HSBC Bank Egypt S.A.E.

Annual Report and Accounts 2014

HSBC

HSBC Bank Egypt SAE'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 6,100 offices in 73 countries and territories in five geographical regions: Europe, Asia, 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 216,000 shareholders in 127 countries and territories.

HSBC provides a comprehensive range of financial services to 51 million customers through its global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

Board of Directors

Mohammad Al Tuwaijri, Chairman

Jacques-Emmanuel Blanchet, Deputy Chairman and CEO

Dr Ziad Bahaa Eldin

Sir Sherard Cowper-Coles

Georges Elhedery

Basel El-Hini

Dr Ibrahim Fawzy

Hania Sadek

Nevine Taher

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Report of the Directors

The Board of Directors has the pleasure of presenting the Annual Report of HSBC Bank Egypt SAE for the year ended 31 December 2014.

Economic review and future outlook

After enduring economic losses in the years after the 2011 revolution, Egypt showed signs of stabilisation in 2014. However despite progress on the economic and political fronts, many challenges remain ahead.

In 2014, Egypt approved its new, permanent constitution at the start of the year. It also transitioned from interim rule to a permanent government under the Presidency of Abdul Fattah El-Sisi in June. Now, parliamentary elections have been scheduled to take place in March.

The new stability of the political environment and improved domestic order helped rebuild confidence in the economy, which has translated into some gains. Following an extended period of contraction, HSBC's purchasing Manager Index (PMI) registered five consecutive months of growth in economic activity, which was supported by a recovery in output and new export orders. Real GDP growth also exhibited a significant ramp up, climbing from 1.4 per cent in Q4 2013 to 6.8 per cent in Q3 2014.

However, these gains have been taking place off of a very low base. Tourist arrivals improved marginally through the year, increasing 2 per cent year-over-year during the first 11 months of the year, but remained 33 per cent below its 2010 levels. Unemployment also edged down 0.3 ppts since the start of the year to 13.1 per cent as of September, but it remained elevated in comparison to the 8.9 per cent 2010 level.

The government began a programme of fiscal reforms through the year. Energy subsidies were the primary focus of policy action, led by a broad restructuring of petroleum product prices and electricity tariffs. New revenue measures were also introduced, including new taxes on capital gains and foreign earned income. Despite reforms, fiscal rigidities have caused public expenditure to continue to grow, increasing 12 per cent year-on year over the first five months of the 2014/15 fiscal year.

While helping relieve the fiscal balance, the marked subsidy cuts also caused a rise in inflation. The pick-up in inflation led the Central Bank to reverse its loosening bias, hiking interest rates by 100bps in one move. After the initial inflationary shock, price pressures began to ease again through the later months of the year. The decline was helped by a drop in international commodity prices, and it came at a time when domestic demand remained weak. This led the Central Bank to revert back to accommodative monetary policy, cutting interest rates 50 bps at the start of 2015, as policy shifted its focus towards supporting growth.

The effective monetary tightening that the Central Bank implemented through the second half of 2014, and its subsequent loosening, was also reflected in the foreign exchange policy. The Egyptian pound was quasi-pegged at a rate of 7.15 per dollar for the last eight months of the year. However the Central Bank began depreciating the currency at the start of 2015. Capital controls remained in place, but there was some loosening of restrictions through the addition of a fourth USD40m weekly FX auction. Despite the maintenance of capital controls, foreign exchange reserves ended the year at USD15.3bn, down more than USD2bn on their intra-year high.

Business and operational activities

For the financial year ending 31 December 2014, the Bank reported Profit before tax of EGP2,522 million, which is a 65 per cent increase over 2013. Profit after tax rose by 98 per cent, reaching EGP1,767 million .

Between 31 December 2013 and 31 December 2014 the Bank's total deposits rose by 11 per cent while total advances to clients increased by 4 per cent.

The Board of Directors proposed a 'full year' distribution to shareholders, of EGP1,411.4 million (80 per cent of the profits available for distribution for 2014) representing a coupon for 2014 of EGP57.04 per share which is a 100 per cent growth compared to the previous year.

In line with legal requirements, the Board of Directors also proposed a 'full year' distribution of EGP176.4 million (10 per cent of the profits available for distribution for 2014) to the Bank employees as a performance-linked variable payment, which includes profit sharing.

The balance of the remaining profits, amounting to EGP176.4 million, will be transferred to support the Bank's reserves, allocating EGP88.2 million for the legal reserve and EGP88.2 million for the general reserve.

Global Banking and Markets (GBM)

GBM provides tailored financial solutions to major government, corporate and institutional clients, and private investors worldwide. The business is managed as three principal business lines: banking, capital financing and markets. This structure allows the HSBC Group to focus on relationships and sectors that best fit the Group's footprint and facilitates seamless delivery of HSBC's products and services to clients.

GBM continues to pursue its well-established 'emerging markets-led and financing-focused' strategy in Egypt. This strategy has evolved to include a greater emphasis on connectivity, leveraging the Group's extensive distribution network. The business focuses on four strategic imperatives:

- Reinforce client coverage and client-led solutions for major government, corporate and institutional clients
- Continue to invest selectively in the business to support the delivery of an integrated suite of products and services
- Enhance collaboration with other global businesses, particularly Commercial Banking (CMB), to appropriately service the needs of the international client base
- Focus on business re-engineering to optimise operational efficiency and reduce costs

As a universal bank with a distinctive international network and business model, we have provided innovative solutions to multinational corporates operating in Egypt. Global Banking's (GB's) product expertise supports our clients in the growth of their business activities especially through our leadership in Payments and Cash Management.

We also delivered a broad range of GB products in a number of transactions relating to resource and energy companies. During the past 12-month period, the Bank led some of the Egyptian market's landmark transactions in the power, oil and gas and telecom sectors.

We remain focused on opportunities in the Project and Export Finance space, which will benefit as Egypt pursues economic growth through infrastructure investment.

Implementing Global Standards, enhancing risk management controls and simplifying processes also remain top priorities for GBM. In 2014, HBEG established the Banking Middle Office to enable a focus on revenue generation and client relationship management and supporting the clients in the move to Global Standards and through the broader regulatory environment.

The Global Market (GM) structure, which consists of Corporate Sales, Balance Sheet and Fixed Income, aims to leverage our relationship, brand and expertise to become the most active player in providing treasury products and solutions to corporate clients in the Egyptian market. HBEG is also considered as one of the main primary dealers, servicing a wide range of customers through secondary and primary sovereign debt market.

HSBC Securities Egypt (HCES)

HCES' core business is trading cash equities listed on the Egyptian stock exchange on behalf of HSBC's international investors as well as trading on behalf of other local and international asset management firms.

With the return of political stability, market trading volumes picked up by over 60 per cent and the EGX 30 Index reflected an overall gain of 31 per cent. However growth in volumes was driven by the growth in the retail investors and local institution segments. The share of foreign institutional investors in the market decreased to 15 per cent compared with 29 per cent in the previous year.

HCES remains to focus on the foreign institutional investor segment in the market and was able to improve its market league tables ranking in this specific segment to 3rd position in 2014 versus 5th position in 2013.

Looking ahead in 2015, we expect an active year with the final milestone of the political road map coming to a close along with the long anticipated devaluation of the currency.

Commercial Banking – CMB

We aim to be the leading international CMB franchise in the Egyptian market with a strong customer base across all segments and strong outbound and inbound referrals with double-digit growth rates. The regional & global products and sector capabilities continue to be a key competitive advantage.

We place particular emphasis on international connectivity to meet the needs of our business customers and aim to be recognised as the leading international trade and business bank by focusing on growing market share, repositioning towards international business and enhancing collaboration across functions & business lines.

This will be underpinned by reducing complexity and operational risk and driving efficiency.

In 2014, CMB segmented its portfolio into four main client centric segments (Large Corporates / Mid Markets / Business Banking / International subsidiary Business), which managed to:

- Focus on driving new to bank customers.
- Focused growth activities driven by client planning.
- Drive increased wallet penetration and development of the asset book

We have also fully allocated our Business Banking International Growth Fund launched in October 2013 that was representing a total commitment of EGP300 million.

Another key focus during 2014 was to enhance customer experience through several initiatives:

- Re-shape our services proposition and support in the Physical Network (25 branches with corporate service) to largely align with our customer footprint and needs
- Enhancement of our product suite & Internet banking capabilities
- Invest in systems and people

In recognition of our best in class products and services, we were awarded Best Cash Management Bank in Egypt (Euromoney) & Best Global Trade Finance Bank & Best Trade Bank in MENA (GTR Magazine).

Report of the Directors (continued)

Retail Banking and Wealth Management (RBWM)

HSBC Retail Banking & Wealth Management business serves more than 50 million customers worldwide, with a comprehensive range of personal financial services. In Egypt, we are proud to offer a wide range of financial services to our customers through our network of 77 branches and corporate units as well as our state of the art internet and mobile banking platforms and call centre and our fleet of 250 Automatic Teller Machines (ATMs).

2014 was a prosperous year for Retail Banking and Wealth Management. Throughout the year, several initiatives were rolled out with the aim of growing our customer base, such as Premier loyalty events and member-get-member campaigns that were offered to Advance and Premier clients to reward client referrals. We have also extended special benefits to top tier target market list companies with the aim of supporting growth in relationship based lending. We refined our products by launching variable interest rate loans and repositioning our VISA Gold credit card as our entry product; all of which have significantly strengthened our product offering and enhanced customer experience.

One of the main pillars for supporting our growth strategy is streamlining our systems and process to enhance efficiency. We initiated several projects to reduce administrative tasks undertaken by front line employees to allow them more time to focus on satisfying clients' needs. This entailed the re-engineering of several systems and workflows to reduce the turnaround time and improve the customer journey. Simultaneously we have rationalised our network to make it more efficient and giving us the opportunity to have a better mix in our distribution channels while promoting digital and call centres. In this regard we continued to invest in our digital platform to secure our market leading position. We have rolled-out mobile banking in Arabic language. We have revamped our automatic tellers machines (ATM) fleet by installing 45 new machines and upgrading 67 existing ones to introduce new functionality. We have also expanded our call centre capacity and introduced new functionality through the roll-out of automated services.

Safeguarding the business against potential financial crime has been a prime area of focus. We have successfully completed several initiatives to de-risk our clients' portfolio. This included the completion of customer due diligence for mono-line credit card holders, as well as the complete review of customers from/residing in sanctioned countries.

In all our initiatives, customer experience has been at the heart of everything we do. This was reflected in our sustained market leading position in the Customer Recommendation Index for three consecutive quarters, which acts as a testimonial for our clients' conviction of our best in class level of service.

In 2015, we will continue to focus on growing the business through expanding our product range to Retail and Wealth customers, with primary focus on growing relationship-led lending. We will continue to pursue streamlining of systems and processes to enhance efficiency, through end-to-end re-engineering of products and services workflows. We will also follow through the implementation of Global Standards, through the comprehensive review of our anti-money laundry and sanctions line of business procedures and the roll-out of the enhanced customer due diligence platform.

People management and development

HSBC Bank Egypt continues to focus on its most valuable asset, its people. The Learning team delivered over 4,000 learning days in 2014, with 60 per cent being delivered through classroom to employees and 40 per cent through e-Learning, which is one of the most advanced globally trending learning tools.

A talent-driven development approach is a strategic objective that kicked off in 2014 to be implemented throughout 2015 and going forward aimed at ensuring that our talents enjoy a structured career development plan in response to business needs which feeds into our succession plan. This initiative is positioned as an overarching objective over the coming strategic period sponsored by Senior Management and driven by business.

Furthermore, a wide spectrum of career opportunities has been made available internally and global through mobility initiatives within a cohort of 500 employees who have experienced career development moves into new roles. In 2014, as part of our streamlining initiatives, Global Standards Learning has taken centre stage for all businesses with the rollout of a robust plan for more programmes focusing on Risk Management, Compliance and business-structured initiatives.

HSBC has also started the journey to change the leadership culture into a values-led leadership. This has been driven through Learning programmes targeting people managers which are aimed to support the delivery of the HSBC strategy by helping our leaders understand the need for change, and how they contribute to creating the right culture in the context of Global Standards.

In our pursuit to attract, retain and motivate the very best calibre our reward strategy has been repositioned to be properly aligned with our values-based performance, risk framework and risk outcomes linking it to HSBC core values of being 'open, connected and dependable'. Altogether, performance is judged according to contribution to the sustainability of the organisation. The financial and non-financial measures incorporated in the annual and long-term initiatives are carefully considered to ensure alignment with the HSBC Group strategy.

Operational developments

Over the last 12 months, HBEG's HSBC Technology and Services' (HTS) achievements and deliverables were all in line with the Group's strategic goals and objectives. We delivered on our key priorities; Streamlining processes and procedures, Business Engagement and implementing Global Standards in a consistent manner.

During 2014, we continued to position the business for growth, efficiently managed our costs and simplified the way operate to achieve improvements in service quality and enable the success of the business. Numerous initiatives were delivered across the three work streams identified by the Group: Simplify our Processes and services channels, Propositions and Sales channels and infrastructure. At the forefront come several Supplied Services process optimisation and rationalisation initiatives to implement global models, heighten cash controls, improve courier services and enhance the customer experience. A number of processes were also outsourced to 3rd party vendors to enhance our services and increase customer satisfaction.

On the Corporate Real Estate side, we opened Cairo Festival Mall customer service unit (CSU) in October 2014 and optimised the space in the Main Head Office and Smart Village buildings to accommodate departmental expansions and avail more space for subletting. The implementation of the Branches Security Upgrade Project recommended by the CBE and the Global Security and Fraud team started in 2013 and is approaching its final stages for full delivery in 2015. The project's objective is to continue to increase both security and safety measures to protect our employees, customers and premises. On the Business Continuity side a full failure exercise of the primary location was successfully conducted to ensure seamless operations of the Bank.

We have transformed the way that we run the business, to make it easier to manage and control. We have also made great strides in the quality arena, improving account opening Turnaround Time and Service Level Improvement for IT equipment delivery, enhancing our Vendor Risk Management Process, rationalising our suppliers' base, maintaining operational losses to a minimum and revamping our demand forecast processes in Service Delivery.

On the Global Standards front we have also played our part in protecting the integrity and reputation of HSBC through taking serious steps towards implementing industry leading controls to combat financial crime. In 2014 an In-country Execution Committee was established to drive the implementation of de-risking activities covering the exiting of inactive accounts and updating KYC information for customers across the business lines. This was achieved through mobilizing existing resources as well as developing semi-automated solutions to address the volume and time constraints. On the same ground, HSBC Egypt became fully FATCA compliant in July 2014.

Compliance

In light of the implementation of Global Standards, a new Compliance structure was introduced with a considerable increase in the total Compliance headcount. Dedicated Compliance staff on Financial Crime Compliance (FCC) and Regulatory Compliance (RC) for each business line is now in place. The majority of new full-time employees for FCC and RC were recruited during 2014.

During the year, the Compliance team has worked to enhance the new employees' awareness with respect to their new job responsibilities in order to meet the heightened compliance requirements. The Compliance team has worked during the reporting period to fully satisfy the requirements of HSBC Global Standard Programme by implementing a more consistent, comprehensive approach to assessing FCC. This has included working on enhancing the controls governing the Know Your Customer, Suspicious transactions reporting, Sanctions and Anti-Bribery and Corruption policies and procedures.

The Global Standards Programme is an integral part of our goal to transform HSBC into the industry leader for knowing our customers and detecting, deterring and protecting against financial crime.

The local Compliance team worked closely with all business lines in order to continue to ensure full abidance to both Group and local regulations

Corporate Sustainability

Through our community investment programmes, HBEG seeks to help young people fulfil their potential. Our education programmes focus on all stages of development and address different types of need. In 2014, we invested 50 per cent of our corporate sustainability budget on educational projects.

