182,178,652** |
| Liabilities geographical segment | 149,841,151 | 8,606,723 | 3,667,923 | **162,115,797** |
| **Total liabilities** | **149,841,151** | **8,606,723** | **3,667,923** | **162,115,797** |

### 31 December 2021

| | Arab Republic of Egypt | | | |
|---|---|---|---|---|
| | Cairo | Alexandria and Delta | Upper Egypt, Sinai and Red sea | Total |
| **Income and expenses according to geographical segment** | | | | |
| Income geographical segment | 7,665,348 | 265,479 | 39,308 | **7,970,135** |
| Expenses geographical segment | (2,471,266) | (56,995) | (12,587) | **(2,540,848)** |
| Provisions | (419,800) | (52,075) | 20,189 | **(451,686)** |
| **Profit before tax** | **4,774,282** | **156,409** | **46,910** | **4,977,601** |
| Tax | (1,512,579) | (49,553) | (14,862) | **(1,576,994)** |
| **Profit for the year** | **3,261,703** | **106,856** | **32,048** | **3,400,607** |
| **Assets and liabilities according to geographical segment** | | | | |
| Assets geographical segment | 128,046,999 | 3,208,634 | 1,009,771 | **132,265,404** |
| **Total assets** | **128,046,999** | **3,208,634** | **1,009,771** | **132,265,404** |
| Liabilities geographical segment | 104,665,223 | 6,809,902 | 2,919,062 | **114,394,187** |
| **Total liabilities** | **104,665,223** | **6,809,902** | **2,919,062** | **114,394,187** |

## 6. Net interest income

| | 2022 | 2021 |
|---|---|---|
| **Interest from loans and similar income:** | | |
| Loans and advances to customers | 4,182,854 | 3,390,884 |
| Treasury bills | 3,700,301 | 3,159,156 |
| Deposits and current accounts | 2,405,006 | 582,025 |
| Financial Investments at FVOCI | 2,121,228 | 2,012,400 |
| | **12,409,389** | **9,144,465** |
| **Interest on deposits and similar expenses:** | | |
| Deposits and current accounts: | | |
| Banks | (1,200) | (1,121) |
| Customers | (3,486,609) | (2,575,651) |
| Other loans | (270,800) | (232,615) |
| | **(3,758,609)** | **(2,809,387)** |
| **Net** | **8,650,780** | **6,335,078** |

## 7. Net fees and commissions income

| | 2022 | 2021 |
|---|---|---|
| **Fees and commissions income:** | | |
| Fees and commissions related to credit | 1,687,419 | 1,182,240 |
| Custody fees | 50,310 | 49,989 |
| Other fees | 5,506 | 5,340 |
| | **1,743,235** | **1,237,569** |
| **Fees and commissions expenses:** | | |
| Brokerage fees paid | (3,191) | (5,008) |
| Other fees paid | (377,558) | (231,222) |
| | **(380,749)** | **(236,230)** |
| **Net** | **1,362,486** | **1,001,339** |

## 8. Dividends

| | 2022 | 2021 |
|---|---|---|
| Equity instruments | 8,144 | 14,727 |
| | **8,144** | **14,727** |

## 9. Net trading income

| | 2022 | 2021 |
|---|---|---|
| **Foreign exchange operations:** | | |
| Gain from foreign currency transactions | 419,462 | 375,747 |
| Gain from debt instruments at fair value | 97,691 | 80,141 |
| Gain from forward deals revaluation and currency swap | (166) | (7) |
| **Net** | **516,987** | **455,881** |

## 10. Administrative expenses

| | 2022 | 2021 |
|---|---|---|
| **Staff costs** | | |
| Wages, salaries and benefits | 550,401 | 510,527 |
| Social insurance | 30,989 | 25,726 |
| End of Service Compensation | 104,841 | 89,214 |
| | **686,231** | **625,467** |
| Cost of Services provided by HSBC Group | 1,544,484 | 938,469 |
| Other administrative expenses | 762,809 | 962,733 |
| | **2,993,524** | **2,526,669** |

## 11. Other operating income (expense)

| | 2022 | 2021 |
|---|---|---|
| Gain/(Loss) from revaluation of monetary assets and liabilities determined in foreign currency other than those classified for trading or originally classified at fair value through profit and loss | 189,603 | (2,767) |
| (Loss)/Gain from sale of property and equipment | (496) | 11,457 |
| Operating lease | 69,450 | 80,202 |
| Investment property depreciation | (9,845) | (10,102) |
| Other provision | 117,144 | (7,310) |
| Securities Settlement Fund Return | 2,031 | 1,432 |
| Head office services' revenue | 94,081 | 72,240 |
| Other | 257 | 696 |
| **Net** | **462,225** | **145,848** |

## 12. Credit impairment recovered (charged)

| | 2022 | 2021 |
|---|---|---|
| **Loans and advances to customers** | | |
| Loans and advances to customers | (390,617) | (447,406) |
| Cash and balances with Central Bank | (1,264) | 179 |
| Due from Banks | (11,628) | (745) |
| Financial Investments at fair value through OCI | (1,073) | (2,058) |
| Other assets | (749) | (753) |
| **Net** | **(405,331)** | **(450,783)** |

## 13. Income tax expenses

| | 2022 | 2021 |
|---|---|---|
| Current taxes | (2,170,000) | (1,600,000) |
| Prior year adjustments | 54,043 | 28,912 |
| Deferred tax (note 32) | 7,775 | (5,906) |
| **Net** | **(2,108,182)** | **(1,576,994)** |

Note 32 shows additional information about deferred income tax. Income taxes differ when current applicable tax rates are used, as follows:

| | 2022 | 2021 |
|---|---|---|
| Profit before tax | 7,593,619 | 4,977,601 |
| Tax rate | 22.50% | 22.50% |
| **Income tax calculated on accounting profit** | **1,708,564** | **1,119,960** |
| **Add** | | |
| Unrecognized tax expenses | 399,618 | 457,034 |
| **Net income tax** | **2,108,182** | **1,576,994** |
| **Effective tax rate** | **27.76%** | **31.68%** |

### Taxation position

A summary of HSBC Bank Egypt's tax position is as follows:

#### A. Corporate tax

**Years since inception till year 2018**

These years were inspected and disputes were settled in the Internal Committee, and all tax liabilities has been paid.

**Year 2019**
This year inspected and awaiting the form of clearance.

**Year 2020**

Tax inspection in progress.

**Year 2021**

Tax inspection preparations in progress.

#### B. Salary tax

**Years from 1982 to 2020**

These years were inspected and were settled.

**Year 2021 until 2022**

Tax inspection preparations in progress.

