HSBC Bank Egypt S.A.E.

Annual Report and Accounts 2017

HSBC

PUBLIC

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 3,900 offices in 67 countries and territories around the world with listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges.

HSBC provides a comprehensive range of banking products and services to meet the financial needs of around 38 million customers through its global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

Board of Directors

David Eldon, Chairman

Jacques-Emmanuel Blanchet, Deputy Chairman and CEO

Abdel-Halim Assem

Dr. Ziad Bahaa-Eldin

Sir Sherard Cowper-Coles

Georges Elhedery

Neveen El-Shafei

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Report of the Directors

The Board of Directors has the pleasure of presenting the Annual Report of HSBC Bank Egypt SAE (HBEG) for the year ended 31 December 2017

Economic review and future outlook

After years of policy stasis and accumulated losses in the aftermath of the uprisings of 2011 and 2013, Egypt kick-started a rebalancing process and broader reform programme in late 2016 that has positively shaped economic developments through 2017 and potentially beyond.

The most evident gains have been on the external front. The liberalisation of the Foreign Exchange (FX) regime in November 2016, which caused the currency to fall in value by more than 100 per cent against the USD, has led to a better functioning official foreign exchange market, removing the need for the parallel FX market which thrived in previous years.

By September 2017, the Central Bank of Egypt (CBE) was able to clear all the backlog of FX requests from importers and foreign companies that had remained unmet previously. The weaker currency provided support to exports, remittances and tourism receipts, narrowing the current account deficit to its lowest quarterly level in three years in Q3 17. The weaker currency, along with higher nominal interest rates, also brought back portfolio investments into the domestic government paper market. By October 2017, foreign investors owned USD19bn of Egyptian Treasury bills, or over 30 per cent of the outstanding stock, up from near-zero one year before.

These improved current and financial flows, along with financial support from the IMF and other multilateral agencies and an international bond issuance at the start of the year, helped net FX reserves reach a record high of USD37bn by the end of 2017, covering over six months of goods and service imports. This gave the central bank confidence to remove most of the capital controls implemented in the aftermath of the revolution to deter outflows. It also allowed the CBE in December 2017 to increase the cost of the FX repatriation mechanism that had encouraged foreign investors to return to Egypt.

The reform drive has also included steps to curb the fiscal deficit –such as electricity and fuel subsidies cuts, the last of which took place in July 2017. The rate for Value-Added Tax, which was introduced in September 2016, was also increased in July 2017.

This adjustment, however, came at a cost. Inflation ran at an annual rate of more than 30 per cent over the first eight months of the year as the FX weakness and subsidy cuts took their toll. To combat these price pressures, the central bank hiked interest rates by 200bps in May and again in July 2017. Price growth started to come off towards the end of the year, helped by weak domestic demand and a positive base effect. By December 2017, annual urban inflation stood at 21.9 per cent.

High inflation and tight monetary policy weighed on growth in 2017. The Purchasing Manager's Index showed economic activity contracting in all but one month that year. However the pace of contraction slowed towards the end of 2017. Several factors should offer growth some support in 2018. Early production from the Zohr gas field has commenced on time, promising to eliminate Egypt's need for expensive LNG imports. The restoration of flights between Russia and Cairo following their two-year suspension will also provide a boost to tourism's nascent recovery. The improved global growth outlook will also have a positive impact on receipts from the Suez Canal.

The government also enacted several long awaited reforms to the business environment in 2017, including a new investment law and an industrial licensing law. The challenge for Egypt going forward is on how to translate these reforms into job-creating Foreign Direct Investment.

Public finances continue to pose a challenge as well. While recent reforms have helped taper expenditure growth and boost tax revenues, the large growth in public debt has increased debt servicing cost to make up 40 per cent of public expenditure, limiting room for fiscal consolidation. Higher oil prices, if sustained will also add to the cost of subsidies.

Overall, the economic reform programme which was launched at the end of 2016 had positive impacts on the Egyptian economy in 2017, including the availability of foreign currencies, and it is growing the confidence in the future amongst business circles.

Business and operational activities

For the financial year ending 31 December 2017, the Bank reported profit before tax of EGP5,867.5m, which is a 31 per cent increase over 2016. Profit after tax rose by 28 per cent, reaching EGP4,468.3m.

The Board of Directors proposed a 'full year' distribution to shareholders, of EGP2,679.4m (60 per cent of the profits available for distribution for 2017) representing a coupon for 2017 of EGP80.51 per share.

In line with legal requirements, the Board of Directors also proposed a 'full year' distribution of EGP446.6m (10 per cent of the profits available for distribution for 2017) to the bank employees as a performance-linked variable payment, which includes profit sharing.

The balance of the remaining profits available for appropriation, amounting to EGP1,339.90m, will be transferred to support the Bank's reserves and retained earnings, allocating EGP223.3m for the legal reserve, EGP223.3m for the general reserve, EGP433.4m for the IFRS 9 risk reserve and EGP459.9m will remain as retained earnings.

Global Banking (GB)

GB contains relationship managers and coverage teams, organized by sector, verticals, region and country to enable us better to deliver seamless coverage to our clients, optimize our product capability and allow us to become more agile and holistic. GB also offers financing and advisory services. Products include debt and equity capital raising, advisory, corporate lending, leveraged finance, asset and structured finance, real estate, infrastructure and project finance, and export credit.

Dynamics that drive the GB business are:

- **Global scale, local knowledge:** Drawing on HSBC's wide geographic reach and deep local knowledge to meet clients' banking needs
- **Innovative solutions:** With sector-focused teams that work closely with product and regional specialists around the world, HSBC delivers solutions designed specifically for their clients
- **Long-term commitment:** Our teams take the time to gain a deep understanding of their clients' financial requirements and business goals for today and for the future

In 2017, GB Egypt has put greater focus on the trade and investment corridors where HSBC has strong market positioning, generated solid market share gains and broader product penetration, particularly in servicing inbound China investment flows under the Belt and Road Initiative.

Also HSBC Bank Egypt signed a Memorandum of Understanding with the Egyptian Ministry of Investment to help connecting our international customers to the local investment opportunities.

We also continued to finance large infrastructure projects that are crucial to the national economy. In that regard, we played a pivotal role in supporting some of the largest oil and gas investments.

Global Markets (GM)

HSBC Egypt Markets provides comprehensive foreign exchange services to corporate, and institutional clients. We work on helping our corporate clients to find the best solutions to hedge foreign exchange, oil and interest rate exposures.

In 2017, HSBC Egypt improved its positioning as one of the main players in the foreign exchange market. The Interbank average daily increased dramatically with HBEG participation representing a significant portion of the exchanges.

HSBC Egypt Markets also works closely with their Regional and Global counterparts to fulfil our institutional and HSS client base in terms of sovereign debt requirements and to ensure smooth entry and exit to and from the local market.

Finally, from a Balance Sheet perspective, GM interacts actively with different lines of business to provide the required liquidity and to hedge the bank's overall interest rate risk.

Commercial Banking (CMB)

In 2017, while striving to be the leading international Commercial Banking franchise in the Egyptian market and enhance the bank's wallet share, CMB has undergone numerous changes in its business model to:

- Facilitate in-depth understanding of our client base through implementation of Global Standards (an enhanced KYC process)
- Restructure balance sheet and revenues to reduce vulnerability to socio-economic conditions, by focusing on Long term, LCY based assets that enhance product revenue and Non-Funded Income (NFI)
- Promote risk management controls and simplify procedures and processes
- Provide customers with the appropriate channels to voice their complaints, feedback and contact us with any queries; ultimately leading to strengthen our relationship with our clients
- Establish a dedicated, ring-fenced team to manage Small and Medium Enterprise by exploring various direct and indirect approaches in line with Central Bank of Egypt's initiative to promote small enterprises

Business remains to be focused on skewed towards enhancing HBEG market share within different industries, by focusing on:

- Attracting 'new-to-bank' customers as we strengthen our service proposition
- Elevating service proposition extended to the Top commercial clients
- Supporting our existing customers in their domestic and overseas business by capitalizing on the bank's connectivity within the wider HSBC Group
- Supporting our customers with our industry-leading capabilities in Global Trade and Receivables Finance (GTRF)
- Providing unique solutions, through our award-winning Global Liquidity and Cash Management (GLCM) business
- Reinforcing the bank's position with the customers as a strategic partner by providing the products and services that will best assist our customers in meeting their aspirations in a fair and transparent manner

To assist in realizing the CMB strategy, we have revised and simplified our business by making our teams more accessible for our customers through:

- Enhancing operational effectiveness by revising policy and procedures, ensuring proper governance, developing systems to enable oversight and empower employees
- Optimising resource allocation through restructures and or migrations to ensure effective management of customer activity
- Exploring and develop systems/tools to facilitate and streamline operations, connectivity and allow for automation/migration

With our unique product offering, strong local and international presence and resilient Relationship Managers and Client Management Office; we believe we are well positioned to the challenges and opportunities which are to present itself in 2018 and which are to strategically allow us to partner with our customers, while promoting the right means of doing so

Retail Banking and Wealth Management (RBWM)

HSBC Retail Banking and Wealth Management business in Egypt serves around 215K customers through our network of 56 branches and 7 corporate units as well as our state-of-the-art internet, mobile banking platforms, call center and our fleet of 200 Automatic Teller Machines (ATMs).

2017 was a prosperous year for Retail Banking and Wealth Management. This was supported by the roll-out of several initiatives aiming towards increasing our Premium customer segment, better serving our customers and enhancing our market position.

HSBC was able to grow its liabilities portfolio and re-position itself in the market. After restrictions on Foreign Currency (FCY) transactions were completely removed, customers were able to utilize their cards overseas up to the daily purchase limits. We further supported them by increasing overseas ATM withdrawal limits.

Additionally, to meet our customers' needs, we offer credit facilities to assist them in their short and longer-term borrowing requirements. Our products are closely reviewed and our lending rates were re-priced enabling market share gains.

With the aim of enriching HSBC Wealth Management position and to increase our product mix offered to customers, wealth insurance was expanded to all customer segments. HSBC now delivers a full "Financial Needs Review" for its clients in their retirement, protection, management or growth needs whatever their segment (Premier, Advance or Personal Banking).

In line with the bank strategy to increase our premium customers, a new annual income eligibility criteria has been introduced for Premier and Advance, enlarging the pool of customers able to access our premium proposition, especially at the early stages of their professional lives. By building up on the high competitive liabilities interest rates, HSBC managed to increase Premier International liabilities portfolio by 20 per cent in 2017.

In all our initiatives, customer experience has been at the heart. Offering our customers a premium experience is always the core of our activities and decisions. Accordingly, we continued to build on the high service quality by focusing on our key products and services and maintaining the highest standards of service by keeping our "promises" to our customers to attain and maintain living the Brand and increasing customer satisfaction.

In line with our strategy, we have continued to invest in our network where we have reviewed branch network footprint and performance to ensure we optimize the allocation of our resources. We opened a new branch in Mall of Egypt and finalized the relocation of Nile City Branch to a more accessible location for better serving our customers in addition to the re-opening of the Mokattam Branch after renovation. We further engaged on a renovation programme for 8 branches in 2017, fulfilling the new HSBC layout standards.

We continued to invest and enhance our "Global Service Platform" which is a unified digital banking experience, to secure our market leading position whereby Digital Customers are enjoying a more consistent banking experience all around the world. This will see further investment in 2018, keeping our position in the market from a digital offering perspective.

Adherence to the Global Standards programme and safeguarding the business continues to be our prime area of focus through effectively managing financial crime risk and protecting our customers. In 2017, a set of initiatives re-engineering process, systems and governance - in line with global guidelines - was introduced; and local regulatory compliance projects were deployed.

People management and development

Employees

As at 31 December 2017, HSBC employed 1,777 full time employees for its operations in Egypt. The main centre of employment is in Cairo where the Head office and the majority of branches are located. This continues a trend of positioning our services to customers in Cairo and Alexandria.

The low level of attrition reflects the employee engagement activities that have been run throughout the year. These have included a visit for the Regional Executive Committee team to reinforce the strategic performance of Egypt as well career development tools launched in the year.

Feedback is regularly sought from employees through a quarterly Employee Snapshot survey as well as through Department-led Exchange sessions. We encourage open and honest communication in decision making. Employment issues and the financial and economic factors affecting HSBC's performance and directly impacting our people are regularly shared with our employees. The 2nd Quarter survey results from the 'SnapShot Plus' Survey showed improvements across all dimensions and reflected our open communication with employees and the Reward in the 2016 Performance Reward process.

Learning and Development

In 2017 we continued to invest in our people. A regional development Career Development programme called LEAP was launched which better enables employees to manage their careers and maximize the development tools that are available. Initially launched for employees in RBWM, it has since been rolled out for all employees.

Employees also gained access to HSBC University to help them develop their skills, knowledge and attitude. The HSBC University is a globally developed new home for learning which encourages people to thrive and be at their best. It covers courses, articles and other tools on Leadership, Risk management, Strategy and performance and Role and Business specific topics.

2017 also saw the launch of a Credit Skills programme for our Commercial Banking unit. The programme aims to establish a strong pipeline to fill future demand for Relationship Managers. The programme targets top graduates as well as top performing junior staff.

Diversity and Inclusion

We remain committed to meritocracy, which requires a diverse and inclusive culture where employees feel comfortable to speak up, confident that their views are heard, their concerns are attended to and where bias, and discrimination and harassment on any matter is not tolerated. This helps us to meet the needs of our diverse customer base, while attracting, developing and retaining a supply of skilled and committed employees.