As part of HBEG support to the Education, the Bank managed to sponsor the education of 150 students enrolled in Khatawat School in Istabl Antar (one of Egypt's most underprivileged areas) whose parents had otherwise put them to work in sweatshops. The objective of the school is to educate children both academically and practically. Partnering with Gameyat Reayat Baream El Mansoureya, HBEG sponsored the education of 140 student enrolled in the NGO's nursery; which the Bank established in 2012 as well as to help the NGO start their new educational project to accommodate special need students. Through its public schools scholarship fund, the Bank continued its support to two visually impaired students at the American University in Cairo. In addition, HBEG staff volunteers selected 100 unprivileged students in Luxor who the Bank sponsored their education for the academic year 2014-15, with the help of the Association of Upper Egypt. HBEG assisted El Giza for Mother and Child NGO with its expansion through upgrading two Montessori classes with the latest materials to help benefit a total of 120 children aged 3 to 4 years.

Report of the Directors (continued)

HBEG also extend its engagement with Injaz to increase the number of students impacted by "More than Money" programme to outreach a total of 11,000 additional students in the academic year 2014-2015.

After the success of "Alwan & Awtar" Montessori school that HBEG established in 2013, the Bank continued its commitment to the project for the second year benefiting a total of 150 students aged 3 to 12 years.

HBEG strongly believes in safeguarding our cultural heritage. That is why the Bank partnered with The Egyptian Heritage Rescue Foundation to pioneer "The First Aid to Cultural Heritage" training course aimed at developing skills related to emergency situations; set up priorities plans and promote re-use of buildings/museums to ensure sustainability. The course serves as a tool for efficient protection of cultural heritage, and prevention against any risks, whether conflicts, man-made disasters, or natural ones. The training covered 15 curators from 5 sites: Alexandria, Prot Said, Rashid, Zagazig and El Arich.

HSBC has a long-standing commitment to protecting the environment and believes it is fundamental to a thriving society and sound economy – upon which business depends.

In 2014, HBEG managed to adopt "Shubra Qubala" village in the governorate of Monofeya and developed a feasible model for waste management and recycling that entails a sustainable organisation of collection services, waste separation and sorting, recycling and making use of all by-products, while educating the village population; all this was done in partnership with the Research Institute for Sustainable Environment (RISE) helping a total of 11,654 inhabitants. In partnership with the British Egyptian Business Association (BEBA) CS coalition HBEG adopted a village in Upper in terms of access to water and sanitation in all the village houses with the help of HBEG volunteers.

Furthermore, HBEG had won a Group funding opportunity in end of 2013, under the name of "Sustainable Water Management project in the Oasis of Egypt's Western Desert" with a range of water conservation projects being carried out in the oasis of El Heiz and Abu Minqar. Sustainable water management involves the efficient management of the Nubian Sandtone Aquifer's finite water and household water management, irrigation, drainage and sewage management. Project components implemented in the two oases include waste water community gardens, canal lining, the installation of drip and sprinkler irrigation systems, integrated farming systems, sustainable drinking water solutions, a drainage water tree farm and a sewage biogas facility. As part of HBEG staff volunteering activity, a total of 28 volunteers helped in the implementation of all project components.

In other areas for community support, HBEG partnered with the Breast Cancer Foundation in Egypt to deliver an awareness session in HBEG head office to employees as well as delivering the same awareness session to 3,000 unprivileged women and paying for the 3,000 mammogram tests to these same women in deferent governorate in Egypt. As a winter initiative; HBEG combined efforts with Dar El Orman NGO to build house ceilings to 90 unprivileged families in Fayoum, staff volunteers were involved in helping the NGO during the implementation. Through the commitment of more than 100 staff volunteers, the Bank has managed to pack and distribute a total of 2,500 food boxes to the most needy during the holy month of Ramadan; this year the food boxes were distributed in 70 of the most needy villages in Egypt; including the south, Western Desert oases and Nubia.

On a regional level, HBEG continued its partnership with the British Council to support the Kids Read programme in Egypt, impacting more than 2,000 students with help from 35 Bank staff volunteers. As part of HSBC's global financial literacy education programme JA More Than Money, more than 60 HBEG volunteers spent a day in public schools, teaching students about earning, spending and saving money.

Last but not least, HBEG managed to win three HSBC Group funding opportunities. The first two were the submissions for the Future First funding, and the winning charities were Face for Children in Need (street children) and Tawasol Foundation. Both projects targeted the reintegration of children and youth to the society through education. The third and last was the Local Water Project Group funding opportunity, where HBEG partnered with the Research Institute for Sustainable Environment to implement a project under the name of Saving Egypt's Water – Sustainable Water Management Projects in Cairo, Egypt's Western Desert and the Southern Red Sea Coast; the project tackles various aspects of sustainable water management: water efficient and integrated water management in the oases of the Western Desert (including clean drinking water, agriculture and drainage water as well as education and awareness raising), water efficient urban agriculture on the roofs of Cairo's informal areas, and making available clean and healthy drinking water to the marginalised coastal communities on the far south Red Sea Coast. All solutions suggested as part of this project do not only benefit local communities, but are also models that can be replicable in other parts of Egypt.

Community Investment Programme (Formerly Housing for the Poor)

In 2009, HBEG participated in a five-year EGP100 million project, aiming to develop new and upgrade existing commonly used public-owned infrastructure and service projects, in participation with local communities and Cairo Governorate.

The first phase was completed in 2013 and addressed Dar El Salam informal area in the district behind the HBEG head office. This phase featured the renovation of schools, a polyclinic and a public market, as well as establishment of street pavements, street lighting and a youth centre.

The second phase was located in the Ezbet El Nasr informal area. The Bank established a sports/youth centre, a social solidarity centre, premises for the fire brigade, a public bus terminal, a plantation, roads and public utilities and a secondary school for girls, benefiting a total of 1,000 students. The youth centre was successfully inaugurated in June 2014 to serve the surrounding community.

The third phase, also in the Dar El Salam area, involves the establishment of a school complex – four schools, benefiting 9,000 students. Construction of three schools was completed in September 2014 and handed over to the Ministry of Education. The remaining elementary school construction was scheduled by the end of February 2015.

Shareholding

HSBC Bank Egypt SAE is a 94.5 per cent 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

HSBC Securities Egypt offers a full brokerage service for major foreign institutional investors and fund management companies. Besides offering brokerage services, HSBC Securities Egypt also 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 Europe, the Middle East and Africa 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 & Alex Food Company

Sharing combined capital, Alex Fish Company and Alex Food Company specialise in the production of food products. Following a debt restructuring, HBEG acquired a shareholding in both companies along with some other banks. HBEG holds 20 per cent of the shares in each of the companies.

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

- Egyptian Mortgage Refinance Company (EMRC)
- Fawry for Electronic Payment (Egypt Pay Company)
- I-Score
- Misr Company for Clearing, Settlement and Depository (MCDR)
- Egyptian Banks Company for Technological Advancements (EBC)

Corporate Governance

HSBC Bank Egypt is committed to applying the highest level of Corporate Governance to all aspects of the Bank with regards to 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. HBEG's Governance policies and practices cover all aspects of the Bank's daily operations including the creation and execution of strategies, the definition and application of risk appetite parameters and setting the balance between shareholders' obligations and depositors' interests. HBEG Management ensures that the daily activities of the Bank's operations are executed in a secure manner and in compliance with the prevailing laws and regulations.

HBEG's commitment to organisational governance is evidenced by:

- The composition, involvement and independence of the HBEG Board of Directors
- Defined duties of Board members on the Board and on the Board's Sub-committees including the Audit Committee, the Risk Committee, the Governance and Nominations Committee and the Salaries and Remuneration Committee
- The 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 employees

The Board of Directors

The following changes took place to the HBEG Board of Directors in 2014:

Retirements/ Resignations

— Retirement of Sahar El Damati, Executive Director and CRO, effective 30 June 2014
— Retirement of Robert B Gray, Non-Executive Director, effective 30 June 2014
— Retirement of Mahmoud Abdallah as Independent, Non-Executive Director, effective 30 September 2014
— Resignation of Andrew P Long as Deputy Chairman and CEO, effective 20 March 2014
— Resignation of Robert (Bob) Martin as Non-Executive Director, effective 30 September 2014
— Death of Dr Maged Gobran, Independent, Non-Executive Director, on 30 August 2014

Appointments

— Appointment of Jacques-Emmanuel Blanchet as Deputy Chairman and CEO, effective 20 March 2014
— Appointment of Sahar El Damati as Executive Director, effective 16 April 2014
— Appointment of Hania Sadek as Executive Director, effective 29 April 2014
— Appointment of Nevine Taher as Executive Director, effective 29 April 2014
— Appointment of Dr Ziad Bahaa-Eldin as Independent, Non-Executive Director effective 1 October 2014
— Appointment of Sir Sherard Cowper-Coles as Non-Executive Director, effective 1 October 2014
— Appointment of Georges Elhedery as Non-Executive Director, effective 1 October 2014

*** Mr Mohammad Al Tuwaijri**

NON-EXECUTIVE CHAIRMAN

Mohammad Al Tuwaijri was appointed Deputy Chairman and CEO of HSBC Bank Middle East Limited on 1 October 2013. Before this, he was the Regional Head of Global Banking and Markets, HSBC Bank Middle East Limited, effective 1 June 2010.

Mohammad has 21 years of senior banking experience in the region, including 12 years with Saudi British Bank (SABB), HSBC's joint venture partner in Saudi Arabia. Before joining HSBC, he was Managing Director and Head of Saudi Arabia with J P Morgan.

Mohammad was appointed Chairman of HSBC Bank Egypt SAE on 10 September 2013. He also serves as a Board Director for HSBC Bank Middle East Limited, HSBC Saudi Arabia Limited and The Saudi British Bank.

*** Mr Jacques-Emmanuel Blanchet**

DEPUTY CHAIRMAN AND CEO

Jacques-Emmanuel is the Deputy Chairman and CEO of HSBC Bank Egypt SAE.

Before assuming his current position, Jacques-Emmanuel Blanchet was the Head of Commercial Banking in the UK and Co-Head Europe at HSBC. Based in London, he was responsible for managing the bank's growing commercial banking division, which supports businesses of all sizes.

Before taking up this role in March 2011, Jacques-Emmanuel held a three-year tenure as Head of Commercial Banking at HSBC France, where he re-organised the division – bringing in additional expertise and a more proactive approach to customer relationships.

A graduate of ICSG Business School in Paris, Jacques-Emmanuel brings over 30 years banking experience to his new role. Since joining HSBC France in 1998 Jacques-Emmanuel has held a number of senior roles including Head of Global Transactional Banking, CEO of HSBC Hervet and UBP and Head of Change and Service Delivery HSBC France.

The Board of Directors (continued)

* **Mr Mahmoud M Abdallah** *(retired on 30 September 2014)*

INDEPENDENT, NON-EXECUTIVE DIRECTOR

Mr Abdallah is the Managing Partner of MMA Global Investments LLC USA. From 2006-2012 Mr Abdallah 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 U.S., 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 subsequence merger with Munich Re. He served in the Board of the International Insurance Council in the U.S. for many years where he was elected Chairman twice.

Mr Abdallah is a regular participant in Major Global Insurance Forums. He has been active 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.

Mr Abdallah 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 USA – Middle East Project for the Council on Foreign Relations in the USA. He serves on the Boards of HSBC Egypt SAE, Validus Holdings Ltd and Egypt Air Holding, and is also on the Board of the Metropolitan Opera in New York.

* **Dr Ziad Bahaa-Eldin**

INDEPENDENT, NON-EXECUTIVE DIRECTOR

Dr Ziad Ahmed Bahaa-Eldin is an Egyptian Attorney-at-Law and expert on corporate and financial law, governance, compliance, and economic legislation. He is the founder and senior advisor of Thebes Consultancy, an Egyptian Limited Liability Company that provides regulatory and compliance advisory services.

From July 2013 until January 2014, Dr Bahaa-Eldin served as Deputy Prime Minister of Egypt for Economic Development and Minister of International Cooperation. He was in charge of coordinating the government’s economic policies and plans and following-up on implementation. He also headed Egypt’s negotiations with international partners and donors.

He is a former Member of Parliament representing the Governorate of Assiut (2012).

Dr Ziad Bahaa-Eldin was the founder and first Executive Chairman of the Egyptian Financial Supervisory Authority (EFSA, 2009-2011) and the former Executive Chairman of the Egyptian General Authority for Investment and Free Zones (2004-2007).

From 1997-2000 Dr Bahaa-Eldin was Senior Legal Adviser to the Minister of Economy, during which time he was in charge of drafting and taking through Parliament of several key legislations including the Mortgage Finance Law, the Central Securities Depository Law, the Money Laundering Prevention Law, as well as various amendments to the Company, Investment, Tax, and Capital Markets Laws.

Dr Bahaa-Eldin 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), a former Senior Legal Advisor to the Central Bank of Egypt (2011) and the former non-executive Chairman of the Upper Egypt Investment Company. He is a non-executive member of the Board of Directors of HSBC Bank Egypt, the National Bank of Egypt (UK), and the Director of the Egyptian Initiative for the Prevention of Corruption.

From 2000 to 2004, Dr Bahaa-Eldin was a practising lawyer in Egypt, before which he was a private sector lawyer in Cairo and a foreign attorney in Washington DC (1990). Dr Bahaa-Eldin was a part-time Lecturer at the Faculty of Law, Cairo University (1998-2004).

He is 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 is a member of the Board of Trustees of the American University in Cairo.

Dr Bahaa-Eldin received his PhD. in Financial Law from the London School of Economics and Political Sciences (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).

The Board of Directors (continued)

* **Sir Sherard Cowper-Cowles KCMG LVO**

Non-Executive Director

Sir Sherard joined HSBC Holdings in October 2013 as Senior Adviser to the Group Chairman and Group Chief Executive. He advises the Group Chief Executive on a range of business and client issues. He advises the Group Chairman on public policy issues. He is also a Director of HSBC Bank Egypt SAE. He attends the Group Management Board (GMB) and Risk Management Meetings (RMM).

Before HSBC, Sir Sherard worked for two-and-a-half years as Business Development Director, International, at BAE Systems plc. Earlier he spent over 30 years in the British Diplomatic Service, which he joined straight from reading Classics at Oxford. He studied Arabic in Lebanon, Syria and Alexandria, and served in the British Embassies in Cairo, Washington and Paris. He was also Principal Private Secretary to the UK Foreign Secretary, the late Robin Cook, and was Head of the Foreign Office Hong Kong Department from 1994 up to the handover to China in 1997. His final diplomatic jobs were as the UK Foreign Secretary's Special Representative for Afghanistan and Pakistan (2009-2010), Ambassador to Afghanistan (2007-2009), Ambassador to Saudi Arabia (2003-2007) and Ambassador to Israel (2001-2003).

Sir Sherard is also Chairman of the Financial Inclusion Commission; a Board Member of the China Britain Business Council; UK Chairman of the Omani-British Friendship Association (business council); and Chairman of the Saudi-British Society and of Pitzhanger Manor Trust. He is the author of two books about his diplomatic experiences: Cables from Kabul and Ever the Diplomat. He speaks French and Arabic, some Hebrew and rudimentary Pashtu.

* **Mrs Sahar El Damati** *(retired on 30 June 2014)*

Executive Director

Sahar El Damati was the Chief Risk Officer of HSBC Bank Egypt for the last 10 years with responsibilities for wholesale, retail and operational risks as well as overlooking security and fraud risk and the Compliance Department. Before this she stayed for 5 years as the Head of Risk at the Arab African International Bank.

Sahar holds a B.A. in Economics and an M.A. in Business Administration from the American University in Cairo. She then joined the Tax Policy Department at the IMF in Washington D.C. and later moved to the World Bank's Financial Studies and Analysis Department. After returning to Egypt, she joined Chase National Bank Egypt, completed the Credit Course and started her career in the Corporate Banking Department.

With the introduction of the Economic Restructuring Programme in Egypt, which was implemented by the IMF and the World Bank, Sahar joined the Social Fund for Development, an entity specialised in financing SMEs under the umbrella of the Prime Minister's Office. She attended special training courses at Harvard University and at SBA in Washington D.C. and became the Manager of the Credit and Fund Management of the Social Fund for Development.

In addition, she worked as a banking credit course instructor at the American University in Cairo and at various Egyptian banks.