#### C. Stamp duty tax

**From 1982 to 2020**

These years were inspected and tax was fully settled.

### 14. Earnings per share

**Basic**

Earnings per share are calculated by dividing profit related to the shareholders by the ordinary shares' weighted average issued during the year after, excluding the average repurchased shares during the year and kept as Treasury stocks.

| | 2022 | 2021 |
|---|---|---|
| Net profit distributable for the year | 5,485,437 | 3,400,607 |
| Employees' profit share (estimated) | (548,543) | (419,306) |
| **Profit attributable to shareholders of the bank** | **4,936,894** | **2,981,301** |
| Common shares issued - weighted average (1,000 shares) | 59,524 | 59,524 |
| **Earnings per share/EGP** | **82.94** | **50.09** |

### 15. Cash and balances with the Central Bank of Egypt

| | 2022 | 2021 |
|---|---|---|
| Cash | 1,879,063 | 1,708,113 |
| Due from Central Bank (within the statutory reserve) | 11,365,183 | 6,936,453 |
| Impairment loss | (2,202) | (938) |
| | **13,242,044** | **8,643,628** |
| **Non-interest-bearing balances** | **13,242,044** | **8,643,628** |

### 16. Due from banks

| | 2022 | 2021 |
|---|---|---|
| Current accounts | 3,027,574 | 1,436,783 |
| Deposits | 67,023,056 | 34,206,487 |
| | **70,050,630** | **35,643,270** |
| Impairment loss | (18,905) | (7,277) |
| | **70,031,725** | **35,635,993** |
| Due from Central Bank (other than the statutory reserve) | 42,960,526 | 16,867,241 |
| Local banks | 184,333 | 2,204,323 |
| Foreign banks | 26,905,771 | 16,571,706 |
| | **70,050,630** | **35,643,270** |
| Impairment loss | (18,905) | (7,277) |
| | **70,031,725** | **35,635,993** |
| Non-interest-bearing balances | 3,027,574 | 1,436,783 |
| Interest-bearing balances | 67,023,056 | 34,206,487 |
| | **70,050,630** | **35,643,270** |
| Impairment loss | (18,905) | (7,277) |
| | **70,031,725** | **35,635,993** |
| **Current balances** | **70,031,725** | **35,635,993** |

## 17. Loans and advances to banks

| | 2022 | 2021 |
|---|---|---|
| Term loans | 142,411 | 337,144 |
| **Total** | **142,411** | **337,144** |
| Current balances | 34,453 | 268,570 |
| Non-current balances | 107,958 | 68,574 |
| | **142,411** | **337,144** |
| Interest bearing balances | 142,411 | 337,144 |

## 18. Loans and advances to customers

| | 2022 | 2021 |
|---|---|---|
| **Retail:** | | |
| Overdrafts | 92,602 | 78,256 |
| Credit cards | 2,064,948 | 1,545,576 |
| Personal loans | 5,509,229 | 4,139,475 |
| Mortgage loans | 719 | 1,019 |
| **Total** | **7,667,498** | **5,764,326** |
| **Corporate loans including small loans for economic activities:** | | |
| Overdrafts | 3,831,433 | 2,493,786 |
| Direct loans | 19,308,241 | 17,464,880 |
| Syndicated loans | 10,096,972 | 9,689,796 |
| **Total** | **33,236,646** | **29,648,462** |
| **Total loans and advance to customers** | **40,904,144** | **35,412,788** |
| Less: expected credit loss " ECL" | (2,979,726) | (2,601,413) |
| **Net** | **37,924,418** | **32,811,375** |

During the year ended 31 December 2022, the Bank has accepted trading financial securities with a fair value amounting to EGP 200,977 thousand as a commercial loan guarantee (EGP 481,053 thousand in 31 December 2021).

**Expected Credit Loss:**

The expected credit loss movement for loans and advances to customers classified according to their types is as follows:

**31 December 2022**

| | Retail | | | | |
|---|---|---|---|---|---|
| | Overdrafts | Credit cards | Personal loans | Mortgage loans | Total |
| Balance at beginning of the year | **1,193** | **16,089** | **26,818** | **-** | **44,100** |
| Expected credit losses charged/(reversed) | 1,325 | 6,620 | 6,599 | - | **14,544** |
| Amounts written off during the year | - | (18,683) | (24,075) | - | **(42,758)** |
| Amounts recovered during year | 5 | 14,317 | 15,559 | - | **29,881** |
| Foreign revaluation difference related to provision | - | - | 962 | - | **962** |
| **Balance at the end of the year** | **2,523** | **18,343** | **25,863** | **-** | **46,729** |

| | Corporate | | | |
|---|---|---|---|---|
| | Overdrafts | Direct loans | Syndicated loans | Total |
| Balance at beginning of the year | **1,260,588** | **1,077,890** | **218,835** | **2,557,313** |
| Expected credit losses charged/(reversed) | (531,825) | 936,098 | (28,200) | **376,073** |
| Amounts written off during the year | (470,320) | - | - | **(470,320)** |
| Amounts recovered during year | - | 16,906 | - | **16,906** |
| Foreign revaluation difference related to provision | 223,312 | 190,947 | 38,766 | **453,025** |
| **Balance at the end of the year** | **481,755** | **2,221,841** | **229,401** | **2,932,997** |

**31 December 2021**

| | Retail | | | | |
|---|---|---|---|---|---|
| | Overdrafts | Credit cards | Personal loans | Mortgage loans | Total |
| **Balance at the beginning of the year** | **6,110** | **44,639** | **66,955** | **10** | **117,714** |
| Expected credit losses reversed | (4,733) | 519 | (8,122) | (10) | **(12,346)** |
| Amounts written off during the year | (251) | (41,582) | (44,991) | - | **(86,824)** |
| Amounts recovered during year | 75 | 12,513 | 13,041 | - | **25,629** |
| Foreign revaluation difference related to provision | (8) | - | (65) | - | **(73)** |
| **Balance at the end of the year** | **1,193** | **16,089** | **26,818** | **-** | **44,100** |

| | Corporate | | | |
|---|---|---|---|---|
| | Overdrafts | Direct loans | Syndicated loans | Total |
| **Balance at the beginning of the year** | **389,889** | **1,891,317** | **247,035** | **2,528,241** |
| Expected credit losses charged | 875,376 | (387,424) | (28,200) | **459,752** |
| Amounts written off during the year | (11,193) | (411,850) | - | **(423,043)** |
| Amounts recovered during year | 6,516 | - | - | **6,516** |
| Foreign revaluation difference related to provision | - | (14,153) | - | **(14,153)** |
| **Balance at the end of the year** | **1,260,588** | **1,077,890** | **218,835** | **2,557,313** |

