

Annual Report and Accounts 2012

HSBC Bank Egypt S.A.E.'s ultimate parent company is HSBC Holdings plc. Headquartered in London, the HSBC Group is one of the world's largest banking and financial services organisations and one of the world's most valuable brands.

The HSBC Group has an international network of around 6,600 offices in 81 countries and territories in six geographical regions: Europe, Hong Kong, the rest of Asia-Pacific, Middle East and North Africa, North America and Latin America.

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 220,000 shareholders in 129 countries and territories.

HSBC provides a comprehensive range of financial services to around 58 million customers through its global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

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Report of the Directors

The Board of Directors has the pleasure of presenting the Annual Report of HSBC Bank Egypt S.A.E. for the year ended 31 December 2012

Economic review and future outlook

Executive summary

Egypt is the Middle East's only authentic emerging market story, and it has the most compelling long-term potential. The costs of the revolution in terms of lost economic output, higher levels of debt and much reduced savings have been high and will continue to mount while growth remains sub-trend. However, the fundamentals that established Egypt as an attractive economy pre-revolution – its demographics, geographical position, natural resources, infrastructure and service sector needs – are intact and will begin to assert themselves when political circumstances allow.

The effectiveness of the new government in addressing the social and economic needs of the country and the access to international support which Egypt enjoys will be key factors in determining the speed with which domestic and international investment resumes, government finances and the banking system stabilise and recovery ensues. Failure on either count will bring with it the risk of protracted economic weakness, budget crisis and pronounced currency instability with potentially serious political consequences. Egypt's reliance on Europe for trade in goods and services, given Europe's weak position, will be an additional constraint on recovery.

The economic recovery could readily outpace expectations if any improvement in the political environment occurs – consumption, investment and tourism are below pre-revolution levels, and thus, even a normalisation in activity will bring near-term growth. If concessional capital flows exceed expectations, the government's debt-servicing bill and borrowing requirement would fall, and reserves would strengthen. This would trigger a positive cycle of falling interest rates, rising private sector credit extension and increased foreign direct investment (FDI) and portfolio flows, boosting growth and budget receipts.

Overview

At the beginning of 2012, immediately following the peaceful parliamentary elections at the end of 2011, much of Egypt looked forward with optimism into 2012. Such optimism was on the back of expectations that the constitution would be agreed in the second quarter, a new president would be elected and the second half of the year would see some green shoots of recovery as political clarity started to lead to positive economic management – supported by an International Monetary Fund (IMF) loan and other injections of sovereign funding.

Twelve months on, our rear-view mirror perspective is somewhat different. The political uncertainty throughout 2012 drove down corporate, retail and institutional investment, curtailing economic growth. Despite some significant support from Qatar and others, the ongoing failure to obtain sustainably priced IMF funding and the continued decline of the net international reserves (NIR) to USD15 billion at year end means that Egypt starts 2013 in a weak economic state. In addition, the security situation remains unstable – albeit better than in neighbouring countries. This is of particular relevance in the tourism sector where the 'CNN impact' has a disproportionate effect on forward bookings in hotels.

For the period of January-September 2012, economic indicators improved when compared to the corresponding period in 2011. However, these improvements should be seen relative to the depressed state of 2011 post-revolution, and most indicators are still below pre-revolution levels. This is obvious to many and the general public are not witnessing progress in their personal economic circumstances. To address economic pressures, the government has had to resort to international aid, is considering raising taxes and is concerned about the need for austerity in order to curb unemployment and mitigate the potential for further social unrest.

Foreign currency (FCY) is becoming scarcer, owing to a rising import bill, reduced export proceeds, lower Suez Canal revenues and depressed levels of tourism. With reserves at three months of import cover, the minimum level recommended by the IMF, the Central Bank has had to further restrict the supply of FCY through an auction system among the banks. At the end of 2012, the pound was down 13.7% against the dollar since the revolution – and was down a further 7.2% in the first two weeks of January 2013. The 2013 outlook, with a more rapidly depreciating currency, is not encouraging. Importers are unable to get the currency they need, and this could constrain growth for the economy, as well as HSBC's own growth prospects, given the importance of HSBC's trade finance franchise in Egypt.

Economic indicators

Egypt's NIR in December stood at USD15.01 billion, equivalent to three months of imports. NIR are down by USD3.3 billion (18%) on the level at the end of 2011 and by a total of 57% when compared to the USD36 billion level at the end of 2010. During his visit to Egypt in late 2012, Qatar's Prime Minister Sheikh Hamad bin Jassim Al-Thani announced that Qatar had deposited a further USD2 billion to the Central Bank and had given USD500 million in grants, doubling Qatar's previous support. Qatar has promised additional support in January of this year. At the time of writing, it is likely that January's NIR balance will also be supported by Turkey's transfer of the second

USD500 million tranche of its own promised financial support, the first tranche of which was paid on 10 January.

The devaluation of the pound may not have a significant impact on the balance of payments, given that Suez Canal receipts, overseas workers' remittances (up by 60% over 2011) and oil export revenues are not sensitive to the value of the Egyptian pound. Where benefits will accrue will be in the exports sector and, potentially, from tourism. However, the gradual devaluation may act as a disincentive to inward investors concerned about the effect on investment valuations and future dividend repatriation.

Externally, the slowdown in global trade is having a negative impact on traffic through the Suez Canal. Receipts for 2012 amounted to around USD5.13 billion in 2012, down by 1.8% from 2011. However, this was more than offset by a 20% increase in tourist arrivals in the first nine months of 2012 compared with that during the same period of 2011, albeit at discounted rates. This increase brought in around USD7 billion in January-September 2012, up by USD0.7 billion compared with the same period in the prior year. It should however be noted that the equivalent revenues in 2010, before the revolution, were USD2.4 billion higher. What has been encouraging has been the improvement in FDI, with inflows from January to September 2012 of USD2.6 billion, a USD2.2 billion improvement on that during the same period of 2011.

Egypt's headline consumer price inflation averaged 7.4% for the first 11 months of 2012 and then declined to 4.25% in November, the lowest level since March 2006, inching up slightly to 4.66% in December as a result of a 9.7% increase in electricity prices and higher prices of several food items. With increased taxes, a declining pound and the eventual removal of some subsidies, the inflation story is likely to worsen.

The real economy grew by 2.5% year-on-year in the first quarter of fiscal year (FY) 2012/13 (July to September) as rising domestic demand (including investment) offset declining net exports. Most economic sectors show improvements from 2011 levels, signalling regained momentum, yet remain significantly below pre-revolution levels.

The ratio of quarterly domestic savings to the gross domestic product (GDP) stands at 6.1%, almost halved from pre-revolution levels. Investment to GDP reduced from 15.5% in July-September 2010 to 12.5% in the same period of 2011 and further to 11.1% in the corresponding period of 2012. Private consumption has remained resilient since the revolution, and government consumption will continue to be supported by high current spending, particularly on public sector wages and subsidies.

The worsening budget deficit is another major concern, with the Minister of Planning in December 2012 quoted

as saying that the deficit for FY 2012/13 could rise to EGP200 billion against earlier expectations of EGP135 billion. The government is considering a number of measures to limit the deficit to the target of 8% of GDP in FY 2012/13 (July to June). The plan includes increases in tax revenues and a reduction in energy subsidies.

From an external investor perspective, despite slight improvement in sentiment in the external ratings in August, in December, S&P cut Egypt's long-term credit rating by one level to B-, the same level as Greece's. Certificate of deposit spreads have moved back up to 442 – 10% worse than the 15-month low in November 2012 but still better than almost all of 2012. Yields on the 2020 bonds rose 5bps in mid-January 2013 to 5.58% – the biggest increase since June 2012. Moody's has placed Egypt's B2 government bond (long-term sovereign credit rating) under review, citing a number of reasons.

Egypt's stock exchange emerged as the best performer among Arab peers. Market capitalisation moved to USD60.2 billion towards the end of 2012 from USD48.6 billion at the end of 2011, still below the USD80 billion at the end of 2010. The benchmark EGX30 Index gained 48% in 2012. The trading volume rose to EGP185 billion (USD28.4 billion) in 2012 from EGP148 billion (USD22.7 billion) in 2011.

Business and operational activities

Results for the year ending 31 December 2012 – EG GAAP.

HSBC Bank Egypt (HSBC Bank Egypt S.A.E. or 'the Bank') continued to outperform many of its peers and posted strong results reflecting the quality of the corporate book and the strength of the franchise.

Total deposits rose by 12% from end 2011 to end 2012 and by 5% when comparing average deposits for the calendar years. Similarly total advances to clients rose by 1% and 10%, respectively. The currency balance within the deposit base changed again with further dollarisation of local currency deposits towards year end. This was reflected in the year-on-year growth in FCY deposits of 7%, whereas EGP deposits rose by only 3%. The contra of dollarisation of deposits is usually the reverse with loans. Accordingly, on the advances side, FCY advances declined by 4%, but EGP advances grew by 23%.

Profit before tax rose by 28% to reach EGP1 901 million for the year ending December 2012 on the back of strong interest income but also with inflation-beating growth in fees, tight cost controls and improved provisions for bad debts.

Following the payment of an interim dividend of EGP420.6 million in October 2012, the Board of Directors proposes a final, second distribution to

Report of the Directors (continued)

shareholders, by way of cash dividends, of a sum of EGP717.6 million representing a second coupon for 2012 of EGP29 per share.

The Board of Directors also proposes a 'full year' distribution of EGP149.4 million (10.53% of profits available for distribution for 2012) to the Bank staff as a performance-linked variable payment which includes profit sharing. Following the payment of an interim profit share of EGP70.1 million in October 2012, as approved during the Ordinary General Meeting, the balance of EGP79.3 million will be paid, following the approval during the Annual General Meeting in March 2013. The balance of the remaining profits, amounting to EGP131.2 million, will be transferred to support the Bank's reserves. These will be allocated as EGP71 million for the Legal Reserve and EGP60.2 million for the General Reserve.

Global Banking (GB)

In 2012, GB restructured the team to align with the Group model. The team now includes three dedicated desks covering Government, Financial Institutions (FIG) and Multinational Companies, as well as a newly established relationship support team to service the GB relationship management teams.

The new GB structure, despite being implemented only in the second half of the year, had an immediate positive impact on the cost base which fell by 12.5%. Strategically, GB focused on capturing a larger share of wallet from our multinational clients and capitalising on the exit of two of the three French banks in Egypt. This was reflected positively in the revenue levels of GB and helped to maintain HSBC Bank Egypt S.A.E.'s lead position as the bank of choice for multinationals in Egypt. In addition, our newly established FIG desk allowed HSBC Bank Egypt S.A.E. GB to grow that market segment, and HSBC Bank Egypt S.A.E. maintained its joint lead position in custody.

In the specialist lending field, HSBC was able to conclude two major transactions in the oil and gas and telecommunication sectors. HSBC acted as lead arranger for the Egyptian company for mobile services 'Mobinil' (France telecom) in the syndicated term loan facility for EGP2.9 billion and acted as MLA and Pathfinder bank responsible for market, model and insurance due diligence for a USD2.3 billion debt granted to an Egyptian refinery company.

Portfolio performance, in terms of loan impairment charges (LIC), remains solid, reflecting the sound quality of the assets.

Global Markets (GM)

The political and economic turmoil in Egypt in 2012 continued to impact Treasury. Foreign investors

remained net sellers over the year. The passage of a controversial constitution, despite its being opposed by a significant proportion of the population, including a majority in the capital Cairo opposed, added a severe drag on economic sentiment as the year came to a close. The Egyptian pound fell over the year from 6.03 to 6.40 at year end as the Central Bank shifted to an auction system to ration the allocation of scarce FX reserves. Despite these factors, net trading income rose by 69% to EGP284 million as compared to EGP168 million in 2011, and net interest income rose by 32% to EGP342 million as compared to EGP259 million in 2011 as interest rates remained high.

Looking forward, the outcome of parliamentary elections expected in April and the perceived democratic nature will have a major impact on the local economy. Upcoming talks with the IMF on a multibillion-dollar loan will hinge on how actively the government implements what are likely to be unpopular economic measures to increase revenues and reduce expenditure.

Commercial Banking (CMB)

Despite the political, socio-economic turbulence that has continued throughout 2012 in Egypt, CMB continued its growth trajectory and achieved strong growth rates over 2011 levels, maintaining its position as a market leader in Egypt.

HSBC's portfolio approach has borne fruit in the difficult conditions of 2012. The majority of our corporate banking income is generated from the sectors of construction and property development, tourism and food and beverage. The oil and gas sectors, as well as the textiles sector, are also important parts of the HSBC portfolio, which remains broadly focused. Repeated portfolio reviews throughout 2012 as the economy deteriorated evidenced the overall quality of the portfolio. Clearly, one area of concern is the tourism sector, which showed a sharp decline in earnings as package rates fell in order to encourage visitors. Despite the general condition of the country, the implementation of HSBC's global business model for CMB was achieved without disruption to the business, and CMB's net interest income and net fee income showed an improvement above the previous year, with operating profit growing 31% above 2011.

Much focus continued on the role of the small and medium-sized enterprises (SMEs) sector in the economic revival of Egypt. The performance of HSBC's Business Banking division exceeded expectations in terms of bottom line contribution. In the latter half of 2012, a new business head provided greater focus on the value attributable from the volume of customers and initiated a review on the real value of the portfolio. 2013 will see greater focus on developing strong relationships with businesses of strategic focus while developing plans for the management of relationships

which fall outside HSBC's targeted business/growth criteria. This will help the Bank direct further support to this strategic segment of the economy by allowing greater focus to be applied to existing customers. The last quarter of 2012 also saw the launch of a new role within Business Banking, namely the International Relationship Manager, which will support HSBC's international SME strategy.

The working relationship between Global Trade and Receivables Finance (GTRF), GB and CMB was extremely strong in 2012. GTRF achieved an impressive increase in income through different GTRF products offered to all corporate customers. The joint effort resulted in setting objectives by client and implementing a structured approach in client management and portfolio optimisation. The spectrum of GTRF products expanded to include traditional trade finance instruments, receivables finance, supplier finance in addition to the planned introduction of the innovative products of commodity and structured trade finance. Collaboration is the critical contributor to GTRF's success, leveraging HSBC's footprint and maximising the GTRF opportunities facilitated by the relationship managers and the GTRF specialists. As a result, this business increased its market share to 9%, outpacing the growth in the Egyptian market and ending the year strongly, despite the political and economic challenges.

In the area of payments and cash management, with the imposition of restraints on offshore payments plus the scarcity of foreign exchange, many opportunities to leverage HSBC's global payments capabilities are challenged. Aside from that, the focus on improving the efficiency of domestic Egyptian market payments provided opportunities for HSBC to continue to perform well in this product area. HSBC Bank Egypt S.A.E. was one of the leading banks to introduce direct debits whereby mandates are already activated with clients and banks.

Retail Banking and Wealth Management (RBWM)

RBWM's performance for the year continued to demonstrate resilience through a period of continued internal and external change. The revenue growth on the back of stable and rising liabilities balances was strong, facilitated by the high interest rate environment. There was some income diversification driven by growth in asset and card balances, and the spend on HSBC Credit Cards achieved a market-leading position by the end of the year. This was supported by a meaningful rise in the contribution from insurance and investment products despite weaker demand as customers were wary of taking a long-term view. Credit policies continued to be cautious, although loosening from the previous year. Loan impairment was significantly lower than the previous year, reflecting increased stability in the environment and the quality of the historical portfolio.

Internally, there was a change in organisational structure to align with the Group in the first half of the year, resulting in a reduction in the number of management layers. This was followed by the revamping of internal governance and the organisation of work to meet the Group's RBWM Target Operating Model.

There were also changes made to branch locations with some closures and some new locations opening up. Changes were made to the geographic footprint of the ATM fleet as well, ensuring greater efficiency.

HSBC Bank Egypt S.A.E. launched Mobile Banking in 2012, the first in the Egyptian banking industry. Investment was initiated for upgrading the ATM fleet, and front-end systems, including a credit analytics system AAPS, were implemented to improve processing. The Mass Market contact centre, which migrated in 2011 to the HSBC Global Resourcing Centre in the Smart Village in Cairo, suffered from poor service in the first half, with significant improvement seen in the second half as remedial actions were implemented.

Regrettably, the Tagamoo branch in New Cairo was the victim of an armed robbery in the early part of 2012, following which security has been heightened across the network with no recurrence of any unfortunate incident inside a branch. During the various periods of adverse external security, some HSBC branches were closed down in the area of Downtown and Tahrir Square in central Cairo and in other locations, although most remained open to serve customers.

Due to the combination of diverse internal changes and a challenging external environment, there was increasing pressure on service standards, which remains a core focus area for HSBC Bank Egypt S.A.E. Nevertheless, new customer acquisition continued apace with a focus on the premium end of the retail market.

The end of the year saw a nascent trend of customers converting their liabilities into FCY, which has subsequently been capped by regulatory restrictions and market conditions.

People management and development

During 2012, HSBC Bank Egypt S.A.E. continued to review and, where relevant, change its organisation structure to align with the rest of the HSBC Group in order to enhance both people and process efficiency. Simplifying the HSBC Bank Egypt S.A.E. structure has resulted in the elimination of bureaucracy, faster decision making and empowered staff and has brought management closer to their staff and to HSBC Bank Egypt S.A.E.'s customers. HSBC Bank Egypt S.A.E. closed 2012 with 2,376 staff members (2,557 staff members in 2011). A significant number of our better performing staff were promoted in 2012.

Report of the Directors (continued)

New policies and initiatives have been introduced to help HSBC Bank Egypt S.A.E. management foster a consistently compliant environment with particular emphasis on managing disciplinary cases and ensuring that performance assessment and pay reviews reflect the values-related behaviour of staff.

The Learning and Development Team delivered 8,450 training days in 2012, up by 37% over 2011. Of this training, 5,958 days were through classroom delivery, and 2,492 training days were via e-learning. HSBC Bank Egypt S.A.E. delivered over three training days per member of staff.

Operational developments

During the second quarter of 2012, local and regional Change Delivery (CD) led the HSBC Group's strategic Organisational Effectiveness programme in Egypt. This programme is intended to provide more consistent organisational structures in line with the Group-wide Target Operating Models. It also aims for improved efficiency by reducing the number of management layers to improve decision making, further clarify accountability and speed up bank-wide communications. CD also supported the delivery of several other major change initiatives in different areas across the Bank, including projects related to decision-making, credit and risk management processing, with the aim of tailoring processes to standardised 'Gold' processes and enhancing efficiencies and controls.

During 2012, challenges continued relating to the work of the Security and Fraud Management (SFR) department with respect to managing the political and security instability risks across Egypt. SFR continued working on the mitigation of information, physical and fraud risks. The department also completed the establishment of a regional team to support the HSBC Group Middle East and North Africa (MENA) region in covering the Information Security Third-Party Review function in Egypt. SFR assisted in enhancing physical security in branches and in the head office and also completed a business impact analysis to update and enhance business continuity readiness for all areas of HSBC Bank Egypt S.A.E.

Following the restructure of the procurement department, in line with the Group Procurement Target Operating Model, HSBC Bank Egypt S.A.E. Procurement became the single channel to support purchases of all goods and services for the Bank across Egypt. Through more effective negotiation of commercial and contractual terms and conditions, the Bank benefitted from USD1.95 million in sustainable savings and USD4.53 million in one-off negotiated saves.

The HSBC Bank Egypt S.A.E. Technology and Services (HTS) Risk Administration department supported the analysis, planning, reporting and monitoring of activities across HTS during 2012. The department also provided dedicated administration

support to the Chief Operating Officer and HTS function heads. HTS Quality, which is an integral part of the Chief Risk and Administration Officer structure, ensured project delivery excellence, rapid resolution of service issues and problem management across all HTS functions.

Software Delivery (SWD) delivered various systems and projects, including Trade Automation and Evergreening, Domino Migration, and Complaints Management, which were successfully rolled out to all MENA countries. SWD was also involved in a regional cost savings project and a project for system unifications, leading to significant improvement in efficiency.