Oversight of our Diversity and Inclusion agenda and related activities resides with our people leaders complemented by our country People Committee. Guidance is derived from our Group Diversity committee, supported by the Group People Committee. 2017 saw further improvement in our Diversity metrics with female colleagues now making up 36 per cent of our Senior Management cadre.

Performance and Reward

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

In 2017 we further embedded "Everyday Performance Management" which considers both the performance (what) and Behavior (how) achievements of each employee before deciding on a year-end ratings and subsequent reward outcomes. 2017 showed an increase in the number of people who were rewarded in the form of Positive Adjustments for behavior that contributes to the sustainability of the organization.

Operations, Services and Technology

In 2017, we continued to focus on the strategic business priorities: driving digitization and streamlining processes; deepening business partnerships; and delivering Global Standards commitments. Customer-centricity, operational efficiency and service excellence underpinned our Transformation Agenda, and we delivered a series of strategic initiatives to uplift our digital capabilities, optimize our channels, automate and re-engineer our processes and simplify our technology.

In addition, we undertook a series of end-to-end reviews to streamline our processes - improving input quality, reducing turnaround time and enhancing overall customer experience.

Over the past 12 months, Corporate Real Estate (CRE) focus was directed towards developing and implementing optimisation strategies for our property portfolio, supporting business growth via ATM and Branch location initiatives.

Our contract management, supplier management and travel facilities underwent ongoing transformation to achieve global consistency, and Procurement collaborated with businesses and functions to reduce the Bank's addressable third-party spend.

With an ongoing focus on Digital, we continued to deploy a number of Technology solutions to evergreen infrastructure; uplift system availability, resiliency and stability; and support regulatory requirements.

Financial Crime Compliance (FCC)

2017 was an important year for our Global Standards Programme. It is the year when we completed the delivery of the core financial crime risk management capabilities and increasingly turned our attention to ensuring that these enhancements are fully integrated through sustainable and high quality processes into our day-to-day activities.

A new global compliance structure was introduced, designed to enable HSBC to build on achievements in managing financial crime risk effectively across the bank and to continue to strengthen financial crime detection, anti-money laundering, sanctions and anti-bribery and corruption compliance. A service-based operating model, where expertise is consolidated into global functional capabilities to best leverage and develop expertise, operates to consistent standards, and provides additional insight and support to global businesses. These changes have included a stronger governance around managing Financial Crime Risk including the revamping of the Financial Crime Risk Management Committee in addition to the introduction of additional governance forums around the management of Transaction Monitoring, Affiliates Risks amongst others.

The Compliance team worked 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 governance and the controls around the Know-Your-Customer, Suspicious Transactions Reporting, Sanctions and Anti-Bribery and Corruption policies and procedures. To that end and along with the global initiatives, HSBC Egypt has embarked into the Operational Effectiveness Exercise, which is a country diagnostic exercise designed to test the bank's current state against the end state operationally effective target and transform all the activities into business as usual.

The Remediation Management Office (RMO) was established in 2Q 2017 and it is responsible for designing, building and maintaining an integrated Financial Crime Risk remediation program for HSBC Egypt. The RMO partners with relevant businesses and functions to facilitate sustainable solutions and adequate governance and oversight over all FCR issues, acting as a strategic lead in remediating Financial Crime Risk in the country.

Regulatory Compliance Risk Management

We restructured part of our Global Risk function whereby the Financial Crime Compliance sub-function became part of our new Financial Crime Risk function and the Regulatory Compliance sub-function remains part of Global Risk, and continues to oversee management of regulatory compliance risk.

The Regulatory Compliance (RC) sub-function provides independent, objective oversight and challenge and promotes a compliance-orientated culture, supporting the business in delivering fair outcomes for customers, maintaining the integrity of financial markets and achieving HSBC's strategic objectives.

Governance and structure

The country Head of RC reports to the CEO and has reporting access to the Audit Committee to align with our global business structure and help ensure coverage of local regulatory requirements, RC is structured as a global function with regional and country RC teams, which support and advise each global business and global function.

Key risk management process

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

Conduct of business

In 2017, we continue to raise our standards relating to conduct, which included:

- Further global mandatory conduct training for delivery to all employees in 2017
- Incorporating the assessment of expected values and behaviors as key determinants in recruitment, performance appraisal and remuneration processes
- Introducing policies and procedures to strengthen support for potentially vulnerable customers
- Enhancing the quality and depth of conduct management information and how it is used across the Group
- Implementing an assessment process to check the effectiveness of our conduct initiatives across the Group

Corporate Sustainability

For HSBC, sustainability means building our business for the long term by balancing social, environmental and economic considerations in the decisions we make. This enables us to help businesses thrive and contribute to the health and growth of communities.

In Egypt, our sustainability strategy is guided by our global strategy and is tied to regional and national priorities. We focus on three areas: sustainable finance, sustainable operations and sustainable communities. We focus our community investment activities mainly on education, the environment and health – the fundamental building blocks for the development of communities.

Our approach is to partner with local non-profit organisations and charities that are making a difference, supporting government initiatives and promoting local culture. Most importantly, we remain involved in the programmes we support. We also encourage our employees to contribute to the communities in which they live and work through volunteering and have developed policies to support this.

Over 14 significant projects were delivered across Egypt in 2017, with a focus on developing capacity of the civil society and ensuring longevity of the projects through utilizing the skills of our colleagues and HSBC vast resources.

Key projects in 2017 include:

- **Building Community Schools in Egypt**: HSBC signed a three-year partnership with Misr El Kheir Foundation to build and equip 200 community schools throughout Egypt, providing funds for education and infrastructure. This partnership supports the employment of more than 700 staff in remote parts of Egypt to help benefit 12,000 pupils aged between the ages of 6 to14. To date HSBC has built 50 schools and enrolled 1,512 less fortunate students in the schools. All the schools follow the criteria of the National Authority for Quality Assurance and Accreditation of Education (NAQAAE) for community schools and abide by the Ministry of Education’s curriculum and system
- **Saving Egypt’s Water**: Egypt faces a number of water challenges in its natural and urban environments. HSBC supported the southern Red Sea coast in partnership with the Research Institute for a Sustainable Environment (RISE), part of the American University in Cairo. ‘Saving Egypt’s Water project’ distributed drinking water tanks to the Ababda nomads living in Wadi El Gamal

HSBC Securities Egypt (HCES)

HCES’ core business is trading cash equities listed on the Egyptian stock exchange on behalf of HSBC’s international investors and asset management firms. HCES is focused on the foreign institutional investor segment in the market and was able to be within the top five brokerage firms in the market serving foreign institutional investors. Following the change in the FX regime, market volumes increased and foreign institutional interest in the Egyptian equity market returned. Market volumes more than doubled in 2017 and the EGX30 index reached record highs. The past year marked the return of profit generation at HCES with executed trade volumes increasing by 150 per cent and commissions received increasing by 138 per cent year-over-year. The improved performance was a result of the better market environment and the reduced HCES cost structure that resulted following the 2016 restructure.

Looking ahead to 2018, with the Egyptian economy moving on the right track and with the growing interest of foreign institutional investors in the Egyptian equity capital market, HCES is well positioned to continue the positive performance.

Acknowledgement

Based on the financial results of 2017, the Board would like to extend their congratulations and thanks to the HSBC staff for their efforts and achievements.

Shareholding

HSBC Bank Egypt SAE is a 94.5 per cent owned subsidiary of HSBC Holdings plc through HSBC Holdings BV. The shareholding structure is as follows:

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

Equity Investments

HSBC 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 based in Cairo, the MENA desk in HSBC Bank Middle East in Dubai and the Europe, 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.

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

- Egyptian Mortgage Refinance Company (EMRC)
- 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 complying with the highest standards of corporate governance principles, which is reflected in the relationships and responsibilities of the management, the Board and the shareholders in line with local regulatory requirements and 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 of the HBEG Board of Directors and the inclusion of independent Directors
- The definition of directors' duties
- The operation and composition of 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's committees in line with local regulatory requirements
- The internal control framework, reflected in the structure and operation of the Bank
- The adoption and implementation of internal policies and manuals covering all business aspects
- The existence of transparent communication and disclosure channels

The Board of Directors

The following changes took place to the HBEG Board of Directors in 2017:

Retirement

- Retirement of Mrs. Nevine Taher as Executive Director on 30 June 2017

Appointments

- Appointment of Mr. David Eldon as Non-Executive Chairman effective 4 May 2017

Mr. David Eldon CBE

Non-Executive Chairman

Commencing a career in banking in London in 1964, David joined HSBC Bank Middle East in 1968. In January that year he took up his first position in Dubai, remaining in the Middle East undertaking a variety of roles in different countries until 1979, when he was transferred to the Group's operations in Hong Kong.

Subsequent roles took him to Saudi Arabia, back to Hong Kong and then Malaysia. In 1990 he was appointed a General Manager of the Group. He returned to Hong Kong in April 1992. Mr. Eldon was made an Executive Director of the Bank in January 1994, Chief Executive Officer of HSBC Asia Pacific in January 1996 and its Chairman in January 1999. In June 1996 Mr. Eldon became Chairman of Hang Seng Bank (a Group subsidiary), and was appointed a director of HSBC Holdings plc on 1 January 1999. He retired from the Group in May 2005.

In 2005 he became Chairman of the Dubai International Financial Centre Authority until June 2011 and Senior Adviser, PricewaterhouseCoopers until June 2014.

He returned to banking in 2011 to become non-executive Chairman of HSBC Bank Middle East Limited, between 2013 and 2017 was Chairman of HSBC Bank Oman, then in 2017 he became non-executive Chairman for Group subsidiaries HSBC Bank Egypt, HSBC Bank Turkey and HSBC Middle East Holdings. He is Chairman of Octopus Cards Ltd in Hong Kong, a Member of the Government of Dubai's International Financial Centre Higher Board, a Member of various Asian-based Advisory Boards and in 2016 joined the Corporate Governance Committee of Thailand's CP Group He holds a number of other Government and community appointments in Hong Kong.

He is a past Chairman of the Hong Kong General Chamber of Commerce, and was between 2005 and 2012 Adviser to the Office of the President, South Korea.

Mr. Eldon is a Fellow of the Chartered Institute of Bankers (FCIB). He holds an Honorary Doctor of Business Administration conferred by the City University of Hong Kong, was named the Hong Kong Business Person of the Year for 2003 and in 2004 was awarded the Gold Bauhinia Star (GBS) by the Government of Hong Kong. In 2005 he was made a Commander of the British Empire (CBE) for his contribution to banking. He was awarded the Asian Banker Lifetime Achievement Award for 2005. Mr. Eldon is a Justice of the Peace.

Mr. Jacques-Emmanuel Blanchet

Deputy Chairman and CEO

Jacques-Emmanuel Blanchet is an HSBC Group General Manager and the Deputy Chairman and CEO of HSBC Bank Egypt SAE. He was appointed to the role effective 1st March 2014.

Before assuming his current position, Mr. 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, Mr. Blanchet held a three-year tenure as Head of Commercial Banking at HSBC France, where he reorganised the division, bringing in additional expertise and a more proactive approach to customer relationships.

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

Mr. Abdel Halim Assem

Independent, non-executive Director

Mr. Assem is a senior consultant with extensive experience of the Telecom, Transport and Defense sectors in Egypt and the Middle East.

As the General Delegate for Egypt at Thales International ME from 1992 to 2012, he held responsibilities for design, conduct and implementation of the Group strategy in Egypt for the entire Thales portfolio and became the Special Advisor to the Chairman of Thales International ME. Before that, Mr. Assem had a long career with Thomson-CSF in Egypt before becoming the Country Delegate for Thomson-CSF Egypt.

Mr. Assem has a B.Sc. in Electronic, Engineering studies in Professional electronics and IT from the Polytechnic Faculty of Cairo University.

Mr. Assem holds the distinctions of Chevalier of the French National Order of the Legion of Honor and Conseiller du Commerce exterieur de la France CNCCEF.

Dr. Ziad Ahmed Bahaa-Eldin

Independent, Non-Executive Director

Dr. Ziad Ahmed Bahaa-Eldin is an Egyptian Attorney-at-Law and expert on financial law, investment and company laws, governance, compliance and economic legislation.

He is currently the managing partner in Thebes Consultancy a non-executive member on several companies' board of directors, including HSBC Bank Egypt, the National Bank of Egypt UK, Arabian Cement Company, Emaar Egypt, AXA Egypt, Allam Holding, MTI, Samcrete for Industrial Development, and Saray Capital (Dubai International Financial Centre).

He previously held several public positions including the Deputy Prime Minister for Economic Development and Minister of International Cooperation (2013-14), Member of Parliament representing South Assiut (2012), Chairman of the Egyptian Financial Supervisory Authority (EFSA) (2009-11) and the Chairman of the Egyptian General Authority for Investment and Free Zones (2004-07).

He is also a former non-executive member of the Board of Directors of the Central Bank of Egypt (2004-11), of the National Bank of Egypt (2005-10), and a former Senior Legal Advisor to the Central Bank of Egypt (2011). From 2000 to 2004, Dr. Bahaa-Eldin was a practising lawyer in Egypt, and from 1997 to 2000 the senior legal advisor to the Minister of Economy. Prior to this, he was in private practice in Cairo and Washington, DC. Dr. Bahaa-Eldin was also an adjunct lecturer at the Faculty of Law at the Cairo University (1998-2004).

He is the founder and member of the Board of Directors of the Ahmed Bahaa-Eldin Cultural Foundation, a member of the Board of Trustees of the American University in Cairo and the Board of Trustees of the Cairo Regional Centre for International Commercial Arbitration.