### 19. Financial derivatives and coverage activities

The Bank uses the following derivatives for hedging and non-hedging purposes:

- Currency forward contracts represent commitments to purchase/sell foreign and local currencies, including in unexecuted portion of spot transactions
- Credit risk at the Bank is considered low. Future interest rate agreements represent future exchange rate contracts negotiated on a case-by-case basis. These contracts require financial settlements of any differences in contractual interest rates and prevailing market interest rates on future dates based on contractual amount/nominal value agreed on
- Currency and/or interest swap contracts represent the commitments to exchange a group of cash flows with another. These contracts' result is the exchange of currencies or interest rates (ie fixed rate for floating rate) or both (ie cross-currency interest rate swaps). No exchange of principal takes place except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis by comparing current fair value and contractual amount. To control an existing credit risk, the Bank assesses counterparties using the same techniques as for its lending activities
- The buyer (issuer) give to seller (holders) a right, not an obligation, to buy (buy option) or to sell (sell option) at a certain date or within a certain period of time by certain amount denominated in foreign currency or a financial instrument with prior agreed price. The buyer receives, in return, a commission against the burden of risk he took on option contracts that are either traded in the market or negotiable between the Bank and one of its customers. The Bank is exposed to credit risk for the purchased options' contracts only and to the extent of its book value which represent its fair value
- The notional amounts of certain types of financial instrument are used as a basis for comparison purpose, with financial instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows or the current fair value of the instruments, and therefore, does not indicate the Bank's exposure to credit or price risks
- The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in the market interest rates or foreign exchange rates related to them. The aggregate contractual or notional amount of the existing financial derivative instruments, the duration to which instruments are favourable or unfavourable, and the aggregate fair value of financial assets and liabilities derivatives can fluctuate significantly from time to time
- The table below represents the fair value of financial derivatives existing at the balance sheet date:

**31 December 2022**

| | Contract/notional amount Assets | Contract/notional amount Liabilities | Assets | Liabilities |
|---|---|---|---|---|
| **Derivatives held for trading** | | | | |
| **Foreign currency derivatives** | | | | |
| Currency Options | 2,040,294 | (2,040,294) | 20,343 | (20,343) |
| Currency forward contracts | 1,073,634 | (1,073,634) | 288,677 | (180,635) |
| **Total assets (liabilities) of derivatives held for trading** | | | **309,020** | **(200,978)** |

**31 December 2021**

| | Contract/notional amount Assets | Contract/notional amount Liabilities | Assets | Liabilities |
|---|---|---|---|---|
| **Derivatives held for trading** | | | | |
| **Foreign currency derivatives** | | | | |
| Currency Options | 137,102 | (137,102) | 2,051 | (2,051) |
| Currency forward contracts | 3,635,863 | (3,635,863) | 187,234 | (265,140) |
| **Total assets (liabilities) of derivatives held for trading** | | | **189,285** | **(267,191)** |

## 20. Financial assets at fair value through profit or loss

| | 2022 | 2021 |
|---|---|---|
| Financial assets at fair value through profit or loss | | |
| Debt instruments listed Government Bonds | 76,050 | - |
| **Total financial assets at fair value through profit or loss** | 76,050 | - |

## 21. Financial investments

| | 2022 | 2021 |
|---|---|---|
| Equity instruments unlisted | 32,869 | 31,964 |
| Debt instruments listed Government Bonds (at FMV)* | 14,997,499 | 16,999,568 |
| Debt instruments unlisted (mutual fund) | 30,897 | 27,981 |
| **Total financial investments at fair value through OCI** | **15,061,265** | **17,059,513** |
| Current balances | 9,224,010 | 4,330,641 |
| Non-current balances | 5,837,255 | 12,728,872 |
| | **15,061,265** | **17,059,513** |

**Financial investments at fair value through other comprehensive income rather than T-bills:**

**31 December 2022**

| | |
|---|---|
| **Balance at the beginning of the year** | **17,059,513** |
| Additions | 3,771,672 |
| Disposals (sale/redemption) | (5,261,604) |
| Monetary assets revaluation | 219,676 |
| Loss from change in FMV | (727,992) |
| **Balance at the end of the year** | **15,061,265** |

**31 December 2021**

| | |
|---|---:|
| **Balance at beginning of the year** | **12,175,038** |
| Additions | 6,011,176 |
| Disposals (sale/redemption) | (1,106,118) |
| Monetary assets revaluation | 20,354 |
| Loss from change in FMV | (40,937) |
| **Balance at the end of the year** | **17,059,513** |

* Debt instruments include local bonds amounting to EGP 14,997,449 thousand (EGP 16,999,568 in 31 December 2021) secured by the Egyptian Ministry of Finance.

**Financial Investments details**

| | Fair value | Fair value | Cost / Amortized Cost | Cost / Amortized Cost |
|---|---:|---:|---:|---:|
| | **2022** | **2021** | **2022** | **2021** |
| Equity instruments unlisted | 32,869 | 31,964 | 25,536 | 25,536 |
| Debt instruments listed (at FMV) | 14,997,499 | 16,999,568 | 15,615,172 | 16,885,429 |
| Mutual Fund | 30,897 | 27,981 | 9,142 | 9,142 |
| | **15,061,265** | **17,059,513** | **15,649,850** | **16,920,107** |

## 22. Treasury bills

| | 2022 | 2021 |
|---|---:|---:|
| Treasury bills - Egyptian ** | 34,101,678 | 30,209,941 |
| Treasury bills – United states of America | 7,407,380 | 3,921,691 |
| **Total** | **41,509,058** | **34,131,632** |

**Treasury bills represent the following:**

| | 2022 | 2021 |
|---|---:|---:|
| 91 days maturity | 7,538,990 | - |
| 182 days maturity | 13,383,960 | 196,580 |
| 273 days maturity | 2,444,619 | 1,436,778 |
| 364 days maturity | 18,141,489 | 32,498,274 |
| **Total** | **41,509,058** | **34,131,632** |

**Treasury Bills**

| | 2022 |
|---|---:|
| **Balance at beginning of the year** | **34,131,632** |
| Addition | 39,270,777 |
| Deduction (Sale/Redemption) | (32,160,771) |
| Monetry assets revaluation differences for foreign financial assets other variables | 420,873 |
| losses from fair value difference*** | (153,453) |
| **Balance at the end of the year** | **41,509,058** |

***Treasury bills fair value reserve reached EGP (168,070) as of 31 Dec 2022 against EGP (14,617) as of 31 December 2021 (with net change of EGP (153,453) thousands).