Several key projects were implemented with IT Operations support, including the evergreening of the Bank's infrastructure and necessary replacements of obsolete systems, as well as major changes in the statement printing facility. Communications linking branches, the head office and international locations was enhanced with cost efficiency gains, while the Bank's Disaster Recovery infrastructure was revised to match those changes. Capitalising on the capabilities of the Egypt team and using the agreed Target Operating Model, the MENA Command Centre Operations and the full enterprise technology projects and support teams were moved into Egypt. The team also allocated resources for MENA client platforms resulting in major cost saves for HSBC MENA and better scale efficiency for Egypt.

As part of the HSBC Group's Global Organisational Effectiveness programme, a restructure of the SD area took place in 2012 to align it with the Global SD structure and the Target Operating Model. In this restructure, the Production Management and the Business Risk and Control Management functions were introduced, focusing on improved productivity and pro-active management of current and emerging risk exposures related to SD. Throughout the year, staff in SD worked diligently under difficult regulatory and system outage challenges, ensuring that customer payments and transactions were processed in a timely manner. Full support and dedication were also provided by the Banking Operations Team for the Global 'Know Your Customer' remediation exercise to ensure diligent reviews of customer-related information. The main areas of focus during the year were centred on reducing bureaucracy, absorbing increased volumes and ensuring cost consciousness.

Corporate Real Estate opened three new branches in 2012: the El Batal Ahmed Abdelaziz branch in Cairo, the Arkan branch in Sheikh Zayed City and the Loran branch in Alexandria. Fit-out work is currently ongoing in two other branches in Cairo (Rehab and Sun City branches), and these will open in early 2013. In addition, HSBC Bank Egypt S.A.E.'s former flagship Cairo branch, the Zamalek branch, was fully renovated.

Corporate sustainability

Corporate sustainability projects

For HSBC, corporate sustainability means managing our business responsibly to ensure long-term success for the Bank. The two major areas HSBC focuses on are environment and education, while also supporting other projects which benefit the community.

In 2012, HSBC Bank Egypt S.A.E. spent more than 50% of its corporate sustainability budget on education. Among various education-related initiatives, HSBC Bank Egypt S.A.E. established a fully equipped computer centre in El Sherouk Academy and another in the Junior Special nursery, benefiting a total of 60 children with special needs. In addition to honouring its earlier commitment to the Ahmed Bahha El Din Cultural Centre in El Douer, HSBC Bank Egypt S.A.E. also sponsored two visually impaired students who were enrolled in the AUC through the Public School Scholarship Fund. HSBC Bank Egypt S.A.E. also funded the Training of the Trainer programme through Yehia Arafa NGO, covering the whole medical team working in Ein Shams University Hospital, and financially supported the Breast Cancer Foundation in contribution to research taking place for the early detection of cancer.

In partnership with INJAZ, HSBC Bank Egypt S.A.E. adopted Amr Ibin El Aas School, with whom HSBC Bank Egypt S.A.E. will have the opportunity to enhance the teachers' skills through proper training, establish a computer and science laboratory for students and renovate/refurbish the school's classrooms, the teachers' rooms and the school clinic. In addition, the Bank provided a green area and HSBC Bank Egypt S.A.E. staff volunteered their time by teaching elements of the INJAZ curriculum each semester to the school students.

HSBC Bank Egypt S.A.E. contributed to the development of the Banat El Ghad Foundation - Banati by establishing a fully equipped computer centre, one new preschool in their premises and the refurbishment of two existing preschools, in addition to financially supporting the Training for the Trainer programme for caregivers enrolled by the foundation. The Bank continued its support to The Right to Live Association by supporting the refurbishment of three classrooms to be used for new recruits, in addition to supporting the Vocational Training and Employment programme for mentally disabled adults, benefiting a total of 20 trainees. HSBC Bank Egypt S.A.E. supported Gameyat Reayet Baream El Mansouriah in their new premises by establishing six classrooms and three computer centres. In partnership with the Wataneya Society for Development, the Bank exclusively sponsored their youth development programme, Forsa, which benefited 20 young orphans and 15 orphanages managers. With the help of Care Egypt, HSBC Bank Egypt S.A.E. will impact a total of 10,000 students in Menya and Assuit by supporting libraries and information and communication technology centres in primary schools.

With 20% of the Bank's corporate sustainability budget allocated to the environment, HSBC Bank Egypt S.A.E. supported various environmental initiatives and projects, including The AUC Desert Development Centre focusing on the Abu Minquar village, which is home to 4,000 residents, and helping to implement a biogas project and a water energy project. In partnership with Dar El Orman, HSBC Bank Egypt S.A.E. helped improve sanitation and provided drinking water and green areas in 50 houses in the Heeba village in the Bany Suef governorate. The Bank extended its help to Ankiia El Kalb NGO by providing them with the necessary equipment to produce biodegradable bags that will help them in their running costs. Through the INJAZ Adopt-A-Start up Competition, HSBC Bank Egypt S.A.E. adopted the MAHD Company, which manufactured the LED light bulb 'Daii', the first LED bulb made in Egypt. The energy-efficient light bulb is unbreakable with a longer lifespan and produces less heat than any other bulb. Within the broader aspect of the HSBC Group, HSBC Bank Egypt S.A.E. contributed to the establishment of the Regional Climate Research Centre in the UAE that will benefit HSBC's staff, stakeholders, customers, university students and government delegates.

Almost 12% of the corporate sustainability budget was spent on community projects. These projects covered the equipping of a Kasr El Einy - Ear Nose and Throat unit, the bone marrow transplant unit in Manial University through the university's CanSurvive programme and the emergency building in Kasr El Einy University Hospital through Friends of Kasr El Einy. Adding to the Bank's annual activities, HSBC Bank Egypt S.A.E. staff volunteers were able to distribute a total of 4,000 Ramadan packs to some of the neediest villages/areas in Egypt and more than 900 sets of clothes to the orphans in Eid and on Orphans Day through combined efforts with Dar El Orman.

Supportive of the desire of its staff to volunteer, HSBC Bank Egypt S.A.E. had two successful blood donation drives, where a large number of blood bags were collected from the blood donation of staff. Within the broader regional HSBC programme, HSBC Bank Egypt S.A.E. partnered with the British Council to support the Kids Read programme, in Egypt. In this programme, HSBC Bank Egypt S.A.E. sponsored four community events in 2012, impacting a total of 580 students with the help of a number of the Bank's staff volunteers. Last but not the least, a number of staff volunteers spent a day in Zeiton School to deliver the JA More Than Money programme in partnership with INJAZ through their new initiative INJAZ In A Day.

Report of the Directors (continued)

Housing for the poor

During 2009, HSBC Bank Egypt S.A.E. participated in a five-year EGP100 million project, aiming to develop new and upgrade existing publicly owned, commonly used infrastructure and service projects, in participation with local communities and the government. It will be implemented in five phases as follows:

Phase 1: A wide spectrum of projects and initiatives has been completed between 2009 and 2012 in the Dar El Salam informal area with a total spend of EGP13.80 million.

Phase 2: Ezbet El Nasr was the second informal area approached to develop a service complex, including a sports centre, social solidarity centre, fire brigade, public bus terminal, plantation, roads and public utilities, on a 18,000 sq m land with an allocated budget of EGP15 million.

Phase 3: The development of a school compound, with an enrolment of 9,000 students, on a 15,000 sq m land in the Ard El Mithaq informal area with an EGP30 million budget is in progress and expected to be completed by Q3 14.

Phase 4: Projects under this phase serve miscellaneous informal areas in the southern province of Cairo. Some projects such as supplying furniture to schools and enrolling 31,000 students have already been completed while other projects, such as the refurbishment of Osman Ibn Affan Kindergarten, are in progress. Development of other initiatives under this phase is being considered by HSBC Bank Egypt S.A.E. jointly with the Cairo Governorate, including the development of school compounds and sports centres in Ard El Khayala.

Phase 5: Projects under Phase 5 are still under consideration. Some considerations include the rehabilitation of a 120-bed hospital in 15th of May City, Helwan, or the construction of an outpatient annex to the hospital. This EGP100 million project also involves the introduction of community initiatives at 0.5% of the total project budget with the objective of building trust within the communities collaborating with the Bank.

Shareholding

HSBC Bank Egypt S.A.E. is a 94.5% owned subsidiary of HSBC Holdings plc through HSBC Holdings BV. The shareholding structure is as following:

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

Equity investments

HSBC Securities Egypt SAE (subsidiary)

HSBC Securities Egypt offers full brokerage service for major foreign institutional investors and fund management companies. HSBC Securities Egypt is capable of executing large-sized deals through access to a solid funding base that is backed by the broader HSBC Group capacity. Aside from offering brokerage services, HSBC Securities Egypt provides quality equity research and distribution through dedicated equity analysts and salespersons who are based in Cairo, the MENA desk in HSBC Bank Middle East in Dubai and the EMEA desks in HSBC's operations in London and New York.

HSBC Investment Company (Egypt) SAE

HSBC Investment Company, which is now under liquidation, offered origination, advisory and execution services for corporations in Egypt.

Alex Fish Company and Alex Food Company

Sharing a combined capital, Alex Fish Company and Alex Food Company specialise in the production of food products. Following a debt restructuring, HSBC Bank Egypt S.A.E. acquired a shareholding in both companies, along with a number of other banks. HSBC Bank Egypt S.A.E. holds 20% of the shares in each of the companies.

HSBC Bank Egypt S.A.E. also holds minority interests in the following companies:

- Egyptian Mortgage Refinance Company
- Fawry for Electronic Payment (Egypt Pay Company)
- I-Score
- Misr for Central Clearing, Depository and Registry
- Egyptian Banks Company for Technological Advancements
- Integrated Banking Solutions

Corporate governance

HSBC Bank Egypt S.A.E. is committed to applying the highest level of corporate governance to all aspects of the Bank as regards the relationships and responsibilities of the management, the board and the shareholders in line with local regulatory requirements and the global requirements of the HSBC Group. HSBC Bank Egypt S.A.E.'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 the setting of balance between shareholders' obligations and depositors' interests. HSBC Bank Egypt S.A.E. 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.

HSBC Bank Egypt S.A.E.'s commitment to organisational governance is evidenced by:

- Composition, involvement and independence of the HSBC Bank Egypt S.A.E. Board of Directors
- Defined duties of board members on the Board and the Board's sub-committees, including the Audit and Risk Committee, the Governance and Nominations Committee and the Salaries and Remuneration Committee
- Frequency of meetings of the Board and of the Board sub-committees in line with local regulatory requirements
- Perfecting control over the structure and operations of the Bank within the framework of governance applications
- Adoption and implementation of internal policies and manuals covering all business aspects
- Transparency of and responses to operational and risk reviews carried out by the Internal Control and the Internal Audit functions
- Adoption of transparent communication channels and a commitment to professional development of all staff

The Board of Directors

The following changes took place to the HSBC Bank Egypt S.A.E. Board of Directors in 2012:

Retirement

Retirement of Abdel Salam El Anwar as HSBC Bank Egypt S.A.E. Chairman, effective 14 September 2012

Resignations

Resignation of Mahmoud Abdallah as representative of Misr Insurance Company, effective 30 September 2012

Resignation of Samir Assaf as representative of HSBC Holdings, effective 7 November 2012

Appointments

Appointment of Simon N Cooper as HSBC Bank Egypt S.A.E. Chairman, effective 15 September 2012

Appointment of Andrew P Long as HSBC Bank Egypt S.A.E. Deputy Chairman and CEO, effective 15 September 2012

Appointment of Basel El-Hini as representative of Misr Insurance Company, replacing Mahmoud Abdallah, effective 1 October 2012

Appointment of Mahmoud Abdallah as Independent, Non-Executive Director, effective 1 October 2012

Appointment of Mohammad Al-Tuwaijri replacing Samir Assaf, effective 8 November 2012

* Mr Simon N Cooper

Non-Executive Chairman

Deputy Chairman and Chief Executive Officer (CEO) – HSBC MENA HSBC Group – MENA

Mr Cooper assumed the position of Deputy Chairman and CEO of HSBC MENA in May 2009. He was appointed Group General Manager of HSBC in May 2008 and is responsible for HSBC Group's business in the MENA region.

He is a Board member of HSBC Bank Middle East Limited (Deputy Chairman), HSBC Bank Egypt SAE (Chairman), HSBC Bank Oman (Chairman) and The Saudi British Bank (Board Director).

Prior to this, he was the President and CEO of HSBC Korea. From 2004 to 2006, he was the Managing Director and Head of Corporate and Investment Banking in Singapore. He was previously the Deputy Chief Executive and Head of Corporate and Investment Banking in HSBC Thailand from 2001 to 2003. Prior to his role in Thailand, he had 12 years of experience as a director in corporate finance with the HSBC Group in London, Hong Kong and Singapore.

He is a graduate of the University of Cambridge and holds an MA in Law. He is an alumnus of Columbia Business School.

Mr Cooper is married with two children. His interests include golf and rugby.

* Mr Andrew P Long

Deputy Chairman and CEO

Mr Long was appointed Group General Manager of HSBC in May 2008. He was appointed as Executive Director and CEO of HSBC Bank Egypt SAE effective 1 March 2011, and in September 2012, he was designated as Deputy Chairman and CEO of HSBC Bank Egypt SAE.

Prior to assuming his current position, he has been the head of Global Transaction Banking (GTB) since December 2006. GTB is one of HSBC's global product groups with business oversight for Payments and Cash Management, Trade and Supply Chain and HSBC Securities Services (including Fund Administration, Custody and Clearing and Corporate Trust and Loan Agency).

He joined HSBC in 1977 in London before transferring to the Imports Department in Hong Kong in 1978. He worked in a number of positions throughout Asia (including Corporate Banking, IT, Training and Finance) and then in Australia (first in Operations and then leading Personal Banking). Roles in Operations in New York and as Regional Head of Trade Services Europe and then Regional Head of Payments and Cash Management in Asia followed before he became the Head of Operations and Processing for the Asia-Pacific region in 2001 and then Chief Operating Officer for HSBC for the Asia-Pacific region in 2004.

He graduated from the University of Bristol, England, with a degree in Economics and Accounting. He also holds a Financial Studies Diploma from the Chartered Institute of Bankers of England and Wales.

His interests include sport (rugby and golf in particular), travel and the church. He is married with three children – two daughters and one son.

* **Ms Halla S Sakr**

Deputy CEO, Head of Commercial Banking and Head of Strategy

Ms Sakr has been an Executive Director of HSBC Bank Egypt since January 2007.

She was appointed Deputy CEO in November 2011, with overall responsibility for Commercial Banking Business, including Corporate Banking, Business Banking, Trade and Supply Chain, and Payment and Cash Management, aside from her responsibility for the bank's strategy and planning process.

Prior to that, she had assumed the role of Managing Director, with overall responsibility for Retail Banking and Wealth Management, Marketing, Communication, and Strategy and Planning, upon her return from HSBC Middle East in the UAE, where she had joined the HSBC MENA regional team in January 2010. In her role as CEO - Regional Head of Personal Financial Services, she was responsible for setting the regional strategic direction and business models for driving the activities of the Personal Financial Services (PFS) businesses within the MENA region.

As of November 2002 and until her appointment as MENA Regional Head for PFS, she had held the position of Senior General Manager/Deputy Managing Director, Head of Personal Financial Services and Branches in HSBC Bank Egypt. By virtue of her position, she was mainly responsible for the strategic planning, managing and directing of the activities of PFS in Egypt, including the Branch Network, Direct Distribution Channels, Card Centre, Financial Planning and Retail Business Development.

She joined HSBC Bank Egypt in December 1991 as Deputy Manager, Head of Credit Control. Since then, she has been promoted into several positions until she held the position of General Manager - Credit Control and Risk Management, with overall responsibility for the risk management of the Bank's corporate and retail credit portfolios. She was also responsible for the Bank's credit training, where she conducted five Executive Training programmes for HSBC Egypt's credit officers.

Prior to joining HSBC Bank Egypt, she had held the position of Assistant Manager, Corporate Banking in Commercial International Bank Egypt (successor to Chase National Bank of Egypt), after graduating the Chase Manhattan Credit Training Program in 1988.

She graduated from the American University in Cairo in February 1984, where she received her BA in Business Administration with High Honours.

* **Mr Robert B Gray**

Chairman of the Audit and Risk Committee, Chairman of the Governance and Nominations Committee and member of the Salaries and Remunerations Committee – Non-executive Director

Mr Robert B Gray is the Chairman of Debt Finance and Advisory, HSBC Bank plc.

He joined HSBC in May 1994 as Chairman of HSBC Markets Limited, with particular responsibility for developing HSBC's capital markets capabilities worldwide. He was appointed Vice Chairman, Client Development of HSBC Investment Bank plc in September 1999 and to his current position in March 2001.

Prior to joining HSBC, he was the Head of J P Morgan's capital markets activities in Europe. Previously, he was the President and Tokyo branch manager of J P Morgan Securities Asia Ltd. He also headed J P Morgan's worldwide loan syndication group and was later responsible for their Eurobond underwriting business.

He is the Chairman of the International Capital Market Association's Regulatory Policy Committee, having previously served as Chairman of the predecessor entity, namely the International Primary Market Association and its Market Practices Committee. He is the Chairman of the Institute of International Finance's Working Group on Crisis Prevention and Resolution. In addition, he serves as the Chairman of HSBC Saudi Arabia Ltd and as a Director of HSBC Bank Egypt SAE and HSBC Bank Middle East Limited.

He was appointed Chairman of TheCityUK's Overseas Promotion Committee in December 2009, having previously served as Deputy Chairman of UK Trade and Investment's Financial Services Sector Advisory Board.

He graduated from St John's College, University of Cambridge, with an Honours degree in History.

The Board of Directors (continued)

* Mr Mahmoud M Abdallah

Member of the Audit and Risk Committee, member of the Governance and Nominations Committee and member of the Salaries and Remunerations Committee – Independent, Non-Executive Director

Mr Abdallah is the Managing Partner of MMA Global Investments LLC USA. From 2006 to 2012, he was the Chairman and CEO of MISR Insurance Holding Company (MIHC) Egypt. He is a recognised advisor to the global insurance industry. In October 2003, he retired from American Re Corporation, one of the top providers of property and casualty reinsurance in the US, where he served as Executive Vice President, as well as President of its International Operations, and was instrumental in building Am Re Global Operations. He played a major role in the MBO of the company with KKR and the subsequent merger with Munich Re. He served in the Board of the International Insurance Council in the US for many years, where he was elected chairman twice.

He is a regular participant of major global insurance forums. He played an active role in many reform and privatisation initiatives in the insurance sector in several parts of the world. In November 2005, he became a Senior Advisor to the Minister of Investment in Egypt to play a leading role in the restructuring and privatisation of the insurance sector, and in September 2006, he was appointed Chairman of MIHC, one of the largest insurance, real estate and investment groups in the Middle East.

He currently sits on the National Council for Arts and Sciences for the Columbian School at George Washington University. He was a member of the board of the US – Middle East project for the Council on Foreign Relations in the US. He serves on the boards of HSBC Egypt SAE, Validus Holdings Ltd and Egypt Air Holding. He is also on the board of the Metropolitan Opera in New York.

* Dr Ibrahim Fawzy

Member of the Audit and Risk Committee and member of the Governance and Nominations Committee – Independent, Non-Executive Director

Dr Fawzy is a professor of mechanical engineering at Cairo University in Egypt. He is also the President of Fawzy Consultancy, which he founded in 1999 and which operates in the field of industry and investment in Egypt and the Arab world. Throughout his academic career, he has taught many courses in mechanical engineering at Cairo University and at the University College of London, where he spent two years as a visiting professor. His research papers have been published in leading specialised periodicals, including the Proceedings and Philosophical Transactions of the Royal Society in London.

Between 1979 and 1983, he served as Cultural Counselor and Director of the Egyptian Education Bureau at the Egyptian Embassy in London. He was then responsible for all the Egyptian post-graduate students in the British Universities.

He also served as the Cabinet Minister of Industry and Mineral Wealth in the Egyptian government from 1993 to 1996. In this post, he had the top responsibility for all projects and plans of the Egyptian government in industry and mineral wealth. From 1996 to 1999, he was appointed as the Chairman and CEO of the General Authority for Investment and Free Zones where he oversaw all private sector companies in Egypt including Egyptian and foreign companies.

He received his BSc degree in Mechanical Engineering in 1962 from Cairo University and his PhD degree in 1968 from the University College of London in England.

At present, he is a director of several closed and public companies in Egypt. He also was a Director for Quality Systems International, which is an American public company, for three years from 2005 to 2008.