Dr. Bahaa-Eldin received his PhD in Financial Law from the London School of Economics and Political Sciences (1997), 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 from Cairo University (1986). He is a graduate of the Jesuites High School in Cairo (1982).

Sir Sherard Cowper-Cowles KCMG LVO

Non-Executive Director

Sir Sherard joined HSBC Holdings in 2013 as Senior Adviser to the Group Chairman and Group Chief Executive and was appointed Group Head of Government Affairs in 2015 and Group Head of Public Affairs in June 2017. He is also Chairman of HSBC Bank Oman SAOG, and a Director of HSBC Bank Egypt SAE.

From 2011 to 2016, he was 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, finishing his career as Ambassador to Israel, Saudi Arabia and then Afghanistan.

Sir Sherard is also Chairman of the UK Financial Inclusion Commission; an Ambassador for the Money Advice Trust, and for the Winston Churchill Memorial Trust; a member of the Board of the China-Britain Business Council, the Saudi British Joint Business Council and the Egyptian British Business Council; Chairman of the Omani-British Business Council; a Committee Member of The Hong Kong Association; and a Board Member of Asia House. He is President of the Algeria British Business Council, Chairman of the UK Advisory Council, LSE Confucius Institute for Business London, and of Pitzhanger Manor and Gallery Trust. He sits on the International Engagement Committee of the British Academy.

Mr. Georges Elhedery

Non-Executive Director

Georges Elhedery is an HSBC Group General Manager and Chief Executive of Middle East North Africa Turkey (MENAT) region. He is also Deputy Chairman of HSBC Bank Middle East Limited.

He also serves as a Board Director of HSBC Saudi Arabia Limited and HSBC Bank Egypt.

Before his appointment as Chief Executive, MENA in July 2016, he was Head of Global Banking and Markets, MENA. With the addition of Turkey to the MENA region in 2016, Mr. Elhedery's regional responsibilities were extended to cover oversight for this country as well.

Mr. Elhedery joined HSBC in 2005 and has held a number of key roles in the Group's Global Banking and Markets (GBM) operations, including Global Head of Structured Rates, Global Deputy Head of Rates, Head of Global Markets, MENA and Head of Markets and Capital Financing, MENA. Prior to joining HSBC, he has held various senior Global Markets roles in London and Tokyo.

Mr. Elhedery holds a master's degree in Statistics and Economics from ENSAE University and a bachelor's degree in Engineering from Ecole Polytechnique in Paris.

Mrs. Neveen El-Shafei

Independent, Non-Executive Director

Neveen El-Shafei was appointed Assistant Minister of Investment in August 2013 until August 2014. Before her appointment, her responsibilities as Vice Chairman at the GAFI included supervision of the promotion and policy advocacy activities since 2008-09. Before that, she had acted as Adviser to the Chairman of GAFI since 2005.

In addition to her experience in the public domain since 2005, Mrs. El-Shafei brings nearly twenty years of investment and commercial banking experience to her role as Assistant Minister. Before joining GAFI, Mrs. El-Shafei was Executive Director of Corporate Finance at Fleming CIIC.

She previously spent ten years as an investment/corporate banker at Commercial International Bank (CIB), where, among other responsibilities, she took an active role in participating in Egypt's privatisation programme.

Since joining the GAFI and more specifically since overseeing the promotion activities since 2009, Mrs. El-Shafei has actively taken part in several overseas ministerial missions and conferences in many countries.

Mrs. El-Shafei is a graduate of the American University in Cairo (Economics, 1985) and has been trained in the Chase Manhattan Credit Training Programme.

Mr. Hisham Mohsen

Non-executive Director, Representative of Misr Insurance Company

Mr. Mohsen is the Chief Executive of “Outward and Inward Reinsurance” Division at Misr Insurance. Mr. Mohsen joined Misr Insurance Company as Aviation Underwriter In July 1990 and was promoted to Aviation General Manager in 2012. In 2015, he moved to the Inward Reinsurance Sector with responsibility to accept foreign business for branches like engineering, marine, property and accident. In 2018, he became responsible for both Outward and Inward reinsurance of Misr Insurance.

Mr. Mohsen is a former member of the Board of Directors of Nilesat, Flora, Arcosteel and Misr Asset Management Company. He is a member of the Board of HSBC Bank Egypt, since April 2016.

Mr. Mohsen holds a Bachelors of Commerce from Cairo University in addition to a High Diploma in Insurance.

Mrs. Hania Sadek

Executive Director

Mrs. Hania Sadek is the Chief Operating Officer and Executive Director of HSBC Bank Egypt, responsible leading the Bank’s Operations, Services and Technology functions.

Mrs. Sadek joined HSBC Bank Egypt in 1983 and held numberous leadership roles across branches, trade services and information technology for 15 years, which qualified her to establish HSBC Bank Egypt’s Audit function in 2001 in collaboration with HSBC Group Audit Middle East. From 2004, she took over the Group’s responsibility for Branch Audits and has been responsible for the Bank’s Audit Committee for the past decade.

In 2010, Mrs. Sadek was appointed to the position of Chief Operating Officer where she is accountable for a diversified range of Operations, Technology and Professional Services (Corporate Real Estate and Procurement) activities.

Mrs. Sadek is a graduate from the American University in Cairo, and holds a Master’s Degree in Economics.

The Board Committees

The purpose of HSBC Bank Egypt's corporate structure, headed by the Board of Directors and led by the Chairman, is to deliver sustainable value to 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. 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 appointed a number of Directors and Executive Management to serve on Board Committees. The responsibilities of these committees and its membership are as following:

Executive Committee

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

Audit Committee

The Audit Committee is responsible for reviewing and monitoring financial and internal audit matters, and for ensuring that effective systems of internal control (including financial control) are in place. The members of the Audit Committee are Dr. Ziad Bahaa Eldin (Chairman), Mrs. Neveen El-Shafei and Mr. Hisham Mohsen.

Risk Committee

The Risk Committee has responsibilities to oversee and advise the Board on all high-level risk related matters in relation to risk governance; and to review the effectiveness of the bank's risk management framework and internal control systems. The members of the Risk Committee are Sir Sherard Cowper-Coles (Chairman), Mrs. Neveen El-Shafei, Mr. Abdel Halim Assem and Mr. Jacques-Emmanuel Blanchet.

Governance and Nomination Committee

The Governance and Nomination Committee is responsible for leading the process for Board appointments and for identifying and nominating, for approval by the Board, candidates for appointment to the Board in addition to evaluating the bank's governance system. The members of the Governance and Nominations Committee are Dr. Ziad Bahaa Eldin (Chairman), Sir Sherard Cowper-Coles and Mr. Abdel Halim Assem.

Salaries and Remuneration Committee

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

Auditors’ report

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

Report on the separate financial statements

We have audited the accompanying separate financial statements of HSBC Bank, Egypt (SAE), which comprise the separate balance sheet as of 31 December 2017 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 the 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 in the light of the prevailing Egyptian laws. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditors’ judgement, 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 (SAE) as of 31 December 2017, 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

According to the information and explanations obtained from management, nothing has come to our attention that the Bank had significantly violated the provisions of Law No. 88 of 2003 during the year ended 31 December 2017 or its article of incorporation.

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

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

Cairo: February 15, 2018

Auditors

Mohamed Ahmed Fouad, CPA
Egyptian Financial Supervisory
Authority No.(235)
R.A.A. 11595

Mansour & Co. PricewaterhouseCoopers
Public Accountants and Consultants
Plot No 211, Second Sector, City Center New Cairo
11835, Egypt

Farid Samir Farid, CPA
Egyptian Financial Supervisory
Authority No.(210)
R.A.A. 8739

Deloitte
Saleh, Barsoum and AbdelAziz
Accountants and Auditors
2005 A Cornish El Nil – Ramlet Boulaq, 11221 , Egypt

Balance sheet

HSBC Bank Egypt SAE

Separate balance sheet as at 31 December 2017

(All amounts in EGP000)

	Note	2017	2016
Assets			
Cash and balances with Central Bank of Egypt	15	3,418,198	3,795,916
Due from banks	16	28,721,508	28,017,657
Treasury bills	17	23,379,354	22,694,942
Financial assets held for trading	18	20,294	8,773
Loans and advances to banks	19	1,392,670	1,285,805
Loans and advances to customers	20	26,907,728	28,332,228
Financial derivatives	21	7,069	-
Financial investments			
Available for sale	22	3,591,414	2,465,087
Held to maturity	22	9,142	21,292
Investments in subsidiaries	23	23,000	21,800
Intangible assets	24	5,688	7,015
Other assets	25	715,056	497,846
Deferred tax assets	32	57,731	52,654
Investment property	27	78,325	83,850
Fixed assets	26	369,838	349,965
Total assets		**88,697,015**	**87,634,830**
Liabilities and shareholders' equity			
Liabilities			
Due to banks	28	4,729,544	5,772,249
Customers' deposits	29	67,828,374	70,556,190
Financial derivatives	21	8,580	-
Subordinated loans	40	2,072,000	272,000
Other liabilities	30	1,348,371	1,089,598
Other provisions	31	425,285	229,149
Current income tax		946,915	557,921
Defined benefits obligations	33	299,731	264,177
Total liabilities		**77,658,800**	**78,741,284**
Shareholders' equity			
Paid-up capital	34	2,795,567	2,795,567
Reserves	35	2,754,525	1,859,949
Retained earnings	35	5,488,123	4,238,030
Total shareholders' equity		**11,038,215**	**8,893,546**
Total liabilities and shareholders' equity		**88,697,015**	**87,634,830**

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

Income statement

HSBC Bank Egypt SAE

Separate income statement for the year ended 31 December 2017

(All amounts in EGP000)

	Note	2017	2016
Interest income from loans and similar income	6	8,541,776	6,136,315
Interest expense on deposits and similar expense	6	(2,301,744)	(1,212,600)
Net interest income		**6,240,032**	**4,923,715**
Fees and commissions income	7	1,008,981	873,075
Fees and commissions expense	7	(164,340)	(124,182)
Net fees and commissions income		**844,641**	**748,893**
Dividends income	8	4,951	3,973
Net trading income	9	1,088,325	150,002
Financial investment gain	22	12,074	10,429
Credit impairment (charged)	12	(441,328)	(156,610)
Administrative expenses	10	(1,881,219)	(1,295,181)
Other operating income	11	52	109,495
Profit before income tax		**5,867,528**	**4,494,716**
Income tax expenses	13	(1,399,222)	(1,016,513)
Net profit for the year		**4,468,306**	**3,478,203**
Earnings per share (EGP/share)			
Basic	14	120.84	94.32

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

Cash flow statement

HSBC Bank Egypt SAE

Separate cash flows statement for the year ended 31 December 2017

(All amounts in EGP000)

	Note	2017	2016
Cash Flows from operating activities			
Net profit before income tax		5,867,528	4,494,716
Adjustments to reconcile net profit to net cash flows from operating activities			
Depreciation and amortisation		57,733	58,494
Impairment of assets		441,328	170,327
Other provisions formed (no longer required)		207,397	33,262
Revaluation differences for provisions other than loans provision		5,994	89,418
(Gain) from sale of property and equipment		(2,445)	(11,336)
Profits from sale of investments		(10,624)	(24,146)
Currency valuation differences for available-for-sale investment		(10,462)	(475,036)
Dividends received		(4,951)	(3,973)
Transferred from general bank risk reserve		-	(282)
Impairment of subsidiaries		(1,200)	-
Operating income before changes in assets and liabilities from operating activities		**6,550,298**	**4,331,444**
Net decrease (increase) in assets and liabilities			
Due from banks		1,107,975	(2,038,714)
Treasury bills		(9,236,651)	549,549
Financial investments held for trading		(11,521)	1,494
Loans and advances to customers		983,172	(8,252,098)
Loans and advances to banks		(106,865)	(729,103)
Financial derivatives (net)		1,511	(49)
Other assets		(217,210)	(105,956)
Due to banks		(1,042,705)	2,774,076
Customers' deposits		(927,816)	19,179,620
Other liabilities		258,773	185,607
Other provision used		(17,255)	(31,838)
End of service compensation benefits		35,554	8,945
Income tax paid		(1,015,305)	(889,308)

Net cash flows provided from (used in) operating activities		**(3,638,045)**	**14,983,669**
Cash flows from investing activities			
Payments to purchase fixed assets and branches preparation		(77,793)	(15,742)
Proceeds from sale of fixed assets		10,571	25,372
Payments to purchase intangible assets		(1,087)	(1,643)
Payments for acquisition of available-for-sale investments		(2,507,557)	(408,881)
Proceeds from sale (redemption) of available-for-sale investments		1,487,077	2,767,243
Proceeds from sale of held-to-maturity financial investments		22,774	17,697
Dividends received		4,951	3,973
Net cash flows (used in) provided from investing activities		**(1,061,064)**	**2,388,019**
Cash flows from financing activities			
Dividends paid		(2,419,022)	(1,519,655)
Net cash flows (used in) financing activities		**(2,419,022)**	**(1,519,655)**
Net change in cash and cash equivalents during the year		(7,118,131)	15,852,033
Cash and cash equivalents at the beginning of the year		33,633,297	17,781,264
Cash and cash equivalents at the end of the year		**26,515,166**	**33,633,297**
Cash and cash equivalents are represented in:			
Cash and balances with Central Bank of Egypt		3,418,198	3,795,916
Due from banks		28,721,508	28,017,657
Treasury bills		23,379,354	22,694,942
Balance with Central Bank of Egypt within the limit of statutory reserve		(6,103,826)	(7,211,801)
Treasury bills of maturity more than 3 months from date of acquisition		(22,900,068)	(13,663,417)
Cash and cash equivalents	**37**	**26,515,166**	**33,633,297**