* **Mr Georges Elhedery**

Non-Executive Director

Georges Elhedery is Head of Global Banking and Markets, HSBC Middle-East & North-Africa. Georges has been in the region with HSBC since 2010. Before this, Georges worked at HSBC in London, most recently as Deputy Head of Global Rates. He joined HSBC in 2005 from Goldman Sachs, London, where he ran EMEA Interest Rates Exotics and Inflation Trading. He started his financial career in Tokyo at Banque Paribas, as part of the options trading desk. Georges is a graduate of École Polytechnique in Paris, and has a post-graduate degree from ENSAE as Statisticien Economiste. Lebanese-born with French citizenship, Georges is married and lives in Dubai.

In his current role Georges has responsibility for the region's Markets, Banking, Capital Financing and Securities Services activities. These consist of Sales and Trading activities, the Balance Sheet Management function, Debt and Equity Capital Markets, Project and Export Finance, Leveraged and Acquisition Financing, Mergers and Acquisitions, and the Banking Relationship Management, as well as Brokerage and Custody. He manages around 600 investment bankers spread over 10 countries.

The Board of Directors (continued)

*** Mr Basel El-Hini**

Non- Executive Director

Basel El Hini is the Vice Chairman of Misr Insurance Holding Company (MIHC).

He possesses more than 30 years of experience in commercial and investment banking, and finance related areas, with in-depth knowledge of investment, corporate and retail banking, structured finance and syndication, international project finance, financial advisory and macroeconomic policy and reform. Last 20 years in managerial positions.

Basel started his career in Egypt as a banker with Misr Iran Development Bank, and then moved in the mid-eighties to the Arab Petroleum Investments Corporation (APICORP) in Saudi Arabia where he progressed to become Middle East and North Africa Business Group Head. In early 2000, he relocated to Egypt and joined ABN AMRO Bank (the global financial institution) as Regional Head of Integrated Energy and Power. In 2002 he moved to Misr Exterior Bank as General Manager and Member of the Board. In 2004 he joined Banque Misr, Egypt's second-largest bank, as General Manager, and a year later (2005) was chosen by Egypt's Minister of Finance as his Advisor with the responsibility of financial restructuring and reform of public ownership. At the beginning of 2008 Basel joined NAEEM Group as Chairman and Managing Director of Naeem Financial Investments (NFI). From September 2008 to September 2011 he was appointed Managing Director of Banque Du Caire, Egypt's third largest government owned bank, responsible for Credit, Corporate and Retail Banking.

Past and present member of Boards of several companies. Currently, Basel is non-executive Chairman of the Financial Sector Investment Fund Company, and Board member in HSBC Bank Egypt, Tourism Development Authority, and Nasser Social Bank.

He is a Certified Instructor of at the Central Bank of Egypt's Banking Institute, and at Cairo American University's Institute of Banking and Finance.

Basel El-Hini graduated with a BSc in Economics (1980) from Cairo University's Faculty of Economics and Political Sciences, and later earned his Master's degree in Economics from the American University in Cairo (1985).

*** Dr Ibrahim Fawzy**

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, Dr Fawzy has taught many courses in Mechanical Engineering at Cairo University and at University College London, UK, 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 Counsellor 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.

Dr Fawzy also served as the Cabinet Minister of Industry and Mineral Wealth in the Egyptian Government from 1993-1996. In this post he had the top responsibility for all projects and plans of the Egyptian Government in industry and Mineral Wealth From 1996-1999 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.

Dr Fawzy received his BSc degree in Mechanical Engineering in 1962 from Cairo University and his PhD in 1968 from University College London.

At present, Dr Fawzy 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 3 years from 2005-2008.

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

The Board of Directors (continued)

* **Dr Maged Gobran** *(deceased on 30 August 2014)*

INDEPENDENT, NON-EXECUTIVE, DIRECTOR

Maged Gobran was advising Private Equity Firms on acquisition opportunities in Middle East and North Africa. He had 30+ years of experience in the pharmaceutical industry gained on four continents.

He joined AstraZeneca in Paris in September 2004, as Area Vice President for North Africa, and was appointed Area Vice President for Middle East and North Africa for AstraZeneca in 2006-2012.

Maged started his career in 1980 and in his early career he spent three years as a sales representative in Egypt and in New York City and three years as a Product Manager for Middle East and Africa at Merrell Dow Pharmaceuticals based in Geneva, Switzerland. He then spent five years working in healthcare advertising with Bozell in New York, a leading global healthcare Advertising Agency, where he led the agency team that launched two major products in the US market for Glaxo and Abbott Laboratories as clients. He spearheaded various advertising campaigns, including over the counter (OTC), and direct to consumer ones.

Maged came back to the Middle East as Director of Operations Planning for Bristol Myers Squibb, where he was responsible for marketing and business development in the area. He then joined GlaxoWellcome as Managing Director for Saudi Arabia, where he led the team that launched the first multinational manufacturing facility in the Kingdom. He was then appointed as Chairman and Managing Director of GlaxoSmithKline in Egypt, where he led the largest company in the country with a diverse portfolio of branded products, branded generics and OTC products.

Maged had a BS in Pharmacy from Cairo University and an MBA from Fordham University in New York. When not working, Maged enjoyed time with the family, reading and the arts, he recently contributed to curating and writing an art book that was published in Egypt in 2013.

He was on the Board of the British Egyptian Business Association and the Egyptian-British Business Council.

* **Mr Robert B Gray** *(retired on 30 June 2014)*

NON-EXECUTIVE DIRECTOR

Robert Gray joined HSBC in May 1994 as Chairman of HSBC Markets Limited, with particular responsibility for developing HSBC's capital markets capabilities worldwide.

Before joining HSBC, he was head of J P Morgan's capital markets activities in Europe. Previously he was President and Tokyo branch manager of J P Morgan Securities Asia Ltd. Robert also headed J P Morgan's worldwide loan syndication group and was later responsible for its Eurobond underwriting business.

He was Vice Chairman of the International Capital Market Association (ICMA), having previously served as Chairman of a predecessor entity, the International Primary Market Association and its Market Practices Committee, and remains Chairman of both the ICMA Regulatory Policy Committee and its Sovereign Bond Working Group. He is a member of the Institute of International Finance's Principles Consultative Group. He has also served as Chairman of HSBC Saudi Arabia Limited, and is a board member of the Arab British Chamber of Commerce.

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

* **Mr Robert (Bob) Martin** *(resigned on 30 September 2014)*

NON-EXECUTIVE DIRECTOR

Bob was the Chief Risk Officer for the Middle East and North Africa (MENA) for four-and-a-half years until May 2014. His role covered Regional Risk responsibilities as well as oversight of the Compliance function. He joined HSBC in 1984 and has held various roles across the Group including Senior Executive Vice President and Chief Auditor for North America (2007-09) and Head of Credit Risk Management in Singapore (2004-07).

He graduated from Heriot Watt University, Edinburgh, with a BA in Accounting and Finance and is a member of the Institute of Chartered Accountants of Scotland.

The Board of Directors (continued)

*** Mrs Hania Sadek**

Executive Director

Hania Sadek is the Chief Operating Officer of HSBC Bank Egypt. She joined HSBC Bank Egypt in 1983 as a fresh graduate from the American University in Cairo, and completed her Master's Degree in Economics during her term with the bank. She has extensive experience in branches, trade services and information technology, where she had extended roles for 15 years which qualified her to set up the Audit unit in HBEG. In conjunction with Group Audit Middle East, a Group Audit function within HSBC Bank Egypt was established in 2001, which took over the Group's responsibility for Branch Audits starting from 2004. She has also been responsible for the Audit Committee for the past decade.

In 2010, Mrs Sadek took over the position of Chief Operating Officer for HBEG where she is responsible for the overall Operations functions including Information Technology, Procurement, Corporate Real Estate, Security and Fraud Risk, Business Process Reengineering, Back office Operations and Administration.

Her current role as HBEG Chief Operating Officer and Executive Director entails a wide diversified range of technology and operations activities; relations with various bodies from the Group on regional and global levels. In addition, the job requires interaction with senior executives in authorities within Egypt like the regulator and large governmental and private institutions.

In a context of female accomplishments across the Middle East, Mrs Sadek has been ranked 37th in the '200 Most Powerful Arab Women – 2014: Executive Management' by Forbes Middle East and 7th in Amwal El Ghad's 'Most Powerful Women in the Egyptian Banking Sector'. The lists include inspirational and accomplished top executive women from the corporate and banking spheres with criteria that take into account the degree of power associated with ranked women's positions, years of experience and number of years in operation.

*** Mrs Nevine Taher**

Executive Director

Nevine Taher is the Country Head of HR and External Relations of HSBC Bank Egypt. She began her career with HSBC Egypt as a Credit Officer. She led the Credit Department in 1986, then shifted to Corporate banking as a Division Head in 1995. Nevine was appointed to lead PFS introduction launch till 2002 when she became Country Head of Corporate Banking, where she led the development and implementation of corporate banking strategies to grow the business, market share, drive and expand most profitable relationships. In 2010 Nevine was appointed Country Head of RBWM, where she worked on driving strategies and expansion plans for the RBWM proposition in Egypt.

Nevine took on her current role as Country Head of HR and External Relations in 2014 with an overview of corporate sustainability, sitting on INJAZ Egypt Board. Nevine has also been appointed, Chairman of HSBC Securities Egypt SAE, our brokerage subsidiary in addition to her continued responsibility for the HR function in Egypt, which will include responsibility for building wider and deeper relationships into the community, not just with clients, for whom the Global Businesses remain responsible, but also with Regulators, the Government and others.

The Board of Directors (continued)

The Board Committees

HSBC Bank Egypt's management structures, headed by the Board of Directors and led by the Chairman, exist 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 Executive Committee led by the Chief Executive Officer. To achieve its strategic objectives, the Board has created several committees consisting of certain directors and/or executive management whereby related responsibilities are set out below:

Executive Committee

The Executive Committee is an executive management committee that meets monthly and operates as a general management committee with regard to the day-to-day management of the bank under the direct authority of the Board. Its purpose is to maintain a reporting and control structure whereby all lines of operations are accountable to individual members of the Committee who report to the Chief Executive Officer, who chairs Executive Committee.

Audit Committee

The Audit and Risk Committee is responsible for advising the Board on the effectiveness of HBEG's systems of internal controls and compliance in relation to financial matters and on meeting financial obligations. Its members are Dr Ibrahim Fawzy (Chairman), Mr Basel El-Hini and Dr Ziad Bahaa-Eldin.

Risk Committee

The Risk Committee has responsibilities in relation to risk governance and oversight and internal controls. Its members are Mr Basel El-Hini (Chairman), Sir Sherard Cowper-Coles, Mr Georges Elhedery and Mr Jacques-Emmanuel Blanchet.

Governance and Nomination Committee

The Governance and Nomination Committee leads the process for Board appointments and for identifying and nominating, for approval by the Board, candidates for appointment to the Board and evaluating the bank's governance system. The members are Dr Ziad Bahaa-Eldin (Chairman), Dr Ibrahim Fawzy and Sir Sherard Cowper-Coles.

Salaries and Remuneration Committee

The Salaries and Remuneration Committee considers remuneration matters for the bank in the context of the Group's remuneration policy, proposes the fees for directors for approval by the Board and the shareholders, and reviews performance-based remuneration with reference to corporate goals and objectives. Its members are Sir Sherard Cowper-Coles (Chairman), Mr Basel El-Hini and Dr Ziad Bahaa-Eldin.

Auditors' report

To the Shareholders of HSBC Bank - Egypt (S.A.E)

Report on the separate financial statements

We have audited the accompanying separate financial statements of HSBC Bank - Egypt (S.A.E) which comprise the separate balance sheet as of 31 December 2014 and the separate statements of income, changes in equity and cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the separate financial statements

These separate financial statements are the responsibility of the Bank's management. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the rules of preparation and presentation of the Bank's separate financial statements issued by the Central Bank of Egypt on 16 December 2008 and with the requirements of applicable Egyptian laws and regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the separate 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 Bank'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.

Opinion

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of HSBC Bank - Egypt (S.A.E) as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with the Central Bank of Egypt's rules, pertaining to the preparation and presentation of these separate financial statements and measurement and recognition basis approved by its Board of Directors' on 16 December 2008 and Egyptian laws and regulations relating to the preparation of these separate financial statements.

Report on Other Legal and Regulatory Requirements

Nothing has come to our attention that the Bank had significantly violated any of the provisions of Law No. 88 of 2003 during the year ended 31 December 2014.

The Bank keeps proper financial records, which include all that is required by the law and the Bank's statute and the accompanying separate financial statements are in agreement therewith.

The financial information included in the Board of Directors' report are in agreement with the Bank's records within the limit that such information is recorded therein.

Auditors

Hisham Gamal Alafandy

Egyptian Financial Supervisory
Authority No.(100)
KPMG Hazem Hassan
Public accountants and consultants

Mohamed Ahmed Fouad, CPA

Egyptian Financial Supervisory
Authority No.(235)
R.A.A. 11595
Mansour & Co. PricewaterhouseCoopers
Public accountants and consultants

Cairo: 23 February 2015

Separate Balance Sheet as at 31 December 2014

	Note No.	**31 December 2014 EGP (000)**	31 December 2013 EGP (000)
Assets			
— Cash and balances with Central Bank of Egypt	15	**4,969,253**	12,497,670
— Due from banks	16	**18,292,967**	9,042,928
— Treasury bills	17	**13,980,063**	10,611,499
— Financial assets held for trading	18	**21,573**	5
— Loans and advances to banks	19	**71,737**	131,097
— Loans and advances to customers	20	**19,568,035**	18,801,346
— Financial derivatives	21	**16,766**	17,626
— **Financial investments**			
— Available for sale	22	**5,966,502**	6,265,256
— Held to maturity	22	**39,928**	74,839
— Investments in subsidiaries	23	**35,517**	35,517
— Intangible assets	24	**4,735**	3,149
— Other assets	25	**426,197**	504,594
— Deferred tax assets	32	**63,857**	49,909
— Investment property	27	**96,531**	110,215
— Fixed assets	26	**405,960**	436,348
Total assets		**63,959,621**	58,581,998
Liabilities and owners' equity			
Liabilities			
— Due to banks	28	**1,079,403**	2,612,115
— Customers' deposits	29	**54,788,779**	49,317,549
— Financial derivatives	21	**14,750**	17,926
— End of service compensation benefits	33	**223,758**	216,737
— Other loans	40	**272,000**	272,000
— Other liabilities	30	**706,264**	634,446
— Other provisions	31	**168,417**	350,963
— Current income tax		**552,576**	219,606
Total liabilities		**57,805,947**	53,641,342
Owners' equity			
— Paid-up capital	34	**2,078,500**	2,078,500
— Paid under capital increase	34	**717,067**	717,067
— Reserves	35	**1,591,126**	1,615,297
— Retained earnings	35	**1,766,981**	529,792
Total owners' equity		**6,153,674**	4,940,656
Total liabilities and owners' equity		**63,959,621**	58,581,998

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

Separate Income Statement for the year ended 31 December 2014

	Note No.	31 December 2014 EGP (000)	31 December 2013 EGP (000)
Interest income from loans and similar income	(6)	**3,897,280**	3,904,499
Interest expense on deposits and similar expense	(6)	**(1,121,133)**	(1,471,122)
Net interest income		**2,776,147**	2,433,377
Fees and commissions income	(7)	**683,736**	649,810
Fees and commissions expense	(7)	**(60,056)**	(57,953)
Net fees and commissions income		**623,680**	591,857
Dividends income	(8)	**2,325**	1,700
Net trading income	(9)	**198,471**	182,860
Financial investment gain/(loss)	(22)	**14,924**	(148,709)
Credit impairment (charged)/released	(12)	**(91,160)**	(248,335)
Administrative expenses	(10)	**(1,072,721)**	(1,131,572)
Other operating income/(expenses)	(11)	**70,832**	(154,521)
Profit before income tax		**2,522,498**	1,526,657
Income tax expenses	(13)	**(755,470)**	(635,831)
Net profit for the year		**1,767,028**	890,826
Earnings per share (EGP/Share)			
Basic	(14)	**64.17**	30.36