**Treasury bills includes EGP 608,734 thousands related to end of service compensation benefits and related Treasury bills fair value reserve 1,406 thousand (End of Service Treasury bills amounted to EGP 502,916 thousand as of 31 December 2021)

**Financial investment details**

| | Fair value 2022 | Fair value 2021 | Cost/Amortised cost 2022 | Cost/Amortised cost 2021 |
|---|---|---|---|---|
| Treasury bills at fair value through OCI | 41,509,058 | 34,131,632 | 41,677,128 | 34,146,249 |
| | **41,509,058** | **34,131,632** | **41,677,128** | **34,146,249** |

## 23. Investment in subsidiaries

A.

| | 2022 | 2021 |
|---|---|---|
| Cost | 35,517 | 35,517 |
| Impairment | (23,471) | - |
| **Net** | **12,046** | **35,517** |

B. The Extraordinary General Assembly of the company decided on November 1, 2021 to put the company under liquidation and appoint a liquidator, and a provision for impairment of EGP 23 471 thousand has been formed.

C. The following table shows the percentage of HSBC Securities - Egypt's "under liquidation" balance sheet on December 31, 2021 from HSBC's consolidated balance sheet.

| | Company's country | Ownership % | Company's Assets | Company's liabilities | Company's loss |
|---|---|---|---|---|---|
| HSBC Securities Egypt Company SAE | Egypt | 98% | 0.01% | 0.01% | (0.35%) |

## 24. Intangible assets

| | Computer software | |
|---|---|---|
| | **2022** | **2021** |
| **Balance at the beginning of the current year** | | |
| Cost | 537,162 | 288,246 |
| Accumulated amortisation | (147,338) | (68,496) |
| Impairment provision Charge | (43,457) | (43,457) |
| **Net book value at the beginning of the current year** | **346,367** | **176,293** |
| Additions | 227,645 | 255,020 |
| Disposals (Cost) | (42,063) | (6,104) |
| Amortisation | (76,567) | (78,842) |
| Impairment provision reversal | 43,457 | - |
| **Net book value as at end of year** | **498,839** | **346,367** |
| **Balance at the end of the current year** | | |
| Cost | 722,744 | 537,162 |
| Accumulated amortisation | (223,905) | (147,338) |
| Impairment provision Charge | - | (43,457) |
| **Net book value at the end of the current year** | **498,839** | **346,367** |

## 25. Other assets

| | **2022** | **2021** |
|---|---|---|
| Accrued revenues | 1,466,546 | 1,452,299 |
| Prepaid expenses | 37,299 | 23,234 |
| Ownership assets transferred to B&D (net of impairment) | 10,293 | 10,293 |
| Costs of branches under construction | 34,341 | 18,177 |
| Due from CBE from selling Gov bills and bonds | - | 106,717 |
| Others | 822,009 | 673,264 |
| Impairment from provision ECL | (2,476) | (1,727) |
| **Total** | **2,368,012** | **2,282,257** |

## 26. Fixed assets

| | Land and buildings | Leasehold improvement | Machines and equipment | Others | Total |
|---|---|---|---|---|---|
| **Balance as at the beginning of the current year** | | | | | |
| Cost | 357,528 | 257,136 | 441,328 | 165,939 | **1,221,931** |
| Accumulated depreciation | (211,299) | (154,886) | (148,951) | (85,009) | **(600,145)** |
| **Net book value at the beginning of the current year** | **146,229** | **102,250** | **292,377** | **80,930** | **621,786** |
| Additions | - | 6,635 | 236,239 | - | **242,874** |
| Disposals (cost) | - | (16,439) | (10,159) | - | **(26,598)** |
| Disposals (accumulated depreciation) | - | 9,705 | 9,970 | - | **19,675** |
| Depreciation for the year | (41,789) | (17,490) | (715) | (68,219) | **(128,213)** |
| **Net book value at the end of the year** | **104,440** | **84,661** | **527,712** | **12,711** | **729,524** |
| **Balance as at the end of the current year** | | | | | |
| Cost | 357,528 | 247,332 | 667,408 | 165,939 | **1,438,207** |
| Accumulated depreciation | (253,088) | (162,671) | (139,696) | (153,228) | **(708,683)** |
| **Net book value at the end of the year** | **104,440** | **84,661** | **527,712** | **12,711** | **729,524** |

## 27. Investment property

As per CBE approval dated 9 June 2004, the Bank leased some of its head office floors which are located at Corniche El Nile Maadi and Smart Village.

| | 2022 | 2021 |
|---|---|---|
| **Balance at the beginning of the year** | | |
| Cost | 163,112 | 183,783 |
| Accumulated depreciation | (101,021) | (100,256) |
| **Net book value at the beginning of the year** | **62,091** | **83,527** |
| Transferred to fixed assets (Cost) | - | (20,671) |
| Transferred to fixed assets (accumulated depreciation) | - | 9,336 |
| Depreciation | (9,845) | (10,101) |
| **Net book value as at the end of year** | **52,246** | **62,091** |
| **Balance at the end of the year** | | |
| Cost | 163,112 | 163,112 |
| Accumulated depreciation | (110,866) | (101,021) |
| **Net book value as at the end of year** | **52,246** | **62,091** |

### 28. Due to banks

| | 2022 | 2021 |
|---|---|---|
| Current accounts | 3,269,418 | 1,415,553 |
| | **3,269,418** | **1,415,553** |
| Central bank | 4,235 | 7,724 |
| Foreign banks | 3,265,183 | 1,407,829 |
| | **3,269,418** | **1,415,553** |
| Non-interest-bearing balances | 3,269,418 | 1,415,553 |
| | **3,269,418** | **1,415,553** |
| Current Balances | **3,269,418** | **1,415,553** |

### 29. Customers' deposits

| | 2022 | 2021 |
|---|---|---|
| Demand deposits | 69,864,711 | 42,845,955 |
| Time and call deposits | 32,730,094 | 22,501,074 |
| Certificates of deposits | 14,520,812 | 14,161,670 |
| Saving deposits | 30,372,380 | 24,827,364 |
| Other deposits | 3,658,983 | 2,115,058 |
| | **151,146,980** | **106,451,121** |
| Corporate deposits | 81,209,756 | 49,436,695 |
| Retail deposits | 69,937,224 | 57,014,426 |
| | **151,146,980** | **106,451,121** |
| Non-interest bearing balances | 72,682,062 | 42,779,957 |
| Fixed interest bearing balances | 78,464,918 | 63,671,164 |
| | **151,146,980** | **106,451,121** |

Customers' deposits include deposits of EGP 3,134,669 thousand as of 31 December 2022 against EGP 1,814,936 thousand as of 31 December 2021, which represent collateral for irrecoverable commitments. There is no major difference between its carrying value and fair value.