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

Changes in the shareholders’ equity statement

HSBC Bank Egypt SAE

Separate statement of changes in shareholders’ equity for the year ended 31 December 2017

(All amounts in EGP 000)

	Note	Paid-up capital	Reserves	Retained earnings	Total
Balances as at 31 December 2015		**2,795,567**	**1,802,059**	**2,532,758**	**7,130,384**
Dividends paid for year 2015	36	-	-	(1,519,655)	**(1,519,655)**
Transferred to legal reserve	35	-	126,640	(126,640)	**-**
Transferred to general reserve	35	-	126,636	(126,636)	**-**
Net change in available-for-sale investments		-	(195,104)	-	**(195,104)**
Transferred from general risk reserve			(282)	-	**(282)**
Net profit for the year ended 31 December 2016		-	-	3,478,203	**3,478,203**
Balances as at 31 December 2016		**2,795,567**	**1,859,949**	**4,238,030**	**8,893,546**
Balances as at 31 December 2016		**2,795,567**	**1,859,949**	**4,238,030**	**8,893,546**
Dividends paid for year 2016	36	-	-	(2,419,022)	**(2,419,022)**
Transferred to legal reserve	35	-	173,343	(173,343)	**-**
Transferred to general reserve	35	-	181,129	(181,129)	**-**
Transferred to capital reserve	35		11,336	(11,336)	**-**
Net change in available-for-sale investments	35	-	95,385	-	**95,385**
Net profit for the year ended 31 December 2017		-	-	4,468,306	**4,468,306**
Transferred to IFRS 9 reserve		-	433,383	(433,383)	**-**
Balances as at 31 December 2017		**2,795,567**	**2,754,525**	**5,488,123**	**11,038,215**

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

Appropriation account

HSBC Bank Egypt SAE

Separate proposed profit of appropriation statement for the year ended 31 December 2017

(All amounts in EGP 000)

	Note	2017	2016
Net profit for the year (as per income statement)		4,468,306	3,478,203
Less:			
Gain from sale of fixed assets transferred to capital reserve according to law		(2,445)	(11,336)
IFRS 9 reserve	35	(433,383)	-
Net profit for the year available for appropriation		**4,032,478**	**3,466,867**
Retained earnings at the beginning of the year	35	1,453,200	759,827
Total		**5,485,678**	**4,226,694**
Appropriation:			
Legal reserve	35	223,293	173,343
General reserve	35	223,293	181,129
Shareholders' dividends	36	2,679,418	2,080,036
Employees' profit share	36	446,586	338,986
Retained earnings at the end of the year		1,913,088	1,453,200
		5,485,678	**4,226,694**

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

Notes on the accounts

1. Background

HSBC Bank Egypt SAE provides retail, corporate and investment banking services in the Arab Republic of Egypt through 57 branches and 7 small units served by more than 1,759 employees 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 cooperation and published in El Waqaa El Masria newspaper on 17 May 1982 in the Arab Republic of Egypt. The head office is located in Cairo. The Bank started its operation on 15 December 1982. The Bank's shares have been delisted from the Egyptian stock exchange market on 31 December 2009.

The financial statements for the year ended 31 December 2017 have been approved for issuance by the Board of Directors on 14 February 2018.

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 of financial statements

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.

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; and
  - financial instruments, such as debt instrument which contain one or more embedded derivatives that 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 period. 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

E.2. Loans and receivables

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

- the Bank intends to sell immediately or in the short-term, which 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; and
- 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-derivative 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 income statement 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 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 the income statement. The foreign currency revaluation differences related to available-for-sale investments are recognised in the income statement. Dividends related to available-for-sale equity instruments are recognised in the income statement 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 or current bid prices, 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 or 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:

1. Profits and losses related to reclassified financial assets, with fixed maturity, are amortised using the effective interest method over the remaining life of the held-to-maturity investment. The difference between the amortised cost and the redemption value is amortised using the effective interest rate method over the remaining life of the financial asset. In case of financial asset's impairment, any profits or losses previously recognised in equity are to be recognised in the income statement.
2. Profits and losses related to the financial assets without fixed 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 income statement

- 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 income statement
- 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.

- Derivatives that do not qualify for hedge accounting

Derivative instruments that do not qualify for hedge accounting and changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement under 'Net trading income'. 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 bearing interest financial instruments, except for held-for-trading investments or recorded at fair value through profit and loss, are recognised using effective interest rate method under 'Interest and similar income' or 'Interest and similar charges'.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the life of the financial instrument. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter 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, mortgage loans for personal housing and small loans for businesses
- For loans granted to corporates, interest income is recognised on a cash basis after the Bank collects 25 per cent of the scheduling instalments and after the instalments continued to be regular for at least one year. Interest income will not be recognised as revenue until full payment of the loan balance before the rescheduling and client is considered to be performing

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

Fees and commissions related to debt instruments 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. Financial planning and custody services management fees are recognised over the year in which the service is provided.

J. Dividends income

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

K. Agreement for purchase and resale, and agreement for selling and repurchase

Financial instruments sold under repurchase agreements 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

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:

- Cash flow difficulties experienced by the borrower
- Breach of the loan agreement, eg default
- Expected bankruptcy of the borrower or subject to liquidation lawsuit or restructuring the finance granted to it
- Deterioration of competitive position of the 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

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 i.e. increase in default cases for one of the banking products.

The Bank estimates the period between losses occurring and its identification for each specific portfolio. In general, the periods used vary between three months 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, whether being 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 according to the historical default rates
- 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, 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.

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 occurred. For equity instruments classified as available-for-sale investments, impairment is recognised if the decline is significant or a prolonged decline on its fair value below its book value is observed.

The decline in value is considered significant for the equity instruments if it reaches 10 per cent of the financial instrument's cost, and it is considered prolonged if it extends for 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 total accumulated loss previously recognised in equity will be recognised in income statement. 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 income statement 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

Software (computer programmes)

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

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

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

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 asset items.

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

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

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

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

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

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

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

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

Q.1. Leasing

Finance lease contracts recognise rent as expense in the year it occurred in income statement, 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 income statement 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 income statement 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 best estimate of the consideration required to settle the obligations after one year from the financial statement date using the appropriate rate in accordance with the terms of settlement ignoring the tax effect which reflects the time value of money. If the settlement term is less than one year, the provision is booked using the present value unless time consideration has a significant effect.

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 income statement 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 resulting 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 resulting from the financial guarantee is recognised in ‘other operating income (expenses)’ caption.

U. Employees’ benefits

End of service benefits

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

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

Share-based payments

HSBC Holding plc 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 income statement 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.

X. Custody activities

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

Y. Corresponding figures

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

3. Financial risk management

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

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

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

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

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

A. Credit risk

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

A.1. Credit risk measurement

Loans and advances to banks and customers

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

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

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

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

The following table shows the rating scale which reflects the range of default probabilities or payment delays by each credit rating category, which means that credit positions 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 its 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 and Poor’s rating, MERIS MODES rating and Fitch rating to manage its credit risk.

A.2. Limiting and preventing risks policies

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

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

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

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

Collaterals

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

- real estate mortgage
- business assets mortgage, such as machines and goods; and
- financial instruments mortgage, such as debt and equity instruments

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

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

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

Derivatives

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

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

Master netting arrangements

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

Credit-related commitment

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

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

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

A.3. Impairment and provisioning policies

The internal rating systems described in note (A-1) focus more on credit quality at the inception of lending and investment activities. Otherwise, impairment provisions 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 on-balance sheet items relating to loans and advances and the related impairment provision for each rating:

Bank's rating	2017 Loans and advances	2017 Impairment provision	2016 Loans and advances	2016 Impairment provision
Performing loans	73.52%	40%	78.36%	50%
Regular watching	5.71%	4%	9.40%	9%
Watch list	13.12%	13%	7.08%	8%
Non-performing loans	7.65%	43%	5.16%	33%
	100%	**100%**	**100%**	**100%**

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

- Payment delinquency of obligor
- Breach of loan conditions (ie non-payment)
- 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
- Impairment 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 that 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 judgement 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 according to credit worthiness rules issued by CBE exceeds the provision required according to discounted cash flow and historical default rates methods, this increase shall be debited from the retained earnings and credited to the 'general banking risk reserve' under the equity caption. This reserve is regularly adjusted with this increase and decrease, to equal the amount of increase and decrease in the two provisions. This reserve is not distributable. Note 35 shows the 'general banking risk reserve' movement during the year.

A.5. Maximum limits for credit risk before collaterals

	2017	2016
Balance sheet items exposed to credit risks		
Due from banks	28,721,508	28,017,657
Treasury bills	23,379,354	22,694,942
Financial asset held for trading:		
Debt instrument	20,294	8,773
Loans to banks	1,392,670	1,285,805
Loans and advances to customers:		
Retail loans:		
Overdrafts	65,614	99,637
Credit cards	1,104,584	964,924
Personal loans	3,861,706	3,906,214
Mortgage loans	4,440	5,249
Corporate loans:		
Overdrafts	2,866,081	3,942,899
Direct loans	13,449,454	15,203,577
Syndicated loans	7,874,195	6,103,016
Financial derivative instruments	7,069	-
Financial investments:		
Debt instruments	3,568,569	2,442,242
Other assets	495,820	341,289
Total	**86,811,358**	**85,016,224**
Off-balance sheet items exposed to credit risk		
Loan commitments and other irrevocable commitments related to credit	3,710,681	5,543,596
Letters of credit	1,608,114	1,554,258
Letters of guarantee	20,208,657	19,342,786
Cash margin	(1,465,463)	(2,704,779)
Total	**24,061,989**	**23,735,861**

The above table represents the maximum limit for credit risk as of 31 December 2017 and 31 December 2016, 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, 35.17 per cent of the total maximum limit exposed to credit risk resulted from loans and advances to customers against 37.41 per cent as at 31 December 2016 while 4.32 per cent represents investments in debt instruments against 3.03 per cent as at 31 December 2016.

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:

- 79.23 per cent of the loans and advances portfolio is classified at the highest two ratings in the internal rating against 87.76 per cent as at 31 December 2016

- 89.78 per cent of the loans and advances portfolio having no past due or impairment indicators against 89.30 per cent as at 31 December 2016
- Loans and advances that have been evaluated on an individual basis of total amount EGP2,252,183 thousand against EGP1,576,218 thousand as at 31 December 2016
- Investments in debt instruments and Treasury bills reached 100 per cent against 99 per cent as at 31 December 2016 due from the Egyptian government

A.6. Loans and advances

Loans and advances are summarised as follows:

	2017	2016
Neither having past dues nor impaired	26,031,287	26,990,453
Having past due but not impaired	942,604	1,658,845
Subject to impairment	2,252,183	1,576,218
Total	**29,226,074**	**30,225,516**
Less:		
Interest in suspense	(256,960)	(177,783)
Loan loss impairment	(2,061,386)	(1,715,505)
Net	**26,907,728**	**28,332,228**

The Bank's total impairment loss for loans and advances amounted to EGP2,061,386 thousand against EGP1,715,505 thousand as at 31 December 2016, of which EGP833,503 thousand against EGP579,192 thousand as at 31 December 2016 represent impairment of specific loans and the remainder amounting to EGP1,227,883 thousand against EGP1,136,313 thousand as at 31 December 2016 represent impairment loss for the credit portfolio as a group.

The Bank reviewed – periodically - the risks surrounding the loan portfolio and carried out stress testing to determine the impact of political and economic risks and prepare a plan to address these risks, which lead to the collective provision amounting to EGP978,611 thousand as at 31 December 2017

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

The Bank's portfolio increased by 3.31 per cent 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.

2017

	Retail				Corporate			
Rating	**Overdrafts**	**Credit cards**	**Personal loans**	**Mortgage loans**	**Overdrafts**	**Direct loans**	**Syndicated loans**	**Total loans and advances to customers**
Performing loans	63,059	1,060,485	3,629,468	3,181	2,190,349	6,692,962	6,993,084	**20,632,588**
Regular follow-up	-	-	-	-	135,752	1,262,765	181,334	**1,579,851**
Special follow-up	-	-	-	-	317,289	2,959,900	541,659	**3,818,848**
Total	**63,059**	**1,060,485**	**3,629,468**	**3,181**	**2,643,390**	**10,915,627**	**7,716,077**	**26,031,287**

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

2016

	Retail				Corporate			
Rating	**Overdrafts**	**Credit cards**	**Personal loans**	**Mortgage loans**	**Overdrafts**	**Direct loans**	**Syndicated loans**	**Total loans and advances to customers**
Performing loans	87,288	916,749	3,729,057	4,196	3,473,021	8,660,398	5,225,894	**22,096,603**
Regular follow-up	-	-	-	-	197,051	2,247,373	325,442	**2,769,866**
Special follow-up	-	-	-	-	145,317	1,426,987	551,680	**2,123,984**
Total	**87,288**	**916,749**	**3,729,057**	**4,196**	**3,815,389**	**12,334,758**	**6,103,016**	**26,990,453**

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**:**

2017

	Retail				
	Overdrafts	**Credit cards**	**Personal loans**	**Mortgage loans**	**Total**
Past due up to 30 days	1,492	23,724	139,520	1,258	**165,994**
Past due 30-60 days	285	8,219	51,717	-	**60,221**
Past due 60-90 days	41	5,582	22,593	-	**28,216**
Total	**1,818**	**37,525**	**213,830**	**1,258**	**254,431**

2017

	Corporate			
	Overdrafts	**Direct loans**	**Syndicated loans**	**Total**
Past due up to 30 days	-	349,254	-	**349,254**
Past due 30-60 days	-	161,728	-	**161,728**
Past due 60-90 days	-	177,191	-	**177,191**
Total	**-**	**688,173**	**-**	**688,173**

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.