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

Separate Cash Flow Statement for the year ended 31 December 2014

	Note No.	31 December 2014 EGP (000)	31 December 2013 EGP (000)
Cash Flows from Operating Activities			
— Net profit before income tax		**2,522,498**	1,526,657
Adjustments to reconcile net profit to net cash flows from operating activities			
— Depreciation and amortization		**63,533**	60,757
— Impairment of assets		**91,160**	248,335
— Other provisions		**30,159**	245,254
— Increase in end of service compensation provision		**44,918**	46,863
— Provisions no longer required		**(40,939)**	(5,966)
— Other provisions used		**(172,376)**	(59,802)
— Revaluation differences for provisions other than loans provision		**610**	729
— (Gain) / losses from sale of fixed assets		**(2,688)**	(73)
— Dividends income		**(2,325)**	(1,700)
Operating income before changes in assets and liabilities from operating activities		**2,534,550**	2,061,054
Net Decrease (increase) in assets and liabilities			
— Due from banks		**7,654,836**	(8,244,061)
— Treasury bills		**(451,687)**	3,006,697
— Available for sale investments		**252,471**	1,386,255
— Financial investments held for trading		**(21,568)**	44,568
— Loans and advances to customers		**(857,849)**	543,111
— Loans and advances to banks		**59,360**	(131,097)
— Financial derivatives (net)		**(2,316)**	(674)
— Other assets		**78,397**	73,770
— Due to banks		**(1,532,712)**	1,642,429
— Customers' deposits		**5,471,230**	2,079,842
— Other liabilities		**109,979**	485
— End of service compensation benefits		**(37,897)**	(41,409)
— Income tax paid		**(474,609)**	(721,031)
Net cash flows provided from operating activities		**12,782,185**	1,699,939

	Note No.	31 December 2014 EGP (000)	31 December 2013 EGP (000)
Cash flows from investing activities			
— Payments to purchase fixed assets and branches preparation		**(20,181)**	(52,287)
— Proceeds from sale of fixed assets		**5,002**	191
— Payments to purchase intangible assets		**(3,180)**	(755)
— Proceeds from sale financial investments held to maturity		**34,911**	14,835
— Dividends income		**2,325**	1,700
Net cash flows provided from (used in) investing activities		**18,877**	(36,316)
Cash flows from financing activities			
— Dividends paid		**(507,727)**	(416,698)
— Proceeds from issuance debt instrument and other loans		**—**	272,000
Net cash flows used in financing activities		**(507,727)**	(144,698)
— Net change in cash and cash equivalents during the year		**12,293,335**	1,518,925
— Cash and cash equivalents at the beginning of the year		**12,817,090**	11,298,165
Cash and cash equivalents at the end of the year		**25,110,425**	12,817,090
Cash and cash equivalents are represented in:			
— Cash and balances with Central Bank of Egypt		**4,969,253**	12,497,670
— Due from Banks		**18,292,967**	9,042,928
— Treasury bills		**13,980,063**	10,611,499
— Balance with Central Bank of Egypt within the limit of statutory reserve		**(4,224,219)**	(11,895,620)
— Balance with Banks with maturity more than 3 months from date of acquisition		**(16,565)**	—
— Treasury bills with maturity more than 3 months from date of acquisition		**(7,891,074)**	(7,439,387)
Cash and cash equivalents	37	**25,110,425**	12,817,090

The accompanying notes from 1 to 42 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 2014

	Note	Paid-up capital	Paid under capital increase	Reserves	Retained earnings	Total
	No.	EGP (000)	EGP (000)	EGP (000)	EGP (000)	EGP (000)
Balances as at 31 December 2012		2,078,500	—	1,428,469	892,922	4,399,891
Additional		—	717,067	—	—	717,067
Dividends paid for year 2012	(36)	—	—	—	(796,852)	(796,852)
Dividends paid for the first half of year 2013	(35)	—	—	—	(336,913)	(336,913)
Transferred to legal reserve	(35)	—	—	59,942	(59,942)	—
Transferred to general reserve	(35)	—	—	60,202	(60,202)	—
Net change in available for sale investments	(35)	—	—	66,637	—	66,637
Net profit for the year		—	—	—	890,826	890,826
Transferred from general risk reserve	(35)	—	—	47	(47)	—
Balances as at 31 December 2013		2,078,500	717,067	1,615,297	529,792	4,940,656
Balances as at 31 December 2013		2,078,500	717,067	1,615,297	529,792	4,940,656
Dividends paid for year 2013	(36)	—	—	—	(507,727)	(507,727)
Transferred to legal reserve	(35)	—	—	20,463	(20,463)	—
Transferred to general reserve	(35)	—	—	1,529	(1,529)	—
Transferred to capital reserve	(35)	—	—	73	(73)	—
Net change in investments available for sale	(35)	—	—	(46,283)	—	(46,283)
Net profit for the year		—	—	—	1,767,028	1,767,028
Transferred from general risk reserve	(35)	—	—	47	(47)	—
Balances as at 31 December 2014		**2,078,500**	**717,067**	**1,591,126**	**1,766,981**	**6,153,674**

The accompanying notes from 1 to 42 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 2014

	Note No.	**31 December 2014 EGP (000)**	31 December 2013 EGP (000)
Net profit for the year		**1,767,028**	890,826
Less:			
Gain from sale of fixed assets		**(2,721)**	(73)
General banking risk reserve	(35)	**(47)**	(47)
Net profit for the year available for appropriation		**1,764,260**	890,706
Appropriation			
Dividends paid during the year		**—**	360,987
Legal reserve	(35)	**88,215**	44,538
Less:			
Transferred to legal reserve		**—**	(24,075)
General reserve	(35)	**88,218**	1,529
Shareholders' dividends		**1,411,401**	705,205
Less:			
Dividends paid to the shareholders during the year		**—**	(288,763)
Employees' profit share		**176,426**	139,434
Less:			
Employees’ profit share paid during the year		**—**	(48,149)
		1,764,260	890,706

The accompanying notes from 1 to 42 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 SAE provides retail, corporate and investment banking services in the Arab Republic of Egypt through 67 branches and 10 small units served by more than 2,098 staff at the date of the balance sheet.

HSBC Bank Egypt SAE is established according to the Investment Law, in accordance with the decision no.60 for year 1982 taken by the minister of investment and international co-operation and published in "El Waqaa El Masria" newspaper on 17 May 1982 in the Arab Republic of Egypt. The head office is located in Cairo. The Bank started its operation on15 December 1982. The Bank's shares have been delisted from the Egyptian stock exchange market on 31 December 2009.

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 the Central Bank of Egypt's (CBE) 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 operational 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 recognised directly in the income statement under the item 'Other operating income/(expenses)'

— Investments in subsidiaries in the separate financial statements are accounted for using the cost method. According to this method, investments recorded at cost of acquisition including goodwill and less any impairment losses. Dividends are recorded in the income statement when adoption of the distribution has been authorised and affirming the Bank's right in collecting them has been recognised

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 which provides products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

Notes to the Separate Financial Statements (continued)

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

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 period at the exchange rates then prevailing. Foreign exchange gains and losses resulting from settlement of such transactions and valuation differences are recognised in the income statement under the following items:

- Net trading income for the assets/liabilities held for trading
- Owner's equity for the financial derivatives in the form of eligible hedge 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 amortised 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 amortised cost are recognised in income statement under 'Interest and similar income', while differences relating to changes in exchange rates are recognised under item 'Other operating income (expenses)'. Differences resulting from changes in fair value are recognised 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 recognised 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 investments. 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 they are part of the financial instruments portfolio that is managed together and there is evidence resulting from recent actual transactions that profit can be recognised. Derivatives can be classified as held for trading unless they are identified as hedging instruments
- Financial assets designated at fair value through profit or loss are recognised when:
    - Doing so significantly reduces measurement inconstancies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and issued debt securities
    - Equity investments that are managed and evaluated at a fair-value basis, in accordance with 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 managed in conjunction with designated financial assets or financial liabilities are recorded in the 'Net income from financial instruments classified at fair value through 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 its 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 instruments measured at fair value through profit and loss or held-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:

— The Bank intends to sell immediately or in the short-term, which are classified as held for trading, or those that the Bank, upon initial recognition, recorded as at fair value through profit or loss

— The Bank, upon initial recognition, designates as available for sale

— 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 that carry fixed or determinable payments and where the Bank has the intention and 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 an unspecified year and may be sold to provide liquidity or due to changes in shares prices, foreign exchange currencies, or interest rates.

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 recognised at the trade date, which is the date the Bank is committed to purchase or sell the financial assets

— Financial assets that are not classified at fair value through profit and loss at initial recognition are recognised at fair value plus transaction cost, while the financial assets classified as at fair value through profit and loss are initially recognised at fair value only, and the transaction cost is recognised in the profit and loss under ‘Net trading income’

— Financial assets are derecognised when the rights to receive cash flows have expired or when the Bank transfers all asset risks and rewards to another party, while a financial liability is derecognised 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 amortised cost

— Gains and losses arising from changes in the fair value of financial assets designated at fair value through profit and loss are recorded in the income statement during the year it occurred, while gains and losses arising from changes in the fair value of available-for-sale financial investments are recognised in the “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 recognised in equity should be recognised in profit or loss

— Interest income related to monetary assets classified as available-for-sale is recognised based on the amortised cost method in profit and loss. The foreign currency revaluation differences related to available-for-sale investments are recognised in the profit and loss. Dividends related to available-for-sale equity instruments are recognised 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 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 until maturity. Any related profits or losses that have been previously recognised in equity are treated as follows:

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.4 Financial investments available for sale *(continued)*

i. Financial assets with fixed or determinable payments and fixed maturity valued at amortised cost using the effective interest method. The difference between the amortised cost using the effective interest method and the repayment value is amortised using the effective interest rate method.
ii. In case of financial asset's impairment, any profits or losses previously recognised in equity is recognised in profit and loss.
iii. Profits and losses related to the financial assets without fixed or determinable maturity are recorded in equity until selling or disposing of it. In case of impairment, profit and losses that have been previously recognised directly in equity are recognised 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 recognised as either income or expense in the profit and loss

— In all cases, if the Bank re-classified financial assets 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 recognised 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 the estimate

f. Netting between financial instruments

Financial assets and liabilities are offset when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise 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 recognised at fair value at the date of the derivative contract and are subsequently revaluated at fair value. Fair values are obtained from quoted market prices in active markets, or according to the recent market deals, or the revaluation methods as the discounted cash flow modules and the pricing lists modules, as appropriate. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

g.1 Derivatives that do not qualify for hedge accounting

Derivative instruments that do not qualify for hedge accounting and changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the 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-for-trading investments or recorded at fair value through profit and loss, are recognised under 'Interest and similar income' or 'Interest and similar charges'.

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

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

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

— 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 recognised on a 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 recognised as revenue until full payment of the loan balance before the rescheduling and client is considered to be performing

2 Summary of significant accounting policies *(continued)*

i. Fees and commission income

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

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

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

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

j. Dividends income

Dividends are recognised 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 derecognised 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 purchase and 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 are recognised 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 amortised 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 recognised (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, eg default
- Expected bankruptcy of borrower or subject to liquidation lawsuit or restructuring 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

Notes to the Separate Financial Statements (continued)

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

2 Summary of significant accounting policies *(continued)*

l. 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, although 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, this asset will be separated from group of financial assets that are collectively evaluated for impairment
- If the result of the previous test did not recognise impairment loss, 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 the 'impairment loss provision'

If there is evidence that loans 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, the present value for expected future cash flows 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 the 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 groups 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 do 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)*

l. Impairment of financial assets *(continued)*

l.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 occurred. For listed equity instruments classified as available-for-sale investments, impairment is recognised if it is significant and a prolonged decline on its price below its 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 or more than 9 months. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity under fair value reserve, and subsequent objective evidence of impairment emerges, the Bank recognises that the total accumulated loss previously recognised in equity will be recognised in profit and loss. Impairment losses recognised on equity instruments on profit or loss are not subsequently reversed. Impairment losses recognised 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 does not include properties used by the Bank during its normal course of operation or foreclosed assets. The accounting policy for investment property is the same as for fixed assets.

n. Intangible assets

n.1 Software (computer programmes)

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

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

The computer software cost recognised as an asset shall be amortised over the 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 recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Maintenance and repair expenses are charged to other operating expenses during the financial year in which they are incurred.

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

Buildings	20 years
Leasehold improvements	3 years or over the year of the lease if less
Furniture and safes	10 years
Typewriters, calculators and air conditioners	10 years
Motor vehicles	5 years
Computers and core systems	5 years
ATMs	7 years
Fixtures and fittings	3 years

Notes to the Separate Financial Statements (continued)

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

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 amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Gains and (losses) on disposals are determined by comparing 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 amortised, and their impairment shall be tested at least annually. The impairment of amortised assets is studied to determine if there are events or changes in the circumstances indicating that the book value may not be recoverable.

The impairment loss is recognised by the excess amount of book value over the realisable value. The recoverable value represents net realisable value of the asset or the usage amount, whichever is higher. For the purpose of estimating the impairment, the asset is grouped with the smallest cash generating unit. At each balance sheet date, non-financial assets with impairment have to be reviewed to determine if there is impairment reversal made to the 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's 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 recognise 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 capitalised 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 are recognised as expenses in the profit and loss using the straight line method over the contract time.

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 recognised 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 the date of acquisition, cash and balances due from the CBE other than the mandatory reserve, and current accounts with banks and Treasury bills.

s. Other provisions

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

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

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

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 banks, corporations and other entities on behalf of the Bank's customers.

It is initially recognised at fair value, including guarantee fees at the date of granting. Subsequently, the Bank's obligation shall be measured by the value initially recognised, less guarantee fees amortisation, which is recognised 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 recognised 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 recognised in the consolidated profit or loss under the caption of general and administrative expenses. This provision is presented in the balance sheet under 'other provisions caption'.

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 amortised 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 recognised in the income statement, except income taxes related to shareholders' equity items that are recognised directly in the shareholders' equity.

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

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

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

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 shareholders' equity of total proceeds net of tax.

w.2 Dividends

Dividends are recognised 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.

Notes to the Separate Financial Statements (continued)

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

2 Summary of significant accounting policies *(continued)*

x. Custody activities

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

y. Comparative figures

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

3 Financial risk management

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

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

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

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

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

a. Credit risk

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

a.1 Credit risk measurement

Loans and advances to banks and customers

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

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

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

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 different customer 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 10 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 represents the outstanding balances at the time when a late settlement occurred, for example the loans expected amount of default represents its book value. For commitments, the default amount represents all actual withdrawals in addition to any withdrawals occurred until the date of the late payment, if any.

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

Debt instruments and Treasury bills

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

a.2 Limiting and preventing risks policies

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

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

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

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

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

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

Derivatives

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

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

Master netting arrangements

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

Credit-related commitment

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

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

Credit-related commitment represents the unused portion of credit limit of loans, guarantees or letters of credit. With respect to credit risk related to credit-related commitments, the Bank is exposed to probable loss of amount equal to the total unused limit. However, the probable amount of loss is less than the unused limit commitments as most commitments represent commitments to customers maintaining certain credit standards. The Bank monitors the maturity term of the credit commitments because long-term commitments are of 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 recognised 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 2014**		31 December 2013	
	Loans and advances	Impairment provision	Loans and advances	Impairment provision
Performing loans	**88.31%**	**46%**	87.19%	54%
Regular watching	**3.48%**	**2%**	8.00%	6%
Watch list	**4.45%**	**5%**	0.08%	2%
Non-performing loans	**3.76%**	**47%**	4.73%	38%
	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 an individual basis by determining case-by-case actual losses. These policies applied on all accounts have specific materiality on an 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 Measurement module banking general risk

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

The Bank calculates the provisions required for impairment of assets exposed to credit risk, including commitments relating to credit on the basis of rates determined by CBE. In case, the provision for impairment losses 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 and credited to the 'general banking risk reserve' under the equity caption. This reserve is regularly adjusted with this increase and decrease, to equal the amount of increase and decrease in the two provisions. This reserve is not distributable. Note 35 shows the 'general banking risk reserve' movement during the year.