He is married with a son and a daughter, and he lives in Egypt. He has travelled widely, has attended many conferences and has been active in many committees, both Egyptian and international, related to industry, investments and economy.

*** Dr Ziad Bahaa Eldin**

Member of the Audit and Risk Committee and member of the Governance and Nominations Committee – Independent, Non-Executive Director

Dr Ziad Ahmed Bahaa Eldin is an Egyptian attorney-at-law and expert on financial law, governance, compliance and economic legislation. He is the founder and manager of Thebes Consultancy, an advisory firm specialising in regulatory advisory and compliance services in the area of commercial, financial and business law and practice in Egypt.

He is currently a non-executive member of the Board of Directors of HSBC Bank (Egypt) and of the National Bank of Egypt (UK), the Non-Executive Chairman of the Upper Egypt Investment Company and the Director of the Egyptian Initiative for the Prevention of Corruption, a civil society group advocating legal change to prevent corruption and increase transparency in public office and public transactions. He writes a weekly political commentary in Al Shorouk daily newspaper and is a Deputy Chairman of the Egyptian Social Democratic Party.

He was the founder and first Executive Chairman of the Egyptian Financial Supervisory Authority, the regulatory authority responsible for the supervision over all non-bank financial markets and institutions (2009/2011), and the former Executive Chairman of the Egyptian General Authority for Investment and Free Zones (2004-2007), a government organisation responsible for the promotion of investment and business climate policy advocacy. He is also a former non-executive member of the Board of Directors of the Central Bank of Egypt (2004/2011) and of the National Bank of Egypt (2003/2011), and a former Senior Legal Advisor to the Central Bank of Egypt (2011).

From 2000 to 2004, he was a practicing lawyer in Egypt and from 1997 to 2000, the Senior Legal Advisor to the Minister of Economy. Prior to this, he was a private sector lawyer in Cairo and Washington DC. He has led efforts to draft Egypt's Central Securities Depository Law, Mortgage Finance Law, Financial Leasing Law, Banking Law, Anti-Money Laundry Law, Conflict of Interest Law (not yet issued), Micro Finance Law (not yet issued) and Freedom of Information (not yet issued). He has also previously advised the governments of United Arab Emirates, Libya, Yemen and Syria on economic legislation and institution building in the financial sector.

He is a former member of the parliament representing Assiut (2012), the founder and member of the Board of Directors of the Ahmed Bahaa Eldin Cultural Foundation, a charity promoting education, training, and creative thinking among Egyptian youth in Upper Egypt and a member of the Board of Trustees of the American University in Cairo.

He received his PhD in Financial Law from the London School of Economics (1996), an LLM in International Business Law from King's College London (1989), a BA in Economics from the American University in Cairo (1987) and a Bachelor of Law degree from Cairo University (1986). He was a part-time Lecturer at the Law Faculty of Cairo University (1998-2004).

He lives with his wife and two sons in Cairo.

*** Mr Basel El-Hini**

Non-Executive Director

Mr El-Hini is currently holding non-executive positions on several boards of directors in Egypt, including Financial Sector Investment Fund Company, Misr Holding Insurance Company (Non-Executive Chairman of the Board and member of the Audit and Investment Committees), Tourism Development Authority, Holding Company for Maritime and Land Transport, Misr Asset Management Company (Head of Audit Committee), Al Ahly Real Estate Development Company, HSBC Bank Egypt SAE and Al Ahly Urban Investments Company.

From 2008 to 2011, he held the position of Managing Director, Credit Corporate and Retail Banking, at Banque du Caire. Prior to this, he was the Chairman and Managing Director of Naeem Financial Investments (January-September 2008), which at the time was one of the fastest growing finance houses in the region, with presence in Egypt, Saudi Arabia and United Arab Emirates. From 2005 to 2007, he held the position of Advisor to the Minister of Finance of the Arab Republic of Egypt with responsibility on public ownership with regards to monitoring, financial restructuring and reform and a special assignment, overseeing public-private partnership. Between 2004 and 2005, he was a General Manager at Banque Misr, with responsibility on Remedial Management (Loans and Equity) in addition to Structured Finance, and from 2002 to 2004, he was the General Manager and a member of the board at Misr Exterior Bank with responsibility on Credit, Investments, Capital Markets and Branches. During the earlier years of his career, he was with ABN AMRO BANK NV (Representative Office for Egypt) as VP, Regional Head Integrated Energy and Power; the Arab Petroleum Investments Corporation (APICORP) Saudi Arabia as Head of the MENA Business Group; Arthur Andersen Shawki & Co (Egypt) as Manager of Financial Consulting; The Gulf Bank Kuwait as Manager of International Banking Group; the APICORP Saudi Arabia; Misr Iran Development Bank Egypt and the

The Board of Directors (continued)

Arab Investment Bank Egypt where he started his career in 1980. He holds an MA in Economics from the American University in Cairo and a BSc in Economics from the Faculty of Economics and Political Science Cairo University.

He is a certified instructor at the Central Bank of Egypt's Egyptian Banking Institute and at the Institute of Banking and Finance of the American University in Cairo, delivering courses on structured finance and project finance.

* **Mr Mohammad Al-Tuwaijri**

Chairman of the Salaries and Remunerations Committee – Non-Executive Director

Mohammad Al Tuwaijri has been appointed Regional Head of Global Banking and Markets, HSBC Group, MENA effective 1 June 2010.

He has 20 years of senior banking experience in the region, including 12 years with Saudi British Bank, HSBC's joint venture partner in Saudi Arabia. Most recently, he was the Managing Director and Head of Saudi Arabia with J P Morgan.

Board committees

The purpose of HSBC Bank Egypt S.A.E. management structures, headed by the Board of Directors and led by the Chairman, is to deliver sustainable value to our shareholders. The Board sets the strategy for the Bank and approves the risk appetite and capital and operating plans presented by management for the achievement of the strategic objectives it has set. This ensures the efficient application of our resources for achievement of these objectives. Implementation of the strategy set by the Board is delegated to the EXCO led by the Chief Executive Officer. To achieve its strategic objectives, the Board has appointed a number of committees consisting of certain directors and/or executive management whereby related responsibilities are set out herein with:

The Audit and Risk Committee (AURCOM)

The Audit and Risk Committee is responsible for advising the Board on the effectiveness of HSBC Bank Egypt S.A.E.'s systems of internal controls and compliance in relation to financial matters and on meeting financial obligations. The AURCOM also has responsibilities in relation to risk governance and oversight and internal controls. The members of the AURCOM are Robert Gray (chairman), Mahmoud Abdallah, Dr Ibrahim Fawzy and Dr Ziad Bahaa Eldin. All of the members are non-executive, and the majority are also independent directors.

The Governance and Nomination Committee (GNC)

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. Before recommending an appointment to the Board, the committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this and taking into account the needs of the Bank's businesses, identifies the role and capabilities required for a particular appointment. Candidates are considered on merit against these criteria. Care is taken to ensure that appointees have enough time to devote to the Bank. Prospective directors are asked to identify any significant other commitments and confirm they have sufficient time to discharge what is expected of them. The members of the GNC are Robert Gray (chairman), Mahmoud Abdallah, Dr Ibrahim Fawzy and Dr Ziad Bahaa Eldin. All of the members are non-executive, and the majority are also independent directors.

Salaries and Remuneration Committee (REMCO)

The Salaries and Remuneration Committee considers human resource issues relating to terms and conditions of employment, remuneration and retirement benefits. Within the authority delegated by the Board, the committee is responsible for approving the remuneration policy and, in so doing, takes into account the pay and conditions across the HSBC Group. This includes the terms of bonus plans, other long-term incentive plans and the individual remuneration packages of executive directors and other senior employees, including all in positions of significant influence and those having an impact on HSBC Bank Egypt S.A.E.'s risk profile. No directors are involved in deciding their own remuneration. The members of the REMCO are Mohammad Al Tuwajri (chairman), Robert Gray and Mahmoud Abdallah. All of the members are non-executive directors, and one member is an independent, non-executive director.

The Executive Committee (EXCO)

The EXCO is an executive management committee that meets monthly and operates as a general management committee under the direct authority of the Board. The purpose of the EXCO is to maintain a reporting and control structure whereby all lines of operations are accountable to individual members of the EXCO who report to the Chief Executive Officer who chairs EXCO. The Board sets objectives and measures for the EXCO which align senior executives' objectives and measures with strategy and operating plans throughout the Bank.

Auditors' report

Report on the Financial Statements

We have audited the accompanying separate financial statements of HSBC Bank Egypt S.A.E. which comprise the separate balance sheet as at 31 December 2012 and the separate statements of income, changes in equity and cash flows for the financial 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 Central Bank of Egypt's rules pertaining to the preparation and presentation of the financial statements and its measurement and recognition basis approved by its Board of Directors issued on 16 December 2008 and in light of the prevailing Egyptian laws, management 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 responsibility also includes selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the 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 HSBC Bank – Egypt as of 31 December 2012, 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 financial statements and its measurement and recognition basis approved by its Boards of Directors issued on 16 December 2008 and the Egyptian laws and regulations relating to the preparation of these separate financial statements.

Explanatory paragraph

Without qualifying our opinion, we draw attention to Note No. (40) to the financial statements, on 6 December 2012, several resolutions of laws amended certain provisions of the tax laws have been issued and published in the Official Gazette on that date. Later statements have been issued by certain officials in respect of freezing the enforcement of such resolutions. Due to the lack of emphatic information to the Bank's management on the enforcement date or the date of cancellation such resolutions, the Bank's management hereby did not affect neither the taxes pools and its related assets and liabilities, nor the results of operations during the year and the net profit available for distribution. These amounts and results may differ if reliable information becomes available on the enforcement of such resolutions and the effective date thereof.

Report on Legal and Other Regulatory Requirements

According to the information and explanations given to us during the financial year ended 31 December 2012 no contravention of the central bank, banking and monetary institution law No.88 of 2003.

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

The financial information included in the Board of Directors' report, is in agreement with the books of the Bank insofar as such information is recorded therein.

Auditors

Hesham El Afandy

Egyptian Financial Supervisory
Authority no.(100)
KPMG Hazem Hassan
Public Accountants & Consultants

Hossam Zaki Nasr

Egyptian Financial Supervisory
Authority no.(82)
Allied for Accounting & Auditing E&Y
Public Accountants & Consultants

Cairo: 5 February 2013

Separate Balance Sheet as at 31 December 2012

	Note	31 December 2012	31 December 2011
	No.	EGP (000)	EGP (000)
Assets			
— Cash and balances with Central Bank of Egypt	(15)	4 190 716	4 748 826
— Due from banks	(16)	9 899 658	6 727 904
— Treasury bills	(17)	11 305 434	10 835 830
— Financial assets held for trading	(18)	44 573	15 673
— Loans and advances	(19)	19 592 792	19 440 047
— Financial derivatives	(20)	15 863	14 672
— Financial investments:			
— Available for sale	(21)	7 584 874	5 344 096
— Held to maturity	(21)	89 674	49 675
— Investments in subsidiaries	(22)	35 517	35 517
— Intangible assets	(23)	3 668	1 801
— Other assets	(24)	578 364	463 625
— Deferred tax assets	(31)	49 441	40 591
— Investment property	(26)	112 204	120 066
— Fixed assets	(25)	441 673	470 887
Total assets		53 944 451	48 309 210
Liabilities and shareholders' equity			
Liabilities			
— Due to banks	(27)	969 686	871 080
— Customers' deposits	(28)	47 237 707	42 195 945
— Financial derivatives	(20)	16 837	14 227
— Other liabilities	(29)	681 903	532 364
— Other provisions	(30)	167 972	114 906
— Income tax		259 172	182 839
— End of service compensation benefits	(32)	211 283	184 470
Total liabilities		49 544 560	44 095 831
Shareholders' equity			
— Paid-up capital	(33)	2 078 500	2 078 500
— Reserves	(34)	1 428 469	976 673
— Retained earnings	(34)	892 922	1 158 206
Total shareholders' equity		4 399 891	4 213 379
Total liabilities and shareholders' equity		53 944 451	48 309 210

The accompanying notes from (1) to (40) form an integral part of these financial statements and are to be read therewith.
Andrew P. Long (Deputy Chairman and CEO)

Separate Income Statement for the year ended 31 December 2012

	Note	31 December 2012	31 December 2011
	No.	EGP (000)	EGP (000)
Interest from loans and similar income	(6)	3 671 213	3 173 698
Interest on deposits and similar expenses	(6)	(1 475 899)	(1 359 521)
Net interest income		2 195 314	1 814 177
Fees and commissions income	(7)	574 273	492 637
Fees and commissions expenses	(7)	(45 388)	(33 850)
Net fees and commissions income		528 885	458 787
Dividends income	(8)	5 776	22 472
Net trading income	(9)	295 536	298 808
(Loss) from sale of financial investments		(69)	(1 551)
Impairment (loss)	(12)	(211 405)	(250 638)
Administrative expenses	(10)	(942 099)	(876 451)
Other operating income	(11)	29 296	18 636
Profit before tax		1 901 234	1 484 240
Income tax expenses	(13)	(482 395)	(364 281)
Net profit for the year		1 418 839	1 119 959
Earnings per share (EGP/Share)			
Basic	(14)	51.30	40.81

The accompanying notes from (1) to (40) form an integral part of these financial statements and are to be read therewith.

Separate Cash Flow Statement for the year ended 31 December 2012

	Note	31 December 2012	31 December 2011
	No.	EGP (000)	EGP (000)
Cash Flows from Operating Activities		1 901 234	1 484 240
— Net profit before income tax			
Adjustments to reconcile net profit to net cash flows from operating activities			
— Depreciation and amortization		66 454	65 399
— Impairment of assets		230 323	251 453
— Other provisions		45 946	48 880
— Increase in end of service compensation provision		77 430	47 940
— Provisions no longer required		(15 018)	(1 414)
— Other provisions used		(10 316)	(23 133)
— Revaluation differences for provisions other than loans provision		45	33
— Gain (Losses) from derivative revaluation		1 887	(12 333)
— Gain from sale of fixed asset		—	(240)
— Gain from sale of assets reverted to the bank		(69)	—
— Dividends		(5 776)	(21 528)
— Bonds unearned discount amortization		(5 570)	(2 792)
— Bonds premium amortization		46 807	22 887
Operating income before changes in assets and liabilities from operating activities		2 333 377	1 859 392
Net Decrease (increase) in assets and liabilities			
— Due from banks		682 214	(89 497)
— Treasury bills		(259 119)	(3 344 751)
— Available for sale investments		(1 979 250)	(91 381)
— Financial investments held for trading		(28 900)	(15 673)
— Loans and advances to customers		(348 103)	(2 788 195)
— Financial derivatives (net)		(468)	12 629
— Other assets		(127 602)	(77 597)
— Due to banks		98 606	(36 960)
— Customers' deposits		5 041 762	2 441 471
— Other liabilities		149 616	98 633
— End of service compensation benefits		(50 617)	—
— Income tax paid		(413 645)	(363 666)
Net cash flows provided from (used in) operating activities		5 097 871	(2 395 595)
Cash flows from investing activities			
— Payments to purchase fixed assets and branches preparation		(20 544)	(43 664)
— Proceeds from sale of fixed assets		851	47
— Proceeds from sale of assets reverted to the bank		500	—
— Payments to purchase intangible assets		(3 020)	(85)

	Note	31 December 2012	31 December 2011
	No.	EGP (000)	EGP (000)
— Payments to purchase financial investments held to maturity		(39 999)	5 325
— Dividends received		5 776	21 528
Net cash flows (used in) investing activities		(56 436)	(16 849)
Cash flows from financing activities			
— Dividends paid		(1 535 092)	(762 870)
— Proceeds from paid up capital		—	567 922
Net cash flows (used in) financing activities		(1 535 092)	(194 948)
— Net change in cash and cash equivalents during the year		3 506 343	(2 607 392)
— Cash and cash equivalents at the beginning of the year		7 791 822	10 399 214
Cash and cash equivalents at the end of the year		11 298 165	7 791 822
Cash and cash equivalents are represented in:			
— Cash and balances with Central Bank of Egypt		4 190 716	4 748 826
— Due from Banks		9 899 658	6 727 904
— Treasury bills		11 305 434	10 835 830
— Balance with Central Bank of Egypt within the limit of statutory reserve		(3 651 559)	(4 333 773)
— Treasury bills of maturity more than 3 months from date of acquisition		(10 446 084)	(10 186 965)
Cash and cash equivalents	(36)	11 298 165	7 791 822

The accompanying notes from (1) to (40) form an integral part of these financial statements and are to be read therewith.

Separate Statement of Changes in Shareholders Equity for the year ended 31 December 2012

	Note No.	Paid up capital EGP (000)	Additional paid in capital EGP (000)	Reserves EGP (000)	Retained earnings EGP (000)	Total EGP (000)
Balances as at 31 December 2010		1 508 500	2 078	1 142 469	953 587	3 606 634
Additional paid in capital		—	567 922	—	—	567 922
Capital increase	(33)	570 000	(570 000)	—	—	—
Dividends paid for year 2010	(35)	—	—	—	(762 870)	(762 870)
Transferred to legal reserve	(34)	—	—	36 930	(36 930)	—
Transferred to general reserve	(34)	—	—	153 787	(153 787)	—
Net change in financial investments available for sale	(34)	—	—	(318 266)	—	(318 266)
Net profit for the year ended 31 December 2011		—	—	—	1 119 959	1 119 959
Transferred from general banking risk reserve	(34)	—	—	(38 247)	38 247	—
Balances as at 31 December 2011		2 078 500	—	976 673	1 158 206	4 213 379
Dividends paid for year 2011	(35)	—	—	—	(1 044 296)	(1 044 296)
Dividends paid during year 2012	(35)	—	—	—	(490 796)	(490 796)
Transferred to legal reserve	(34)	—	—	91 072	(91 072)	—
Transferred to general reserve	(34)	—	—	57 912	(57 912)	—
Net change in financial investments available for sale	(34)	—	—	302 765	—	302 765
Net profit for the year ended 31 December 2012		—	—	—	1 418 839	1 418 839
Transferred to general banking risk reserve	(34)	—	—	47	(47)	—
Balances as at 31 December 2012		2 078 500	—	1 428 469	892 922	4 399 891

The accompanying notes from (1) to (40) form an integral part of these financial statements and are to be read therewith.

Separate Proposed Profit of Appropriation Statement for the year ended 31 December 2012

	Note	31 December 2012	31 December 2011
	No.	EGP (000)	EGP (000)
Net Profit for the year		1 418 839	1 119 959
Less:			
General banking risk reserve	(34)	(47)	(47)
Add:			
Retained earnings at the beginning of the year		—	38 294
Net Profit for the year available for appropriation		1 418 792	1 158 206
Appropriation			
Dividends paid during the year		525 870	—
Legal reserve	(34)	70 942	55 998
Less:			
Transferred to legal reserve during the year		(35 074)	—
General reserve	(34)	60 202	57 912
Shareholders' dividends		1 138 226	895 941
Less:			
Dividends paid to the shareholders' during the year		(420 649)	—
Employees' profit share		149 422	148 355
Less:			
Employees' profit share paid during the year		(70 147)	—
		1 418 792	1 158 206

The accompanying notes from (1) to (40) form an integral part of these financial statements and are to be read therewith.

Notes to the Separate Financial Statements

To the shareholders of HSBC Bank Egypt S.A.E.

1 Background

HSBC Bank Egypt S.A.E. provide retail, corporate and investment banking services in Arab Republic of Egypt through eighty branches and sixteen mini units served by more than 2,384 staff at the date of the Balance sheet.

HSBC Bank Egypt S.A.E. 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 Arab Republic of Egypt. The head office is located in Cairo. The Bank’s shares have been delisted from the Egyptian stock exchange market on 31 December 2009. The Bank started its operation on 15 December 1982.

2 Summary of significant accounting policies

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

a. Basis of preparation

- The financial statements are prepared in accordance with Central Bank of Egypt instructions approved by its Board of Directors on 16 December 2008.

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 operating policies, 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)”.
- Accounting for subsidiaries in the separate financial statements is recorded by using cost method. According to this method, investments recorded at cost of acquisition including goodwill if any and deducting impairment losses. Dividends are recorded in the income statement when adoption of the distribution has been occurred and affirming the Bank’s right in collecting them has been recognized.