2016

	Retail				
	Overdrafts	**Credit cards**	**Personal loans**	**Mortgage loans**	**Total**
Past due up to 30 days	9,192	25,360	100,472	1,054	**136,078**
Past due 30-60 days	1,396	9,498	29,382	-	**40,276**
Past due 60-90 days	788	6,569	22,536	-	**29,893**
Total	**11,376**	**41,427**	**152,390**	**1,054**	**206,247**

2016

	Corporate			
	Overdrafts	**Direct loans**	**Syndicated loans**	**Total**
Past due up to 30 days	-	461,658	-	**461,658**
Past due 30-60 days	-	289,671	-	**289,671**
Past due 60-90 days	-	701,269	-	**701,269**
Total	**-**	**1,452,598**	**-**	**1,452,598**

Loans and advances subject to individual impairment

Loans and advances to customers

Loans and advances are subject to individual impairment before taking into consideration cash flows from guarantees amounting to EGP2,252,183 thousand against EGP1,576,218 thousand as at 31 December 2016.

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

2017

	Retail				Corporate			
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Overdrafts	Direct loans	Syndicated loans	Total
Individual loans subject to impairment	737	6,575	18,408	-	222,691	1,845,654	158,118	**2,252,183**
Fair value of collateral	**-**	**-**	**-**	**-**	**-**	**446,056**	**-**	**446,056**

2016

	Retail				Corporate			
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Overdrafts	Direct loans	Syndicated loans	Total
Individual loans subject to impairment	972	6,747	24,767	-	127,510	1,416,222	-	**1,576,218**
Fair value of collateral	**-**	**-**	**-**	**-**	**-**	**499,056**	**-**	**499,056**

Restructured loans and advances

Restructuring activities include extension of payment terms, execution of mandatory management programs, and repayment modification agreements. Application of restructuring policies depend on indicators or standards referring to high probabilities of payment continuation based on management judgment. These policies are reviewed regularly. Restructuring is usually applied to Term loans.

	2017	2016
Loans and advances to customers		
Corporate		
Direct loans	1,329,949	554,084
Retail		
Personal loans	582	631
Total	**1,330,531**	**554,715**

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
Less than A-	23,379,354	3,588,863[1]	**26,968,217**
Total	**23,379,354**	**3,588,863**	**26,968,217**

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				
	Cairo	Alexandria and Delta	Upper Egypt, Sinai and Red sea	Other Countries	Total EGP (000)
Due from banks	28,721,508	-	-	-	**28,721,508**
Treasury bills	23,379,354	-	-	-	**23,379,354**
Financial assets held for trading					
Debt instruments	20,294	-	-	-	**20,294**
Loans and advances to banks	1,312,895	-	-	79,775	**1,392,670**
Loans and advances to customers					
Retail:					
Overdrafts	55,697	6,624	3,293	-	**65,614**
Credit cards	1,104,584	-	-	-	**1,104,584**
Personal loans	3,408,198	338,128	115,380	-	**3,861,706**
Mortgage loans	4,172	-	268	-	**4,440**
Corporate:					
Overdrafts	2,709,832	150,759	5,490	-	**2,866,081**
Direct loans	11,413,102	1,969,965	66,387	-	**13,449,454**
Syndicated loans	7,420,463	195,334	258,398	-	**7,874,195**
Derivative financial instruments	7,069	-	-	-	**7,069**
Financial investment:					
Debt instruments	3,568,569	-	-	-	**3,568,569**
Other assets	471,123	18,903	5,794	-	**495,820**
Total as at 31 December 2017	**83,596,860**	**2,679,713**	**455,010**	**79,775**	**86,811,358**
Total as at 31 December 2016	**77,214,387**	**2,976,764**	**609,293**	**-**	**80,800,444**

[1] Represented in Egyptian government bonds

Business sectors

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

	Industrial sector	Commercial sector	Service sector	Governmental sector	Other activities	Individuals	Total
Due from banks	-	-	-	28,721,508	-	-	**28,721,508**
Treasury bills	-	-	-	23,379,354	-	-	**23,379,354**
Financial assets held for trading							
Debt instruments	-	-	-	20,294	-	-	**20,294**
Loans and advances to banks	-	-	-	1,092,026	300,644	-	**1,392,670**
Loans and advances to customers							
Retail:							
Overdrafts	-	-	-	-	-	65,614	**65,614**
Credit cards	-	-	-	-	-	1,104,584	**1,104,584**
Personal loans	-	-	-	-	-	3,861,706	**3,861,706**
Mortgage loans	-	-	-	-	-	4,440	**4,440**
Corporate:							
Overdrafts	1,230,401	154,761	888,654	46,931	545,334	-	**2,866,081**
Direct loans	9,369,180	637,320	3,442,954	-	-	-	**13,449,454**
Syndicated loans	1,926,268	-	1,814,042	3,603,485	530,400	-	**7,874,195**
Derivative financial instruments	-	-	7,069	-	-	-	**7,069**
Financial investment:							
Debt instruments	-	-	-	3,568,569		-	**3,568,569**
Other assets	-	-	-	-	495,820	-	**495,820**
Total as at 31 December 2017	**12,525,849**	**792,081**	**6,152,719**	**60,432,167**	**1,872,198**	**5,036,344**	**86,811,358**
Total as at 31 December 2016	**12,897,421**	**1,604,813**	**8,268,043**	**51,726,654**	**1,327,489**	**4,976,024**	**80,800,444**

B. Market risk

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

The Bank Treasury is responsible for managing the market risks arising from trading and non-trading activities which are monitored by two separate teams. Regular reports about market risk are submitted to the Board of Directors and each business unit head 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 several assumptions for various changes in market conditions. The Board sets separate limits for the value of risk that may be accepted by the Bank for trading and non-trading portfolios and monitored by the ALCO committee.

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

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

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

The average daily VAR for the Bank during the current year was EGP37,979 thousand, against EGP43,332 thousand for 2016.

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

Stress testing

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

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

B.2. VAR summary

According to risk type

	2017			2016		
	Average	**High**	**Low**	**Average**	**High**	**Low**
Foreign exchange risk	36,392	116,157	4,835	41,518	339,106	2,542
Interest rate risk	1,587	1,988	1,145	1,814	2,369	1,241
Total VAR	**37,979**	**118,145**	**5,980**	**43,332**	**341,475**	**3,783**

Trading portfolio VAR by risk type

	2017			2016		
	Average	High	Low	Average	High	Low
Foreign exchange risk	35,740	116,157	4,835	41,518	339,106	2,542
Interest rate risk	41	146	6	35	113	2
Total VAR	**35,781**	**116,303**	**4,841**	**41,553**	**339,219**	**2,544**

Non-trading portfolio VAR by risk type

	2017			2016		
	Average	High	Low	Average	High	Low
Interest rate risk	1,660	2,004	1,321	1,849	2,391	1,243
Total VAR	**1,660**	**2,004**	**1,321**	**1,849**	**2,391**	**1,243**

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

B.3. Foreign exchange volatility risk

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

2017	EGP	USD	EUR	GBP	Other	Total
Financial assets:						
Cash and balances with Central bank	(3,116,078)	(218,198)	(46,188)	(23,988)	(13,746)	**(3,418,198)**
Due from banks	(6,356,653)	(21,520,296)	(75,275)	(574,484)	(194,800)	**(28,721,508)**
Treasury bills	(19,000,464)	(4,378,890)	-	-	-	**(23,379,354)**
Financial assets held for trading	(20,294)	-	-	-	-	**(20,294)**
Loans and advances to banks	(220,869)	(1,171,801)	-	-	-	**(1,392,670)**
Loans and advances to customers	(15,062,921)	(6,964,399)	(4,788,446)	(68,709)	(23,253)	**(26,907,728)**
Derivative financial instruments	-	(5,612)	-	-	(1,457)	**(7,069)**
Financial investments:						
Available-for-sale	(3,466,947)	(124,467)	-	-	-	**(3,591,414)**
Held-to-maturity	(9,142)	-	-	-	-	**(9,142)**
Other financial assets	(374,585)	(96,540)	(17,537)	(7,158)	-	**(495,820)**
Total financial assets	**(47,627,953)**	**(34,480,203)**	**(4,927,446)**	**(674,339)**	**(233,256)**	**(87,943,197)**
Financial liabilities						
Due to banks	4,132,282	345,994	242,223	9,045	-	**4,729,544**
Customer deposits	28,157,309	33,685,820	3,932,127	1,768,237	284,881	**67,828,374**

Financial derivative	-	7,123	-		1,457	**8,580**
Other financial liabilities	2,366,496	132,648	2,926	27,374	77,589	**2,607,033**
Total financial liabilities	**34,656,087**	**34,171,585**	**4,177,276**	**1,804,656**	**363,927**	**75,173,531**
Net financial position	**(12,971,866)**	**(308,618)**	**(750,170)**	**1,130,317**	**130,671**	**(12,769,666)**
Commitments related to credit and contingent liabilities	**7,216,629**	**13,850,560**	**2,055,460**	**26,774**	**912,566**	**24,061,989**
2016						
Total financial assets	**(46,121,932)**	**(34,661,602)**	**(3,899,203)**	**(1,754,920)**	**(525,332)**	**(86,962,989)**
Total financial liabilities	**36,487,610**	**34,433,523**	**3,905,114**	**1,746,157**	**561,272**	**77,133,676**
Net financial position – balance sheet	**(9,634,322)**	**(228,079)**	**5,911**	**(8,763)**	**35,940**	**(9,829,313)**
Commitments related to credit and contingent liabilities	**6,383,272**	**12,273,564**	**2,574,962**	**31,937**	**2,472,126**	**23,735,861**

B.4. Interest rate risk

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

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

2017	**Up to one month**	**1-3 Months**	**3-12 Months**	**1-5 years**	**5 years or more**	**Without Interest**	**Total**
Financial assets:							
Cash and balances with Central bank	-	-	-	-	-	(3,418,198)	**(3,418,198)**
Due from banks	(22,240,944)	(5,489,010)	-	-	-	(991,554)	**(28,721,508)**
Treasury bills		(479,286)	(22,900,068)	-	-	-	**(23,379,354)**
Financial assets held for trading	(20,294)	-	-	-	-	-	**(20,294)**
Loans and advances to banks	-	-	-	(1,392,670)	-	-	**(1,392,670)**
Loans and advances to customers	(8,551,489)	(2,463,080)	(2,839,320)	(13,053,839)	-	-	**(26,907,728)**
Financial derivatives	(7,069)	-	-	-	-	-	**(7,069)**
Financial investments:							
Available-for-sale	-	(470,260)	(593,595)	(2,504,714)	-	(22,845)	**(3,591,414)**
Held-to-maturity	-	-	-	-	-	(9,142)	**(9,142)**
Other financial assets	-	-	-	-	-	(495,820)	**(495,820)**
Total financial assets	**(30,819,796)**	**(8,901,636)**	**(26,332,983)**	**(16,951,223)**	**-**	**(4,937,559)**	**(87,943,197)**

Financial liabilities							
Due to banks	-	-	-	-	-	4,729,544	**4,729,544**
Customer deposits	21,654,962	1,762,709	5,083,829	9,647,062	3,443	29,676,369	**67,828,374**
Financial derivatives	8,580	-	-	-	-	-	**8,580**
Other financial liabilities	-	-	-	-	2,072,000	535,033	**2,607,033**
Total financial liabilities	**21,663,542**	**1,762,709**	**5,083,829**	**9,647,062**	**2,075,443**	**34,940,946**	**75,173,531**
Interest repricing gap	**(9,156,254)**	**(7,138,927)**	**(21,249,154)**	**(7,304,161)**	**2,075,443**	**30,003,387**	**(12,769,666)**
2016							
Total financial assets	**(33,000,617)**	**(17,600,727)**	**(17,269,266)**	**(13,979,117)**	**-**	**(5,113,262)**	**(86,962,989)**
Total financial liabilities	**26,537,291**	**3,355,879**	**5,863,026**	**6,548,303**	**-**	**34,829,177**	**77,133,676**
Interest repricing gap	**(6,463,326)**	**(14,244,848)**	**(11,406,240)**	**(7,430,814)**	**-**	**29,715,915**	**(9,829,313)**

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 department includes the following:

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

Monitoring and reporting takes the form of cash flow measurement and projections for the next working day, week and month respectively, as these are key periods for liquidity management.