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 collaterals

	31 December 2014	31 December 2013
	EGP (000)	EGP (000)
Balance sheet items exposed to credit risks		
Treasury bills	**13,980,063**	10,611,499
Financial asset held for trading :		
Debt instrument	**21,573**	5
Loans and advances to customers:		
Retail loans:		
Overdrafts	**196,369**	249,829
Credit cards	**839,001**	793,637
Personal loans	**2,607,142**	2,282,649
Mortgage loans	**6,413**	7,686
Corporate loans:		
Overdrafts	**2,282,864**	2,465,636
Direct loans	**8,907,602**	9,118,853
Syndicated loans	**5,739,003**	4,873,524
Financial derivative instruments	**16,766**	17,626
Financial investments:		
Debt instruments	**5,942,046**	6,242,102
Total	**40,538,842**	36,663,046
Off-balance sheet items exposed to credit risk		
Loan commitments and other irrevocable commitments related to credit	**2,364,988**	1,567,393
Letters of credit	**1,016,777**	1,300,031
Letters of guarantee	**9,393,040**	9,053,108
Cash covers	**(696,325)**	(571,766)
Total	**12,078,480**	11,348,766

The above table represents the maximum limit for credit risk as of 31 December 2014 and 31 December 2013, without taking into consideration any collateral. For on-balance-sheet items, amounts stated depend on net carrying amounts shown in the balance sheet.

As shown in the preceding table, 50.76% of the total maximum limit exposed to credit risk resulted from loans and advances to customers against 54.15% as at 31 December 2013 while 14.71% represents investments in debt instruments against 16.96% as at 31 December 2013.

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:

- 91.79% of the loans and advances portfolio is classified at the highest two ratings in the internal rating against 92.78% as at 31 December 2013
- 94.05% of the loans and advances portfolio having no past due or impairment indicators against 89.92% as at 31 December 2013

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 EGP17,340 thousand
- Loans and advances that have been evaluated on an individual basis of total amount EGP789,793 thousand against EGP1,438,079 thousand as at 31 December 2013
- Investments in debt instruments and Treasury bills contain more than 96.42% against 86.74% as at 31 December 2013 due from the Egyptian government

a.6 Loans and advances

Loans and advances are summarised as follows:

	31 December 2014	31 December 2013
	EGP (000)	EGP (000)
	Loans and advances to customers	Loans and advances to customers
Neither having past dues nor impaired	**19,353,276**	18,270,433
Having past due but not impaired	**435,325**	569,423
Subject to impairment	**789,793**	951,958
Total	**20,578,394**	19,791,814
Less:		
Unearned discount of discounted commercial papers	**—**	(460)
Interest in suspense	**(78,029)**	(51,831)
Loan loss impairment	**(932,330)**	(938,177)
Net	**19,568,035**	18,801,346

The Bank's total impairment loss for loans and advances amounted to EGP932,330 thousand against EGP938,177 thousand as at 31 December 2013, of which EGP411,942 thousand against EGP318,240 thousand as at 31 December 2013 representing impairment of individual loans and the reminder amounting to EGP520,388 thousand against EGP619,937 thousand as at 31 December 2013 representing impairment loss for the credit portfolio as a group.

Note 20 includes additional information regarding impairment loss on loans and advances to customers.

The Bank's portfolio increased by 3.97% during the year. The Bank concentrates on dealing with large institutions or banks or individuals 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 is determined by the internal rating of the Bank.

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)*

Loans and advances neither having past due nor subject to impairment

31 December 2014								EGP (000)
	Retail				Corporate			
Rating	Overdrafts	Credit cards	Personal loans	Mortgage	Overdrafts	Direct loans	Syndicated loans	Total loans and advances to customers
Performing loans	**171,909**	**789,488**	**2,471,870**	**4,882**	**2,155,005**	**6,760,753**	**5,450,486**	**17,804,393**
Regular follow up	—	—	—	—	**26,406**	**333,821**	**288,517**	**648,744**
Special follow up	—	—	—	—	**63,072**	**837,067**	—	**900,139**
Total	**171,909**	**789,488**	**2,471,870**	**4,882**	**2,244,483**	**7,931,641**	**5,739,003**	**19,353,276**

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

31 December 2013								EGP (000)
	Retail				Corporate			
Rating	Overdrafts	Credit cards	Personal loans	Mortgage	Overdrafts	Direct loans	Syndicated loans	Total loans and advances to customers
Performing loans	210,902	746,332	2,144,761	7,686	2,409,640	6,643,925	4,574,263	16,737,509
Regular follow up	—	—	—	—	1,442	1,531,482	—	1,532,924
Total	210,902	746,332	2,144,761	7,686	2,411,082	8,175,407	4,574,263	18,270,433

Loans and advances having past dues and not impaired

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

31 December 2014					EGP (000)
					Retail
	Overdrafts	Credit cards	Personal loans	Mortgage	Total
Past due up to 30 days	**16,985**	**24,112**	**67,322**	**1,531**	**109,950**
Past due 30-60 days	**2,879**	**9,525**	**30,400**	—	**42,804**
Past due 60-90 days	**1,652**	**5,819**	**16,341**	—	**23,812**
Total	**21,516**	**39,456**	**114,063**	**1,531**	**176,566**
Fair value of collateral	—	—	—	**17,340**	**17,340**

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 2014				EGP (000)
				Corporate
	Overdrafts	Direct loans	Syndicated loans	Total
Past due up to 30 days	—	**253,088**	—	**253,088**
Past due 30-60 days	—	**4,955**	—	**4,955**
Past due 60-90 days	—	**716**	—	**716**
Total	**—**	**258,759**	**—**	**258,759**
Fair value of collateral	—	—	—	—

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

31 December 2013					EGP (000)
					Retail
	Overdrafts	Credit cards	Personal loans	Mortgage	Total
Past due up to 30 days	34,052	21,709	76,259	—	132,020
Past due 30-60 days	2,657	11,443	27,812	—	41,912
Past due 60-90 days	151	5,353	14,430	—	19,934
Total	36,860	38,505	118,501	—	193,866
Fair value of collateral	—	—	—	26,544	26,544

31 December 2013				EGP (000)
				Corporate
	Overdrafts	Direct loans	Syndicated loans	Total
Past due up to 30 days	—	293,500	—	293,500
Past due 30-60 days	—	82,057	—	82,057
Past due 60-90 days	—	—	—	—
Total	—	375,557	—	375,557
Fair value of collateral	—	—	—	—

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 amounting to EGP789,793 thousand against EGP951,958 thousand as at 31 December 2013.

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

3 Financial Risk Management *(continued)*

a. Credit risk *(continued)*

a.6 Loans and advances *(continued)*

31 December 2014								EGP (000)
	Retail				Corporate			
Valuation	Overdrafts	Credit cards	Personal loans	Property loans	Overdrafts	Direct loans	Syndicated loans	Total
Individual loans subject to impairment	**2,944**	**10,057**	**21,210**	—	**38,381**	**717,201**	—	**789,793**
Fair value of collateral						**172,854**		**172,854**

31 December 2013								EGP (000)
	Retail				Corporate			
Valuation	Overdrafts	Credit cards	Personal loans	Property loans	Overdrafts	Direct loans	Syndicated loans	Total
Individual loans subject to impairment	2,067	8,798	19,387	—	54,554	567,891	299,261	951,958
Fair value of collateral						611,157		611,157

Restructured loans and advances

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

	31 December 2014	31 December 2013
	EGP (000)	EGP (000)
Loans and advances to customers		
Corporate		
Direct loans	**333,775**	71,056
Syndicated loans	**555,839**	573,007
Retail		
Personal loans	**1,699**	2,469
Total	**891,313**	646,532

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 (MERIS-Reuters).

	Treasury bills	Investments in securities	Total
	EGP (000)	EGP (000)	EGP (000)
AAA	—	82,949	82,949
AA- to AA+	—	11,053	11,053
Less than A-	13,980,063	5,869,617*	19,849,680
Total	**13,980,063**	**5,963,619**	**19,943,682**

**Includes Egyptian government bonds amounting to EGP5,848,044 thousand*

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

Geographical sectors

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

	Arab Republic of Egypt			Total EGP (000)
	Cairo	Alexandria and Delta	Upper Egypt, Sinai and Red Sea	
Treasury bills	13,980,063	—	—	13,980,063
Financial assets held for trading				
Debt instruments	21,573	—	—	21,573
Loans and advances to customers				
Retail:				
Overdrafts	158,721	29,490	8,158	196,369
Credit cards	839,001	—	—	839,001
Personal loans	2,302,441	186,832	117,869	2,607,142
Mortgage loans	5,906	135	372	6,413
Corporate:				
Overdrafts	1,885,200	392,606	5,058	2,282,864
Direct loans	7,723,522	975,069	209,011	8,907,602
Syndicated loans	5,469,416	138,933	130,654	5,739,003
Derivative financial instruments	16,766	—	—	16,766
Financial investment:				
Debt instruments	5,942,046	—	—	5,942,046
Other assets	324,726	5,330	2,192	332,248
Total as at 31 December 2014	**38,669,381**	**1,728,395**	**473,314**	**40,871,090**
Total as at 31 December 2013	35,065,411	1,374,109	602,839	37,042,359

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 *(continued)*

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	—	—	—	13,980,063	—	—	13,980,063
Financial assets held for trading							
Debt instruments	—	—	—	21,573	—	—	21,573
Loans and advances to customers							
Retail:							
Overdrafts	—	—	—	—	—	196,369	196,369
Credit cards	—	—	—	—	—	839,001	839,001
Personal loans	—	—	—	—	—	2,607,142	2,607,142
Mortgage loans	—	—	—	—	—	6,413	6,413
Corporate:							
Overdrafts	582,577	608,305	924,172	17,614	150,196	—	2,282,864
Direct loans	4,114,930	2,971,474	1,611,031	2	210,165	—	8,907,602
Syndicated loans	1,440,231	249,621	1,204,117	342,420	2,502,614	—	5,739,003
Derivative financial instruments	—	—	16,766	—	—	—	16,766
Financial investment:							
Debit instruments	—	—	—	5,942,046	—	—	5,942,046
Other assets	—	—	—	—	332,248	—	332,248
Total as at 31 December 2014	**6,137,738**	**3,829,400**	**3,756,086**	**20,303,718**	**3,195,223**	**3,648,925**	**40,871,090**
Total as at 31 December 2013	6,124,797	3,596,263	4,564,587	16,944,824	2,478,087	3,333,801	37,042,359

3 Financial Risk Management *(continued)*

b. Market risk

The Bank is exposed to market risk, which is the risk of fair value or future cash flow fluctuations from changes in 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.

The Bank Treasury is responsible for managing the market risks arising from trading and non-trading activities which are monitored by two separate teams. Regular reports about market risk are submitted to the Board of Directors and each business unit head 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 include foreign exchange risk and equity instruments risks arising from the Bank's held-to-maturity and available-for-sale investments portfolios.

b.1 Market risk measurement techniques

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

Value at Risk

The Bank applies a 'value at risk' methodology (VAR) for trading and non-trading portfolios to estimate the market risk of positions held and the maximum expected losses based on 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 expects to lose using confidence level of 98%. Therefore, there is a 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 500 days. The Bank applies these historical changes in rates, prices, indicators etc directly to its current positions. This approach is called historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and factors used in the VAR calculation.

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

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

The average daily VAR for the Bank during the current year was EGP12,917 thousand against EGP19,190 thousand as at 31 December 2013.

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

Stress testing

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

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

3 **Financial Risk Management** *(continued)*

b. Market risk *(continued)*

b.2 VAR summary

According to risk type

		EGP (000)				EGP (000)
		31 December 2014				31 December 2013
	Average	**High**	**Low**	Average	High	Low
Foreign exchange risk	**11,717**	**59,434**	**4,986**	18,134	141,082	7,168
Interest rate risk	**1,200**	**1,471**	**942**	1,056	1,665	529
Total VAR	**12,917**	**60,905**	**5,928**	19,190	142,747	7,697

Trading portfolio VAR by risk type

		EGP (000)				EGP (000)
		31 December 2014				31 December 2013
	Average	**High**	**Low**	Average	High	Low
Foreign exchange risk	**11,717**	**59,434**	**5,984**	18,134	141,082	7,168
Interest rate risk	**7**	**36**	**2**	4	11	1
Total VAR	**11,724**	**59,470**	**5,986**	18,138	141,093	7,169

Non-trading portfolio VAR by risk type

		EGP (000)				EGP (000)
		31 December 2014				31 December 2013
	Average	**High**	**Low**	Average	High	Low
Interest rate risk	**1,207**	**1,470**	**950**	1,094	1,669	524
Total VAR	**1,207**	**1,470**	**950**	1,094	1,669	524

The increase in VAR, especially interest rate risk, is mainly in 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 are before stress testing.)

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.3 Foreign exchange volatility risk

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

31 December 2014						Equivalent in EGP (000)
	EGP	USD	Euro	GBP	Other	Total
Financial assets:						
Cash and balances with Central Bank	**(2,656,576)**	**(2,243,586)**	**(52,317)**	**(14,519)**	**(2,255)**	**(4,969,253)**
Due from banks	**(9,444,751)**	**(6,232,751)**	**(1,792,252)**	**(721,337)**	**(101,876)**	**(18,292,967)**
Treasury bills	**(13,266,072)**	**(713,991)**	—	—	—	**(13,980,063)**
Financial assets held for trading	**(21,573)**	—	—	—	—	**(21,573)**
Loans and advances to banks	**(71,737)**	—	—	—	—	**(71,737)**
Loans and advances to customers	**(10,277,913)**	**(8,387,470)**	**(768,168)**	**(112,356)**	**(22,128)**	**(19,568,035)**
Derivative financial instruments	—	**(16,434)**	—	**(362)**	**30**	**(16,766)**
Financial investments:						
Available for sale	**(5,587,398)**	**(379,104)**	—	—	—	**(5,966,502)**
Held to maturity	**(39,928)**	—	—	—	—	**(39,928)**
Other financial assets	**(966,166)**	**(296,917)**	**350,423**	**(121,130)**	**993**	**(1,032,797)**
Total financial assets	**(42,332,114)**	**(18,270,253)**	**(2,262,314)**	**(969,704)**	**(125,236)**	**(63,959,621)**
Financial liabilities:						
Due to banks	**950,510**	**82,134**	**41,338**	**5,421**	—	**1,079,403**
Customer deposits	**33,560,319**	**17,918,316**	**2,194,862**	**982,816**	**132,466**	**54,788,779**
Financial derivative	—	**15,999**	**16**	**454**	**(1,719)**	**14,750**
Other financial liabilities	**1,784,725**	**54,514**	**2,876**	**29,370**	**51,530**	**1,923,015**
Total financial liabilities	**36,295,554**	**18,070,963**	**2,239,092**	**1,018,061**	**182,277**	**57,805,947**
Net financial position	**(6,036,560)**	**(199,290)**	**(23,222)**	**48,357**	**57,041**	**(6,153,674)**
Commitments related to credit	**4,535,795**	**5,069,007**	**1,252,177**	**75,395**	**1,146,106**	**12,078,480**

31 December 2013						
Total financial assets	36,656,141	(18,145,589)	(2,453,541)	(1,166,557)	(160,170)	(58,581,998)
Total financial liabilities	31,629,144	18,214,430	2,492,655	1,146,841	158,272	53,641,342
Net financial position - balance sheet	(5,026,997)	68,841	39,114	(19,716)	(1,898)	(4,940,656)
Commitments related to credit	3,413,546	5,771,812	731,137	103,252	1,329,019	11,348,766

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 profit may 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 are monitored daily by Bank Treasury.