### 30. Other liabilities

| | 2022 | 2021 |
|---|---|---|
| Accrued interest | 380,466 | 337,330 |
| Deferred income | 97,861 | 102,159 |
| Accrued expenses | 447,898 | 377,760 |
| Creditors | 988,125 | 706,885 |
| Due to CBE from selling GOV bills and bonds | - | 6,896 |
| Other credit balances | 1,279,978 | 826,133 |
| **Total** | **3,194,328** | **2,357,163** |

## 31. Other provisions

| | Provision for claims | | Provision for contingent liabilities | | Total | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Balance at the beginning of the year | 54,507 | 47,933 | 366,889 | 408,027 | 421,396 | 455,960 |
| Formed during the year | 54,477 | 48,765 | - | - | 54,477 | 48,765 |
| Provisions valuation differences | 2,980 | (11) | 62,667 | (325) | 65,647 | (336) |
| | **111,964** | **96,687** | **429,556** | **407,702** | **541,520** | **504,389** |
| Used during the year | (42,198) | (41,538) | - | - | (42,198) | (41,538) |
| No longer required | (2) | (642) | (171,619) | (40,813) | (171,621) | (41,455) |
| **Balance at the end of the year** | **69,764** | **54,507** | **257,937** | **366,889** | **327,701** | **421,396** |

## 32. Deferred tax

Deferred income taxes calculated entirely on the differences of deferred tax in accordance with balance sheet method using effective tax rate of 22.5 per cent for the current financial year.

Offset between deferred tax assets and deferred tax liabilities is done if there is legal reason to set off taxes resulting from assets against taxes resulting from liabilities and also when the deferred income taxes belong to the same tax jurisdiction.

Deferred tax assets that are not expected to be benefited from in the future are not recognized.

### Deferred tax assets and liabilities

The movement of deferred tax assets and liabilities is as follows:

### Deferred tax assets and liabilities balances

| | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Fixed assets | - | - | (134,975) | (34,983) |
| Defined benefit obligation | 126,731 | 127,287 | - | - |
| Deferred tax for financial investment through OCI | 85,828 | - | - | - |
| Other | 144,410 | 16,512 | - | - |
| **Total tax assets (liabilities)** | 356,969 | **143,799** | **(134,975)** | **(34,983)** |
| **Net deferred tax assets** | 221,994 | **108,816** | | |

### Deferred tax assets and liabilities movements

| | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Balance at the beginning of the year | 143,799 | 122,297 | (34,983) | (20,009) |
| Additions | 213,170 | 21,502 | (99,992) | (14,974) |
| **Balance at the end of the year** | **356,969** | **143,799** | **(134,975)** | **(34,983)** |

## 33. Defined benefits obligations

The end of service compensation benefits amounted to EGP 705,514 thousand as of 31 December 2022 (EGP 566,319 thousand as of 31 December 2021).

The movement of the liabilities in the defined benefit are as follows:

| | 2022 | 2021 |
|---|---|---|
| **Liability recorded on balance sheet** | | |
| End of service compensation | 705,514 | 566,319 |
| **Amounts recognised in income statement:** | | |
| End of service compensation (Note 10) | 104,841 | 89,214 |

**The principal actuarial assumptions used are as follows:**

- Rates of death/disability of the British table A49-52ULT
- Rate of salary increase Sx=S20 *(1.05) ^ (X-20).
- Discount rate used (14.70%)

## 34. Paid up capital

| | Number of shares (in millions) | Common Shares EGP(000) | Total EGP(000) | Issuance premium included in other reserve-issuance premium EGP(000) |
|---|---|---|---|---|
| Balance at the beginning of the year | 33.280566 | 2,795,567 | 2,795,567 | 6,728 |
| Transfer to Capital account * | 26.243244 | 2,204,433 | 2,204,433 | - |
| **Balance at 31 December 2022** | **59.523810** | **5,000,000** | **5,000,000** | **6,728** |
| Balance at the beginning of the last year | 33.280566 | 2,795,567 | 2,795,567 | 6,728 |
| **Balance at 31 December 2021** | **33.280566** | **2,795,567** | **2,795,567** | **6,728** |

* According to the extraordinary general assembly's decision on 17 March 2021, it was approved to increase the issued capital to EGP 5,000,000,040 by an increase of EGP 2,204,432,496 representing 26,243,244 cash shares from retained earnings, accordingly, the issued and fully paid-up capital as of 31 December 2022 is EGP 5,000,000,040 represented in 59,523,810 fully paid shares at par value of EGP 84 each.

### A. Authorised capital

The authorised capital amounted to EGP1,750,000,000.

According to the extraordinary general assembly decision on 30 November 2010, the authorised capital has been increased to EGP5,000,000,000.

According to the extraordinary general assembly decision on 17 March 2021, the authorized capital has been increased to EGP 10,000,000,000 approved from the General Investment Authority.

### B. Issued and paid-up capital

- The issued and paid-up capital as at 31 December 2008 amounted to EGP1,508,500,056 represented in 17,958,334 fully paid shares at par value of EGP84 each. The foreign shareholders own 94.54 per cent of the capital, which was paid in US dollars at the prevailing rates on the subscription dates
- According to the extraordinary general assembly decision on 30 November 2010, the issued capital has been increased to EGP2,078,500,116, increasing by EGP570,000,060 by issuing 6,785,715 shares which has been fully paid as at 31 December 2022
- According to the extraordinary general assembly's decision on 26 September 2013, it was approved to increase the issued capital to an amount not exceeding EGP2,796,006,192, by an increase of EGP717,506,076 representing 8,541,739 shares, in which the paid amount was EGP717,067,428 representing 8,536,517 shares
- Accordingly, the issued and fully paid-up capital is EGP2,795,567,544 represented in 33,280,566 fully paid shares at par value of EGP84 each

## 35. Reserves and retained earnings

| | 2022 | 2021 |
|---|---|---|
| **Reserves** | | |
| General reserve | 2,513,464 | 2,348,489 |
| Legal reserve | 1,397,782 | 1,397,782 |
| Capital reserve | 51,752 | 40,295 |
| Reserve for excess over par value - issuance premium | 6,728 | 6,728 |
| Fair value reserve | (656,372) | 138,173 |
| General bank risk reserve | 89,661 | - |
| General risk reserve | 491,666 | 491,666 |
| **Total reserves at the end of the year** | **3,894,681** | **4,423,133** |

**Reserves movements during the year are as follows:**

### A. General reserve

| | 2022 | 2021 |
|---|---|---|
| Balance at the beginning of the year | 2,348,489 | 2,164,822 |
| Transferred from prior year profits | 164,975 | 183,667 |
| **Balance at the end of the year** | 2,513,464 | **2,348,489** |

### B. Legal reserve

| | 2022 | 2021 |
|---|---|---|
| Balance at the beginning of the year | 1,397,782 | 1,397,782 |
| **Balance at the end of the year** | **1,397,782** | **1,397,782** |

In accordance with local laws, 5 per cent of the net profit shall be transferred to nondistributable reserve until it reaches 50 per cent of the capital.