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

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

Non-derivative cash flows

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

2017

Financial liabilities	Up to 1 month	Over than 1 month to 3 months	Over than 3 months to 1 year	Over than 1 year to 5 years	More than 5 years	Total
Demand deposits	28,248,603	-	-	-	-	**28,248,603**
Saving deposits	17,774,746	-	-	-	-	**17,774,746**
Accrued interest on saving deposits	125,807	-	-	-	-	**125,807**
Time deposits and Saving certificates	3,011,283	1,807,147	5,239,009	12,395,088	-	**22,452,527**
Other deposits	2,322,631	-	-	-	-	**2,322,631**
Due to banks	4,729,544	-	-	-	-	**4,729,544**
Other loans	38,240	72,778	339,222	1,802,194	4,092,744	**6,345,178**
Total of financial liabilities according to maturity date	**56,250,854**	**1,879,925**	**5,578,231**	**14,197,282**	**4,092,744**	**81,999,036**

2016

Financial liabilities	Up to 1 month	Over than 1 month to 3 months	Over than 3 months to 1 year	Over than 1 year to 5 years	More than 5 years	Total
Demand deposits	28,548,697	-	-	-	-	**28,548,697**
Saving deposits	19,903,807	-	-	-	-	**19,903,807**
Accrued interest on saving deposits	74,992	-	-	-	-	**74,992**
Time deposits and Saving certificates	5,760,796	3,139,840	3,104,478	9,012,376	3,820	**21,021,310**
Other deposits	3,669,213	-	-	-	-	**3,669,213**
Due to banks	4,490,474	-	1,353,681	-	-	**5,844,155**
Other loans	4,447	8,464	39,449	209,583	638,520	**900,463**
Total of financial liabilities according to maturity date	**62,452,426**	**3,148,304**	**4,497,608**	**9,221,959**	**642,340**	**79,962,637**

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

2017

	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total
Letter of credit commitments	1,608,114	-	-	**1,608,114**
Loans commitments	3,121,459	-	-	**3,121,459**
Financial guarantees, acceptance and other facilities	19,332,416	-	-	**19,332,416**
Operating lease commitments	11,414	20,135	9,167	**40,716**
Total	**24,073,403**	**20,135**	**9,167**	**24,102,705**

2016

	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total
Letter of credit commitments	1,554,258	-	-	**1,554,258**
Loans commitments	5,047,568	-	-	**5,047,568**
Financial guarantees, acceptance and other facilities	17,134,035	-	-	**17,134,035**
Operating lease commitments	10,455	25,948	11,667	**48,070**
Total	**23,746,316**	**25,948**	**11,667**	**23,783,931**

D. Fair value of financial assets and liabilities

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

The change in estimated fair value of available for sale debt instruments using valuation methods for the year amounted to EGP95,385 thousand against EGP195,104 thousand as at 31 December 2016.

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.

	Book value	Fair value
Financial assets		
Due from banks	28,721,508	28,721,508
Loans and advances to banks	1,392,670	Undetermined
Loans and advances to customers		
Retail	5,036,344	Undetermined
Corporate	24,189,730	Undetermined
Financial investments		
Equity instruments available for sale	22,845	Undetermined
Held to maturity	9,142	17,686
Financial liabilities		
Due to banks	4,729,544	4,729,544
Customer deposits		
Retail	40,517,732	Undetermined
Corporate	27,310,642	Undetermined
Subordinated loans	2,072,000	Undetermined

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.

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 EGP500m as a minimum requirement for the issued and paid-up capital
- Maintaining a ratio between capital elements and asset and contingent liability elements weighted by risk weights at 10 per cent or more

The numerator in capital adequacy comprises the following two tiers:

- **Tier 1**: It is the basic capital comprising of (going concern capital and additional going concern capital)
- **Tier 2**: It is the gone concern capital comprising:
  - 45 per cent of the increase between the fair value and carrying amount for (fair value reserve if positive, available-for-sale investments, held-to-maturity investments, investments in subsidiaries)
  - 45 per cent of the special reserves
  - 45 per cent of positive foreign currency reserves
  - Hybrid instruments
  - Loans (deposits) subordinated

- Provision for impairment losses for loans and contingent liabilities (not exceeding 1.25 per cent of total assets and contingent liabilities applying the risk weights, the provision for the non-performing loans, contingent liabilities) must be enough to face any liabilities it formed for

The denominator of the capital adequacy comprises:

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

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

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

	2017	**2016**
Capital		
Tier 1 after disposals (going concern capital)		
Share capital	2,795,568	2,795,568
Reserves	2,301,985	1,936,176
Retained earnings	1,459,211	742,300
Additional going concern capital	447,178	459
Total disposals from going concern capital	(363,247)	(353,712)
Total going concern capital after disposals (common equity)	**6,640,695**	**5,120,791**
Tier 2 (gone concern capital)		
45 per cent of fair value of held-to-maturity investments	3,845	6,497
Subordinated (deposits) loans	2,072,000	272,000
Performing impairment losses provision for loans and advances contingent liabilities	541,663	517,336
Total tier 2 after disposals (gone concern capital)	**2,617,508**	**795,833**
Total capital adequacy after disposals (1+2)	**9,258,203**	**5,916,624**
Risk (credit, market and operational)		
Credit risk including the excess of top 50 customers' exposures	54,490,950	41,386,966
Capital requirements for market risk	46,630	12,370
Capital requirements for operation risk	9,373,280	7,121,430
Total credit, market and operational risks	**63,910,860**	**48,520,766**
Capital adequacy ratio (%)	**14.49%**	**12.19%**

F. Leverage financial ratio

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

- As guidance ratio started from reporting period September 2015 till December 2017
- As obligatory ratio started from year 2018

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

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

Ratio elements

A) **The numerator elements**

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

B) **The dominator elements**

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

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

The table below summarizes the leverage financial ratio:

	2017	**2016**
Tier 1 after disposals (going concern capital)	**6,640,695**	**5,120,790**
Total on-balance sheet exposures, derivatives contracts and financial papers operations	89,845,450	88,711,638
Total off- balance sheet exposures	15,664,132	14,922,262
Total on-balance sheet and off-balance sheet exposures	**105,509,582**	**103,633,900**
Leverage financial ratio (%)	**6.29%**	**4.94%**

4. Significant accounting estimates and assumptions

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

A. Impairment losses for loans and advances

The Bank reviews the portfolio of loans and advances at least quarterly. The Bank uses discretionary judgement 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 judgement is required to determine that the decline is significant or prolonged. In making this judgement, 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 EGP7,069 thousand in assets against EGP8,580 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 judgement; 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 EGP8,544 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 several complicated processes and calculations to determine the final income tax. The Bank records a liability related to the tax inspection estimated results. When there is a difference between the final result of the actual tax inspection and the amounts previously recorded by the Bank, such differences will be recorded in the year where differences are noted. Income tax and deferred tax will be recorded in that year.

5. Segment analysis

A. By activity segment

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

- **Large enterprises medium and small**

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

- **Investment**

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

- **Individuals**

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

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

31 December 2017

	Corporate	Medium and small enterprises	Investments	RBWM	Other activities	Total
Income and expenses according to activity segment						
Income activity segment	4,287,427	350,959	800,823	1,732,059	941,231	**8,112,499**
Expenses activity segment	(1,101,686)	(32,572)	(39,060)	(1,064,820)	(6,833)	**(2,244,971)**
Profit before tax	**3,185,741**	**318,387**	**761,763**	**667,239**	**934,398**	**5,867,528**
Tax	(867,103)	(117,462)	(268,035)	(146,622)	-	**(1,399,222)**
Profit for the year	**2,318,638**	**200,925**	**493,728**	**520,617**	**934,398**	**4,468,306**
Assets and liabilities according to activity segment						
Assets activity segment	(79,184,221)	(1,583,173)	(1,773,555)	(3,931,794)	(2,224,272)	**(88,697,015)**
Total assets	**(79,184,221)**	**(1,583,173)**	**(1,773,555)**	**(3,931,794)**	**(2,224,272)**	**(88,697,015)**
Liabilities activity segment	28,038,399	3,504,925	361,204	40,262,025	5,492,247	**77,658,800**
Total liabilities and equity	**28,038,399**	**3,504,925**	**361,204**	**40,262,025**	**5,492,247**	**77,658,800**

31 December 2016

	Corporate	Medium and small enterprises	Investments	RBWM	Other activities	Total
Income and expenses according to activity segment						
Income activity segment	3,220,853	258,344	1,023,292	1,347,413	97,968	**5,947,870**
Expenses activity segment	(660,051)	(30,342)	(35,783)	(671,286)	(55,692)	**(1,453,154)**
Profit before tax	**2,560,802**	**228,002**	**987,509**	**676,127**	**42,276**	**4,494,716**
Tax	(627,746)	(56,642)	(196,912)	(135,210)	(3)	**(1,016,513)**
Profit for the year	**1,933,056**	**171,360**	**790,597**	**540,917**	**42,273**	**3,478,203**
Assets and liabilities according to activity segment						
Assets activity segment	(80,510,625)	(1,555,132)	-	(4,011,133)	(1,557,940)	**(87,634,830)**
Total assets	**(80,510,625)**	**(1,555,132)**	**-**	**(4,011,133)**	**(1,557,940)**	**(87,634,830)**
Liabilities activity segment	32,778,450	3,949,557	96,365	38,569,757	3,347,155	**78,741,284**
Total liabilities and equity	**32,778,450**	**3,949,557**	**96,365**	**38,569,757**	**3,347,155**	**78,741,284**

B. Analysis according to the geographical segment

31 December 2017

	Arab Republic of Egypt			
	Cairo	Alexandria and Delta	Upper Egypt, Sinai and Red sea	Total
Income and expenses according to geographical segment				
Income geographical segment	7,677,285	371,524	99,529	**8,148,338**
Expenses geographical segment	(2,241,501)	(28,837)	(10,472)	**(2,280,810)**
Profit before tax	**5,435,784**	**342,687**	**89,057**	**5,867,528**
Tax	(1,399,222)	-	-	**(1,399,222)**
Profit for the year	**4,036,562**	**342,687**	**89,057**	**4,468,306**
Assets and liabilities according to geographical segment				
Assets geographical segment	(85,251,285)	(2,954,147)	(491,583)	**(88,697,015)**
Total assets	**(85,251,285)**	**(2,954,147)**	**(491,583)**	**(88,697,015)**
Liabilities geographical segment	70,000,667	6,448,385	1,209,748	**77,658,800**
Total liabilities and equity	**70,000,667**	**6,448,385**	**1,209,748**	**77,658,800**

31 December 2016

	Arab Republic of Egypt			
	Cairo	Alexandria and Delta	Upper Egypt, Sinai and Red sea	Total
Income and expenses according to geographical segment				
Income geographical segment	5,613,781	362,920	41,051	**6,017,752**
Expenses geographical segment	(1,486,893)	(24,947)	(11,196)	**(1,523,036)**
Profit before tax	**4,126,888**	**337,973**	**29,855**	**4,494,716**
Tax	(1,016,513)	-	-	**(1,016,513)**
Profit for the year	**3,110,375**	**337,973**	**29,855**	**3,478,203**
Assets and liabilities according to geographical segment				
Assets geographical segment	(83,805,274)	(3,172,610)	(656,946)	**(87,634,830)**
Total assets	**(83,805,274)**	**(3,172,610)**	**(656,946)**	**(87,634,830)**
Liabilities geographical segment	70,884,639	6,592,778	1,263,867	**78,741,284**
Total liabilities and equity	**70,884,639**	**6,592,778**	**1,263,867**	**78,741,284**

6. Net interest income

	2017	2016
Interest from loans and similar income:		
Loans and advances to customers	3,688,016	2,290,344
Loans and advances to banks	46,451	24,729
Treasury bills and Treasury bonds	3,177,588	2,519,773
Deposits and current accounts	1,235,340	797,010
Investments in debt instruments available-for-sale	394,381	504,459
	8,541,776	**6,136,315**
Interest on deposits and similar expenses:		
Deposits and current accounts:		
Banks	(1,594)	(571)
Customers	(1,975,052)	(1,170,040)
Other loans	(325,098)	(41,989)
	(2,301,744)	**(1,212,600)**
Net	**6,240,032**	**4,923,715**

7. Net fees and commissions income

	2017	2016
Interest from loans and similar income:		
Fees and commissions related to credit	912,911	847,381
Custody fees	91,292	16,718
Other fees	4,778	8,976
	1,008,981	**873,075**
Fees and commissions expenses:		
Brokerage fees paid	(4,351)	(2,412)
Other fees paid	(159,989)	(121,770)
	(164,340)	**(124,182)**
Net	**844,641**	**748,893**

8. Dividends income

	2017	2016
Available-for-sale investments	4,951	3,973
Net	**4,951**	**3,973**

9. Net trading income

	2017	2016
Foreign exchange operations:		
Gain from foreign currency transactions	1,051,313	139,987
Gain from debt instruments held for trading	37,124	10,383
(Loss) from forward deals revaluation	(112)	(368)
Net	**1,088,325**	**150,002**

10. Administrative expenses

	2017	2016
Staff costs		
Wages and salaries	392,324	310,771
Social insurance	18,901	18,190
End of Service Compensation	77,280	54,651
	488,505	**383,612**
Other administrative expenses	1,392,714	911,569
	1,881,219	**1,295,181**

11. Other operating income (expense)

	2017	2016
(Loss)/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	(84,795)	220,991
Gain from sale of property and equipment	2,445	11,336
Operating lease	89,108	34,763
Amortization of investments in property	(5,525)	(6,718)
Accruals no longer required	179,904	6,243
Losses from sale of financial assets	-	(155,948)
Other provision (loss)	(207,397)	(33,262)
Gain from services provided to operation lease user	785	2,463
Head office services revenue	25,139	27,664
Other	388	1,963
Net	**52**	**109,495**

12. Credit impairment recovered (charged)

	2017	2016
Loans and advances to customers		
Impairment losses	(519,386)	(173,136)
Impairment recovery	78,058	16,526
Net	**(441,328)**	**(156,610)**

13. Income tax expenses

	2017	2016
Current taxes	(1,404,299)	(1,060,880)
Prior year adjustments	-	39,723
Deferred tax (note 32)	5,077	4,644
Net	**(1,399,222)**	**(1,016,513)**

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

	2017	2016
Profit before tax		
Accounting profit before tax	5,867,528	4,494,716
Tax rate	22.50%	22.50%
Income tax calculated on accounting profit	**1,320,194**	**1,011,311**
Add (less)		
Unrecognized tax expenses	79,028	44,925
Prior year adjustments	-	(39,723)
Net income tax	**1,399,222**	**1,016,513**
Effective tax rate	**23.85%**	**22.62%**

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.