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

31 December 2014						EGP (000)
	Up to one month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Total
Financial assets:						
Cash and balances with the Central Bank	**(2,877,496)**	**(2,091,757)**	**—**	**—**	**—**	**(4,969,253)**
Due from banks	**(14,894,451)**	**(3,381,951)**	**(16,565)**	**—**	**—**	**(18,292,967)**
Treasury bills	**—**	**(6,088,989)**	**(7,891,074)**	**—**	**—**	**(13,980,063)**
Financial assets held for trading	**(11,228)**	**—**	**—**	**(10,345)**	**—**	**(21,573)**
Loans and advances to banks	**(71,737)**	**—**	**—**	**—**	**—**	**(71,737)**
Loans and advances to customers	**(7,795,742)**	**(1,508,466)**	**(1,731,265)**	**(8,532,562)**	**—**	**(19,568,035)**
Derivative financial instruments	**—**	**—**	**(14,006)**	**(2,760)**	**—**	**(16,766)**
Financial investments:						
Available for sale	**—**	**—**	**(2,926,541)**	**(2,636,401)**	**(403,560)**	**(5,966,502)**
Held to maturity	**—**	**—**	**—**	**—**	**(39,928)**	**(39,928)**
Other financial assets	**—**	**(344,266)**	**(344,266)**	**(344,265)**	**—**	**(1,032,797)**
Total financial assets	**(25,650,654)**	**(13,415,429)**	**(12,923,717)**	**(11,526,333)**	**(443,488)**	**(63,959,621)**
Financial liabilities:						
Due to banks	**1,079,403**	**—**	**—**	**—**	**—**	**1,079,403**
Customer deposits	**45,605,069**	**3,251,607**	**2,112,146**	**3,819,957**	**—**	**54,788,779**
Derivative financial instruments	**—**	**—**	**11,990**	**2,760**	**—**	**14,750**
Other financial liabilities	**—**	**—**	**—**	**1,923,015**	**—**	**1,923,015**
Total financial liabilities	**46,684,472**	**3,251,607**	**2,124,136**	**5,745,732**	**—**	**57,805,947**
Interest repricing gap	**21,033,818**	**(10,163,822)**	**(10,799,581)**	**(5,780,601)**	**(443,488)**	**(6,153,674)**

31 December 2013						
Total financial assets	(26,112,843)	(6,986,730)	(11,272,858)	(13,775,050)	(434,517)	(58,581,998)
Total financial liabilities	42,149,657	1,760,123	1,824,501	7,907,061	—	53,641,342
Interest repricing gap	16,036,814	(5,226,607)	(9,448,357)	(5,867,989)	(434,517)	(4,940,656)

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

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

Liquidity risk management 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 are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow

— Monitoring liquidity ratios in relation with internal requirements and CBE requirements

— Managing loans' concentration and dues

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 of calculating these expectations is analysing the financial liabilities dues and expected financial assets collections.

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

Non derivative cash flows

31 December 2014						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	**1,079,403**	—	—	—	—	**1,079,403**
Customers' deposits	**46,097,688**	**3,341,576**	**2,263,303**	**3,772,661**	**75,670**	**55,550,898**
Total of financial liabilities according to maturity date	**47,177,091**	**3,341,576**	**2,263,303**	**3,772,661**	**75,670**	**56,630,301**

31 December 2013						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	2,612,115	—	—	—	—	2,612,115
Customers' deposits	39,639,632	1,788,405	1,987,018	6,176,968	76,909	49,668,932
Total of financial liabilities according to maturity date	42,251,747	1,788,405	1,987,018	6,176,968	76,909	52,281,047

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 38

31 December 2014				EGP (000)
	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total
Letter of credit commitments	**1,016,777**	—	—	**1,016,777**
Loans commitments	**2,107,974**	—	—	**2,107,974**
Long commitments, bills on discount and other financial assets	**8,953,729**	—	—	**8,953,729**
Operating lease commitments	**23,060**	**3,994**	—	**27,054**
Total	**12,101,540**	**3,994**	**—**	**12,105,534**

31 December 2013				EGP (000)
	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total
Letter of credit commitments	1,300,031	—	—	1,300,031
Loans commitments	1,313,136	—	—	1,313,136
Long commitments, bills on discount and other financial assets	7,451,425	1,284,174	—	8,735,599
Operating lease commitments	13,195	2,167	135	15,497
Total	10,077,787	1,286,341	135	11,364,263

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 current year amounted to EGP16,175 thousand against EGP22,204 thousand as at 31 December 2013.

Notes to the Separate Financial Statements (continued)

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

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

	EGP (000)	
	Book value	Fair value
	Current year	Current year
Financial assets		
Due from banks	18,292,967	18,292,967
Loans and advances to customers		
Retail	3,648,925	3,570,249
Corporate	16,929,469	16,441,695
Financial investments		
Equity instruments available for sale	24,456	24,456
Held to maturity	39,928	56,103
Financial liabilities		
Due to banks	1,079,403	1,079,403
Customer deposits		
Retail	28,919,417	28,919,417
Corporate	25,869,362	25,869,362

Due from banks

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

Loans and advances to customers

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

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 whose market value cannot 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.

3 Financial Risk Management *(continued)*

e. Capital management

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

— Compliance with capital legal requirements in Egypt

— Protecting the Bank's ability to continue as a going concern and enabling it to generate yield for shareholders and other parties dealing with the Bank

— Maintaining a strong capital base to enhance growth

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

CBE requires the following from the Bank:

— Maintaining 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 numerator in capital adequacy comprises the following two tiers:

Tier 1: It is the basic capital comprising of (going concern capital and additional going concern capital)

Tier 2: Its is the gone concern capital comprising:

— 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, contingent liabilities) must be enough to face any liabilities it formed for.

The dominator of the capital adequacy comprises:

1. Credit risk
2. Market risk
3. Operation risk

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

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 *(continued)*

The Bank complied with all internal requirements during the last years. The schedule below shows the calculation of the capital adequacy ratio for the year according to Basel II:

	31 December 2014	**31 December 2013**
	EGP (000)	**EGP (000)**
Capital		
Tier 1 after disposals (going concern capital)		
Share capital	**2,795,568**	2,795,568
Reserves	**1,680,178**	1,503,672
Total disposals from going concern capital	**(65,797)**	(3,125)
Total going concern capital after disposals (common equity)	**4,409,949**	4,296,115
Tier 2 (gone - concern capital)		
45% of fair value of available-for-sale investments	**10,656**	31,483
45% of fair value of investments held-to-maturity	**7,279**	9,992
Subordinated (deposits) loans	**272,000**	272,000
Performing impairment losses provision for loans and advances contingent liabilities	**333,465**	323,595
Total tier 2 after disposals (gone - concern capital)	**623,400**	637,070
Total capital adequacy after disposals (1+2)	**5,033,349**	4,933,185
Risk (credit, market and operation)		
Credit risk	**27,029,743**	26,230,134
Operation risk	**492,018**	440,774
Total risk (credit, market and operation)	**31,949,927**	30,637,874
Capital adequacy ratio (%)	**15.75%**	16.10%

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

a. 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 an individual basis. This evidence includes data indicating negative changes in a borrower's portfolio ability to repay the Bank, or local or economic circumstances related to default. On scheduling future cash flows, the management uses 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 minimise any discrepancy between the estimated loss and actual loss based on experience.

b. Impairment of available-for-sale equity investments

The Bank recognises 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 is recognised when there is evidence of deterioration in the investee's 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 counterparty volatility and correlations require management estimations. Changes in these estimation factors can affect the financial instrument's fair value disclosure. For example, to the extent that management uses credit marginal less than 20 points, the estimated net fair value of derivatives amounted to EGP16,766 thousand in assets against EGP14,750 thousand in liabilities that represent its fair value as shown in note 21.

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 a 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 until 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 amortised 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 EGP24,645 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 are noted. Income tax and deferred tax will be recorded in that year.

Notes to the Separate Financial Statements (continued)

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

5 Segment analysis

a. By activity segment

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

a.1 Large enterprises medium and small

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

a.2 Investment

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

a.3 Individuals

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

a.4 Other activities

Includes other banking activities such as fund management.

Inter-segment transactions occur in the normal course of the Bank's business. Assets and liabilities 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 2014						EGP (000)
	Corporate	Medium and small enterprises	Global markets	RBWM	Other activities	Total
Income and expenses according to the activity segment						
Income activity segment	**1,729,771**	**215,301**	**471,030**	**1,198,118**	**74,877**	**3,689,097**
Expenses activity segment	**(377,566)**	**(66,131)**	**(19,618)**	**(659,343)**	**(43,941)**	**(1,166,599)**
Profit before tax	**1,352,205**	**149,170**	**451,412**	**538,775**	**30,936**	**2,522,498**
Tax	**(431,813)**	**(44,698)**	**(142,997)**	**(135,962)**	**—**	**(755,470)**
Profit for the year	**920,392**	**104,472**	**308,415**	**402,813**	**30,936**	**1,767,028**
Assets and liabilities according to activity segment						
Assets activity segment	**(56,257,798)**	**(909,911)**	**(353,778)**	**(2,809,923)**	**(3,628,211)**	**(63,959,621)**
Total assets	**(56,257,798)**	**(909,911)**	**(353,778)**	**(2,809,923)**	**(3,628,211)**	**(63,959,621)**
Liabilities activity segment	**28,255,715**	**2,850,323**	**394,646**	**28,669,773**	**3,789,164**	**63,959,621**
Total liabilities	**28,255,715**	**2,850,323**	**394,646**	**28,669,773**	**3,789,164**	**63,959,621**

31 December 2013						EGP (000)
	Corporate	Medium and small enterprises	Global markets	RBWM	Other activities	Total
Income and expenses according to activity segment						
Income activity segment	1,505,136	241,168	364,912	960,894	69,673	3,141,783
Expenses activity segment	(613,675)	(89,774)	(15,347)	(667,993)	(228,337)	(1,615,126)
Profit before tax	891,461	151,394	349,565	292,901	(158,664)	1,526,657
Tax	(294,498)	(60,975)	(161,128)	(119,230)	—	(635,831)
Profit for the year	596,963	90,419	188,437	173,671	(158,664)	890,826
Assets and liabilities according to activity segment						
Assets activity segment	(22,382,070)	(51,465)	(10,734,274)	(2,540,559)	(22,873,630)	(58,581,998)
Total assets	(22,382,070)	(51,465)	(10,734,274)	(2,540,559)	(22,873,630)	(58,581,998)
Liabilities activity segment	14,872,424	1,486,474	669,150	29,371,496	12,182,454	58,581,998
Total liabilities	14,872,424	1,486,474	669,150	29,371,496	12,182,454	58,581,998

Notes to the Separate Financial Statements (continued)

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

5 Segment analysis *(continued)*

b. Analysis according to the geographical segment

31 December 2014		Arab Republic of Egypt		EGP (000)
	Cairo	Alexandria and Delta	Upper Egypt, Sinai and Red Sea	Total
Income and expenses according to geographical segment				
Income geographical segment	**3,444,412**	**166,701**	**77,983**	**3,689,096**
Expenses geographical segment	**(988,573)**	**(123,760)**	**(54,265)**	**(1,166,598)**
Profit before tax	**2,455,839**	**42,941**	**23,718**	**2,522,498**
Tax	**(755,470)**	**—**	**—**	**(755,470)**
Profit for the year	**1,700,369**	**42,941**	**23,718**	**1,767,028**
Assets and liabilities according to geographical segment				
Assets geographical segment	**(61,521,043)**	**(1,915,704)**	**(522,874)**	**(63,959,621)**
Total assets	**(61,521,043)**	**(1,915,704)**	**(522,874)**	**(63,959,621)**
Liabilities geographical segment	**58,246,963**	**4,511,822**	**1,200,836**	**63,959,621**
Total liabilities	**58,246,963**	**4,511,822**	**1,200,836**	**63,959,621**

31 December 2013		Arab Republic of Egypt		EGP (000)
	Cairo	Alexandria and Delta	Upper Egypt, Sinai and Red Sea	Total
Income and expenses according to geographical segment				
Income geographical segment	2,889,751	179,957	72,076	3,141,784
Expenses geographical segment	(1,508,822)	(40,686)	(65,619)	(1,615,127)
Profit before tax	1,380,929	139,271	6,457	1,526,657
Tax	(635,831)	—	—	(635,831)
Profit for the year	745,098	139,271	6,457	890,826
Assets and liabilities according to geographical segment				
Assets geographical segment	(56,385,042)	(1,543,267)	(653,689)	(58,581,998)
Total assets	(56,385,042)	(1,543,267)	(653,689)	(58,581,998)
Liabilities geographical segment	52,476,588	4,486,479	1,618,931	58,581,998
Total liabilities	52,476,588	4,486,479	1,618,931	58,581,998

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 2014	31 December 2013
Interest from loans and similar income:		
Loans and advances to customers	**1,681,349**	1,836,229
Treasury bills and Treasury bonds	**1,108,838**	1,070,328
Deposits and current accounts	**403,101**	256,382
Investments in debt instruments available for sale	**703,992**	741,560
	3,897,280	3,904,499
Interest on deposits and similar expenses:		
Deposits and current accounts:		
Banks	**(194)**	(283)
Customers	**(1,120,939)**	(1,470,839)
Net	**(1,121,133)**	(1,471,122)
	2,776,147	2,433,377

7 Net fees and commissions income

	EGP (000)	
		The year ended
	31 December 2014	31 December 2013
Fees and commissions income:		
Fees and commissions related to credit	**629,083**	592,255
Custody fees	**39,687**	39,668
Other fees	**14,966**	17,887
	683,736	649,810
Fees and commissions expenses:		
Brokerage fees paid	**(2,650)**	(3,137)
Other fees paid	**(57,406)**	(54,816)
	(60,056)	(57,953)
Net	**623,680**	591,857

Notes to the Separate Financial Statements (continued)

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

8 Dividends income

		EGP (000)
		The year ended
	31 December 2014	31 December 2013
Investments available for sale	2,325	1,700
Net	**2,325**	1,700

9 Net trading income

		EGP (000)
		The year ended
	31 December 2014	31 December 2013
Foreign exchange operations:		
Gain from foreign currency transactions	**195,602**	178,520
Gain from debt instruments held for trading	**3,181**	4,120
Gain/(loss) from forward deals revaluation	**(312)**	220
Net	**198,471**	182,860

10 Administrative expenses

		EGP (000)
		The year ended
	31 December 2014	31 December 2013
Staff costs		
Wages and salaries	**362,626**	379,890
Social insurance	**15,830**	15,209
	378,456	395,099
Other administrative expenses	**694,265**	736,473
	1,072,721	1,131,572

Notes to the Separate Financial Statements (continued)

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

11 Other operating income (expenses)

		EGP (000)
		The year ended
	31 December 2014	31 December 2013
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	**(1,918)**	13,688
Gain from sale of property and equipment	**2,721**	73
Operating lease	**46,619**	45,378
Other provision (loss)	**(1,801)**	(239,288)
Gain from services provided to operation lease user	**16,184**	15,146
Head office services revenue	**7,783**	9,054
Other	**1,244**	1,428
Net	**70,832**	(154,521)

12 Credit impairment charges/(release)

		EGP (000)
		The year ended
	31 December 2014	31 December 2013
Loans and advances to customers		
Impairment losses	**(156,354)**	(454,262)
Impairment recovery	**65,194**	205,927
Net	**(91,160)**	(248,335)

13 Income tax expenses

		EGP (000)
		The year ended
	31 December 2014	31 December 2013
Current taxes	**(782,000)**	(498,300)
Prior year adjustments	**12,582**	(138,000)
Deferred tax (note 32)	**13,948**	469
Net	**(755,470)**	(635,831)

Notes to the Separate Financial Statements (continued)

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

13 Income tax expenses (continued)

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

	EGP (000)	
	The year ended	
	31 December 2014	31 December 2013
Profit before tax		
Income tax calculated on accounting profit	**2,522,498**	1,526,657
Tax rate	**30%**	25%
Add (less)	**756,699**	381,664
— Non-deductible expenses	**12,870**	121,072
— Tax exemptions	**(10,503)**	(10,978)
— Prior year adjustments	**(12,582)**	138,000
— Interest in suspense	**8,986**	6,073
— Total differences	**(1,229)**	254,167
— Income tax according to the tax return	**755,470**	635,831
Effective tax rate	**29.95%**	41.65%

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 since inception until 2004**

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

— **Years from 2005 till 2011**

These years were inspected, and disputes are currently being discussed with the concerned internal committee.

— **Years 2012 till 2013**

The Bank delivered the tax declarations for this year according to tax law No.91 for year 2005.

b. Salary Tax

— **Years from 1982 until 2011**

These years were inspected and were settled.

— **Year 2012 till 2013**

The final settlement for this year is being prepared.

c. Stamp Duty Tax

— **Years from 1982 until 31 July 2006**

These years were inspected and tax was fully settled.

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

The tax appeal committee had transferred some disputed items to the large tax payers' center for re-inspection, and some other disputed items to the court.

— **Years 2009 until 31 March 2013**

The inspection is continuous.