### C. Capital reserve

| | 2022 | 2021 |
|---|---|---|
| Balance at the beginning of the year | 40,295 | 40,295 |
| Transferred from prior year profits | 11,457 | - |
| **Balance at the end of the year** | **51,752** | **40,295** |

### D. Reserve for excess over par value – issuance premium

| | 2022 | 2021 |
|---|---|---|
| Balance at the beginning of the year | 6,728 | 6,728 |
| **Balance at the end of the year** | **6,728** | **6,728** |

This reserve represents the difference between the value of shares acquired by the shareholders and employees during capital increase in years 1998 and 1999 (price per share was EGP168) and its par value (price per share EGP84) in addition to the gain resulted from sale of Treasury shares in year 2000 after deducting the capital increase that occurred in year 2002.

### E. Fair value reserve

| | 2022 | 2021 |
|---|---|---|
| Balance at the beginning of the year | 138,173 | 218,260 |
| Net change in investments FVOCI- T Bills | (153,453) | (41,208) |
| Net change in investments FVOCI- Bonds | (731,813) | (43,615) |
| Net change in investments FVOCI- Mutual funds | 2,916 | 2,426 |
| Net change in investments FVOCI- Equity instruments | 904 | 252 |
| Deferred tax for financail investment through OCI | 85,828 | - |
| Expected credit  loss - Finacial investment at FVOCI | 1,073 | 2,058 |
| **Balance at the end of the year** | **(656,372)** | **138,173** |

Fair reserve represents the revaluation of financial instruments that measured through other comprehensive income.

### F. General risk reserve

| | 2022 | 2020 |
|---|---|---|
| **Balance at the begining of the year** | 491,666 | 491,666 |
| **Balance at the end of the year** | **491,666** | **491,666** |

As per CBE instructed the Special reserve & IFRS 9 reserve have been merged into the General risk reserves.

### G. General bank risk reserves

| | 2022 | 2021 |
|---|---|---|
| Balance at the beginning of the year | - | 66,609 |
| Transferred from previous year profit | 89,661 | (66,609) |
| **Balance at the end of the year** | **89,661** | **-** |

The general banking risk reserve were approved by the Board of Directors at the General Assembly meeting that held on March 17, 2022.

### H. Retained earnings

| | 2022 | 2021 |
|---|---|---|
| **Movement on retained earnings** | | |
| Balance at the beginning of the year | 8,448,084 | 7,815,864 |
| Amounts reserved under capital increase | - | (2,204,433) |
| Net profit for the year | 5,485,437 | 3,400,607 |
| Dividends for the year | (2,398,834) | (367,333) |
| Transferred to Banking systems support and development Fund | (32,995) | (36,733) |
| Actourial Losses | (67,425) | (42,830) |
| Transferred from capital reserve | (11,457) | - |
| Transferred from general reserve | (164,975) | (183,667) |
| Transferred from general bank risk reserve | (89,661) | 66,609 |
| **Balance at the end of the year** | **11,168,174** | **8,448,084** |

## 36. Dividends

Payment of dividends is not registered unless being approved by the general assembly. No dividents will be distributed for the year ended 2022 for supporting the bank's capital base. (The actual payment of EGP 59.48 per share as cash dividends for the year 2021 with a total amount of EGP 1,979,528,066. The Board of directors will propose to the general assembly that will held on 19March 2023 to distribute EGP 548,543,739 as employees' distribution related to the profit for year 2022. (The actual employees' dividends distributed for 2021 amount to EGP 419,305,818).

## 37. Cash and cash equivalents

For the purpose of preparing the statement of cash flow, cash and cash equivalents include the following balance of maturity dates within less than three months from the date of acquisition:

| | 2022 | 2021 |
|---|---|---|
| Cash and due from the CBE (note 15) | 1,879,063 | 1,708,113 |
| Due from banks (note 16) | 27,090,104 | 18,776,029 |
| Treasury bills (note 22) | 7,538,990 | - |
| | 36,508,157 | **20,484,142** |

## 38. Commitment and contingent liabilities

### A. Legal claims

There are lawsuits filed against the bank as at 31 Dec 2022. There is provision formed during this year against these lawsuits by EGP 3 075 thousand and refund by EGP 2 thousand and utilized the amount of EGP 298 thousand from legal provision during the current year.

### B. Commitments for loans, guarantees and facilities

Bank commitments for loans, guarantees and facilities are represented as follows:

| | 2022 | 2021 |
|---|---:|---:|
| Acceptances | 1,482,217 | 873,603 |
| Letters of guarantee | 41,937,780 | 29,301,689 |
| Letter of credit (import and export) | 3,468,705 | 2,172,329 |
| Other contingent liabilities | 29,362 | 260,186 |
| Commitments for loans | 377,833 | 1,461,462 |
| Cash margin | (3,134,669) | (1,814,936) |
| **Total** | **44,161,228** | **32,254,333** |

### C. Commitments for operating lease contracts

The total minimum lease payments for irrevocable operating leases are as follows:

| | 2022 | 2021 |
|---|---:|---:|
| Less than one year | 11,824 | 10,476 |
| More than one year and less than five years | 19,185 | 10,820 |
| More than five years | 5,496 | - |
| **Total** | **36,505** | **21,296** |

## 39. Related party transactions

The Bank is a subsidiary of parent HSBC Holdings B.V. headquarter in London, which owns 94.54 per cent of ordinary shares. The remaining percentage (5.46 per cent) is owned by other shareholders.

HSBC Bank Egypt owns 98% of HSBC Securities Egypt (S.A.E).

The Extraordinary General Assembly of the company decided on November 1, 2021 to put the company under liquidation and appoint a liquidator, and a provision for impairment of EGP 23 471 thousand has been formed.

Number of banking transactions with related parties has been conducted in the normal course of the business, including loans, deposits and foreign currency swaps. Dividends have been announced for the parent company, as shown in Note (36).