From 2005 to 2011

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

From 2012 to 2015

These years were inspected and disputes were settled with the tax authority.

Year 2016

No inspection took place up to the date of the financial statements.

B. Salary tax

From 1982 to 2016

These years were inspected and were settled.

C. Stamp duty tax

From 1982 to 2016

These years were inspected and tax was fully settled.

14. Earnings per share

Basic

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

	2017	2016
Net profit applicable to be distributed on the shareholders	4,468,306	3,478,203
Employees' profit share	(446,586)	(338,986)
Net Profit available for appropriation to shareholders	**4,021,720**	**3,139,217**
Common shares issued - weighted average (1,000 shares)	33,281	33,281
Earnings per share/EGP	**120.84**	**94.32**

15. Cash and balances with the Central Bank of Egypt

	2017	2016
Cash	1,030,612	799,895
Due from Central Bank (within the statutory reserve)	2,387,586	2,996,021
	3,418,198	**3,795,916**
Non-interest-bearing balances	3,418,198	3,795,916
	3,418,198	**3,795,916**

16. Due from banks

	2017	2016
Current accounts	991,554	931,920
Deposits	27,729,954	27,085,737
	28,721,508	**28,017,657**
Due from Central Bank (other than the statutory reserve)	10,048,240	13,787,780
Local banks	227,103	90,817
Foreign banks	18,446,165	14,139,060
	28,721,508	**28,017,657**
Non-interest-bearing balances	991,554	931,920
Interest-bearing balances	27,729,954	27,085,737
	28,721,508	**28,017,657**
Current balances	**28,721,508**	**28,017,657**

17. Treasury bills

	2017	2016
Treasury bills – Egyptian	23,379,354	19,048,198
Treasury bills – American	-	3,646,744
Total	**23,379,354**	**22,694,942**
Treasury bills represent the following:		
91 days maturity	500,000	9,190,600
182 days maturity	6,250,000	9,049,000
273 days maturity	4,877,050	1,920,469
364 days maturity	13,278,817	2,992,150
Unearned interest	(1,526,513)	(457,277)
Total	**23,379,354**	**22,694,942**

18. Financial assets held for trading

	2017	2016
Debt instruments		
Governmental bonds	20,294	8,773
Total debt instruments	**20,294**	**8,773**
Total finance assets held for trading	**20,294**	**8,773**

19. Loans and advances to banks

	2017	2016
Term loans	1,392,670	1,285,805
Total	**1,392,670**	**1,285,805**
Less		
Provision for impairment	-	-
Net	**1,392,670**	**1,285,805**
Current balances	1,312,895	-
Non-current balances	79,775	1,285,805
	1,392,670	**1,285,805**

20. Loans and advances to customers

	2017	2016
Retail:		
Overdrafts	65,614	99,637
Credit cards	1,104,584	964,924
Personal loans	3,861,706	3,906,214
Mortgage loans	4,440	5,249
Total	**5,036,344**	**4,976,024**
Corporate loans including small loans for economic activities:		
Overdrafts	2,866,081	3,942,899
Direct loans	13,449,454	15,203,577
Syndicated loans	7,874,195	6,103,016
Total	**24,189,730**	**25,249,492**
Total loans and advance to customers	**29,226,074**	**30,225,516**
Less: provision for impairment losses	(2,061,386)	(1,715,505)
Less: interest in suspense	(256,960)	(177,783)
Net	**26,907,728**	**28,332,228**
Distributed as follows:		
Current balances	13,853,889	16,658,174
Non-current balances	13,053,839	11,674,054
Total	**26,907,728**	**28,332,228**

During the year ended 31 December 2017, the Bank has accepted trading financial securities with a fair value amounting to EGP503,240 thousand as a commercial loan guarantee.

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 2017

	Retail				
	Overdrafts	**Credit cards**	**Personal loans**	**Mortgage loans**	**Total**
Balance at the beginning of the year	1,249	11,508	24,544	42	**37,343**
Impairment losses charged/(released)	5	4,183	70,500	(4)	**74,684**
Amounts written off during the year	(456)	(5,868)	(15,065)	-	**(21,389)**
Balance at the end of the year	**798**	**9,823**	**79,979**	**38**	**90,638**

	Corporate			
	Overdrafts	Direct loans	Syndicated loans	Total
Balance at the beginning of the year	245,792	702,017	730,353	**1,678,162**
Impairment losses charged	43,440	204,339	118,865	**366,644**
Amounts written off during the year	(4,123)	(19,393)	(11,280)	**(34,796)**
Foreign revaluation difference related to provision	(4,652)	(21,882)	(12,728)	**(39,262)**
Balance at the end of the year	**280,457**	**865,081**	**825,210**	**1,970,748**

31 December 2016

	Retail				
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Total
Balance at the beginning of the year	1,193	11,390	22,631	11	**35,225**
Impairment losses charged	894	5,408	17,573	31	**23,906**
Amounts written off during the year	(838)	(5,290)	(15,660)	-	**(21,788)**
Balance at the end of the year	**1,249**	**11,508**	**24,544**	**42**	**37,343**

	Corporate			
	Overdrafts	Direct loans	Syndicated loans	Total
Balance at the beginning of the year	109,707	244,512	519,712	**873,931**
Impairment losses charged	21,029	79,125	32,551	**132,705**
Amounts written off during the year	(3,863)	(14,895)	(5,979)	**(24,737)**
Foreign revaluation difference related to provision	118,919	393,275	184,069	**696,263**
Balance at the end of the year	**245,792**	**702,017**	**730,353**	**1,678,162**

21. Financial derivatives and coverage activities

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

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

31 December 2017

	Contract/notional amount Assets	Contract/notional amount Liabilities	Assets	Liabilities
Derivatives held for trading				
Foreign currency derivatives				
Currency option contracts	140,199	(140,199)	7,069	(7,069)
Currency forward contracts	1,566,010	(1,566,010)	-	(1,511)
Total assets (liabilities) of derivatives held for trading			**7,069**	**(8,580)**

22. Financial investments

	2017	2016
A) Available-for-sale		
Equity instruments unlisted (at cost)	22,845	22,845
Debt instruments listed (at FMV)[1]	3,568,569	2,442,242
Total available-for-sale investments (1)	3,591,414	2,465,087
B) Held-to-maturity		
Debt instruments unlisted (mutual fund)[2]	9,142	21,292
Total held-to-maturity investments (2)	9,142	21,292
Total financial investments (1+2)	3,600,556	2,486,379
Current balances	1,063,855	1,422,983
Non-current balances	2,536,701	1,063,396
	3,600,556	2,486,379
Fixed interest debt instruments	3,568,569	2,414,106
Variable interest debt instruments	-	28,136
	3,568,569	2,442,242

31 December 2017

	Available-for-sale	Held-to-maturity	Total
Balance at beginning of the year	2,465,087	21,292	**2,486,379**
Additions	2,507,557	-	**2,507,557**
Disposals (sale/redemption)	(1,487,077)	(12,150)	**(1,499,227)**
Monetary assets revaluation differences	10,462	-	**10,462**
Gain from change in FMV	95,385	-	**95,385**
Balance at the end of the year	**3,591,414**	**9,142**	**3,600,556**

31 December 2016

	Available-for-sale	Held-to-maturity	Total
Balance at beginning of the year	4,526,217	32,143	**4,558,360**
Additions	408,881	-	**408,881**
Disposals (sale/redemption)	(2,749,943)	(10,851)	**(2,760,794)**
Monetary assets revaluation differences	475,036	-	**475,036**
(loss) from change in FMV	(195,104)	-	**(195,104)**
Balance at the end of the year	**2,465,087**	**21,292**	**2,486,379**

[1] Debt instruments at listed fair market value include local bonds amounting to EGP3,568,569 thousand secured by the Egyptian Ministry of Finance.
[2] The redeemable value of the mutual funds certificates as at 31 December 2017 amounted to EGP17,686 thousand against EGP35,731 thousand as at 31 December 2016.

Gain/(loss) from financial investments

	2017	2016
Gain on redemption of debt instruments held to maturity	10,624	6,846
Gain on sale of available-for-sale equity instruments	-	16,390
Gain (loss) of revaluation of equity instruments of subsidiaries	1,450	(13,717)
Gain on sale of debt instruments available for sale	-	910
	12,074	**10,429**

23. Investment in subsidiaries

The Bank's net investment in subsidiaries amounted to EGP23,000 thousand after adding current year revaluation difference amounted to EGP1,200 thousand (EGP21,800 thousand as at 31 December 2016). The Bank's ownership percentage is as follows (based on the last financial position for the company as at 31 December 2017):

31 December 2017

	Company's country	Company's assets	Company's liabilities (without equity)	Company's revenues	Company's gains	%
HSBC Securities Egypt Company SAE	Egypt	35,768	6,165	15,499	6,133	98%
Total		**35,768**	**6,165**	**15,499**	**6,133**	

31 December 2016

	Company's country	Company's assets	Company's liabilities (without equity)	Company's revenues	Company's gains	%
HSBC Securities Egypt Company SAE	Egypt	34,867	11,398	12,695	(516)	98%
Total		**34,867**	**11,398**	**12,695**	**(516)**	

24. Intangible assets

	Computer software	
	2017	2016
Balance at the beginning of the current year		
Cost	17,841	16,203
Accumulated amortisation	(10,826)	(8,174)
Net book value at the beginning of the current year	**7,015**	**8,029**
Additions	1,087	1,643
Disposals (cost)	(1,665)	(5)
Disposals (accumulated amortization)	1,665	5
Amortisation	(2,414)	(2,657)
Net book value as at end of year	**5,688**	**7,015**
Cost	17,263	17,841
Amortisation	(11,575)	(10,826)
Net book value as at end of year	**5,688**	**7,015**

25. Other assets

	2017	2016
Accrued revenues	495,820	341,289
Prepaid expenses	41,863	50,336
Costs of branches under construction	3,118	11,747
Others	174,255	94,474
Total	**715,056**	**497,846**

26. Fixed assets

	Land and buildings	Leasehold improvement	Machines and equipment	Others	Total
Balance as at the beginning of the current year					
Cost	413,521	119,561	112,722	152,567	**798,371**
Accumulated depreciation	(159,840)	(111,566)	(75,247)	(101,753)	(448,406)
Net book value at the beginning of the current year	**253,681**	**7,995**	**37,475**	**50,814**	**349,965**
Additions	-	25,670	2,479	49,644	77,793
Disposals (net)	(6,870)	(3,091)	(16,624)	(12,130)	(38,715)
Disposals (accumulated depreciation)	2,876	2,817	13,304	11,592	30,589
Depreciation for the year	(18,128)	(5,918)	(9,118)	(16,630)	(49,794)
Net book value at the end of the year	**231,559**	**27,473**	**27,516**	**83,290**	**369,838**
Balance as at the end of the current year					
Cost	406,651	142,140	98,577	190,081	837,449
Accumulated depreciation	(175,092)	(114,667)	(71,061)	(106,791)	(467,611)
Net book value at the end of the year	**231,559**	**27,473**	**27,516**	**83,290**	**369,838**

27. Investment property

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

	2017	2016
Balance at the beginning of the year		
Cost	132,274	135,074
Accumulated depreciation	(48,424)	(41,706)
Net book value at the beginning of the year	**83,850**	**93,368**
Transferred (to) fixed assets	-	(2,800)
Depreciation	(5,525)	(6,718)
Net book value as at the end of year	**78,325**	**83,850**
Balance at the end of the year		
Cost	132,274	132,274
Accumulated depreciation	(53,949)	(48,424)
Net book value as at the end of year	**78,325**	**83,850**

28. Due to banks

	2017	2016
Current accounts	4,729,544	2,972,249
Deposits	-	2,800,000
	4,729,544	**5,772,249**
Foreign banks	4,729,544	5,772,249
	4,729,544	**5,772,249**
Non-interest-bearing balances	4,729,544	2,972,249
Fixed interest-bearing balances	-	2,800,000
	4,729,544	**5,772,249**
Current Balances	**4,729,544**	**5,772,249**

29. Customers' deposits

	2017	2016
Demand deposits	28,244,224	28,548,697
Time and call deposits	9,369,077	10,755,759
Certificates of deposits	10,119,352	7,680,197
Saving deposits	17,773,090	19,902,324
Other deposits	2,322,631	3,669,213
	67,828,374	**70,556,190**
Corporate deposits	27,310,642	32,158,482
Retail deposits	40,517,732	38,397,708
	67,828,374	**70,556,190**
Non-interest bearing balances	29,675,869	31,323,691
Fixed interest bearing balances	38,152,505	39,232,499
	67,828,374	**70,556,190**
Current balances	58,177,869	64,007,887
Non-current bearing balances	9,650,505	6,548,303
	67,828,374	**70,556,190**

Customers' deposits include deposits of EGP1,465,463 thousand as at 31 December 2017 against

EGP2,704,779 thousand as at 31 December 2016, which represent collateral for irrecoverable commitments. There is no major difference between its carrying value and fair value.