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 that are different from those of other business segments. A geographical segment is a segment by which, provide 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.

2 Summary of significant accounting policies (continued)

d. 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 year 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 of the assets/liabilities held for trading.
- Owner's equity of the financial derivatives in the form of eligible coverage for cash flows or net investment.
- Other operating income (expenses) for the other items.

Changes in the fair value of monetary financial instruments in foreign currencies classified as investments available for sale (debt instruments) are classified as valuation differences resulting from changes in amortized cost of the instrument and differences resulted from changes in applicable exchange rates and differences resulted from changes in the instrument fair value. Valuation 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 – available for sale investments" in the equity caption.

Valuation differences resulting from non-monetary items include profits and losses resulting from changes in fair value such as equity instruments held at fair value through profits and losses, while valuation differences resulting from equity instruments classified as financial investments available for sale are recognized as "fair value reserve – available for sale investments" under the equity caption.

e. Financial assets:

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

e.1 Financial assets at fair value through profit or loss:

This category consists of financial assets held for trading and financial assets designated at fair value through profit or loss at inception.

- Financial assets are classified as held for trading if they are acquired or incurred principally for the purpose of selling in the near term or if is part financial instruments portfolio that are managed together and there is evidence resulted from recent actual transaction that profit can be recognized. Derivatives can be classified as held for trading unless they are identified as hedging instruments.
- Financials assets designated at fair value through profit or loss are recognized when:
 - Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for loans and advances to customers or banks and issued debt securities.
 - Equity investments that are managed and evaluated at the fair value basis in accordance with a risk management or investment strategy and preparing reports to top management on that basis are classified as fair value through profit and loss.
 - Financial instruments such as debt instrument which contain one or more embedded derivatives which may significantly affect the cash flows are classified at fair value through profit and loss.
- Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are recorded in the "net income from financial instruments classified at fair value though profit and loss"
- It is not permitted to reclassify any derivative out of the financial instrument valued at fair value through profit or loss category during it's holding year. Also, it is not permitted to reclassify any financial instrument valued at fair value through profit or loss category if it is initially recorded by the bank at fair value through profit or loss.
- In all cases the bank should not reclassify any financial instrument into financial instrument measured at fair value through profit and loss or to hold for trading investments.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

2 Summary of significant accounting policies (continued)

e. Financial assets: (continued)

e.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the bank intends to sell immediately or in the short term, which is classified as held for trading, or those that the bank upon initial recognition recorded as at fair value through profit or loss.
- Those that the bank upon initial recognition designates as available for sale.
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

e.3 Financial investments held to maturity:

Held to maturity financial investments are non-derivative assets which carry fixed or determinable payments and where the bank has the intention and the ability to hold to maturity. Any sale of a significant amount, not close to the date of its maturity, would result in the reclassification of all held to maturity investments as available for sale except in the emergency cases.

e.4 Financial investments available for sale

Available for sale financial investments are non-derivatives financial assets that are intended to be held for unspecified year and may be sold to provide liquidity or due to changes in shares prices, foreign exchange currencies, or interest rate.

The following applies to financial assets:

- Purchases or sales of financial assets at fair value through profit and loss, held to maturity financial investments, and available for sale financial investments are recognized at the trade date which is the date the bank is committed to purchase or sell the financial asset.
- Financial assets that are not classified at fair value through profit and loss at initial recognition are recognized at fair value plus transaction cost, while the financial assets classified as at fair value through profit and loss are initially recognized at fair value only and the transaction cost is recognized in the profit and loss under “net trading income”
- Financial assets are derecognized when the rights to receive cash flows have expired or when the bank transfer all asset risks and rewards to another party, while a financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.
- Available for sale financial investments and financial assets designated at fair value through profit and loss are subsequently measured at fair value. While loans and advances and held to maturity investments are measured subsequently at amortized cost.
- Gains and losses arising from changes in fair value of financial assets designated at fair value through profit and loss are recorded in income statement during the year it occurred, while gains and losses arising from changes in fair value of available for sale financial investments are recognized in “fair value reserve for available for sale investments” in equity until the financial asset is sold, or impaired at which time, the cumulative gain or loss previously recognized in equity should be recognized in profit or loss.
- Interest income related to monetary assets classified as available for sale is recognized based on the amortized cost method in profit and loss. The foreign currency revaluation differences related to available for sale investments are recognized in the profit and loss. Dividends related to available for sale equity instruments are recognized in the profit and loss when they are declared.
- The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants, if the Bank could not assess the value of the equity classified as available for sale, these instruments should be valued at cost and will be subject to impairment test.
- Debt instruments can be reclassified from the available for sale investments to “loans and receivables” or “financial assets held to maturity” using fair value when the bank has the intention and ability to hold the instrument on the future or till maturity. Any related profits or losses that have been previously recognized in equity are treated as follows:

2 Summary of significant accounting policies (continued)

e.4 Financial investments available for sale (continued)

- i. Financial assets with fixed or determinable payments and fixed maturity valued at amortized cost, using the effective interest method. The difference between the amortized cost using the effective interest method and the repayment value is amortized using the effective interest rate method.
 - ii. In case of financial asset's impairment any profits or losses previously recognized in equity is recognized in profit and loss.
 - iii. Profits and losses related to the financial assets without fixed or determinable maturity are recorded in equity till selling or disposing it. In case of impairment, profit and losses that have been previously recognized directly in equity are recognized in the profit and loss.
- If the Bank changes its estimates regarding payments or proceeds, the book value of a financial asset (or group of financial assets) has to be adjusted to reflect the actual cash inflows and the change in this estimate through calculating the present value of estimated future cash flows using the effective interest rate for the financial instrument. This adjustment is recognized as either income or expense in the profit and loss.
- In all cases, if the bank re-classified financial asset in accordance with what is referred to above and the Bank subsequently increase its future cash proceeds estimates resulted from an increase in the recoverable amount from its cash receipts, this increase is recognized as an adjustment to the effective interest rate not as an adjustment in the book value of the asset at the date of change in estimate.

f. 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.

Treasury bills, Repos and reverse Repos agreements are netted on the balance sheet and disclosed under treasury bills.

g. Derivative financial instruments

Derivatives are recognized 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.

g.1 Derivatives that do not qualify for hedge accounting

Derivative instruments that do not qualify for hedge accounting, changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in the profit and loss under "net trading income". However, gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with financial assets or liabilities are included in "net income from financial instruments at fair value through profit or loss".

h. Interest income and expense

Interest income and expense related to financial instruments except for held trading investments or recorded at fair value through profit and loss is recognized under "interest and similar income" or Interest and similar charges.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant year. 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 year when 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 which is 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 are not recognized but rather, are carried off balance sheet in statistical records and are recognized under revenues according to cash basis as per the following:

- When collected and after recovery of all arrears for retail loans, personal loans, small and medium business loans., mortgage loans for personal housing and small loans for businesses.
- For loans granted to corporate, interest income is recognized on cash basis after the Bank collects 25% of the scheduling installments and after the installments continued to be regular for at least one year. Interest income will not be recognized as revenue until full payment of the loan balance before the rescheduling and client is considered to be performing.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

2 Summary of significant accounting policies (continued)

i. Fees and commission income

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

Commitment fees recognized as revenue when there is probability that this loan will be used by the customer, as commitment fees represent compensation for the continuing interference to own the financial asset. Subsequently it's recognized as adjustments to the effective interest rate of the loan. If the commitment year passed without issuing the loan, commitment fees is recognized as income at the end of the commitment year.

Fees and commission related to equity debts measured by fair value is recognized as income at initial recognition. Fees and commission related to marketing of syndicated loan is recognized 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.

Commission and fees arising from negotiation, or participating in a negotiation to the favor of a third party as in share acquisition arrangements or purchase of securities or purchase or sale of businesses are recognized as income when the transaction is completed, commission and fees related to management advisory and other service are recognized as income based on the contract terms, usually on a time-appropriation basis. Asset management fees are recognized over the year in which the service is provided.

j. Dividends income

Dividends are recognized in the profit and loss when the bank's right to receive those dividends is established.

k. Agreement for purchase and Resale & Agreement for selling and Repurchase.

Financial instruments sold under repurchase agreements, are not derecognized from the books. These are shown in the assets side as an addition to the "treasury bills and other governmental notes" line item in the balance sheet. On the other hand, the bank's obligation arising from financial instruments acquired under resale agreements, is shown as a deduction from the "treasury bills and other governmental notes" line item in the balance sheet. Differences between the sale and repurchase price or between the purchase and resale price is recognized as interest expense or income throughout the period of agreements using the effective interest rate method.

l. Impairment of financial assets

l.1 Financial assets at amortized cost:

At each balance sheet date, the bank assesses whether there is objective evidence that any financial asset or group of financial assets has been impaired as a result of one or more events occurring since they were initially recognized (a "loss event") and whether that loss event has impacted the future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The bank considers the following indicators to determine the existence of substantive evidence for impairment losses:

- Great financial troubles facing the borrower or debtor.
- Breach of the loan agreement, e.g. default.
- Expected bankruptcy of borrower or subject to liquidation lawsuit or re-structuring the finance granted to it.
- Deterioration of competitive position of borrower.
- Granting privileges or assignments by the bank to the borrower, due to economic or legal reasons, which are not granted by the bank in the normal course of business.
- Impairment of guarantee.
- Deterioration of creditworthiness.

2 Summary of significant accounting policies *(continued)*

1. Impairment of financial assets *(continued)*

1.1 Financial assets at amortized cost: *(continued)*

A substantive proof for impairment loss of the financial assets is the existence of clear information indicating a measurable decline in the expected future cash flows of such category since initial recognition though such decline is not identifiable for each individual asset.

The bank estimates the year between identifying the loss event and its occurrence ranges from three to twelve months.

The bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant taking into consideration the following:

- In case there is no objective evidence that an impairment loss has been incurred on a financial instrument considered individually, be it significant or not, the bank includes that financial asset in a group of financial assets having similar characteristics in terms of credit risk and tests the whole group for impairment.
- An individually impairment test is made for a financial asset if there is objective evidence that this asset is impaired. If the impairment occurred then this asset will be separated from group of financial assets that are collectively evaluated for impairment.
- If the result of the previously test did not recognized impairment loss, then this asset will be added to the group of financial assets that are collectively evaluated for impairment. Impairment loss is calculated by the difference between the carrying amount and the present value of estimated future recoverable cash flows, excluding future expected credit loss not charged yet, discounted at the financial assets' original effective interest rate. This impairment is booked in the income statement as "impairment loss" and the book value of the financial asset is reduced by the impairment amount using "impairment loss provision".

If there is evidence that loan or other receivables, or financial assets classified as held to maturity carry variable rate, the discount rate will be the contract effective interest rate when there is objective evidence that an impairment loss has been incurred. For practical purposes, the bank may measure the impairment loss using the fair value of the instrument through its market rate.

For guaranteed financial assets present value for expected futures cash flow has to be considered in addition to the proceeds from sale of guarantee after deducting selling cost.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics according to the bank classification taking into consideration type of asset, industry, geographical location, collateral, past-dues and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for those group of assets as they are indicators of the debtors' ability to pay all amounts due according to its contract terms for assets under study.

If historical impairment losses rates method is used for a group of financial assets that are collectively evaluated for impairment, future contractual cash flow will be used by the bank in future and the historical loss for a group of assets with similar credit risk characteristics are considered. Historical impairment loss rates are adjusted to reflect the effects of current circumstances that did not affect the year on which the historical impairment loss rates is based and to remove the effects of circumstances in the historical year that are not currently exist.

The bank has to ensure that the estimates of changes in future cash flows for groups of assets are in consistence with changes in relative data from year to year, such as changes in unemployment rates, real estate prices, settlement status, or other factors that may affect the probability and magnitude of losses. The Bank reviews the basis and methods of estimation regularly.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

2 Summary of significant accounting policies (continued)

1. Impairment of financial assets (continued)

1.2 Available for sale investments:

At each balance sheet date, the Bank estimates if there is objective evidence that impairment loss for an asset or a group of assets classified as available-for-sale or held to maturity is occurred. For listed equity instruments classified as available for sale investments, impairment is recognized if as it's significant and a prolonged decline it's price below it's acquisition cost is observed.

The decline in value is considered significant for the equity instruments if it reaches 10% of the financial instrument's cost, and it is considered prolonged if it extends for a year of more than 9 months. When a decline in the fair value of an available for sale financial asset has been recognized directly in equity under fair value reserve and subsequent objective evidence of impairment emerges, the Bank recognizes the total accumulated loss previously recognized equity will be recognized in profit and loss. Impairment losses recognized on equity instruments on profit or loss are not subsequently reversed. Impairment losses recognized through profit or loss on debt instruments classified as available for sale are reversed through profit and loss if the price subsequently increased and this increase can be objectively related to an event occurring after the recognition of impairment loss in profit or loss.

m. Investment property

Investment property represents land and buildings owned by the bank and used to earn rental income or increase capital. Investment property doesn't 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.

n. Intangible assets

n.1 Software (computer programs)

The expenses, related to upgrading or maintenance of computer programs, are to be recognized as expenses in income statement, when incurred. The expenses connected directly with specific software and 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 recognized 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 increase or expansion of computer software beyond their original specifications are recognized as an upgrading cost and are added to the original software cost.

The computer software cost recognized as an asset shall be amortized over the year expected useful life not more than five years.

o. 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 assets items.

Subsequent costs are included in the asset's carrying amount or are recognized 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 years or over the year of the lease if less
Furniture and safes	10 years
Typewriters calculators and air conditions	10 years
Motor vehicles	5 years
Computers and core systems	5 years
Fixtures and fittings	3 years

2 Summary of significant accounting policies (continued)

o. Fixed assets (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortization 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 proceeds with asset carrying amount. These gain and losses are included in other operating income (expenses) in the profit and loss.

p. Impairment of non-financial assets

Assets having no fixed useful life except for goodwill shall not be amortized, 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 recognized by the excess amount of book value over the realizable value. The recoverable value represents net realizable 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 has to be reviewed to determine if there is impairment reversal made to the profit and loss.

q. 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% of the asset expected useful life, or the current value of the total lease payments represents at least 90% of the value of the asset then this lease is considered finance lease. Other than that the lease has to be considered operating lease.

q.1 Leasing

Finance lease contracts recognize rent as expense in the year it occurred in profit and loss, including maintenance cost related to the leased assets.

If the bank decides to exercise the rights to purchase the leased assets, the cost of this right will be capitalized over the fixed asset and depreciated over the assets' expected remaining useful life in accordance with similar assets.

Operating lease payments less any discounts granted to lessee is recognized as expenses in the profit and loss using the straight line method over the contract term.

q.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 recognized in the profit and loss using the straight line method over the contract term.

r. Cash and cash equivalents

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

s. Other provisions

Provisions for restructuring costs and legal claims are recognized 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 recognized 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 expected required expenditures to settle obligations after one year from 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.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

2 Summary of significant accounting policies (continued)

t. Financial guarantees contracts

The financial guarantees contracts are contracts issued by the bank as security for loans or overdrafts due from its customers to other entities, which require the bank to make certain payments to compensate the beneficiary for a loss incurred due to default of the debtor on maturity date and in accordance with debt instrument conditions. These financial guarantees are given to the banks, corporations and other entities on behalf of the bank's customers.

It's initially recognized at fair value including guarantee fees at the date of granting. Subsequently, the Bank's obligation shall be measured by the value initially recognized less guarantee fees amortization which is recognized in the profit and loss on a straight line basis over the higher of the guarantee life term or over the best payment estimates required to settle the financial obligation resulted from the financial guarantee at the balance sheet date. These estimates are mainly based on management experience with similar transactions and historical losses.

Any increase in the obligations resulted from the financial guarantee, is recognized in "other operating income (expenses)" caption.

u. Employees benefits

u.1 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 recognized 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".

u.2 Share based payments

HSBC Holding PLC grants shares to eligible employees under a share based payment scheme 'equity settled'. HSBC Egypt bears the cost of these shares which are amortized in the profit and loss on a straight line basis.

v. 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 recognized in the income statement except income taxes related to shareholders equity items that are recognized 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 recognized 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 realize 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 recognized if it is probable that sufficient taxable profits shall be realized in the future whereby the asset can be utilized 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.

w. Capital

w.1 Capital cost

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

w.2 Dividends

Dividends are recognized 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.

2 Summary of significant accounting policies (continued)

x. Amanah activities

The bank practices the Amanah 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.

y. Comparative figures

The comparative figures shall be re-classified, 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 analyzed, 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. The 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 analyze 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 amend them to they reflect the changes in market, products and services and the best updated applications.

Those risks are managed by 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 it 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 risks for the bank. The bank set specific procedures to manage that risk. The credit risk in the lending and investments activities which are represented bank's assets contain 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 centralized at credit risk team management at credit risk department that prepare reports to Board of Directors and Head units on 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 minimizes the effect of this risk by the following:

- Preparing detailed credit studies about customers and banks before dealing with them to assess & determine the rates of the credit risk rates related to it.
- 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 minimize the concentration of credit risk.

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

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management (continued)

a. Credit risk (continued)

a.1 Credit risk measurement (continued)

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

The following table shows the rating scale which reflects the range of expected defaults or payment delays, by which the credit centers may transfer from one rating to other depending on the change in the expected degree of risk. The customer's rating and the rating process are reviewed when necessary. The Bank evaluates the rating process and their expectations regarding the customers' defaults.

Bank's internal ratings scale	
Rating description	Rating
Performing loans	1-6
Regular watching	7
Watch list	8
Non-performing loans	9-10

The amount of default represent the outstanding balances at the time when a late settlement occurred for example the loans expected amount of default represent its book value. For commitments the default amount represents all actual withdrawals in addition to any withdrawals occurred till 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 differ 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 use external ratings such as Standard and Poor's rating, Mersis - Modes rating and Fitch rating to manage their 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 manage the credit risk it undertakes by placing limits on the amount of risk accepted in relation to 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 quarterly basis the sectorial 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 use 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.

3 Financial Risk Management *(continued)*

a. Credit risk *(continued)*

a.2 Limiting and preventing risks policies *(continued)*

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

In addition, to minimize 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 determine type of collaterals the Bank held by the bank as security for 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 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 i.e., 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 (i.e., assets that have positive fair value), which represent 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 market changes risk all together. Generally no collateral 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 is 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 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 favor 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 year of time, as it is affected by each transaction occur in the arrangement.

Credit-related commitments

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 customer by which authorizing 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 represent 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 high 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 for financial reporting purposes are losses that have been incurred and based on objective evidence of impairment 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.

The impairment provision appeared in the balance sheet at the end of the year is derived from the four internal rating grades. However, the majority of the impairment provision comes from the last two ratings. The table below shows the percentage of in-balance sheet items relating to loans and advances and the related impairment provision for each rating:

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management (continued)

a. Credit risk (continued)

a.3 Impairment and provisioning policies (continued)

Bank's rating	31 December 2012		31 December 2011	
	Loans and advances	Impairment provision	Loans and advances	Impairment provision
Performing loans	87.36%	48%	90.54%	40%
Regular watching	10.45%	7%	7.25%	4%
Watch list	0.06%	1%	0.05%	2%
Non-performing loans	2.13%	44%	2.16%	54%
	100%	100%	100%	100%

The Bank's internal rating assists management to determine whether objective evidence of impairment exists under EAS 26, based on the following criteria set out by the Bank:

- Payment delinquency of principal or interest.
- Breach of loan conditions
- Initiation of bankruptcy or entering a liquidation or finance restructures.
- Deterioration of the borrower's competitive position.
- For economical or legal reasons, the bank granted the borrower additional benefits that will not be done in normal circumstances.
- Deterioration in the value of collateral.
- Deterioration of customer credit status.

The Bank policies require review of all financial assets (that exceed specific materiality) at least once a year or more when required, the impairment loss is determined on individual basis by determining case by case actual losses. These policies applied on all accounts have specific materiality on individual basis. Valuation usually includes the existing collateral, the related enforcements on these collaterals and the expected collections from those accounts.

Impairment loss provision is formed based on group of similar assets using the historical experience available, personal judgment and statistical methods.

a.4 General module to measure 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 information related to the customer, its 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 as per CBE regulations exceeds the provision required for financial statements preparation purposes according to the Egyptian Accounting Standards, this increase shall be debited from the retained earnings to 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 (34) shows the "general banking risk reserve" movement during the year.