**Related parties' transactions and balances at the end of the financial year are as follows:**

### A. Subordinated loans

| | HSBC group | |
|---|---:|---:|
| **Statement of financial position** | **2022** | **2021** |
| Subordinated loans note (40) | 2,072,000 | 2,072,000 |
| | | |
| **Statement of income statement** | | |
| Interest expenses | 270,800 | 232,615 |

### B. Deposits from related parties

| | Subsidiaries | |
|---|---|---|
| | **2022** | **2021** |
| **Due to customers** | | |
| Deposits at the beginning of the year | 26,791 | 40,968 |
| Deposits received during the year | 8,642 | 17,839 |
| Deposits redeemed during the year | (20,209) | (32,016) |
| **Deposits at the end of the financial year** | **15,224** | **26,791** |

The preceding deposits are of no guarantee and of fixed interest rate and recoverable on call.

### C. Other related party transactions

| | HSBC group | |
|---|---|---|
| | **2022** | **2021** |
| **Statement of income statement** | | |
| Operating lease | 42,846 | 47,673 |
| Head office services revenue | 94,081 | 72,240 |
| Cost of services provided by HSBC Group | (1,544,484) | (938,469) |
| **Total** | **(1,407,557)** | **(818,556)** |

| | HSBC group | |
|---|---|---|
| | **2022** | **2021** |
| **Statement of financial position** | | |
| Due from banks | 1,112,154 | 1,132,041 |
| Loans and advances to banks | 107,958 | 68,574 |
| Due to banks | 1,827,555 | 455,098 |
| **Total** | **3,047,667** | **1,655,713** |

### D. Board of Directors and top management benefits

The average net monthly salary paid to the top 20 employees in the Bank for the year ended 2022 amounted to EGP 6,203 thousand (EGP 5,325 thousand average net monthly salary paid to the top 20 employees for the year ended 2021).

## 40. Subordinated loans

| | Current interest rate | 2022 | 2021 |
|---|---|---|---|
| Subordinated loan, variable interest rate (1) | 20.75% | 272,000 | 272,000 |
| Subordinated loan, variable interest rate (2) | 19.00% | 1,800,000 | 1,800,000 |
| | | **2,072,000** | **2,072,000** |

‘Subordinated loan, variable interest rate (1) obtained from HSBC holdings BV by EGP 272 million, according to an agreement extension of 15 years. (Starting from December 2013 and ending in December 2028) with variable interest rate.

‘Subordinated loan, variable interest rate (2) obtained from HSBC holdings BV by EGP 1,800 million, according to an agreement extension of 10 years. (Starting from March 2017 and ending in March 2027) with variable interest rate.

## 41. Mutual funds

**HSBC first mutual fund (kol youm)**

- The mutual fund is an activity authorized for the Bank by virtue of Capital Market Law No.95 for year1992 and its Executive Regulations. The fund is managed by Hermes for Managing Mutual Funds. The certificates of the fund reached 1,000,000 certificates with an amount of EGP 100,000,000 of which 50,000 certificate (with nominal value of EGP 5,000,000) were allocated to the Bank to undertake the funds' activity.
- The Bank held as of 31 December 2022, 78,559 certificates amounting to EGP 9,141,998 with a redeemable value amounting to EGP 30,896,520 against 78,559 certificates amounting to EGP 9,141,998 with redeemable value amounting to EGP 27,981,093 as of 31 December 2021.
- The redeemable value of the certificate amounted to EGP 393.29 against EGP 356.18 as of 31 December 2021. The outstanding certificates reached 2,981,664 certificates against 3,840,876 certificates as of 31 December 2021.
- According to the fund's management contract and its prospectus, HSBC Egypt shall obtain fee and commission for supervision on the fund and other managerial services rendered by the Bank. Total commission amounted to EGP 5,506 thousand for the year ended 31 December 2022 against EGP 5,340 thousand for the year ended 31 December 2021 under the item of fees and commission income caption in the income statement.

## 42. Significant Events

On 21 March 2022, global inflationary pressures began to build after the world economy emerged from the distruptions caused by the COVID-19 pandamic. These pressures became amplified with the recent Russia-Ukraine conflict, the Monetary Policy Committee (MPC) decided to raise the overnight deposit rate, the overnight lending rate, and the rate of the main operation by 100 basis points to 9.25 percent, 10.25 percent, and 9.75 percent, respectively. The discount rate was also raised by 100 basis points to 9.75 percent.

On 19 May 2022, the Monetary Policy Committee (MPC) decided to raise the Central Bank of Egypt's (CBE) overnight deposit rate, overnight lending rate, and the rate of the main operation by 200 basis points to 11.25 percent, 12.25 percent, and 11.75 percent, respectively. The discount rate was also raised by 200 basis points to 11.75 percent.

On 27 October 2022, the Monetary Policy Committee (MPC) has decided in its special meeting to raise the overnight deposit rate, the overnight lending rate, and the rate of the main operation by 200 points to 13.25 percent, 14.25 percent, and 13.75 percent, respectively. The discount rate was also raised by 200 basis points to 13.75 percent.

On 22 December 2022, Against that the Central Bank of Egypt (CBE) moved to a durably flexible exchange rate regime, leaving the forces of supply and demand to determine the value of the Egyptian currency "EGP" against other foreign currencies, while prioritizing the primary goal of achieving price stability, and building up sustainable, adequate levels of Foreign Exchange Reserves. Furthermore, in order to uphold the CBE's mandate of ensuring price stability over the medium term, the monetary policy committee (MPC) has decided in its special meeting to raise the overnight deposit rate, the overnight lending rate, and the rate of the main operation by 300 basis points to 16.25 percent, 17.25 percent, and 16.75 percent, respectively. The discount rate was also raised by 300 basis points to 16.75 percent.