30. Other liabilities

	2017	2016
Accrued interest	312,884	213,004
Deferred income	91,934	84,955
Accrued expenses	222,149	320,233
Creditors	514,181	279,789
Other credit balances	207,223	191,617
Total	**1,348,371**	**1,089,598**

31. Other provisions

	Provision for claims		Provision for contingent liabilities		Total	
	2017	2016	2017	2016	2017	2016
Balance at the beginning of the year	22,599	39,455	206,550	98,852	**229,149**	**138,307**
Formed during the year	204,690	14,578	49,855	21,232	**254,545**	**35,810**
Provisions valuation differences	(153)	2,952	6,147	86,466	**5,994**	**89,418**
	227,136	**56,985**	**262,552**	**206,550**	**489,688**	**263,535**
Used during the year	(17,255)	(31,838)	-	-	**(17,255)**	**(31,838)**
No longer required	(6,384)	(2,548)	(40,764)	-	**(47,148)**	**(2,548)**
Balance at the end of the year	**203,497**	**22,599**	**221,788**	**206,550**	**425,285**	**229,149**

32. Deferred tax

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

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

Deferred tax assets and liabilities

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

Deferred tax assets and liabilities balances

	Deferred tax assets		Deferred tax liabilities	
	2017	**2016**	**2017**	**2016**
Fixed assets	-	-	(9,708)	(6,754)
End of service liability	67,439	59,408	-	-
Total tax assets (liabilities)	**67,439**	**59,408**	**(9,708)**	**(6,754)**
Net tax assets	**57,731**	**52,654**		

Deferred tax assets and liabilities movements

	Deferred tax assets		Deferred tax liabilities	
	2017	**2016**	**2017**	**2016**
Balance at the beginning of the year	59,408	55,736	(6,754)	(7,726)
Additions	8,031	3,672	(2,954)	972
Balance at the end of the year	**67,439**	**59,408**	**(9,708)**	**(6,754)**

33. Defined benefits obligations

The end of service compensation benefits amounted to EGP299,731 thousand (EGP264,177 thousand as at 31 December 2016).

	2017	**2016**
Liability recorded on balance sheet		
End of service compensation	299,731	264,177
Amounts recognised in income statement:		
End of service compensation	77,280	54,651

The defined benefit obligation is presented in the liabilities' section for the fiscal year 2016 and the internally allocated assets are presented in the investment section.

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)

34. Capital

	Number of shares (in millions)	Common Shares EGP(000)	Total EGP(000)	Issuance premium included in other reserve-issuance premium EGP(000)
Balance at the beginning of the year	33.280566	2,795,567	2,795,567	6,728
Balance at 31 December 2017	**33.280566**	**2,795,567**	**2,795,567**	**6,728**
Balance at the beginning of the year	33.280566	2,795,567	2,795,567	6,728
Balance at 31 December 2016	**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 EGP5,000,000,000.

B. Issued and paid-up capital

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

35. Reserves and retained earnings

	2017	2016
Reserves		
General reserve	1,419,750	1,238,621
Legal reserve	861,375	688,032
Special reserve	63,466	63,466
Capital reserve	14,130	2,794
Other reserves – issuance premium	6,728	6,728
Fair value reserve – available-for-sale investments	(44,307)	(139,692)
IFRS 9 reserve	433,383	-
Total reserves at the end of the year	**2,754,525**	**1,859,949**

Reserves movements during the year are as follows:

A. General reserve

	2017	2016
Balance at the beginning of the year	1,238,621	1,111,985
Transferred from prior year profits	181,129	126,636
Balance at the end of the year	**1,419,750**	**1,238,621**

B. Legal reserve

	2017	2016
Balance at the beginning of the year	688,032	561,392
Transferred from prior year profits	173,343	126,640
Balance at the end of the year	**861,375**	**688,032**

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

C. Special reserve

	2017	2016
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.

D. Reserve for excess over par value – issuance premium

	2017	2016
Balance at the beginning of the year	6,728	6,728
Balance at the end of the year	**6,728**	**6,728**

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

E. Fair value reserve available-for-sale investments

	2017	2016
Balance at the beginning of the year	(139,692)	55,412
Net change in available-for-sale investments	95,385	(195,104)
Balance at the end of the year	**(44,307)**	**(139,692)**

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

F. Capital reserve

	2017	2016
Balance at the beginning of the year	2,794	2,794
Transferred from prior year profits	11,336	-
Balance at the end of the year	**14,130**	**2,794**

G. IFRS 9 reserve

	2017	2016
Transferred to IFRS 9 reserve	433,383	-
	433,383	**-**

The Bank has calculated and reserved an amount of EGP433M out of year 2017 profits to form IFRS 9 reserve in compliance to the Central bank of Egypt's instructions issued in January 2018.

Total credit risk which constitutes the basis for the calculation amounted to EGP43Bn as at 31 December 2017 (without considering the credit concentration risk) according to the capital adequacy model prepared at that date.

H. Retained earnings

	2017	2016
Movement on retained earnings		
Balance at the beginning of the year	4,238,030	2,532,758
Net profit for year	4,468,306	3,478,203
Dividends for previous year	(2,419,022)	(1,519,655)
Transferred to legal reserve	(173,343)	(126,640)
Transferred to capital reserve	(11,336)	-
Transferred to general reserve	(181,129)	(126,636)
Transferred to IFRS 9 reserve	(433,383)	-
Balance at the end of the year	**5,488,123**	**4,238,030**

36. Dividends

Payment of dividends is not registered unless being approved by the general assembly. The Board of Directors proposed to the general assembly that was held on 12 March 2018 a payment of EGP80.51 per share as cash dividends for the year 2017 with a total amount of EGP2,679,418,369 (payment of EGP62.50 per share as cash dividends for year 2016 with a total amount of EGP2,080,035,375). In addition to cash dividends to shareholders, the Board of Directors proposed in the general assembly meeting to distribute EGP446,586,137 as employee's distribution related to the profit in year 2017. (The actual employees dividends distributed in 2016 amount to EGP338,985,610).

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:

	2017	2016
Cash and due from the CBE (note 15)	1,030,612	799,895
Due from banks (note 16)	25,005,268	23,801,877
Treasury bills (note 17)	479,286	9,031,525
	26,515,166	**33,633,297**

During the year, the Bank carried out a number of non-monetary transactions, the effect of which was excluded when preparing the statement of cash flows, where the following is the main transaction:

A subordinated loan obtained from HSBC holdings BV amounted to EGP1.8bn, the effect of which was excluded from the changes in customers' deposits.

38. Commitment and contingent liabilities

A. Legal claims

There are lawsuits filed against the Bank as at 31 December 2017. The charged provision amounting to EGP2,011 thousand, provision of EGP584 thousand has been refunded during the year. Legal provision amounted to EGP2,384 thousand has been used during the financial year.

B. Commitments for loans, guarantees and facilities

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

	2017	2016
Acceptances	367,742	399,347
Letters of guarantee	20,208,657	19,342,787
Letter of credit (import and export)	1,608,114	1,554,258
Other contingent liabilities	221,480	96,680
Commitments for loans	3,121,459	5,047,568
Cash margin	(1,465,463)	(2,704,779)
Total	**24,061,989**	**23,735,861**

C. Commitments for operating lease contracts

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

	2017	2016
Less than one year	11,414	10,455
More than one year and less than five years	20,135	25,948
More than five years	9,167	11,667
Total	**40,716**	**48,070**

39. Related party transactions

The Bank is a subsidiary of parent HSBC Holdings B.V., which owns 94.54 per cent of ordinary shares. The remaining percentage (5.46 per cent) 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.

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

A. Other loans

	HSBC group	
	2017	**2016**
Subordinated loans (40)	2,072,000	272,000
	2,072,000	**272,000**

B. Loans and advances to related parties

	Subsidiaries	
	2017	2016
Loans and advances to customers		
Existing loans at the beginning of the year	-	1,498
Loans issued during the year	5,107	-
Loans collected during the year	(5,107)	(1,498)
Existing loans at the end of the year	**-**	**-**
Interest from loans	**219**	**80**

No provisions formed for loan given to related parties.

C. Deposits from related parties

	Subsidiaries	
	2017	2016
Due to customers		
Deposits at the beginning of the financial year	41,967	15,963
Deposits received during the financial year	16,584	26,403
Deposits redeemed during the financial year	(11,054)	(399)
Deposits at the end of the financial year	**47,497**	**41,967**
The cost of deposits and similar costs	**1,125**	**391**

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

D. Other related party transactions

	HSBC group		Subsidiaries	
	2017	2016	2017	2016
Operating lease	43,688	10,405	1,159	1,243
Administrative costs - IT	-	-	600	596

The cost of services by HSBC Group as at 31 December 2017 amounted to EGP792,212 thousand against EGP473,624 thousand as at 31 December 2016.

	HSBC group		Subsidiaries	
	2017	2016	2017	2016
Due from banks	203,889	195,546	-	-
Loans and advances to banks	79,775	-	-	-
Held-to-maturity investments	9,142	21,292	-	-
Due to banks	951,662	3,981,276	-	-
Investments in subsidiaries	-	-	23,000	21,800
Other liabilities – rent insurance	-	-	216	216

On 17 September 2007, HSBC Middle East agreed with HSBC Egypt, HSBC Bahrain (on 2 November 2007) and HSBC Hong Kong (on 21 September 2011) to sell to HSBC Egypt part of loans' portfolio originally granted by HSBC Middle East, HSBC Bahrain, and HSBC Hong Kong to certain corporates. HSBC Egypt purchased these loans based on nominal value with no recourse. According to the above-mentioned agreement, interest will be split among HSBC Egypt, HSBC Middle East and HSBC Bahrain based on the percentage of loans bought by HSBC Egypt to the total granted loans. These loans are subject to classification and general provisioning rules as set out by the CBE. The balance of such loans, as at 31 December 2017, amounted to USD8,919 thousand equivalent to EGP158,118 thousand and has been presented as loans to customers.

E. Board of Directors and top management benefits

The average net monthly salary paid to the top 20 employees in the Bank for the year of 2017 amounted to EGP7,424 thousand (EGP3,506 thousand average net monthly salary paid to the top 20 employees for the year 2016).

40. Subordinated loans

	Current interest rate	2017	2016
Subordinated loan, variable interest rate (1)	23.25%	272,000	272,000
Subordinated loan, variable interest rate (2)	21.50%	1,800,000	-
		2,072,000	**272,000**

'Subordinated loan, variable interest rate (1)' represents a loan obtained from HSBC holding BV by EGP272M, according to an agreement extension of 15 years starting from December 2013 and ending in December 2028.

'Subordinated loan, variable interest rate (2)' represents a loan obtained from HSBC holding BV by EGP1.8Bn, according to an agreement extension of 10 years starting from March 2017 and ending in March 2027.

41. Mutual funds

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 certificates (with nominal value of EGP5,000,000) were allocated to the Bank to undertake the funds' activity.

The Bank held as at 31 December 2017, a number of 78,559 certificates amounting to EGP9,141,998 with a redeemable value amounting to EGP17,685,585 against 182,970 certificates amounting to EGP21,292,421 with redeemable value amounting to EGP35,731,146 as at 31 December 2016.

The redeemable value of the certificate amounted to EGP225.12 as at 31 December 2017 against EGP195.28 as at 31 December 2016. The outstanding certificates as at 31 December 2017 reached 3,549,768 certificates against 5,309,617 certificates as at 31 December 2016.

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 EGP4,453 thousand for the year ended 31 December 2017 against EGP8,642 thousand for the year ended 31 December 2016 under the item of fees and commission income caption in the income statement.

42. Subsequent events

On 28 January 2018, the CBE issued the following instructions:

a. Banks to apply IFRS 9 effective on 1 January 2019. The bank issues the audited financial statements in accordance with the CBE instructions effective on 31 March 2018, as well as issuing parallel run of experimental financial statements as per the new instructions issued by CBE with respect of IFRS 9

b. The Bank formed a reserve for IFRS 9 risks (1 per cent of total credit risks weighted of net profit after taxes for 2017), and shall only be used after the approval of CBE.

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HSBC Bank Egypt SAE

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1 Makram Ebeid, City Lights Building, Nasr City
Cairo, Egypt
Tel: +2(02) 2352 0386

City Stars branch
Tower A2 City Stars, Omar Ibn El Khattab Street, Heliopolis,
Cairo, Egypt
Tel: +2(02) 2480 2356

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Tel: +2(02) 2180 4829

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

New Cairo

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

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

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

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

El Sherouk City and Obbour City

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

El Sherouk branch
El Sherouk Academy, Suez/Ismailia Road,
El Sherouk City, Egypt
Tel: +2(02) 2630 0180

Giza

Agouza branch
128 Nile Street, Agouza
Giza, Egypt
Tel: +2(02) 3761 8126

El Batal branch
6 Wezaret Elzeraa, Agouza
Giza, Egypt
Tel: +2(02) 3762 0131

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

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

Haram branch
179 Haram Street, Haram,
Giza, Egypt
Tel: +2(02) 3981 6875

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

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

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

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

Sheikh Zayed City and Sixth of October City

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

Dandy Mall branch
Dandy Mall, 28th Km, Cairo/Alexandria Desert Road
Giza, Egypt
Tel: +2(02) 3539 0174

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

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

Smart Village branch
Building 122B, Smart Village
28th km Cairo/Alexandria Desert Road,
Egypt
Tel: +2(02) 3535 5210

Alexandria

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

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

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

Loran branch
264 Abdel Salam Aref Street, Loran
Alexandria, Egypt
Tel: +2(03) 357 3961

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

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

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

Delta Region

Borg El Arab branch
Services Area, Fifth District, Borg El Arab
Alexandria, Egypt
Tel: +2(03) 459 5470

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

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

Sinai and Red Sea

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

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

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

Upper Egypt

Assiut branch
Assiut University
Assiut, Egypt
Tel: +2(088) 237 3681

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