3 Financial Risk Management (continued)

a. Credit risk (continued)

a.5 Maximum limits for credit risk before collateral

	31 December 2012	31 December 2011
	EGP (000)	EGP (000)
<i>Balance sheet items exposed to credit risks</i>		
Treasury bills	11 305 434	10 835 830
Financial asset held for trading:		
Debt instrument	44 573	15 673
Loans and advances to customers:		
Retail loans:		
Overdrafts	323 479	375 325
Credit cards	603 501	458 855
Personal loans	2 087 375	1 809 972
Mortgage loans	8 122	12 068
Corporate loans:		
Overdrafts	2 729 650	2 653 391
Direct loans	8 579 736	8 100 298
Syndicated loans	5 974 855	6 658 435
Financial derivative instruments	15 863	14 672
Financial investments:		
Debt instruments	7 561 548	5 320 701
Total	39 234 136	36 255 220
<i>Off-balance sheet items exposed to credit risk</i>		
Loan commitments and other irrevocable commitments related to credit	1 930 573	2 960 408
Letters of credit	2 184 642	1 709 786
Letters of guarantee	7 771 069	6 693 645
Cash covers	(591 833)	(557 222)
Total	11 294 451	10 806 617

The above table represents the maximum limit for credit risk as of 31 December 2012 and 31 December 2011, without taking into considerations 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, 51.76% of the total maximum limit exposed to credit risk resulted from loans and advances to customers against 55.35% as at 31 December 2011; while 19.39% represents investments in debt instruments against 14.72% as at 31 December 2011.

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:

- 97.81% of the loans and advances portfolio is classified at the highest two ratings in the internal rating against 97.79% as at 31 December 2011
- 96.36% of the loans and advances portfolio having no past due or impairment indicators against 97.04% as at 31 December 2011

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management (continued)

a. Credit risk (continued)

a.5 Maximum limits for credit risk before collateral (continued)

- Mortgage loans, which represent a significant part of the portfolio are covered by guarantees of total amount EGP26 544 thousands.
- Loans and advances that have been evaluated on an individual basis of total amount EGP443 269 thousands against EGP443 545 thousand as at 31 December 2011.
- Investments in debt instruments and treasury bills contain more than 82.46% against 83.89% as at 31 December 2011 due from the Egyptian government.

a.6 Loans and advances

	31 December 2012	31 December 2011
	EGP (000)	EGP (000)
	Loans and advances to customers	Loans and advances to customers
Neither having past dues nor subject to impairment	19 567 605	19 474 108
Having past due but not subject to impairment	295 844	150 691
Subject to impairment	443 269	443 545
Total	20 306 718	20 068 344
Less:		
Unearned discount of discounted commercial papers	(1 242)	(824)
Interest in suspense	(29 349)	(43 692)
Impairment loss provision	(683 335)	(583 781)
Net	19 592 792	19 440 047

The Bank's total impairment loss for loans and advances amounted to EGP683 335 thousand against to EGP583 781 thousand as at 31 December 2011 of which EGP289 364 thousand against EGP249 076 thousand as at 31 December 2011 representing impairment of individual loans and the remainder amounting to EGP393 971 thousand against to EGP334 705 thousand as at 31 December 2011 representing impairment loss for the credit portfolio as a group.

Note (19) include additional information regarding impairment loss on loans and advances to customers.

The Bank's portfolio increased by 1.19% during the year. The Bank concentrates on dealing with large institutions or banks or individual of credit worthiness.

Loans and advances neither having past due nor subject to impairment

The credit quality of the loans and advances portfolio that are neither having past due nor subject to impairment are determined by the internal rating of the bank.

3 Financial Risk Management (continued)

a. Credit risk (continued)

a.6 Loans and advances (continued)

Loans and advances neither having past due nor subject to impairment

31 December 2012								EGP (000)
Rating	Retail				Corporate			Total loans and advances to customers
	Over-drafts	Credit cards	Personal loans	Mortgage	Over-drafts	Direct loans	Syndicated loans	
Performing loans	268 199	571 085	1 994 964	8 122	2 500 027	6 447 555	5 703 599	17 493 551
Regular follow up	—	—	—	—	180 518	1 893 535	—	2 074 053
Total	268 199	571 085	1 994 964	8 122	2 680 545	8 341 090	5 703 599	19 567 604

Guaranteed loans are not considered subject to impairment for the non-performing category after taking into consideration the collectability of the guarantees.

31 December 2011								EGP (000)
Rating	Retail				Corporate			Total loans and advances to customers
	Over-drafts	Credit cards	Personal loans	Mortgage	Over-drafts	Direct loans	Syndicated loans	
Performing loans	345 199	429 684	1 672 650	12 068	2 539 480	6 657 962	6 401 501	18 058 544
Regular follow up	—	—	—	—	41 444	1 374 120	—	1 415 564
Total	345 199	429 684	1 672 650	12 068	2 580 924	8 032 082	6 401 501	19 474 108

Loans and advances having past due and not subject to impairment

Loans and advances having past due until 90 days and not considered subject to impairment, unless there is information to the contrary. Loans and advances having past due and not subject to impairment are as follows:

31 December 2012					EGP (000)
	Retail				Total
	Over-drafts	Credit cards	Personal loans	Mortgage	
Past due up to 30 days	46 814	18 054	43 854	—	108 722
Past due 30-60 days	5 250	6 405	18 974	—	30 629
Past due 60-90 days	1 413	3 571	12 936	—	17 920
Total	53 477	28 030	75 764	—	157 271
Fair value of collateral				26 544	26 544

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management (continued)

a. Credit risk (continued)

a.6 Loans and advances (continued)

31 December 2012				EGP (000)
				Corporate
	Over-drafts	Direct loans	Syndicated loans	Total
Past due up to 30 days	—	107 436	—	107 436
Past due 30-60 days	—	29 568	—	29 568
Past due 60-90 days	—	1 569	—	1 569
Total	—	138 573	—	138 573
Fair value of collateral		—		—

In the initial recording of loans and advances, the fair value of guarantees is assessed based on valuation methods commonly used for similar assets. In subsequent years, fair value is updated to reflect its market price or price of similar assets.

31 December 2011					EGP (000)
					Retail
	Over-drafts	Credit cards	Personal loans	Mortgage	Total
Past due up to 30 days	28 412	16 507	38 025	—	82 944
Past due 30-60 days	1 047	5 497	17 979	—	24 523
Past due 60-90 days	11	2 957	12 824	—	15 792
Total	29 470	24 961	68 828	—	123 259
Fair value of collateral				26 544	26 544

31 December 2011				EGP (000)
				Corporate
	Over-drafts	Direct loans	Syndicated loans	Total
Past due up to 30 days	—	22 450	—	22 450
Past due 30-60 days	—	3 835	—	3 835
Past due 60-90 days	—	1 147	—	1 147
Total	—	27 432	—	27 432
Fair value of collateral	—	10 911	—	10 911

Loans and advances subject to individual impairment

*Loans and advances to customers

Loans and advances subject to individual impairment before taking into consideration cash flows from guarantees amounted to EGP443 269 thousand against EGP443 545 thousand as at 31 December 2011.

The breakdown of the total loans and advances subject to individual impairment including fair value of collateral obtained by the Bank are as follows:

3 Financial Risk Management (continued)

a. Credit risk (continued)

a.6 Loans and advances (continued)

31 December 2012								EGP (000)
Valuation	Over-drafts	Credit cards	Retail		Corporate			Total
			Personal loans	Property loans	Over-drafts	Direct loans	Syndicated loans	
Individual loans subject to impairment	1 803	4 385	16 645	—	49 105	100 074	271 257	443 269
Fair value of collateral					393	45 252		45 645

31 December 2011								EGP (000)
Valuation	Over-drafts	Credit cards	Retail		Corporate			Total
			Personal loans	Property loans	Over-drafts	Direct loans	Syndicated loans	
Individual loans subject to impairment	657	4 209	68 494	—	72 467	40 784	256 934	443 545
Fair value of collateral					32 056	8 893		40 949

Re-structured loans and advances

Restructuring activities include renegotiating in terms of payments terms extension, restructure of mandatory management policies, and adjusting/postpone repayment terms. Renegotiating policies depend on indicators or standards in addition to the management personal judgment to show that regular payments are of high probability. These policies are subject to regular review. Long-term loans, especially loans to customers are usually subject to renegotiation.

	31 December 2012	31 December 2011
	EGP (000)	EGP (000)
Loans and advances to customers		
Corporate		
Direct loans	26 457	5 173
Syndicated loans	497 380	429 042
Retail		
Personal loans	2 367	4 169
Total	526 204	438 384

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management (continued)

a. Credit risk (continued)

a.7 Debt instruments and treasury bills

The table below shows an analysis of debt instruments and treasury bills according to the rating agencies at the end of the financial year (Mereis – rioters).

	Treasury bills	Investments in securities	Total
	EGP (000)	EGP (000)	EGP (000)
AAA	—	82 950	82 950
AA- to AA+	—	19 871	19 871
A- to A+	—	—	—
Less than A-	11 305 434	7 503 300*	18 808 734
Total	11 305 434	7 606 121	18 911 555

*Include Egyptian government bonds amounted to EGP7 446 863 thousand.

3 Financial Risk Management (continued)

a. Credit risk (continued)

a.8 Concentration of risks of financial assets exposed to credit risk

Geographical sectors

The following table represents a breakdown of the bank significant credit risk limits at their carrying amounts distributed by geographical sector. The bank breakdown these risks according to the Bank customers geographical area.

	Arab Republic of Egypt			Total EGP (000)
	Cairo	Alexandria and Delta	Upper Egypt Sinai and Red sea	
Treasury bills	11 305 434	—	—	11 305 434
Financial assets held for trading				
Debt instruments	44 573	—	—	44 573
Loans and advances to customers				
Retail:				
Over-drafts	263 877	42 124	17 478	323 479
Credit cards	603 501	—	—	603 501
Personal loans	1 801 909	143 741	141 725	2 087 375
Mortgage loans	7 700	—	422	8 122
Corporate:				
Over-drafts	2 336 453	387 881	5 316	2 729 650
Direct loans	7 426 224	792 520	360 992	8 579 736
Syndicated loans	5 440 443	176 534	357 878	5 974 855
Derivative financial instruments	15 863	—	—	15 863
Financial investment:				
Debt instruments	7 561 548	—	—	7 561 548
Other assets	472 476	4 016	3 231	479 723
Total as at 31 December 2012	37 280 001	1 546 816	887 042	39 713 859
Total as at 31 December 2011	34 376 084	1 281 757	974 756	36 632 597

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management (continued)

a. Credit risk (continued)

a.8 Concentration of risks of financial assets exposed to credit risk

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:

	EGP (000)						
	Industrial sector	Commercial sector	Service sector	Governmental sector	Other activities	Individuals	Total
Treasury bills	—	—	—	11 305 434	—	—	11 305 434
Financial assets held for trading							
Debt instruments	—	—	29 222	15 351	—	—	44 573
Loans and advances to customers							
Retail:							
Over- drafts	—	—	—	—	—	323 479	323 479
Credit cards	—	—	—	—	—	603 501	603 501
Personal loans	—	—	—	—	—	2 087 375	2 087 375
Mortgage loans	—	—	—	—	—	8 122	8 122
Corporate:							
Over-drafts	1 066 924	711 251	626 897	25 679	298 899	—	2 729 650
Direct loans	3 425 323	2 055 403	2 197 903	119 358	781 749	—	8 579 736
Syndicated loans	2 000 389	566 055	1 618 147	96 726	1 693 538	—	5 974 855
Derivative financial instruments	—	—	15 863	—	—	—	15 863
Financial investment:							
Debit instruments	—	—	159 258	7 402 290	—	—	7 561 548
Other assets	—	—	—	—	479 723	—	479 723
Total as at 31 December 2012	6 492 636	3 332 709	4 647 290	18 964 838	3 253 909	3 022 477	39 713 859
Total as at 31 December 2011	6 770 630	2 652 058	4 299 530	16 742 926	3 511 233	2 656 220	36 632 597

3 Financial Risk Management (continued)

b. Market risk

The bank exposed to market risks which is the risk that the fair value or future cash flow fluctuation resulted from changes in market prices. 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.

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

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 includes 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 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 a number of 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 expect to lose using confidence level (98%). Therefore there is statistical probability of (2%) that actual losses could be greater than the VAR estimation. The VAR module assumes that the holding year is 10 days before closing the opening position. It also assumes that market movements during the holding year will be the same as 10-days before. The Bank's assessment of past movements is based on data for the past five hundred days. The Bank applies these historical changes in rates prices indicators...etc. directly to its current positions this approach 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 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 EGP116 711 thousand against EGP49,918 thousand as at 31 December 2011.

The quality of the VAR model is continuously monitored through examining the VAR results for 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 Stress testing are designed to match business using standard analysis for specific scenarios. The stress testing carried out by the Bank treasury. Stress testing include: risk factor stress testing where sharp movements are applied to each risk category and test emerging market stress, as emerging market portfolios are subject to sharp movements; and subject to 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.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management (continued)

b. Market risk (continued)

b.2 VAR summary

According to risk type

	EGP (000)			EGP (000)		
	31 December 2012			31 December 2011		
	Average	High	Low	Average	High	Low
Foreign exchange risk	116 074	230 517	6 995	49 417	180 083	4 855
Interest rate risk	637	952	358	501	778	187
Total VAR	116 711	231 469	7 353	49 918	180 861	5 042

Trading portfolio VAR by risk type

	EGP (000)			EGP (000)		
	31 December 2012			31 December 2011		
	Average	High	Low	Average	High	Low
Foreign exchange risk	116 074	230 517	6 995	49 417	180 083	4 855
Interest rate risk	40	157	8	72	113	12
Total VAR	116 114	230 674	7 003	49 489	180 196	4 867

Non-trading portfolio VAR by risk type

	EGP (000)			EGP (000)		
	31 December 2012			31 December 2011		
	Average	High	Low	Average	High	Low
Interest rate risk	681	992	358	567	832	241
Total VAR	681	992	358	567	832	241

The increase in VAR especially the interest rate risk mainly proportion to the increase in market interest rates volatility in the global financial markets.

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 before Stress testing).

3 Financial Risk Management (continued)

b. Market risk (continued)

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 set aggregate limits for foreign exchange in the total value (summation value) for each position at the end of the day, and during the day which is controlled on timely basis. The following table summarizes the Bank' exposure to foreign exchange volatility risk at the end of the financial year. The following table includes the carrying amounts of the financial instruments in their currencies:

31 December 2012	Equivalent in EGP (000)					
	EGP	USD	Euro	GBP	Other	Total
Financial Asset						
Cash and balances with Central bank	(1 974 876)	(2 176 876)	(26 122)	(9 962)	(2 880)	(4 190 716)
Due from banks	(1 235 311)	(4 963 892)	(2 278 729)	(1 312 787)	(108 939)	(9 899 658)
Treasury bills	(6 755 335)	(4 341 884)	(208 215)	—	—	(11 305 434)
Financial assets held for trading	(44 573)	—	—	—	—	(44 573)
Loans and advances to customers	(12 103 371)	(6 783 688)	(516 045)	(92 572)	(97 116)	(19 592 792)
Derivative financial instruments	—	(329 044)	—	313 181	—	(15 863)
Financial investments						
Available for sale	(7 222 566)	(362 308)	—	—	—	(7 584 874)
Held to maturity	(89 674)	—	—	—	—	(89 674)
Other financial assets	(1 141 225)	(77 891)	(1 034)	(670)	(47)	(1 220 867)
Total financial assets	(30 566 931)	(19 035 583)	(3 030 145)	(1 102 810)	(208 982)	(53 944 451)
Financial liabilities						
Due to banks	349 376	475 749	120 275	15 395	8 891	969 686
Customer deposits	24 523 791	18 627 965	2 897 483	1 067 370	121 098	47 237 707
Financial derivative	—	13 329	—	3 508	—	16 837
Other financial liabilities	1 111 870	178 141	3 244	15 834	11 241	1 320 330
Total financial liabilities	25 985 037	19 295 184	3 021 002	1 102 107	141 230	49 544 560
Net financial position- balance sheet	(4 581 894)	259 601	(9 143)	(703)	(67 752)	(4 399 891)
Commitments related to credit						
	3 402 563	5 591 958	941 160	75 238	1 283 532	11 294 451
31 December 2011						
Total Financial Assets	(28,652,059)	(15,946,733)	(2,601,645)	(998,362)	(110,411)	(48,309,210)
Total Financial Liabilities	24,296,728	16,154,863	2,550,075	996,015	98,150	44,095,831
Net Financial Position- balance sheet	(4,355,331)	208,130	(51,570)	(2,347)	(12,261)	(4,213,379)
Commitments related to credit	4,351,806	4,272,832	816,232	87,099	1,278,648	10,806,617

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management (continued)

b. Market risk (continued)

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 may profit decrease in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate reprising that may be undertaken which is monitored daily by Bank Treasury.

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts categorized by the earlier of reprising or maturity dates:

31 December 2012						EGP (000)
	Up to one month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Total
Financial Asset						
Cash and balances with Central bank	(2 079 689)	(2 111 027)	—	—	—	(4 190 716)
Due from banks	(9 899 658)	—	—	—	—	(9 899 658)
Treasury bills	(99 780)	(759 571)	(10 446 083)	—	—	(11 305 434)
Financial assets held for trading	—	—	(13 847)	(3 394)	(27 332)	(44 573)
Loans and advances to customers	(6 680 072)	(1 559 912)	(1 324 517)	(10 028 291)	—	(19 592 792)
Derivative financial instruments	—	—	(4 696)	(11 167)	—	(15 863)
Financial investments:						
Available for sale	(480 837)	—	(1 601 500)	(5 004 976)	(497 561)	(7 584 874)
Held to maturity	—	—	—	—	(89 674)	(89 674)
Other financial assets	—	(406 956)	(406 956)	(406 955)	—	(1 220 867)
Total financial assets	(19 240 036)	(4 837 466)	(13 797 599)	(15 454 783)	(614 567)	(53 944 451)
Financial liabilities						
Due to banks	969 686	—	—	—	—	969 686
Customer deposits	34 273 554	2 521 968	3 448 053	6 994 132	—	47 237 707
Derivative financial instruments	—	—	5 670	11 167	—	16 837
Other financial liabilities	—	—	—	1 320 330	—	1 320 330
Total financial liabilities	35 243 240	2 521 968	3 453 723	8 325 629	—	49 544 560
Interest re-pricing gap	16 003 204	(2 315 498)	(10 343 876)	(7 129 154)	(614 567)	(4 399 891)
31 December 2011						
Total financial assets	(15 875 633)	(4 036 868)	(12 322 791)	(15 446 164)	(627 754)	(48 309 210)
Total financial liabilities	30 652 273	2 753 535	2 097 477	8 592 546	—	44 095 831
Interest re-pricing gap	14 776 640	(1 283 333)	(10 225 314)	(6 853 618)	(627 754)	(4 213 379)

3 Financial Risk Management (continued)

c. Liquidity risk

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

Liquidity risk management process

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

- 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 assumed to be easily liquidated in the event of an unforeseen interruption of cash flow
- Monitoring liquidity ratios in relation with internal requirements and central bank of Egypt requirements.
- Managing loans concentration and dues.

The main year for liquidity management is the next day, week and month. The Bank calculates the expected cash flow for those years for monitoring and reporting purposes.

The starting point to calculate these expectations is analyzing the financial liabilities dues and expected financial assets collections.

Credit risk department monitor the mismatch between medium term assets, the level and nature of unused loans limits, overdraft utilizations, and the effect of contingent liabilities such as letters of guarantees and letters of credit.