— On 4 June 2014, decree number 44 for 2014 has been issued with a temporary additional tax for three years starting from the current tax period amounting to 5% for corporate taxable income exceeding EGP1 million according to corporate law rules, to be accrued for and collected in accordance to these rules. This law is effective from 5 June 2014.

— On 30 June 2014, law number 53 for 2014 was issued by a presidential decree to amend corporate tax law number 91 for 2005. Major amendments:

— Impose tax over dividends distribution

— Impose tax over capital gains from sale of quotes and securities

Notes to the Separate Financial Statements (continued)

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

14 Earnings per share

a. Basic

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

		EGP (000)
		The year ended
	31 December 2014	31 December 2013
Net profit applicable to be distributed on the shareholders	**1,764,260**	890,706
Employees' profit share	**(176,426)**	(139,434)
	1,587,834	751,272
Common shares issued - weighted average (1,000 shares)	**24,744**	24,744
Earnings per share/EGP	**64.17**	30.36

15 Cash and balances with the CBE

		EGP (000)
	31 December 2014	31 December 2013
Cash	**745,034**	602,050
Due from Central Bank (within the statutory reserve)	**4,224,219**	11,895,620
	4,969,253	12,497,670
Non-interest bearing balances	**2,877,496**	10,240,245
Fixed interest bearing balances	**2,091,757**	2,257,425
	4,969,253	12,497,670

16 Due from banks

		EGP (000)
	31 December 2014	31 December 2013
Current accounts	**651,848**	583,681
Deposits	**17,641,119**	8,459,247
	18,292,967	9,042,928
Due from Central Bank (other than the statutory reserve)	**9,447,565**	30
Local banks	**80,045**	121,939
Foreign banks	**8,765,357**	8,920,959
	18,292,967	9,042,928
Non-interest bearing balances	**1,050,563**	583,711
Fixed interest bearing balances	**17,242,404**	8,459,217
	18,292,967	9,042,928
Current balances	**18,292,967**	9,042,928

Notes to the Separate Financial Statements (continued)

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

17 Treasury bills

		EGP (000)
	31 December 2014	31 December 2013
Treasury bills - Egyptian	**13,266,703**	8,376,772
Treasury bills - American	**713,360**	2,234,727
Total	**13,980,063**	10,611,499
Treasury bills represent the following:		
91 days maturity	**6,174,125**	3,222,875
182 days maturity	**7,206,650**	621,700
273 days maturity	**25,000**	1,725,000
364 days maturity	**864,335**	5,380,202
Unearned interest	**(290,047)**	(338,278)
Total	**13,980,063**	10,611,499

18 Financial assets held for trading

		EGP (000)
	31 December 2014	31 December 2013
Debt instruments		
Governmental bonds	**21,573**	5
Total debt instruments	**21,573**	5
Total finance asset held for trading	**21,573**	5

19 Loans and advances to banks

		EGP (000)
	31 December 2014	31 December 2013
Term loans	**71,737**	131,097
Total	**71,737**	131,097
Provision for impairment	**—**	—
Net	**71,737**	131,097
Current balances	**71,737**	131,097

Notes to the Separate Financial Statements (continued)

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

20 Loans and advances to customers

		EGP (000)
	31 December 2014	31 December 2013
Retail:		
Current debit balances	**196,369**	249,829
Credit cards	**839,001**	793,637
Personal loans	**2,607,142**	2,282,649
Mortgage loans	**6,413**	7,686
Total	**3,648,925**	3,333,801
Corporate loans including small loans:		
Overdrafts	**2,282,864**	2,465,636
Direct loans	**8,907,602**	9,118,853
Syndicated loans	**5,739,003**	4,873,524
Total	**16,929,469**	16,458,013
Total loans and advance to customers	**20,578,394**	19,791,814
Less: unearned discount for discounted bills	—	(460)
Less: provision for impairment losses	**(932,330)**	(938,177)
Less: interest in suspense	**(78,029)**	(51,831)
Net	**19,568,035**	18,801,346
Distributed as follows:		
Current balances	**11,035,473**	10,075,716
Non-current balances	**8,532,562**	8,725,630
Total	**19,568,035**	18,801,346

During the year ended 31 December 2014, the Bank has accepted trading financial securities with a fair value amounting to EGP417,035 thousand as a commercial loan guarantee.

Notes to the Separate Financial Statements (continued)

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

20 Loans and advances to customers *(continued)*

Provision for impairment losses

The provision for impairment losses movement for loans and advances to customers classified according to their types is as follows:

31 December 2014					EGP (000)
					Retail
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Total
Balance at the beginning of the year	**1,438**	**13,685**	**21,259**	—	**36,382**
Impairment losses charged/(released)	**345**	**14,346**	**41,284**	**61**	**56,036**
Amounts written off during the year	**(514)**	**(12,763)**	**(34,559)**	—	**(47,836)**
Balance at the end of the year	**1,269**	**15,268**	**27,984**	**61**	**44,582**

31 December 2014				EGP (000)
				Corporate
	Overdrafts	Direct loans	Syndicated loans	Total
Balance at the beginning of the year	**99,973**	**304,310**	**497,512**	**901,795**
Impairment losses charged	**4,736**	**18,481**	**11,907**	**35,124**
Amounts written off during the year	—	**(62,556)**	—	**(62,556)**
Foreign revaluation difference related to provision	—	**13,385**	—	**13,385**
Balance at the end of the year	**104,709**	**273,620**	**509,419**	**887,748**

31 December 2013					EGP (000)
					Retail
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Total
Balance at the beginning of the year	842	6,106	14,594	28	21,570
Impairment losses charged/(released)	760	18,222	32,247	(28)	51,201
Amounts written off during the year	(164)	(10,643)	(25,582)	—	(36,389)
Balance at the end of the year	1,438	13,685	21,259	—	36,382

31 December 2013				EGP (000)
				Corporate
	Overdrafts	Direct loans	Syndicated loans	Total
Balance at the beginning of the year	94,846	242,181	324,738	661,765
Impairment losses charged	5,127	19,234	172,773	197,134
Amounts written off during the year	—	(1,313)	—	(1,313)
Foreign revaluation difference related to provision	—	44,209	—	44,209
Balance at the end of the year	99,973	304,311	497,511	901,795

Notes to the Separate Financial Statements (continued)

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

21 Financial derivatives

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

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

31 December 2014				EGP (000)
	Contract amount Assets	Contract amount Liabilities	Assets	Liabilities
Derivatives held for trading				
Foreign currency derivatives				
Currency swap contracts	**138,963**	**(138,963)**	**3,470**	**(3,470)**
Currency forward contracts	**555,992**	**(555,992)**	**10,535**	**(8,519)**
Currency exchange contacts	**544,004**	**(544,004)**	**—**	**—**
Interest rate derivatives				
Interest rate swap contracts	**974,624**	**(974,624)**	**2,761**	**(2,761)**
Total assets (liabilities) of derivatives held for trading			**16,766**	**(14,750)**

Notes to the Separate Financial Statements (continued)

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

21 Financial derivatives *(continued)*

31 December 2013				EGP (000)
	Contract amount Assets	Contract amount Liabilities	Assets	Liabilities
Derivatives held for trading				
Foreign currency derivatives				
Currency swap contracts	315,160	(315,160)	10,338	(10,338)
Currency forward contracts	176,487	(176,487)	95	(288)
Currency exchange contacts	107,251	(107,251)	—	—
Interest rate derivatives				
Interest rate swap contracts	1,541,820	(1,541,820)	7,193	(7,300)
Total assets (liabilities) of derivatives held for trading			**17,626**	**(17,926)**

22 Financial investments

		EGP (000)
	31 December 2014	31 December 2013
a. Available for sale		
Equity instruments unlisted (at cost)	**24,456**	23,154
Debt instruments listed (at FMV)**	**5,942,046**	6,242,102
Total available-for-sale investments (1)	**5,966,502**	6,265,256
b. Held to maturity		
Debt instruments unlisted* (mutual fund)	**39,928**	74,839
Total held-to-maturity investments (2)	**39,928**	74,839
Total financial investments (1+2)	**6,006,430**	6,340,095
Current balances	**5,942,046**	6,242,102
Non-current balances	**64,384**	97,993
	6,006,430	6,340,095
Fixed interest debt instruments	**5,848,044**	6,124,030
Variable interest debt instruments	**133,930**	192,911
	5,981,974	6,316,941

Notes to the Separate Financial Statements (continued)

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

22 Financial investments *(continued)*

31 December 2014			EGP (000)
	Available for sale	Held to maturity	Total
Balance at beginning of the year	**6,265,256**	**74,839**	**6,340,095**
Additions	**881,186**	**—**	**881,186**
Disposals (sale/redemption)	**(1,232,116)**	**(34,911)**	**(1,267,027)**
Monetary assets forex differences	**98,459**	**—**	**98,459**
Gain/Loss from change in FMV	**(46,283)**	**—**	**(46,283)**
Balance at end of the year	**5,966,502**	**39,928**	**6,006,430**
31 December 2013			
Balance at beginning of the year	7,584,874	89,674	7,674,548
Additions	2,933,380	—	2,933,380
Disposals (sale/redemption)	(4,705,818)	(14,835)	(4,720,653)
Monetary assets forex differences	386,183	—	386,183
Gain from change in FMV	66,637	—	66,637
Balance at end of the year**	6,265,256	74,839	6,340,095

**The redemption amount of the mutual funds certificates as at 31 December 2014 amounted to EGP56,103 thousand against EGP97,043 thousand as at 31 December 2013.*

***Debt instruments at listed fair market value include local bonds amounting to EGP5,848,044 thousand secured by the Egyptian Ministry of Finance.*

Gain (loss) from investments

		EGP (000)
		The year ended
	31 December 2014	31 December 2013
Gain (loss) impairment from available-for-sale equity instruments	**1,302**	(172)
Loss on sale of available-for-sale instruments	**—**	(151,719)
Gain on sale of held-to-maturity debt instruments	**13,622**	3,182
	14,924	(148,709)

Notes to the Separate Financial Statements (continued)

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

23 Investment in subsidiaries

The Bank's total investment in subsidiaries amounted to EGP35,517 thousand (EGP35,517 thousand as at 31 December 2013). The Bank's ownership percentage is as follows **(based on the last financial position for the company as at 30 September 2014)**:

EGP (000)

	Company's country	Company's assets	Company's liabilities (without equity)	Company's revenues	Company's profits	Percentage %
HSBC Securities Egypt Company SAE	Egypt	48,548	21,768	10,103	1,323	98%
Total		**48,548**	**21,768**	**10,103**	**1,323**	

24 Intangible assets

EGP (000)

	Computer software	
	31 December 2014	31 December 2013
Balance at the beginning of the current year		
Cost	**7,320**	6,565
Amortisation	**(4,171)**	(2,897)
Net book value at the beginning of the current year	**3,149**	3,668
Additions	**3,180**	755
Amortisation cost	**(1,594)**	(1,274)
Net book value as at end of year	**4,735**	3,149
Cost	**10,500**	7,320
Amortisation	**(5,765)**	(4,171)
Net book value as at end of year	**4,735**	3,149

25 Other assets

EGP (000)

	31 December 2014	31 December 2013
Accrued revenues	**285,863**	328,395
Prepaid expenses	**24,635**	31,975
Advances to purchase fixed assets	**21,750**	18,943
Assets reverted to the Bank (after deducting the impairment)	**470**	470
Costs of branches under construction	**2,895**	7,477
Paid to tax authority under stamp tax duty	**30,300**	58,300
Others	**60,284**	59,034
Total	**426,197**	504,594

Notes to the Separate Financial Statements (continued)

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

26 Fixed assets

EGP (000)

	Land and buildings	Leasehold improvement	Machines and equipment	Others	Total
Balance as at the beginning of the current year					
Cost	431,840	122,666	102,925	169,441	**826,872**
Accumulated depreciation	(113,704)	(101,619)	(51,667)	(123,534)	**(390,524)**
Net book value at the beginning of the current year	**318,136**	**21,047**	**51,258**	**45,907**	**436,348**
Additions	—	3,534	7,215	9,432	**20,181**
Investment property	9,524	—	—	—	**9,524**
Disposals (net)	(2,279)	(15)	(20)	—	**(2,314)**
Depreciation for the year	(21,664)	(11,487)	(9,820)	(14,808)	**(57,779)**
Net book value at the end of the year	**303,717**	**13,079**	**48,633**	**40,531**	**405,960**
Balance as at the end of the current year					
Cost	439,085	126,185	110,120	178,873	**854,263**
Accumulated depreciation	(135,368)	(113,106)	(61,487)	(138,342)	**(448,303)**
Net book value at the end of the year	**303,717**	**13,079**	**48,633**	**40,531**	**405,960**

27 Investment property

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

EGP (000)

	31 December 2014	31 December 2013
Balance at the beginning of the year		
Cost	**140,426**	135,834
Accumulated depreciation	**(30,211)**	(23,630)
Net book value at the beginning of the year	**110,215**	112,204
Transferred from investment property	**(9,524)**	4,592
Depreciation	**(4,160)**	(6,581)
Net book value as at the end of year	**96,531**	110,215
Balance at the end of the year		
Cost	**130,902**	140,426
Accumulated depreciation	**(34,371)**	(30,211)
Net book value as at the end of year	**96,531**	110,215

28 Due to banks

EGP (000)

	31 December 2014	31 December 2013
Current accounts	1,079,403	2,612,115
	1,079,403	2,612,115
Local banks	—	4,914
Foreign banks	1,079,403	2,607,201
	1,079,403	2,612,115
Non-interest bearing balances	**1,079,403**	2,612,115
	1,079,403	2,612,115

29 Customers' deposits

EGP (000)

	31 December 2014	31 December 2013
Demand deposits	**23,763,064**	19,702,379
Time and call deposits	**7,634,307**	5,150,601
Certificates of deposits	**6,611,426**	7,561,332
Saving deposits	**15,681,325**	15,808,784
Other deposits	**1,098,657**	1,094,453
	54,788,779	49,317,549
Corporate deposits	**25,869,362**	19,514,420
Retail deposits	**28,919,417**	29,803,129
Net book value as at the end of year	**54,788,779**	49,317,549
Non-interest bearing balances	**24,861,721**	20,796,832
Fixed interest bearing balances	**29,927,058**	28,520,717
Net book value as at the end of year	**54,788,779**	49,317,549
Current balances	**50,968,822**	43,111,540
Non-current bearing balances	**3,819,957**	6,206,009
Net book value as at the end of year	**54,788,779**	49,317,549

Customer deposits include deposits of EGP696,325 thousand as at 31 December 2014 against EGP571,766 thousand as at 31 December 2013, which represent collateral for irrecoverable export letter of credit. There is no major difference between its carrying value and fair value.