# HSBC Bank Egypt head office and branches

**HSBC Bank Egypt SAE**

**Head office**

306 Corniche El Nil, Maadi,
Cairo, Egypt
Tel: +2(02) 2529 8000
SWIFT: EBBK EGCX

**Cairo**

Abou Dawoud El Zahiry branch
62 Abou Dawoud El Zahiry Street, Nasr City,
Cairo, Egypt
Tel: +2(02) 2672 0522

**Cairo branch**
3 Aboul Feda Street, Zamalek,
Cairo, Egypt
Tel: +2(02) 2739 6001

**City Stars branch**
City Stars mall Ground Floor, Phase 2, Omar Ibn El Khattab Street, Heliopolis,
Cairo, Egypt
Tel: +2(02) 2480 2356

**Corniche El Maadi branch**
306 Corniche El Nil, Maadi,
Cairo, Egypt
Tel: +2(02) 2529 8750

**Down Town branch**
13 Kasr El Nil Street, Down Town,
Cairo, Egypt
Tel: +2(02) 2578 8448

**Gezira Sporting Club branch**
Gezira Sporting Club, Saraya El Gezira Street, Zamalek,
Cairo, Egypt
Tel: +2(02) 2736 6751

**Hegaz branch**
71 El Hegaz Street, El Mahkama square, Heliopolis,
Cairo, Egypt
Tel: +2(02) 2771 2241

**Heliopolis branch**
I Roxy Square, Heliopolis,
Cairo, Egypt
Tel: +2(02) 2451 1480

**Maadi branch**
1B Road 256, Maadi,
Cairo, Egypt
Tel: +2(02) 2519 5462

**Maadi Club branch**
Maadi Club, Demeshk Street, Maadi,
Cairo, Egypt
Tel: +2(02) 2380 4729

**Masaken Sheraton branch**
3 Khaled Ibn ElWalid Street, Masaken Sheraton, Heliopolis,
Cairo, Egypt
Tel: +2(02) 2266 6426

**Mokattam branch**
3 El Nafoura Square, Mokattam
Cairo, Egypt
Tel: +2(02) 2845 2895

**Nasr City branch**
29 El Batrawy Street, Nasr City,
Cairo, Egypt
Tel: +2(02) 2401 7901

**New Maadi branch**
10/2 El Nasr Road, New Maadi
Cairo, Egypt
Tel: +2(02) 2754 4816

**Nile View branch**
4 Ramlet Beaulac, Corniche El Nil
Cairo, Egypt
Tel: +2(02) 2575 2157

**El Obbour Buildings branch**
13 El Obbour Buildings, Salah Salem Street
Cairo, Egypt
Tel: +2(02) 2403 1399

**El Orouba branch**
90 Beirut Street, Heliopolis
Cairo, Egypt.
Tel: +2(02) 2415 3371

**Safir branch**
1 El Sheikh Hassouna El Nawawi Street, Heliopolis
Cairo, Egypt
Tel: +2(02) 2418 9947

**El Shams Club branch**
15 Abdel Hamid Badawy Street, Heliopolis
Cairo, Egypt

Tel: +2(02) 2180 4829

**El Thawra branch**
109 El Thawra Street, Ard El Golf, Nasr City
Cairo, Egypt
Tel: +2(02) 2414 2157

**New Cairo**

**Cairo Festival City branch**
Cairo Festival City Mall, Unit No.10, Ring Road
Cairo, Egypt
Tel: +2(02) 2616 8155

**Katameya Heights branch**
Katameya Heights, Fifth District,
New Cairo, Egypt
Tel: +2(02) 2756 4780

**El Tagamoo branch**
67, El Teseen Street,
5th Settlement, New Cairo
Cairo, Egypt
Tel: +2(02) 2920 1371/2920 1716

**El Rehab branch**
411, Commercial market,
El Rehab City
Cairo, Egypt
Tel: +2(02) 2693 2273

**Water Way branch**
Unit G10, Building 7, Land No. 31, El Mostasmerin El Shamaleya,
North 90 Road, El Safa Compound,
New Cairo, Egypt
Tel: +2(02) 2529 1179

**Obbour City**

**Obbour City branch**
3 City Club Fence,
Obbour City, Egypt
Tel: +2(02) 2448 28258

**Giza**

**Dokki branch**
80 Mosadak Street, Dokki
Giza, Egypt
Tel: +2(02) 3762 0589

**Gameat El Doual branch**
54 Gameet El Doual Street, Mohandessin
Giza, Egypt
Tel: +2(02) 3748 6879

**Lebanon branch**
25 Lebanon Street, Mohandessin
Giza, Egypt
Tel: +2(02) 3346 7090

**Mohandessin branch**
8 Geziret El Arab Street, Mohandessin
Giza, Egypt
Tel: +2(02) 3368 0102

**Shooting Club branch**
40 Kambiz Street,
Giza, Egypt
Tel: +2(02) 3761 0683

**Vinni branch**
8 El Sad El Aaly Street, Dokki
Giza, Egypt
Tel: +2(02) 3749 6336

**Sheikh Zayed City and Sixth of October City**

**Arkan branch**
**Arkan Mall,**
El Sheikh Zayed City, Entrance No.2
Giza, Egypt
Tel: +2(02) 3850 5005

**Sodic branch**
“The Strip II” , Sheikh Zaid , 6 of October , Egypt
Tel: +2(02) 25298135

**Hyper One branch**
**Hyper One Market,**
El Sheikh Zayed City
Giza, Egypt
Tel: +2(02) 3982 6701

**Mall of Egypt branch**
Mall of Egypt, El Wahat Road, Gate No. F2,
6th of October City
Giza, Egypt
Tel: +2(02) 3612 1012

**Smart Village branch**
Building B122, Smart Village
28th km Cairo/Alexandria Desert Road,
Egypt
Tel: +2(02) 3535 5212/3535 5226

**Alexandria**

**Alexandria branch**
47 Sultan Hussein Street, Azarita,
Alexandria, Egypt
Tel: +2(03) 487 2949

**Glym branch**
556 Horreya Road,Glym,
Alexandria, Egypt
Tel: +2(03) 584 5519

**Kafr Abdou branch**
38 intersection of Ahmed Abdel Aziz Street and Abdel Kader Ragab Street,
Kafr Abdou, Roushdy,
Alexandria, Egypt
Tel: +2(03) 541 4137

**Saraya branch**
Delta Tower, Corniche El Saraya buildings, Semouha
Alexandria, Egypt
Tel: +2(03) 358 2202

**Semouha branch**
Azhar El Saraya Buildings, Semouha
Alexandria, Egypt
Tel: +2(03) 421 0002

**Hacienda branch**
138th km Alexandria/Matrouh Desert Road,
Egypt
Tel: +2(010) 9409 0251

**Delta Region**

**Mansoura branch**
182 Geish Street, El Mansoura
Dakahleya, Egypt
Tel: +2(050) 230 8124

**Port Said branch**
27 El Gomhoureya Street
Port Said, Egypt
Tel: +2(066) 324 4698

**Sinai and Red Sea**

**Banking District branch**
3 Banking District, El Kawthar District
Hurghada, Egypt
Tel: +2(065) 348 2755

**El Gouna branch**
Abu Tig Marina, El Gouna
Hurghada, Egypt
Tel: +2(065) 358 0570

**Sharm Azur branch**
Villa Chris Village, Peace Road
Sharm El Sheikh, Egypt
Tel: +2(069) 360 3791

**Upper Egypt**

**Assiut branch**
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Assiut, Egypt
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