Non derivative cash flows

31 December 2012						EGP (000)
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
Due to banks	969 686	—	—	—	—	969 686
Customers' deposits	34 758 233	2 502 064	3 386 011	6 820 109	125 758	47 592 175
Total of financial liabilities according to maturity date	35 727 919	2 502 064	3 386 011	6 820 109	125 758	48 561 861

31 December 2011						EGP (000)
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
Due to banks	871 080	—	—	—	—	871 080
Customers' deposits	29 848 528	2 764 733	2 188 658	7 293 307	383 374	42 478 600
Total of financial liabilities according to maturity date	30 719 608	2 764 733	2 188 658	7 293 307	383 374	43 349 680

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management (continued)

c. Liquidity risk (continued)

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 no. (37)

31 December 2012				EGP (000)
	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total
Letter of credit commitments	2 184 642	—	—	2 184 642
Loans commitments	1 586 355	—	—	1 586 355
Long commitments, bills on discount and other financial assets	6 694 867	828 587	—	7 523 454
Operating lease commitments	15 163	2 921	812	18 896
Total	10 481 027	831 508	812	11 313 347

31 December 2011				EGP (000)
	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total
Letter of credit commitments	1 709 786	—	—	1 709 786
Loans commitments	2 627 828	—	—	2 627 828
Long commitments, bills on discount and other financial assets	5 794 039	674 964	—	6 469 003
Operating lease commitments	16 110	4 349	3 692	24 151
Total	10 147 763	679 313	3 692	10 830 768

d. Fair value of financial assets and liabilities

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

The total amount of the change in estimated fair value using a valuation method during the financial year, amounted to EGP15 941 thousand against EGP7 864 thousand as at 31 December 2011.

3 Financial Risk Management (continued)

d. Fair value of financial assets and liabilities (continued)

d.2 Financial instruments not measured at fair value

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

	EGP (000)	
	Carrying value	Fair value
	Current year	Current year
Financial assets		
Due from banks	9 899 658	9 899 658
Loans and advances to customers		
Retail	3 022 477	3 022 477
Corporate	17 284 241	17 284 241
Financial investments		
Equity instruments available for sale	23 326	23 326
Held to maturity	89 674	105 615
Financial liabilities		
Due to banks	969 686	969 686
Customer deposits		
Retail	28 446 969	28 446 969
Corporate	18 790 738	18 790 738

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 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.

Financial Investments

Financial investments shown in the above schedule includes only held to maturity assets investments; as available for sale investments are measured at fair value except for equity instruments that its market value can't be reliably determined. Fair value of held-to-maturity investments is based on market prices or broker/ prices. Fair value is estimated using quoted market prices for financial paper with similar credit maturity and yield characteristics where information is not available.

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.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management (continued)

e. Capital management

The Bank's objectives behind managing capital include elements other than 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 quarterly basis.
- CBE requires the following from the Bank:
- Maintaining EGP500 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% or more.
- The bank branches that operated outside Egypt is compiled to the laws and regulations of the countries they operated in

The numerator in capital adequacy comprises the following 2 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 of:

- 45% 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% of the special reserves.
- 45% of positive foreign currency reserves.
- Embedded derivatives.
- Loans (deposits) subordinated.
- Provision for impairment losses for loans and contingent liabilities (not exceeding 1.25% of total assets and contingent liabilities applying the risk weights, the provision for the non performing loans must be enough to face any liabilities it formed for.
- The Dominator of the capital adequacy comprise of:
 1. Credit risk
 2. Market risk
 3. Operation risk

Assets are weighted by risk in a range from zero to 100%. Classification is made according to the debit party for each asset to reflect the related credit risk taking into consideration cash guarantees. 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.

3 Financial Risk Management (continued)

e. Capital management (continued)

The Bank complied with all internal requirements during the last years. The schedule below show the calculation of capital adequacy ratio for the year according to Bazzel (2):

	31 December 2012
	EGP (000)
Capital	
Tier 1 after disposals (Going Concern capital)	
Share capital	2 078 500
Reserves	1 361 535
Retained earnings	175 604
Total disposals from going concern capital	(3 125)
Total going concern capital after disposals (Common Equity)	3 612 514
Tier 2 (Gone – Concern capital)	
45% of Fair value of investments held to maturity	8 670
Performing impairment losses provision for loans and contingent liabilities	354 609
Total Tier 2 after disposals (Gone – Concern Capital)	363 279
Total capital adequacy after disposals (1+2)	3 975 793
Risk (Credit, Market, and Operation)	
Credit risk	28 222 522
Operation risk	395 205
Total risk (Credit, Market, and Operation)	32 593 520
Capital adequacy ratio (%)	12.23%

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

4 Significant accounting estimates and assumptions

The Bank make subjective estimates and judgments that affect the reported amounts of assets and liabilities with the next financial year a consistently estimations and judgments are continually evaluated and 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. Impairment losses for loans and advances

The Bank reviews the portfolio of loans and advances at least quarterly. The Bank uses discretionary judgment on determining whether it is necessary to record impairment loss in the income statement. The Bank has to identify if there is objective evidence indicating a decline in the expected future cash flows from loan portfolio before identifying any decline on individual basis. This evidence include data indicating negative changes in a borrower's portfolio ability to repay to the Bank or local or economic circumstances related to default. On scheduling future cash flows the management uses the past experience to determine the credit impairment loss for assets when there is objective evidence of impairment similar to that of the portfolio in question. The methods and assumptions used in estimating both the amount and timing of the future cash flows are reviewed on a regular basis to minimize any discrepancy between the estimated loss and actual loss based on experience.

b. Impairment of available for sale equity investments

The Bank recognize impairment loss relating to available for sale equity investments when there is a significant or prolonged decline in the fair value below its cost. A judgment is required to determine that the decline is significant or prolonged. In making this judgment the Bank evaluates among other factors the volatility in share price. In addition impairment loss recognized when there is evidence of a deterioration in the investee financial position or operating/finance cash flow industry and sector performance technology changes.

c. 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 counter party volatility and correlations requires management estimations. Changes in these estimation factors can affect the financial instrument's fair value disclosure. For example to the extent that management use credit marginal less than 20 points the estimated net fair value of derivatives amounted to EGP15 863 thousand in assets against EGP16 837 thousand in liabilities which represent its fair value as shown in (Note 20).

d. Held-to-maturity investments

Non-derivatives financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity. This classification requires high degree of judgment; in return the bank tests the intent and ability to hold such investments to maturity. If the bank fails to hold such investments till maturity except for certain circumstances (selling an insignificant amount of held-to-maturity investments near to maturity date) then all held to maturity investment portfolio should be reclassified as available for sale which will be measured at fair value instead of amortized cost. In addition the Bank should suspend classifying investments as held to maturity caption.

If classification of investments as held to maturity is suspended the carrying amount shall increase by EGP15 941 thousand to reach its fair value by increasing the valuation reserve available for sale within the equity caption.

e. 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 noted. Income tax and deferred tax will be recorder in that year.

5 Segment analysis

a. By activity segment

Activity segment include 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 companies purchase of investments financing company's restructure and financial instruments.

Individuals

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

Other activities

Include other banking activities such as fund management.

Inter-segment transactions occur at the normal course of business of the Bank. Assets and liabilities at the balance sheet include operating assets and liabilities.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

5 Segment analysis (continued)

a. By activity segment (continued)

31 December 2012						EGP (000)
	Corporate	Medium and small enterprises	Global Markets	PFS	Other activities	Total
Income and expenses according to the activity segment						
Income activity segment	1 134 034	259 597	624 492	1 016 434	65 529	3 100 086
Expenses activity segment	(542 324)	(54 465)	(16 295)	(546 851)	(38 917)	(1 198 852)
Profit before tax	591 710	205 132	608 197	469 583	26 612	1 901 234
Tax	(156 728)	(62 533)	(151 964)	(111 170)	—	(482 395)
Profit for the year	<u>434 982</u>	<u>142 599</u>	<u>456 233</u>	<u>358 413</u>	<u>26 612</u>	<u>1 418 839</u>
Assets and liabilities according to the activity segment						
Assets activity segment	(34 455 859)	(89 487)	(12 192 605)	(2 418 435)	(4 788 065)	(53 944 451)
Total assets	<u>(34 455 859)</u>	<u>(89 487)</u>	<u>(12 192 605)</u>	<u>(2 418 435)</u>	<u>(4 788 065)</u>	<u>(53 944 451)</u>
Liabilities activity segment	20 555 949	2 213 120	652 980	27 948 023	2 574 379	53 944 451
Total liabilities	<u>20 555 949</u>	<u>2 213 120</u>	<u>652 980</u>	<u>27 948 023</u>	<u>2 574 379</u>	<u>53 944 451</u>
31 December 2011						EGP (000)
	Corporate	Medium and small enterprises	Global Markets	PFS	Other activities	Total
Income and expenses according to the activity segment						
Income activity segment	1 230 502	164 038	428 999	835 238	—	2 658 777
Expenses activity segment	(607 056)	(44 584)	(20 613)	(502 284)	—	(1 174 537)
Profit before tax	623 446	119 454	408 386	332 954	—	1 484 240
Tax	(163 525)	(27 546)	(91 110)	(82 100)	—	(364 281)
Profit for the year	<u>459 921</u>	<u>91 908</u>	<u>317 276</u>	<u>250 854</u>	<u>—</u>	<u>1 119 959</u>
Assets and liabilities according to the activity segment						
Assets activity segment	(31 841 390)	(191 065)	(8 275 559)	(2 201 392)	(5 799 804)	(48 309 210)
Total assets	<u>(31 841 390)</u>	<u>(191 065)</u>	<u>(8 275 559)</u>	<u>(2 201 392)</u>	<u>(5 799 804)</u>	<u>(48 309 210)</u>
Liabilities activity segment	16 046 082	3 047 737	810 704	24 969 592	3 435 095	48 309 210
Total liabilities	<u>16 046 082</u>	<u>3 047 737</u>	<u>810 704</u>	<u>24 969 592</u>	<u>3 435 095</u>	<u>48 309 210</u>

5 Segment analysis (continued)

b. Analysis according to the geographical segment

31 December 2012	Arab Republic of Egypt			EGP (000)
	Cairo	Alexandria and Delta	Upper Egypt, Sinai and Red sea	Total
Income and expenses according to the geographical segment				
Income	2 856 033	165 819	78 233	3 100 085
Expenses	(1 111 977)	(37 763)	(49 111)	(1 198 851)
Profit before tax	1 744 056	128 056	29 122	1 901 234
Tax	(482 395)	—	—	(482 395)
Profit for the year	<u>1 261 661</u>	<u>128 056</u>	<u>29 122</u>	<u>1 418 839</u>
Assets and liabilities according to the geographical segment				
Assets geographical segment	(51 339 875)	(1 660 969)	(943 607)	(53 944 451)
Total assets	<u>(51 339 875)</u>	<u>(1 660 969)</u>	<u>(943 607)</u>	<u>(53 944 451)</u>
Liabilities geographical segment	47 825 953	4 212 335	1 906 163	53 944 451
Total liabilities	<u>47 825 953</u>	<u>4 212 335</u>	<u>1 906 163</u>	<u>53 944 451</u>
<hr/>				
31 December 2011	Arab Republic of Egypt			EGP (000)
	Cairo	Alexandria and Delta	Upper Egypt, Sinai and Red sea	Total
Income and expenses according to the geographical segment				
Income geographical segment	2 421 808	135 842	101 127	2 658 777
Expenses geographical segment	(1 014 389)	(106 711)	(53 437)	(1 174 537)
Profit before tax	1 407 419	29 131	47 690	1 484 240
Tax	(364 281)	—	—	(364 281)
Profit for the year	<u>1 043 138</u>	<u>29 131</u>	<u>47 690</u>	<u>1 119 959</u>
Assets and liabilities according to the geographical segment				
Assets geographical segment	(45 875 655)	(1 384 154)	(1 049 401)	(48 309 210)
Total assets	<u>(45 875 655)</u>	<u>(1 384 154)</u>	<u>(1 049 401)</u>	<u>(48 309 210)</u>
Liabilities geographical segment	42 903 152	3 804 140	1 601 918	48 309 210
Total liabilities	<u>42 903 152</u>	<u>3 804 140</u>	<u>1 601 918</u>	<u>48 309 210</u>

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

6 Net interest income

	EGP (000)	
	The year ended	
	31 December 2012	31 December 2011
Interest from loans and similar income:		
Loans and advances to customers	1 760 816	1 404 660
Treasury bills and treasury bonds	961 666	989 664
Deposits and current accounts	147 038	214 203
Investments in debt instruments available for sale	801 693	565 171
	3 671 213	3 173 698
Interest on Deposits and similar Expenses:		
Deposits and current accounts:		
Banks	2 247	3 269
Customers	1 473 013	1 356 252
	1 475 260	1 359 521
Issued Debt instruments:		
Selling financial instruments with repurchase	639	—
	639	—
	1 475 899	1 359 521
Net	2 195 314	1 814 177

7 Net fees and commissions income

	EGP (000)	
	The year ended	
	31 December 2012	31 December 2011
Fees and commissions income:		
Fees and commissions related to credit	523 293	445 081
Custody fees	34 691	37 215
Other fees	16 289	10 341
	574 273	492 637
Fees and commissions expenses:		
Brokerage fees paid	2 881	3 607
Other fees paid	42 507	30 243
	45 388	33 850
Net	528 885	458 787

8 Dividends income

	EGP (000)	
	The year ended	
	31 December 2012	31 December 2011
Financial investment available for Sale	1 751	2 116
Subsidiaries	4 025	20 356
	5 776	22 472

9 Net trading income

	EGP (000)	
	The year ended	
	31 December 2012	31 December 2011
Foreign exchange operations:		
Forex profit	278 128	284 023
Gain Debt instruments held for trading	19 295	2 452
Forward deals revaluation	(1 887)	12 333
	295 536	298 808

10 Administrative expenses

	EGP (000)	
	The year ended	
	31 December 2012	31 December 2011
Staff costs		
Wages and salaries	400 157	379 280
Social insurance	14 281	13 494
	414 438	392 774
Other administrative expense	527 661	483 677
	942 099	876 451

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

11 Other operating income

	EGP (000)	
	The year ended	
	31 December 2012	31 December 2011
Profit 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	5 173	2 885
(Loss) on sale of property and equipment	—	(241)
Operating lease	46 384	44 792
Other provision	(45 946)	(48 717)
Gain from the services provided to operation lease user	24 398	16 346
Other	(713)	3 571
	29 296	18 636

12 Impairment (loss)

	EGP (000)	
	The year ended	
	31 December 2012	31 December 2011
Loans and advances to customers		
Impairment losses	(226 423)	(251 453)
Impairment recovery	15 018	815
	(211 405)	(250 638)

13 Income tax expenses

	EGP (000)	
	The year ended	
	31 December 2012	31 December 2011
Current taxes	(491 245)	(381 423)
Deferred tax (note 31)	8 850	17 142
	(482 395)	(364 281)

13 Income tax expenses (continued)

(Note 31) shows additional information about deferred income tax income taxes differ when current applicable tax rates used as follows:

	EGP (000)	
	The year ended	
	31 December 2012	31 December 2011
Profit before tax	1 901 234	1 484 240
Tax rate (20% on the first 10 million)	25%	25%
Income tax calculated on accounting profit	474 809	370 560
Add (Less)		
— Non deductible expenses	759	(310)
— Tax exemptions	(14 235)	(25 637)
— Provisions	16 283	15 747
— Interest in suspense	4 779	3 921
— Total differences	7 586	(6 279)
— Tire one	2 000	2 000
— Tire Two	480 395	362 281
— Income tax according to the tax return	482 395	364 281
Effective tax rate	25.37%	24.54 %

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

13 Income tax expenses (continued)**Taxation position**

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

a. Corporate Tax— **Years from the inception till 1988**

These years were inspected and disputes were settled in the Internal Committee.

— **Years from 1989 till 1990**

These years were inspected and there is a dispute between the bank and the Tax Authority. The court of Appeal issued its decision to reduce the tax base for these years. The Tax Authority had submitted an appeal to the decision.

— **Years from 1991 till 2004**

These years were inspected and disputes were settled in the Internal Committee and tax was fully settled for this year.

— **Years from 2005 till 2006**

These years were inspected and disputes are being discussed in the internal committee.

— **Years from 2007 till 2009**

The bank delivered the tax declarations for these period according to tax law No.91 for year 2005 and currently inspected with the position of the creditors for these period.

— **Year 2010 – 2011**

The bank gave the tax declaration for this period at legal timing according to tax law No.91 for year 2005.

b. Salary Tax— **Years from 1982 till 2010**

These years were inspected and were settled.

— **Year 2011**

The bank gave the final settlement for this period and inspection is continuous.

— **Year 2012**

The final settlement for this period is being prepared.

c. Stamp Duty Tax— **Years from 1982 till 31 July 2006**

These years were inspected and tax was fully settled.

— **Years from 1 August 2006 till 31 December 2008**

This year was inspected and currently discusses the disputes in the internal committee.

— **Years 2009 till 2011**

The inspection date will be determined.

14 Earnings per share

a. Basic

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

	EGP (000)	
	The year ended	
	31 December 2012	31 December 2011
Net profit applicable to be distributed on the shareholders	1 418 792	1 158 206
Employees' profit share	(149 422)	(148 355)
	<u>1 269 370</u>	<u>1 009 851</u>
Common shares weighted average issued (1000 share)	24 744	24 744
Earnings per share/EGP	<u>51.30</u>	<u>40.81</u>

15 Cash and balances with the Central Bank of Egypt (CBE)

	EGP (000)	
	31 December 2012	31 December 2011
Cash	539 157	415 053
Due from central bank (within the statutory reserve)	3 651 559	4 333 773
	<u>4 190 716</u>	<u>4 748 826</u>
Interest free balances	2 079 690	2 895 289
Fixed interest rate balances	2 111 026	1 853 537
	<u>4 190 716</u>	<u>4 748 826</u>

16 Due from banks

	EGP (000)	
	31 December 2012	31 December 2011
Current accounts	199 566	360 675
Deposits	9 700 092	6 367 229
	<u>9 899 658</u>	<u>6 727 904</u>
Due from central bank (other than the statutory reserve)	1 203 190	1 003 015
Local banks	49 946	47 165
Foreign banks	8 646 522	5 677 724
	<u>9 899 658</u>	<u>6 727 904</u>
Interest free balances	199 596	360 675
Fixed interest rate balances	9 700 062	6 367 229
	<u>9 899 658</u>	<u>6 727 904</u>
Current balances	<u>9 899 658</u>	<u>6 727 904</u>

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

17 Treasury bills

	EGP (000)	
	31 December 2012	31 December 2011
Treasury bills-Egyptian	8 146 790	8 424 451
Treasury bills-American	3 158 644	2 411 379
Total	11 305 434	10 835 830
Treasury bills represent the following:		
91 days maturity	867 350	654 025
182 days maturity	1 645 375	1 710 250
273 days maturity	2 442 275	2 430 925
364 days maturity	6 773 487	6 383 623
Unearned interest	(423 053)	(342 993)
Total	11 305 434	10 835 830

18 Financial assets held for trading

	EGP (000)	
	31 December 2012	31 December 2011
Debt instruments		
Governmental bonds	44 573	15 673
Total Debt instruments	44 573	15 673
Total Financial assets held for trading	44 573	15 673

19 Loans and advances

	EGP (000)	
	31 December 2012	31 December 2011
Retail:		
Overdrafts	323 479	375 325
Credit cards	603 501	458 855
Personal loans	2 087 375	1 809 972
Mortgage loans	8 122	12 068
Total	3 022 477	2 656 220
Corporate loans including small loans:		
Overdrafts	2 729 650	2 653 391
Direct loans	8 579 736	8 100 298
Syndicated loans	5 974 855	6 658 435
Total	17 284 241	17 412 124
Total loans and advance to customers	20 306 718	20 068 344
Less: unearned discount for discounted bills	(1 242)	(824)
Less: provision for impairment losses	(683 335)	(583 781)
Less: interest in suspense	(29 349)	(43 692)
Net	19 592 792	19 440 047
Distributed as follows:		
Current balances	9 564 501	8 489 132
Non-current balances	10 028 291	10 950 915
Total	19 592 792	19 440 047

The bank accepted trading financial papers on 31 December 2012 of fair value amounted to EGP366 964 thousand as a commercial loan guarantee.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

19 Loans and advances (continued)**Provision for impairment losses:**

The Provision for impairment losses analysis for loans and advances to customers' classified according to its type as follows:

31 December 2012					EGP (000)
	Retail				
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Total
Balance at the beginning of the year	1 738	5 150	69 755	153	76 796
Impairment losses	(251)	11 784	26 756	(125)	38 164
Amounts written off during the year	(427)	(4 866)	(78 463)	—	(83 756)
Recoveries during the year	(218)	(5 962)	(3 454)	—	(9 634)
Balance at the end of the year	842	6 106	14 594	28	21 570