30 Other liabilities

EGP (000)

	31 December 2014	31 December 2013
Accrued interest	**148,973**	160,351
Unearned revenue	**71,052**	66,903
Accrued expenses	**231,045**	243,842
Creditors	**141,265**	83,568
Other credit balances	**113,929**	79,782
Total	**706,264**	634,446

31 Other provisions

EGP (000)

	Provision for claims		Provision for contingent liabilities		Total	
	31 December 2014	31 December 2013	**31 December 2014**	31 December 2013	**31 December 2014**	31 December 2013
Balance at the beginning of the year	**311,603**	123,404	**39,360**	44,568	**350,963**	167,972
Formed during the year	**21,912**	245,254	8,247	—	**30,159**	245,254
Transferred from other credit balance	**—**	2,776	—	—	**—**	2,776
Provisions valuation differences	**51**	(29)	**559**	758	**610**	729
	333,566	371,405	**48,166**	45,326	**381,732**	416,731
Used during the year	**(172,376)**	(59,802)	—	—	**(172,376)**	(59,802)
No longer required	(40,939)	—	**—**	(5,966)	**(40,939)**	(5,966)
Balance at the end of the year	**120,251**	311,603	**48,166**	39,360	**168,417**	350,963

Notes to the Separate Financial Statements (continued)

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

32 Deferred tax

Deferred income taxes calculated entirely on the differences of deferred tax in accordance with liabilities method using effective tax rate of 30% 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 2014	31 December 2013	**31 December 2014**	31 December 2013
Fixed assets	**—**	—	**(4,743)**	(5,799)
Provisions (other than loans provision)	**68,600**	55,708		—
Total tax assets (liabilities)	**68,600**	55,708	**(4,743)**	(5,799)
Net tax assets (liabilities)	**63,857**	**49,909**		

Deferred tax assets and liabilities movements

				EGP (000)
	Deferred tax assets		Deferred tax liabilities	
	31 December 2014	31 December 2013	**31 December 2014**	31 December 2013
Balance at the beginning of the year	**55,708**	53,346	**(5,799)**	(3,905)
Additions	**12,892**	2,362	**1,056**	(1,894)
Balance at the end of the year	**68,600**	55,708	**(4,743)**	(5,799)

33 End of service compensation benefit

		EGP (000)
	31 December 2014	31 December 2013
Liability stated in balance sheet for:		
End of service benefits	**223,758**	216,737
Amounts recognised in income statement:		
End of service benefits	**44,918**	46,863

The principal actuarial assumptions used are as follows:

— Rates of death/disability of the British table A49-52ULT

— Rate of salary increase Sx=S20 *(1.05) ^ (X-20)

Notes to the Separate Financial Statements (continued)

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

34 Capital

EGP (000)

	Number of shares (in millions)	Common shares	Total	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
Proceeds from issuance of shares	8.536517	717,067	717,067	—
Balance at the end of the year 2013	**33.280566**	**2,795,567**	**2,795,567**	**6,728**
Balance at the beginning of the year	33.280,566	2,795,567	2,795,567	6,728
Balance at the end of the year 2014	**33.280566**	**2,795,567**	**2,795,567**	**6,728**

a. Authorised capital

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

According to the extraordinary general assembly decision on 30 November 2010, the authorised capital has been increased to EGP 5,000,000,000.

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 to EGP2,078,500,116 increasing by EGP570,000,060 by issuing 6,785,715 shares

— Accordingly, the issued and fully paid-up capital is EGP2,078,500,116 represented in 24,744,049 fully paid shares at par value of EGP84 each

— According to the extraordinary general assembly's decision on 26 September 2013, it was approved to increase the issued capital to an amount not exceeding EGP2,796,006,192, by an increase of EGP717,506,076 representing 8,541,739 shares, in which the paid amount was EGP717,067,428, representing 8,536,517 shares still under registration as at the balance sheet date

35 Reserves and retained earnings

EGP (000)

	31 December 2014	31 December 2013
Reserves		
General reserve	**1,023,767**	1,022,238
Legal reserve	**473,177**	452,714
Special reserve	**63,466**	63,466
General banking risk reserve	**235**	188
Capital reserve	**73**	—
Other reserves - issuance premium	**6,728**	6,728
Fair value reserve - investments available for sale	**23,680**	69,963
Total reserves at the end of the year	**1,591,126**	1,615,297

Notes to the Separate Financial Statements (continued)

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

35 Reserves and retained earnings *(continued)*

Reserves movements during the year are as follows:

a. General reserve

		EGP (000)
	31 December 2014	31 December 2013
Balance at the beginning of the year	**1,022,238**	962,036
Transferred from prior year profits	**1,529**	60,202
Balance at the end of the year	**1,023,767**	1,022,238

b. Legal reserve

		EGP (000)
	31 December 2014	31 December 2013
Balance at the beginning of the year	**452,714**	392,772
Transferred from prior year profits	**20,463**	35,868
Transferred from retained earnings of the first half of the year	**—**	24,074
Balance at the end of the year	**473,177**	452,714

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

c. General banking risk reserve

		EGP (000)
	31 December 2014	31 December 2013
Balance at the beginning of the year	**188**	141
Transferred to general banking reserve	**47**	47
Balance at the end of the year	**235**	188

In accordance with the CBE instructions, general banking risk reserve is formed to meet unexpected risks, and this reserve is undistributable except after obtaining the approval of the CBE.

d. Special reserve

		EGP (000)
	31 December 2014	31 December 2013
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 CBE instructions, special reserve is formed to meet unexpected risks, and this reserve is undistributable except after obtaining the approval of the CBE.

Notes to the Separate Financial Statements (continued)

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

35 Reserves and retained earnings *(continued)*

Reserves movements during the year are as follows *(continued)*:

e. Reserve for excess than par value - issuance premium

		EGP (000)
	31 December 2014	31 December 2013
Balance at the beginning of the year	**6,728**	6,728
Balance at the end of the year	**6,728**	6,728

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

f. Fair value reserve available-for-sale investments

		EGP (000)
	31 December 2014	31 December 2013
Balance at the beginning of the year	**69,963**	3,326
Net change in investments available-for-sale	**(46,283)**	66,637
Balance at the end of the year	**23,680**	69,963

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

g. Capital reserve

		EGP (000)
	31 December 2014	31 December 2013
Balance at the beginning of the year	**—**	—
Net change in investments available for sale	**73**	—
Balance at the end of the year	**73**	—

h. Retained earning

		EGP (000)
	31 December 2014	31 December 2013
Movement on retained earnings		
Balance at the beginning of the year	**529,792**	892,922
Net profit for year	**1,767,028**	890,826
Dividends for year	**(507,727)**	(1,133,764)
Transferred to legal reserve	**(20,463)**	(59,943)
Transferred to general banking risk reserve	**(47)**	(47)
Transferred to capital reserve	**(73)**	—
Transferred to general reserve	**(1,529)**	(60,202)
Balance at the end of the year	**1,766,981**	529,792

Notes to the Separate Financial Statements (continued)

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

36 Dividends

Payment of dividends is not registered unless being approved by the general assembly. The Board of Directors propose to the general assembly that was held on 12 March 2015 for a payment of EGP57.04 per share as cash dividends for the year 2014 with a total amount of EGP1,411,400,555 (payment of EGP28.5 per share as cash dividends for year 2013 with a total amount of EGP705,205,397). Moreover, the Board of Directors proposed in the general assembly meeting held on 12 March 2015 to distribute EGP176,426,025 as employees distribution related to the profit in year 2014. (The actual employees dividends distributed in 2013 amount to EGP139,434,226.).

37 Cash and cash equivalents

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

		EGP (000)
	31 December 2014	31 December 2013
Cash and due from the CBE (note 15)	**745,034**	602,050
Due from banks (note 16)	**18,276,402**	1,603,541
Treasury bills (note 17)	**6,088,989**	10,611,499
	25,110,425	12,817,090

38 Commitment and contingent liabilities

a. Legal claims

There are lawsuits filed against the Bank as at 31 December 2014. The charged provision amounting to EGP229 thousand, provision of EGP1,203 thousand has been refunded and the used provision amounting to EGP261 thousand during the year.

b. Commitments for loans, guarantees and facilities

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

		EGP (000)
	31 December 2014	31 December 2013
Acceptances	**141,584**	205,361
Letters of guarantee	**9,393,040**	9,053,108
Letters of credit (import and export)	**1,016,778**	1,300,031
Other contingent liabilities	**115,429**	48,896
Commitments for loans	**2,107,974**	1,313,136
Cash margin	**(696,325)**	(571,766)
Total	**12,078,480**	11,348,766

Notes to the Separate Financial Statements (continued)

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

38 Commitment and contingent liabilities *(continued)*

c. Commitments for operating lease contracts

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

	EGP (000)	
	31 December 2014	31 December 2013
Less than one year	**23,060**	13,195
More than one year and less than five years	**3,994**	2,167
More than five years	**-**	135
Total	**27,054**	15,497

39 Related party transactions

HSBC Bank Egypt SAE is a 94.54% owned subsidiary of HSBC Holdings plc through HSBC Holdings BV. The remaining percentage (5.46%) 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 2014	31 December 2013
Loans and advances to customers		
Existing loans at the beginning of the year	—	—
Loans issued during the year	**1,675**	—
Existing loans at the end of the year	**1,675**	—
Interest on loans	**55**	470

No provisions formed for loan given to related parties.

b. Deposits from related parties

	EGP (000)	
	Subsidiaries	
	31 December 2014	31 December 2013
Due to customers		
Deposits at the beginning of the financial year	**37,246**	46,643
Deposits received during the financial year	**14,031**	1,093
Deposits redeemed during the financial year	**(21,384)**	(10,490)
Deposits at the end of the financial year	**29,893**	37,246
The cost of deposits and similar costs	**465**	661

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

Notes to the Separate Financial Statements (continued)

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

39 Related party transactions *(continued)*

c. Other related party transactions

		EGP (000)
		Subsidiaries
	31 December 2014	31 December 2013
Fees and commission income	**1,186**	1,400

The cost of services by HSBC Group as at 31 December 2014 amounted to EGP368,180 thousand against EGP326,272 thousand as at 31 December 2013.

				EGP (000)
	31 December 2014	31 December 2013	**31 December 2014**	31 December 2013
	HSBC Group and top management members		Subsidiaries	
Due from banks	**69,389**	39,606	**—**	—
Investments held to maturity	**39,928**	74,839	**—**	—
Due to banks	**128,815**	447,006	**—**	—
Investments in subsidiaries	**—**	—	**35,517**	35,517

On 17 September 2007, HSBC Middle East agreed with HSBC Egypt and HSBC Bahrain (dated 2 November 2007) and HSBC Hong Kong (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 the total loan portfolio granted by HSBC Middle East. These loans are subject to loans classification and provisioning rules as set out by the CBE. The balance as at 31 December 2014 amounted to USD37,654 thousand equivalent to EGP268,852 thousand and has been added to customers' loans.

d. Board of Directors' benefits and top management

The average net monthly salary paid to the top 20 employees in the Bank for the year of 2014 amounted to EGP1,886 thousand (EGP2,314 thousand average net monthly salary paid to the top 20 employees for the year 2013).

40 Other loans

			EGP (000)
	Current Interest rate	**31 December 2014**	31 December 2013
Other loans	13.75%	**272,000**	272,000
		272,000	272,000

Other loans represents in a loan obtained from HSBC holding BV by EGP272 million, according to an agreement extension of 15 years (starting from December 2013 and ending in December 2028).

Notes to the Separate Financial Statements (continued)

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

41 Mutual funds

41.1 HSBC first Mutual fund (kol youm)

- The mutual fund is an activity authorised 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 2014, a number of 343,108 certificates amounting to EGP39,927,856, with a redeemable value amounting to EGP56,103,209 against 643,108 certificates amounting to EGP74,839 186 with redeemable value amounting to EGP97,043,267 as at 31 December 2013
- The redeemable value of the certificate amounted to EGP163.51 as at 31 December 2014 against EGP150.90 as at 31 December 2013. The outstanding certificates as at 31 December 2014 reached 16,729,055 certificates against 23,798,587 certificates as at 31 December 2013

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 EGP14,743 thousand for the year ended 31 December 2014 against EGP16,407 thousand for the year ended 31 December 2013 under the item of fees and commission income caption in the income statement.

42 Important events

The revolution which took place in 2011-2014 had a severe impact on the dissolution of the political structures and deterioration of economic conditions. In order to migrate the impact of the deteriorating political and economic conditions on the business sectors and hence HBEG portfolio, a stress risking analysis was conducted to determine the needed provisions on a forecasted looking basis. Accordingly, judgmental provisions were put in place which amount to EGP343m as at 31 December 2014.

It is to be noted that total provisions in December 2014 stand at EGP932.3m relative to EGP938.2m at December 2013.

The total provisions encompass specific, collective and judgmental impairment. The specific provision stands at EGP411.9m in December 2014 relative to EGP318.2m in December 2013 while the total collective impairment stands at EGP520.4m in December 2014 relative to EGP620m as at December 2013.

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Baghdad Premier Centre
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Cairo, Egypt
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Fax: (202) 2418 9953

Cairo Branch
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Cairo, Egypt
Tel: (202) 2739 6001
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City Lights Branch
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Cairo, Egypt
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City Stars Branch
Tower A2 City Stars, Omar Ibn El Khattab Street, Heliopolis
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Fax: (202) 2480 2358

Corniche El Maadi Branch
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Fax: (202) 2529 8080

Down Town Branch
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Cairo, Egypt
Tel: (202) 2578 8819
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Gezira Sporting Club Branch
Gezira Sporting Club, Saraya El Gezira Street, Zamalek
Cairo, Egypt
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Hegaz Branch
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Fax: (202) 2241 7232

Heliopolis Branch
I Roxy Square, Heliopolis
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Korba Branch
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Maadi Club Branch
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Fax: (202) 2380 4775

Masaken Sheraton Branch
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Mokattam Branch
3 El Nafoura Square, Mokattam
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Fax: (202) 2667 9894

Nasr City Branch
29 El Batrawy Street, Nasr City
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New Maadi Branch
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Fax: (202) 2754 5521

Nile City Branch
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Cairo, Egypt
Tel: (202) 2461 9701
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El Obbour Buildings Branch
13 El Obbour Buildings, Salah Salem Street
Cairo, Egypt
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El Orouba Branch
90 Beirut Street, Heliopolis
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Fax: (202) 2415 3378

Safir Branch
1 El Sheikh Hassouna El Nawawi Street, Heliopolis
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El Shams Club Branch
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Cairo, Egypt
Tel: (202) 2622 0828
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Shoubra Branch
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Tel: (202) 2431 5271
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Sun City Branch
Sun City Mall, Square 1258 F, Autostrad Road
Sheraton Buildings, Heliopolis
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Fax: (202) 2268 9642

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

Zomor Branch
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Nasr City, Cairo, Egypt
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NEW CAIRO

Cairo Festival City Branch
Cairo Festival City Mall, Unit No.10, Ring Road
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Katameya Heights Branch
Katameya Heights, Fifth District
New Cairo, Egypt
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Fax: (202) 2759 3887

El Tagamoo Branch
67, El Teseen Street
5th Settlement – New Cairo
Cairo, Egypt
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Fax: (202) 2920 0123

Rehab Branch
Shop 411, New Souk El Rehab – Ground Floor
El Rehab City
Cairo, Egypt
Tel: (202) 2693 2273

HSBC Bank Egypt Head Office and Branches (continued)

EL SHEROUK CITY AND OBBOUR CITY

Obbour City Branch
3 City Club Fence
Obbour City, Egypt
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Fax: (202) 4610 4362

El Sherouk Branch
El Sherouk Academy, Suez/Ismailia Road
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GIZA

Agouza Branch
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Giza, Egypt
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Fax: (202) 3743 1514

Lebanon Branch
25 Lebanon Street, Mohandessin
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Fax: (202) 3346 7092

Mohandessin Branch
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Giza, Egypt
Tel: (202) 3337 0756
Fax: (202) 3337 0813

Shooting Club Branch
40 Kambiz Street
Giza, Egypt
Tel: (202) 3760 7936
Fax: (202) 3760 8298

Sphinx Branch
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Giza, Egypt
Tel: (202) 3303 5842
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Vinni Branch
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Giza, Egypt
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Fax: (202) 3749 6329

SHEIKH ZAYED CITY AND 6TH OF OCTOBER CITY

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

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

Hyper One Branch
Hyper One Market
El Sheikh Zayed City
Giza, Egypt
Tel: (202) 3850 7990
Fax: (202) 3850 799

Mall of Arabia Branch
Mall of Arabia, Juhayna Square
6th of October City
Giza, Egypt
Tel: (202) 3826 0179

Raya Branch
Raya Building
6th of October City
Giza, Egypt
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Smart Village Branch
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Kafr Abdou Branch
38 Intersection of Ahmed Abdel Aziz Street with Abdel Kader Ragab Street Kafr Abdou, Roushdy
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Loran Branch
38 Ahmed Abd El Aziz Street, Abdel Kader Ragab Kafr Abdou, Roushdy
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Mirage Mall Branch
International Garden, Alexandria/Cairo Desert Road Entrance
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Fax: (203) 380 2575

Saraya Branch
Borg El Delta, Corniche El Saraya, Sidi Beshr
Alexandria, Egypt
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Port Said Branch
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SINAI AND RED SEA

Banking District Branch
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Hurghada, Egypt
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El Gouna Branch
Abu Tig Marina, El Gouna
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Makadi Branch
Makadi Bay Km32, Safaga Road
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Marsa Alam Branch
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Marsa Alam, Egypt
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Sharm Azur Branch
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UPPER EGYPT

Assiut Branch
Assiut University
Assiut, Egypt
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