31 December 2012					EGP (000)
	Corporate				
	Overdrafts	Direct loans	Syndicated loans	Total	
Balance at the beginning of the year	61 224	194 617	251 144	506 985	
Impairment losses	33 622	81 043	73 594	188 259	
Recoveries during the year	—	(34 157)	—	(34 157)	
Reschedule	—	(5 384)	—	(5 384)	
Transferred to provision of contingent liabilities	—	(16 047)	—	(16 047)	
Provision foreign revaluation difference	—	22 109	—	22 109	
Balance at the end of the year	94 846	242 181	324 738	661 765	

31 December 2011					EGP (000)
	Retail				
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Total
Balance at the beginning of the year	1 960	3 576	41 303	—	46 839
Impairment losses	—	5 931	28 551	153	34 635
Amounts written off during the year	—	(4 357)	—	—	(4 357)
Recoveries during the year	(222)	—	(99)	—	(321)
Balance at the end of the year	1 738	5 150	69 755	153	76 796

31 December 2011					EGP (000)
	Corporate				
	Overdrafts	Direct loans	Syndicated loans	Total	
Balance at the beginning of the year	28 176	89 419	299 026	416 621	
Impairment losses	33 048	100 838	82 932	216 818	
Amounts written off during the year	—	—	(130 814)	(130 814)	
Recoveries during the year	—	(495)	—	(495)	
Provision forex revaluation difference	—	4 855	—	4 855	
Balance at the end of the year	61 224	194 617	251 144	506 985	

20 Financial derivatives

20-1 Derivatives

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

- Currency forwards contracts represent commitments to purchase/sell foreign and local currency's including uncompleted portion of the immediate transactions.
- Credit risk is considered minimal at the Bank. Currency forward contracts represent future rate at a future dates that are individually negotiable. Cash settlement in future date is required. This settlement represents the difference between the contract rate and the actual current rate at the market. The settlement depends on the nominal value.
- Currency or/and interest swap contracts represent the commitments for to swap a group of cash flows to another. This contracts resulted is exchange of currencies or interest rates (for example 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 fulfill their obligation. This risk is monitored on an ongoing basis by comparing it to it's the current fair value and to a percentage of the contract notional amount. To control an existing credit risk the Bank assesses counterparties using the same techniques as for its lending activities.
- Option contracts in foreign currencies and/or interest rates represents contract agreements in which the buyer (issuer) give to seller (holders) a right not an obligations to buy (buy option) or to sell (sell option) at a certain date or within certain year of time by certain amount denominated in foreign currency or a financial instrument with prior agreed price. The buyer receive in return commission against burden of risk he took option contracts are either traded in the market or negotiable between the bank and one of its customers. The bank 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 is used as a basis for comparison purpose with financial instruments recognized 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 favorable (assets) or unfavorable (liabilities) as a result of fluctuations in 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 favorable or unfavorable, and the aggregate fair value of financial assets and liabilities derivatives can fluctuate significantly from time to time.
- The table below represent the fair value of financial derivatives existing at the balance sheet date:

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

20 Financial derivatives (continued)**20-1 Derivatives** (continued)

31 December 2012				EGP (000)	
	Contract amount Asset	Contract amount Liability	Assets	Liabilities	
Derivatives held for trading					
Foreign currency derivatives					
Currency swap contracts	245 941	(245 941)	4 672	(4 672)	
Currency forward contracts	313 067	(149 315)	11	(985)	
Currency exchange contacts	434 782	(380 266)	13	(13)	
Interest rate derivatives					
Interest rate swap contracts	1 835 537	(1 835 537)	11 167	(11 167)	
Total assets (Liabilities) of derivatives held for trading			15 863	(16 837)	
31 December 2011				EGP (000)	
	Contract amount Asset	Contract amount Liability	Assets	Liabilities	
Derivatives held for trading					
Foreign currency derivatives					
Currency swap contracts	91 989	(91 989)	1 751	(1 751)	
Currency forward contracts	528 056	(528 279)	3 003	(2 558)	
Currency exchange contacts	53 767	(53 720)	2 697	(2 697)	
Interest rate derivatives					
Interest rate swap contracts	527 234	(527 234)	7 221	(7 221)	
Total assets (Liabilities) of derivatives held for trading			14 672	(14 227)	

21 Financial investments

	EGP (000)	
	31 December 2012	31 December 2011
A- Available for sale		
Equity instruments unlisted (at cost)	23 326	23 395
Debt instruments listed (at FMV)**	7 561 548	5 320 701
Total available for sale investments (1)	7 584 874	5 344 096
B- Held to maturity		
Debt instruments unlisted *(Mutual fund)	89 674	49 675
Total held to maturity investments (2)	89 674	49 675
Total financial investments (1+2)	7 674 548	5 393 771
Current Balances	7 561 548	5 320 701
Non-Current Balances	113 000	73 070
	7 674 548	5 393 771
Fixed interest debt instruments	7 402 290	5 127 492
Variable interest debt instruments	248 932	242 884
	7 651 222	5 370 376

31 December 2012		EGP (000)	
	Available for sale	Held to maturity	Total
Balance at beginning of the year	5 344 096	49 675	5 393 771
Additions	2 575 485	39 999	2 615 484
Disposals (Sale/Redemption)	(891 654)	—	(891 654)
Monetary assets forex differences	254 182	—	254 182
(Loss) from change in FMV	302 765	—	302 765
Balance at end of the year	7 584 874	89 674	7 674 548
<hr/>			
31 December 2011			
Balance at beginning of the year	5 591 076	55 000	5 646 076
Additions	1 724 189	5 000	1 729 189
Disposals (Sale/Redemption)	(1 607 787)	(10 325)	(1 618 112)
Monetary assets forex differences	(45 116)	—	(45 116)
Loss from change in FMV	(318 266)	—	(318 266)
Balance at end of the year	5 344 096	49 675	5 393 771

*The redemption amount of the mutual funds certificates as at 31 December amounted 2012 to (EGP105 615 thousands against EGP57 539 thousand as at 31 December 2011).

**Debt instruments at listed fair market value include local bonds amounted to EGP7 402 290 thousands in which secured by the Egyptian ministry of finance.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

22 Investment in subsidiaries

The Bank's total investment in subsidiaries amounted to EGP35 517 thousand the Bank's ownership percentage is as follows: (based on the last financial position for the company as at 31 December 2012)

						EGP (000)
	Company's country	Company's assets	Company's liabilities (without equity)	Company's revenues	Company's Losses	Percentage
HSBC Securities – Egypt company (S.A.E.)	Egypt	79 372	23 866	12 052	(2 611)	98%
Total		79 372	23 866	12 052	(2 611)	

23 Intangible assets

	EGP (000)	
	31 December 2012	31 December 2011
Balance at the beginning of the current year		
Cost	3 546	3 461
Amortization	(1 745)	(1 076)
Net book value at the beginning of the current year	1 801	2 385
Additions	3 020	85
Amortization cost	(1 153)	(669)
Net book value as at 31 December 2012	3 668	1 801
Cost	6 566	3 546
Amortization	(2 898)	(1 745)
Net book value as at 31 December 2012	3 668	1 801

24 Other assets

	EGP (000)	
	31 December 2012	31 December 2011
Accrued revenues	439 141	337 306
Prepaid expenses	26 967	25 408
Advances to purchase fixed assets	13 615	14 663
Assets reverted to bank (after deducting the impairment)	470	901
Costs of establishing branches under construction	19 334	30 110
Others	78 837	55 237
Total	578 364	463 625

25 Fixed Assets

	EGP (000)				
	Land and Buildings	Leasehold Improvement	Machines and Equipments	Others	Total
Balance as at the beginning of the current year					
Cost	425 142	99 892	91 923	133 790	750 747
Accumulated depreciation	(76 048)	(74 828)	(34 285)	(94 699)	(279 860)
Net book value at the beginning of the current year	349 094	25 064	57 638	39 091	470 887
Additions	14 711	5 882	6 601	5 714	32 368
Transfer from investment property	837	—	—	—	837
Disposals (net)	—	(123)	(26)	(94)	(243)
Impairment loss	(3 900)	—	—	—	(3 900)
Depreciation for the year	(18 569)	(15 025)	(8 503)	(16 179)	(58 276)
Net book value at the end of the year	342 173	15 798	55 170	28 532	441 673
Balance as at the end of the current year					
Cost	436 790	105 651	97 958	139 410	779 809
Accumulated depreciation	(94 617)	(89 853)	(42 788)	(110 878)	(338 136)
Net book value at the end of the year	342 173	15 798	55 170	28 532	441 673

26 Investment Property

As per Central Bank of Egypt approval dated 9 June 2004 the bank leased some of its head office floors which is located at Cornich El Nile Maadi.

	EGP (000)	
	31 December 2012	31 December 2011
Balance at the beginning of the current year		
Cost	136 671	137 060
Accumulated depreciation	(16 605)	(9 399)
Net book value at the beginning of the year	120 066	127 661
Disposals	(837)	(389)
Depreciation	(7 025)	(7 206)
Net book value as at the end of year	112 204	120 066
Balance at the end of the current year		
Cost	135 834	136 671
Accumulated depreciation	(23 630)	(16 605)
Net book value as at the end of year	112 204	120 066

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

27 Due to banks

	EGP (000)	
	31 December 2012	31 December 2011
Current accounts	967 709	868 056
Deposits	1 977	3 024
	969 686	871 080
Local banks	71 770	881
Foreign banks	897 916	870 199
	969 686	871 080
Interest free balances	967 709	868 056
Fixed interest balances	1 977	3 024
	969 686	871 080
Current balances	969 686	871 080

28 Customers' deposits

	EGP (000)	
	31 December 2012	31 December 2011
Demand deposits	15 852 235	13 293 595
Time and call deposits	7 975 678	7 727 782
Certificates of deposits	9 186 564	8 474 085
Saving deposits	13 347 443	11 826 254
Other deposits	875 787	874 229
	47 237 707	42 195 945
Corporate deposits	18 790 738	16 801 466
Retail deposits	28 446 969	25 394 479
	47 237 707	42 195 945
Interest free balances	16 728 022	14 167 824
Fixed interest balances	30 509 685	28 028 121
	47 237 707	42 195 945
Current balances	40 243 575	34 625 199
Non-current balances	6 994 132	7 570 746
	47 237 707	42 195 945

Customer deposits include deposits of EGP591 833 thousand as at 31 December 2012 against (EGP557 222 thousand as at 31 December 2011) which represent collateral for irrecoverable export letter of credit. There is no major difference between its carrying value and fair value.

29 Other liabilities

	EGP (000)	
	31 December 2012	31 December 2011
Accrued interest	191 158	171 740
Unearned revenue	78 879	72 116
Accrued expenses	189 161	140 964
Creditors	52 232	56 939
Other credit balances	170 473	90 605
Total	681 903	532 364

30 Other Provisions

	EGP (000)					
	Provision for claims		Provision for contingent liabilities		Total	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Balance at the beginning of the year	90 265	52 721	24 641	25 240	114 906	77 961
Formed during the year	42 066	48 880	3 880	—	45 946	48 880
Transferred from other credit balance	1 344	—	—	—	1 344	—
Transferred from loan provision	—	—	16 047	—	16 047	—
Provisions valuation differences	45	33	—	—	45	33
	133 720	101 634	44 568	25 240	178 288	126 874
Used during the year	(10 316)	(10 022)	—	—	(10 316)	(10 022)
Transferred to credit balances	—	(1 347)	—	—	—	(1 347)
Provisions no longer required	—	—	—	(599)	—	(599)
Balance at the end of the year	123 404	90 265	44 568	24 641	167 972	114 906

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

31 Deferred tax

Deferred income taxes calculated entirely on the differences of deferred tax in accordance with liabilities method using the effective tax rate of 25% for the current financial year.

Offset between deferred tax assets and deferred tax liabilities if there is legal reason to set off current tax assets against current tax liabilities and also when the deferred income taxes belong to the same department of taxation.

Deferred tax assets and liabilities

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

Deferred tax assets and liabilities balances

	EGP (000)			
	Deferred tax assets		Deferred tax liabilities	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Fixed assets	—	—	(3 905)	(6 221)
Provisions(other than loans provision)	53 346	46 812	—	—
Total tax assets (liabilities)	53 346	46 812	(3 905)	(6 221)
Net tax assets (liabilities)	49 441	40 591		

Deferred tax assets and liabilities movements

	EGP (000)			
	Deferred tax assets		Deferred tax liabilities	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Balance at the beginning of the year	46 812	30 629	(6 221)	(7 180)
Additions	6 534	16 183	2 316	959
Balance at the end of the year	53 346	46 812	(3 905)	(6 221)

32 End of service compensation benefit

	EGP (000)	
	31 December 2012	31 December 2011
Liability stated in balance sheet for:		
End of service benefits	211 283	184 470
Amounts recognized in income statement:		
End of service benefits	77 430	47 940

The principal actuarial assumptions used are as follows:

- Rates of death/disability of the British table A49-52ULT
- Rate of salary increase $S_x = S_{20} * (1.05)^{(X-20)}$

33 Capital

	Number of shares (In million)	Common shares	Total	EGP (000) Issuance premium included in other reserve-issuance premium
Balance at the beginning of the year	24.744049	2 078 500	2 078 500	6 728
Balance at the end of the year	24.744049	2 078 500	2 078 500	6 728

a. Authorized capital

The authorized capital amounted to EGP1 750 000 000.

According to the Extraordinary General Assembly decision on 30 November 2010 the authorized capital has been increased to EGP5 000 000 000.

b. Issued and paid up capital

— The issued and paid up capital amounted to EGP1 508 500 056 represented in 17 958 334 fully paid shares at par value of EGP84 each. The foreign shareholders own 94.53% 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 by EGP2 078 500 116 increasing by EGP570 000 060 by issuing 6785715 shares.

— Accordingly the issued and fully paid up capital is EGP2 078 500 116 represented in 24744049 fully paid shares at par value of EGP84 each.

34 Reserves and retained earnings

	EGP (000)	
	31 December 2012	31 December 2011
Reserves		
General reserve	962 036	904 124
Legal reserve	392 772	301 700
Special Reserve	63 466	63 466
General banking risk reserve	141	94
Other reserves- issuance premium	6 728	6 728
Fair value reserve-investments available for sale	3 326	(299 439)
Total reserves at the end of the year	1 428 469	976 673

Reserves movements during the year are as follows:

a. General reserve

	EGP (000)	
	31 December 2012	31 December 2011
Balance at the beginning of the year	904 124	750 336
Transferred from prior year profits	57 912	153 788
Balance at the end of the year	962 036	904 124

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

34 Reserves and retained earnings (continued)

b. Legal reserve

	EGP (000)	
	31 December 2012	31 December 2011
Balance at the beginning of the year	301 700	264 770
Transferred from prior year profits	55 998	36 930
Transferred from retained earning	35 074	—
Balance at the end of the year	392 772	301 700

In accordance with local laws 5% of the net profit shall be transferred to un-distributable reserve until it reaches to 50% of the capital.

c. General banking risk reserve

	EGP (000)	
	31 December 2012	31 December 2011
Balance at the beginning of the year	94	38 342
Transferred to general banking reserve	47	47
Transferred to retained earning	—	(38 295)
Balance at the end of the year	141	94

In accordance with the Central Bank of Egypt instructions general banking risk reserve is formed to meet unexpected risks; and this reserve is un-distributable except after obtaining the approval of the Central Bank of Egypt.

d. Reserve for excess than par value - issuance premium

	EGP (000)	
	31 December 2012	31 December 2011
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 occurred in year 2002.

e. Fair value reserve available for sale investments

	EGP (000)	
	31 December 2012	31 December 2011
Balance at the beginning of the year	(299 439)	18 827
Net change in investments available for sale	302 765	(318 266)
Balance at the end of the year	3 326	(299 439)

This reserve represents the change in available for sale investments fair value.

34 Reserves and retained earnings (continued)

f. Special reserve

	EGP (000)	
	31 December 2012	31 December 2011
Balance at the beginning of the year	63 466	63 466
Balance at the end of the year	63 466	63 466

In accordance with the Central Bank of Egypt instructions special reserve is formed to meet unexpected risks; and this reserve is un-distributable except after obtaining the approval of the Central Bank of Egypt.

g. Retained earning

	EGP (000)	
	31 December 2012	31 December 2011
Movement on retained earnings		
Balance at the beginning of the year	1 158 206	953 587
Net profit for year	1 418 839	1 119 959
Dividends for year	(1 535 092)	(762 870)
Transferred to legal reserve	(91 072)	(36 930)
Transferred to general banking risk reserve	(47)	38,247
Transferred to general reserve	(57 912)	(153 787)
Balance at the end of the year	892 922	1 158 206

35 Dividends

Payment of dividends is not registered unless being approved by the General Assembly. The B.O.D proposes to the General Assembly, The B.O.D proposes to the General Assembly – supposed to be held on 6 March 2013 – for a payment of EGP46 per share as cash dividends for the year 2012 with a total amount of EGP1 138 226 254, (payment of EGP49.89 per share as cash dividends for year 2011 with a total amount of EGP895 941 283)

In addition to cash dividends, the B.O.D. proposes payment of EGP149 422 537 as staff profit sharing as per the bank's statute. (Year 2011 staff profit sharing amounted to EGP148 355 000).

36 Cash and cash equivalents

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

	EGP (000)	
	31 December 2012	31 December 2011
Cash and due from Central Bank of Egypt (note 15)	539 157	415 053
Due from banks (note 16)	9 899 658	6 727 904
Treasury bills (note 17)	859 350	648 865
	11 298 165	7 791 822

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

37 Commitment and contingent liabilities

a. Legal claims

There are lawsuits filed against the Bank as at 31 December 2012 and formed provision amounting to EGP1 066 thousand during the period and used amount of EGP1 787 thousand for lawsuits.

b. Capital Commitment

The Bank's total capital commitments related to building and completing new branches amounted to EGP9 146 thousand which has not been finished as at 31 December 2012. The Bank paid EGP4 849 thousand as at 31 December 2012. The management is confident that net profit will be recognized, will be used to pay these commitments.

c. Commitments for loans, guarantees and facilities

Bank Commitments for loans guarantees and facilities are represented as follows:

	EGP (000)	
	31 December 2012	31 December 2011
Acceptances	263 162	209 417
Letters of guarantee (*)	7 771 069	6 693 645
Letters of credit (import and export)	2 184 642	1 709 786
Other contingent liabilities	81 056	123 163
Commitments for loans	1 586 355	2 627 828
Cash margin	(591 833)	(557 222)
Total	11 294 451	10 806 617

(*) The letters of guarantee outstanding balance as at 31 December 2012 includes an amount of EGP1 409 171 thousand which represents the value of issued letter of guarantee backed by counter guarantees from other HSBC Group members against EGP2 179 554 thousands as at 31 December 2011.

d. Commitments for operating lease contracts

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

	EGP (000)	
	31 December 2012	31 December 2011
Less than one year	15 163	16 110
More than one year and less than five years	2 921	4 349
More than five years	812	3 692
	18 896	24 151

38 Related party transactions

The Bank is a subsidiary of parent HSBC Holdings London which owns 94.53% of ordinary shares. The remaining percentage (5.47%) is owned by other shareholders.

Number of banking transactions with related parties has been conducted in the normal course of the business including loans deposits and foreign currency swaps. There is no related party transaction with the parent company other than the payment of dividends on ordinary shares.

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

a. Loans and advances to related parties

	EGP (000)	
	Subsidiaries	
	31 December 2012	31 December 2011
Loans and advances to customers		
Existing loans at the beginning of the year	—	1 600
Loans issued during the year	—	—
Loans redeemed during the year	—	(1 600)
Existing loans at the end of the year	—	—
Interest on loans	391	725
No provisions required for loan given to related parties.		

b. Deposits from related parties

	EGP (000)	
	Subsidiaries	
	31 December 2012	31 December 2011
Due to customers		
Deposits at the beginning of the financial year	40 205	41 603
Deposits received during the financial year	8 440	1 835
Deposits redeemed during the financial year	(2 002)	(3 233)
Deposits at the end of the financial year	46 643	40 205
The cost of deposits and similar costs	912	1 107

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

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

38 Related party transactions (continued)

c. Other related party transactions

	EGP (000)	
	Subsidiaries	
	31 December 2012	31 December 2011
Fees and commission income	1 418	1 788

The cost of services by HSBC group as of 31 December 2012 amounted to EGP 207 653 thousand against (EGP 181 596 thousand as of 31 December 2011).

	EGP (000)			
	31 December 2012	2011 December 31	31 December 2012	2011 December 31
	HSBC group and top management members		Subsidiaries	
Due from banks	53 683	28 230	—	—
Investments held to maturity	89 674	49 675	—	—
Due to banks	612 524	515 298	—	—
Investments in subsidiaries	—	—	35 517	35 517

On 17 September 2007 HSBC Middle East agreed with HSBC Egypt and HSBC Bahrain dated on 2 November 2007 and HSBC Hong Kong on 21 September 2011 to sell to HSBC Egypt part of loans portfolio. HSBC Egypt purchased these loans based on nominal value with no recourse according to the above mentioned agreement interest will be split among parties based on the percentage of loans bought by HSBC Egypt to total loan portfolio granted by HSBC Middle East. These loans are subject to loans classification and provisioning rules as set out by Central Bank of Egypt, the balance as at 31 December 2012 amounted to USD109 600 thousand equivalent to EGP692 563 thousand and has been added to customers loans.

d Board of directors benefits

The average net monthly salary paid to the top 20 employees in the bank for the first nine months of 2012 amounted to EGP2 351 thousand.

39 Mutual funds

39-1 HSBC first Mutual fund (Kol youm)

- The mutual fund is an activity authorized for the bank by virtue of Capital Market Law No.95/1992 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 EGP100 000 000 of which 50 000 certificate (with nominal value of EGP5 000 000) were allocated to the bank to undertake the funds' activity.
- The Bank holds as at 31 December 2012 a number of 770 588 certificates amounted to EGP89 674 174 with a redeemable value amounted to EGP105 615 266 against 467 648 certificates amounted to EGP49 674 621 with redeemable value amounted to EGP57 539 045 as at 31 December 2011.
- The redeemable value of the certificate amounted to EGP137.06 against EGP123.04 as at 31 December 2011. The outstanding certificates at that date reached 34 439 298 certificates against 21 292 884 certificates as at 31 December 2011.

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 EGP15 948 thousand for the period ended 31 December 2012 against EGP10 038 thousand for the year ended 31 December 2012 under the item of fees and commission income caption in the income statement.

40 Important events

- a. On December 6, 2012, several resolutions of laws on amending certain provisions of the tax laws has been issued and has been published in the Official Gazette on that date, provided that such resolutions shall come into force from the date following the date of publication. And such amendments are:
 - Amending the provisions of the Income tax Law No.91 of 2005
 - Amending the provisions of the Stamp Duty Law No.111 of 1980
 - Later statement have been issued by certain officials in respect of freezing the enforcement of such resolutions, therefore the bank's management did not affect the financial statements with these amendments. When reliable information become available on the enforcement of such resolutions and the effective date therefore. These amendments might affect the taxes pools, the related asset and liabilities, the results of operations during the year and the net profit available for distribution.
- b. Some substantial events took place in Arab Republic of Egypt during the first quarter of year 2011 that impacted generally its economic sectors, which lead to a tangible decline in the economic activities. The effect of these events depends on the prospective period of the ending of these events and the results. The Bank has revised risks that around the loans portfolio and made stress testing to know the impact on economic and political risks, and to make a plane to face these risks, that to increase Provision for impairment losses based on loans portfolio used principles amounted to EGP285.7 million as at 31 December 2012, then provision for impairment losses and advances amounted to EGP683 335 thousand against amounted to EGP583 781 thousand as at 31 December 2011 includes amounted to EGP289 364 thousand against EGP amounted to 249 076 thousand as at 31 December 2011 represent individual impairment provisions and remain amount by EGP amounted to 393 971 thousand against amounted to EGP334 705 thousand as at 31 December 2011 represents provision for impairment based on credits portfolio.

HSBC Bank Egypt Head Office and Branches

Head Office & Corniche El Maadi Branch

306 Corniche El Nil, Maadi,
Cairo, Egypt.
Tel: (202) 2529 8750
Fax: (202) 2529 8080
BIC EBBK EGCX

Cairo Branch

3 Aboul Feda Street, Zamalek,
Cairo, Egypt.
Tel: (202) 2739 6001
Fax: (202) 2736 4010

Gezira Sporting Club Branch

Gezira Sporting Club, Saraya El
Gezira Street, Zamalek,
Cairo, Egypt.
Tel: (202) 2736 0863
Fax: (202) 2736 0879

Mohandessin Branch

8 Geziret El Arab Street,
Mohandessin,
Giza, Egypt.
Tel: (202) 3337 0756
Fax: (202) 3337 0813

Lebanon Branch

25 Lebanon Street, Mohandessin,
Giza, Egypt.
Tel: (202) 3346 7090
Fax: (202) 3346 7092

Gameat El Doual Branch

54 Gameet El Doual Street,
Mohandessin,
Giza, Egypt.
Tel: (202) 3748 6879
Fax: (202) 3748 6878

Shooting Club Branch

40 Kambiz Street,
Giza, Egypt.
Tel: (202) 3760 7936
Fax: (202) 3760 8298

Sphinx Branch

1 Ahmed Orabi Street,
Mohandessin,
Giza, Egypt.
Tel: (202) 3303 5842
Fax: (202) 3303 5817

Dokki Branch

80 Mosadak Street, Dokki,
Giza, Egypt.
Tel: (202) 3762 0589
Fax: (202) 3762 0568

Vinni Branch

8 El Sad El Aaly Street, Dokki,
Giza, Egypt.
Tel: (202) 3749 6336
Fax: (202) 3749 6329

Messaha Branch

10A Hussein Wassef Street,
Messaha, Dokki,
Giza, Egypt.
Tel: (202) 3748 6512
Fax: (202) 3748 6574

Giza Residence Branch

44/46 Giza Street,
Giza, Egypt.
Tel: (202) 3748 6092
Fax: (202) 3748 6072

Agouza Branch

128 Nile Street, Agouza,
Giza, Egypt.
Tel: (202) 3761 8126
Fax: (202) 3761 8154

El Batal Branch

6 Wezaret Elzeraa, Agouza,
Giza, Egypt.
Tel: (202) 3762 0131
Fax: (202) 3762 0174

Down Town Branch

13 Kasr El Nil Street, Down Town,
Cairo, Egypt.
Tel: (202) 2578 8819
Fax: (202) 2578 8455

Kasr El Nil Branch

41 Kasr El Nil Street, Mostafa
Kamel Square, Down Town,
Cairo, Egypt.
Tel: (202) 2393 0571
Fax: (202) 2393 0872

Kasr El Aini Branch

93 El Kasr El Eini Street,
Cairo, Egypt.
Tel: (202) 2792 6447
Fax: (202) 2792 4938

Nile City Branch

Nile City Tower, Corniche El Nil,
Ramlet Beaulac,
Cairo, Egypt.
Tel: (202) 2461 9701
Fax: (202) 2461 9703

Shoubra Branch

71 Shoubra Street, Shoubra,
Cairo, Egypt.
Tel: (202) 2431 5271
Fax: (202) 2431 6026

Azhar Branch

160 Gohar El Kaed Street,
Darrasah,
Cairo, Egypt.
Tel: (202) 2589 0724
Fax: (202) 2589 0857

Manial Branch

67Abdel Aziz Al Seoud Street,
Manial,
Cairo, Egypt.
Tel: (202) 2361 1151
Fax: (202) 2361 1158

Haram Branch

179 Haram Street, Haram,
Giza, Egypt.
Tel: (202) 3981 6875
Fax: (202) 3743 1514

Sixth of October City Branch

Block No 43A, Industrial Area,
Sixth of October City, Egypt.
Tel: (202) 3832 7938
Fax: (202) 3834 6900

Raya Branch

Raya Building,
Sixth of October City, Egypt.
Tel: (202) 3835 3968
Fax: (202) 3835 3969

Hyper One Branch

Hyper One Market,
El Sheikh Zayed City, Egypt.
Tel: (202) 3850 7990
Fax: (202) 3850 7993

Arkan Branch

El Sheikh Zayed City, Entrance
No.2,
Giza, Egypt.
Tel: (202) 38504010
Fax: (202) 3850 7993

Dandy Mall Branch

28th Km, Cairo/Alexandria Desert
Road, Dandy Mall,
Giza Egypt.
Tel: (202) 3539 0174
Fax: (202) 3539 0173

Smart Village Branch

Building 122B, Smart Village
28th Km Cairo/Alexandria Desert
Road,
Egypt.
Tel: (202) 3537 0602
Fax: (202) 3537 0606

Heliopolis Branch

I Roxy Square, Heliopolis,
Cairo, Egypt.
Tel: (202) 2451 1480
Fax: (202) 2258 3152

El Obbour Buildings Branch

13 El Obbour Buildings,
Salah Salem Street,
Cairo, Egypt.
Tel: (202) 2403 1379
Fax: (202) 2403 1408

El Orouba Branch

90 Beirut Street, Heliopolis,
Cairo, Egypt.
Tel: (202) 2415 3371
Fax: (202) 2415 3378

Hegaz Branch

70 El Hegaz Street, Heliopolis,
Cairo, Egypt.
Tel: (202) 2241 7372
Fax: (202) 2241 7232

Safir Branch

1 El Sheikh Hassouna El Nawawi
Street, Heliopolis,
Cairo, Egypt.
Tel: (202) 2418 9938
Fax: (202) 2418 9943

El Shams Club Branch

15 Abdel Hamid Badawy Street,
Heliopolis,
Cairo, Egypt.
Tel: (202) 2622 0828
Fax: (202) 2620 4982

Masaken Sheraton Branch

3 Khaled Ibn ElWalid Street,
Masaken Sheraton, Heliopolis,
Cairo, Egypt.
Tel: (202) 2266 6426
Fax: (202) 2266 6430

Korba Branch

4 Ibrahim Street, El Korba Square,
Heliopolis,
Cairo, Egypt.
Tel: (202) 2291 1609
Fax: (202) 2291 1618

Baghdad Premier Centre

10 Baghdad Street, El Korba,
Cairo, Egypt.
Tel: (202) 2418 9948
Fax: (202) 2418 9953

El Thawra Branch

109 El Thawra Street,
Ard El Golf, Nasr City,
Cairo, Egypt.
Tel: (202) 2414 2157
Fax: (202) 2417 4428

City Stars Branch

Tower A2 City Stars, Omar Ibn El
Khattab Street, Heliopolis,
Cairo, Egypt.
Tel: (202) 2480 2356
Fax: (202) 2480 2358

City Lights Branch

1 Makram Ebeid, City Lights
Building ,Nasr City
Cairo, Egypt.
Tel: (202) 2671 8883
Fax: (202) 22737554

Nasr City Branch

29 El Batrawy Street, Nasr City,
Cairo, Egypt.
Tel: (202) 2401 7147
Fax: (202) 24619703

Abou Dawoud El Zahiry Branch

62 Abou Dawoud El Zahiry Street,
Nasr City,
Cairo, Egypt.
Tel: (202) 2672 0522
Fax: (202) 2672 0526

Zomor Branch

64 Ahmed El Zomor Street,
Nasr City, Cairo, Egypt.
Tel: (202) 22713063
Fax: (202) 2401 3562

Abbaseya Branch

95 El Abbaseya Street,
Cairo, Egypt.
Tel: (202) 2684 4859
Fax: (202) 2684 4838

Maadi Branch

1B Road 256, Maadi,
Cairo, Egypt.
Tel: (202) 2519 5459
Fax: (202) 2519 5458

Maadi Club Branch

Maadi Club, Maadi,
Cairo, Egypt.
Tel: (202) 2380 4729
Fax: (202) 2380 4775

New Maadi Branch

10/2 El Nasr Road, New Maadi,
Cairo, Egypt.
Tel: (202) 2754 4816
Fax: (202) 2754 5521

Mokattam Branch

3 El Nafoura Square, Mokattam
Cairo, Egypt.
Tel: (202) 2667 9890
Fax: (202) 2667 9894

HSBC Bank Egypt Head Office and Branches (continued)**Katameya Heights Branch**

Katameya Heights, Fifth District,
New Cairo, Egypt.

Tel: (202) 2984 0998

Fax: (202) 2759 3887

El Tagamoo Branch

106 Town Centre Mall, Tagamoo 5,
Cairo, Egypt.

Tel: (202) 2920 1716

Fax: (202) 2920 0123

El Sherouk Branch

El Sherouk Academy, Suez/Ismailia
Road,

El Sherouk City, Egypt.

Tel: (202) 2688 0210

Fax: (202) 2688 0220

Obbour City Branch

3 City Club Fence,

Obbour City, Egypt.

Tel: (202) 4610 4196

Fax: (202) 4610 4362

Tenth of Ramadan Branch

Gawhara Village, Gawhara Mall,

10th Ramadan City, Egypt.

Tel: (2015) 386 317

Fax: (2015) 386 310

Alexandria Branch

47 Sultan Hussein Street, Azarita,

Alexandria, Egypt.

Tel: (203) 487 2949

Fax: (203) 487 2925

Semouha Branch

Azhar El Saraya Buildings,
Semouha,

Alexandria, Egypt.

Tel: (203) 421 0002

Fax: (203) 421 0008

Saraya Branch

Borg El Delta, Corniche El Saraya,
Sidi Beshr,

Alexandria, Egypt.

Tel: (203) 358 2202

Fax: (203) 358 2339

Sidi Gaber Branch

Panorama El Sharq Tower,
103 Sidi Gaber Street, Sidi Gaber,

Alexandria, Egypt.

Tel: (203) 523 2057

Fax: (203) 523 3915

Mirage Mall Branch

International Garden, Alexandria/
Cairo Desert Road Entrance,

Alexandria, Egypt.

Tel: (203) 381 5232

Fax: (203) 380 2575

Glym Branch

556 Horreya Road, Glym,

Alexandria, Egypt.

Tel: (203) 583 6711

Fax: (203) 584 5562

Kafr Abdou Branch

38 Intersection of Ahmed Abdel
Aziz St. with Abdel Kader Ragab
St, Kafr Abdou, Roushdy,

Alexandria, Egypt.

Tel: (203) 541 4239

Fax: (203) 2529 7923

Loran Branch

264 Abdel Salam Aref Street,
Loran,

Alexandria, Egypt.

Tel: (203) 357 3961

Fax: (202) 2529 7938

Borg El Arab Branch

Services Area, Fifth District,
Borg El Arab,

Alexandria, Egypt.

Tel: (203) 459 5470

Fax: (203) 459 5473

Hacienda Branch

(operates during summer only)

Hacienda White Mall, Alexandria
Marsa Matrouh Road,

138th Km, Sidi Abdel Rahman,
Northern Coast.

Alexandria, Egypt.

Tel: (2046) 922 4319

Fax: (2046) 922 4323

Mansoura Branch

182 Geish Street, El Mansoura,
Dakahleya, Egypt.

Tel: (2050) 230 8124

Fax: (2050) 230 8122

Tanta Branch

32 Saeed Street,

Tanta, Egypt.

Tel: (2040) 3291394

Fax: (2040) 3291 396

Port Said Branch

27 El Gomhoureya Street,

Port Said, Egypt.

Tel: (2066) 324 4698

Fax: (2066) 324 4694

Damietta Branch

Damietta Port, Automatic
Management Centre Street,

Damietta, Egypt.

Tel: (2057) 292 114

Fax: (2057) 292 113

Sharm El Sheikh Branch

Shamandoura Mall, Ne'ema Bay,

Sharm El Sheikh, Egypt.

Tel: (2069) 360 0615

Fax: (2069) 360 0613

Sharm Azur Branch

Villa Chris Village, Peace Road,

Sharm El Sheikh, Egypt.

Tel: (2069) 360 3790

Fax: (2069) 360 3793

Nabq Branch

Oriental Resort Main Gate,
Nabq Bay,

Sharm El Sheikh, Egypt.

Tel: (2069) 371 0072

Fax: (2069) 371 0390

Ritz Carlton Branch

Carlton Mall, Hadabet Om El Seed,
Sharm El Sheikh, Egypt.

Tel: (2069) 366 6009

Fax: (2069) 366 6012

Soho Branch

Soho Square, Savoy Hotel Main Gate, White Knight Coast, Sharm El Sheikh, Egypt.
Tel: (2069) 3600 881
Fax: (2069) 25297365

Hurghada Branch

Kotta's West Side Mall, Villages Road, Hurghada, Egypt.
Tel: (2065) 3440 741
Fax: (2065) 3440 742

Sheraton Road Branch

Sheraton Road, Hurghada, Egypt.
Tel: (2065) 345 0106
Fax: (2065) 345 0110

Hurghada Marina Branch

Sakkala Square, New Marina, Hurghada, Egypt.
Tel: (2065) 345 0113
Fax: (2065) 345 0115

Banking District Branch

3 Banking district, El Kawthar district, Hurghada, Egypt.
Tel: (2065) 345 3062
Fax: (2065) 345 3065

El Gouna Branch

Abu Tig Marina, El Gouna, Hurghada, Egypt.
Tel: (2065) 3580 571
Fax: (2065) 358 0570

Makadi Branch

Makadi Bay Km32, Safaga Road, Hurghada, Egypt.
Tel: (2065) 359 0550
Fax: (2065) 359 0551

Ras Shokeir Branch

(operates from 11 till 30 of each month)
112 Km Hurghada Road, Ras Shokeir, Egypt.
Tel: (2065) 3463 401
Fax: (2065) 3463 40

Touristic Road Branch

Touristic Road, in front of Duty Free Shop, Hurghada, Egypt.
Tel: (2065) 346 3400
Fax: (2065) 346 3404

Marsa Alam Branch

65 Kilo South El Qusier, Marsa Alam, Egypt.
Tel: (2065) 375 0181
Fax: (2065) 375 0186

Luxor Branch

Khaled Ibn El Walid Street, Iberotel Hotel Luxor, Quenna, Egypt.
Tel: (2095) 235 7853
Fax: (2095) 235 7786

Assiut Branch

Assiut University, Assiut, Egypt.
Tel: (2088) 2373 681
Fax: (2088) 2373 686

HSBC International Network

(at 4 March 2013)

Services are provided by around 6,600 offices in 81 countries and territories:

Europe	<i>Offices</i>	<i>Offices</i>	
Armenia	9	Luxembourg	7
Austria	1	Malta	38
Belgium	2	Monaco	3
Channel Islands	31	Netherlands	1
Czech Republic	2	Poland	6
France	409	Russia	3
Germany	14	Spain	3
Greece	17	Sweden	2
Ireland	4	Switzerland	16
Isle of Man	2	Turkey	328
Italy	3	United Kingdom	1,201
Kazakhstan	6		
Asia-Pacific	<i>Offices</i>	<i>Offices</i>	
Australia	38	Malaysia	75
Bangladesh	13	Maldives	1
Brunei Darussalam	11	New Zealand	10
China	221	Pakistan	13
Cook Islands	1	Philippines	18
Hong Kong Special Administrative Region	250	Singapore	20
India	102	Sri Lanka	17
Indonesia	144	Taiwan	53
Japan	5	Thailand	1
Korea, Republic of	14	Vietnam	19
Macau Special Administrative Region	7		
Americas	<i>Offices</i>	<i>Offices</i>	
Argentina	164	Guatemala	1
Bahamas	4	Mexico	1,062
Bermuda	10	Nicaragua	1
Brazil	1,356	Panama	64
British Virgin Islands	2	Paraguay	7
Canada	163	Peru	21
Cayman Islands	7	United States of America	265
Chile	3	Uruguay	13
Colombia	23	Venezuela	1
Middle East and Africa	<i>Offices</i>	<i>Offices</i>	
Algeria	3	Libya	1
Angola	1	Mauritius	12
Bahrain	5	Nigeria	1
Egypt	81	Oman	89
Israel	1	Palestinian Autonomous Area	1
Jordan	4	Qatar	3
Kenya	1	Saudi Arabia	82
Kuwait	1	South Africa	5
Lebanon	5	United Arab Emirates	16

Associated companies are included in the network of offices.

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Published by Company Secretariat,
HSBC Bank Egypt S.A.E., Cairo

Cover designed by Black Sun Plc, London; text pages designed by Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited

