

HSBC Bank Egypt S.A.E.

Annual Report and Accounts 2020

HSBC Bank Egypt SAE (HBEG) is a 94.54 per cent subsidiary of HSBC Holdings plc and part of the HSBC Group. Headquartered in London, the HSBC Group is one of the world's largest banking and financial services organisations and one of the world's most valuable brands. HSBC is listed 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 more than 40 million personal, wealth and corporate customers through its global businesses: Wealth and Personal Banking, Commercial Banking, Global Banking and Markets, and Global Private Banking.

HSBC has an international network in 64 countries and territories around the world with around 233,000 full-time employees.

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Report of the Directors

The Board of Directors has the pleasure of presenting the Annual Report of HSBC Bank Egypt SAE (HBEG) for the year ended 31 December 2020.

Economic Review and Future Outlook

The COVID-19 pandemic weighed heavily on Egypt's economic performance in 2020, disrupting domestic activity and overseas demand, and creating fresh challenges for the cyclical and structural economic reform programme as it entered its fifth year. Nevertheless, the Egyptian economy proved resilient, maintaining fiscal and external account stability throughout the year, and containing pressures in the interest rate and foreign exchange markets despite pronounced capital flow volatility and the sudden stop in the tourism industry. Indeed, while the economy slowed, Egypt was one of the few economies globally that looks to have avoided recession in 2020 – a performance that builds hopes for an early return to pre-pandemic trend growth levels.

The resilience in part reflected timely and substantial backing from the International Monetary Fund (IMF), which pledged USD8bn in financial support in two separate programmes during the year. More significant, however, was the progress made with reform over the previous three years – gains which were central to continued strong support from the multilateral sources, and which also promoted access to long term foreign commercial financing despite broader market strains. Progress on reform also meant that Egypt entered the crisis with its lowest budget and current account shortfalls in a decade, and its highest ever level of reserves – a position of strength that gave policymakers scope to deal with both the economic and health impact of the COVID-19 shock.

Inflation continued to trend lower during the year, averaging a little over 5% in calendar 2020, a drop of more than 4ppt y-o-y and a level that stood 10ppt below the five-year mean. Core inflation also fell, allowing the Central Bank of Egypt (CBE) to deliver 400bps of monetary easing over the course of the year. In addition to cutting rates, the CBE also responded to stable prices by reducing its target inflation rate from 9% (+/- 3ppt) to 7% (+/- 2ppt) for 2021 and 2022. The downward shift marks a significant evolution in Egypt's drive to deliver stable prices and anchor price expectations – a trend reinforced by currency stability throughout the year.

Preliminary data suggest the budget deficit narrowed for a fourth consecutive year in 2019/20, and generated a primary surplus for the third time in a row. At around 8% of GDP, the shortfall remained significant and budget plans for consolidation in 2020/21 are subject to review in light of the ongoing headwinds brought by the pandemic. Nevertheless, the authorities have continued to state their commitment to near and medium term rebalancing, and recent policy steps were endorsed by the IMF in the first review of the 2020 Stand-By Arrangement (SBA).

Egypt's current account deficit was flat y-o-y in 2019/20 at close to 3.5% of GDP. The unchanged full-year data masks significant shifts during the course of year, with the shortfall narrowing over the first nine months of the fiscal year before widening in Q4 as the COVID-19 pandemic took its toll on tourism earnings, and remittances from overseas workers fell. Data show exports and imports both fell sharply in Q4 fiscal, keeping the trade deficit flat – a trend which persisted into the early months of 2020/21. Against a difficult global backdrop, FDI remained subdued while portfolio flows were highly volatile, turning heavily negative in Q4 fiscal 2019/20 before recovering sharply from Q1 fiscal 2020/21, with foreign holdings of local currency debt instruments (T-bills and T-bonds) ending the calendar year at close to their all-time high.

The most recent data show GDP contracted by 1.7% y-o-y in the last quarter of 2019/20 – the first negative quarterly GDP print in nine years. The downturn echoed weakness elsewhere in the global economy but was less marked than expectations and left growth for the full fiscal year positive at 3.6%. Unemployment rose almost 2ppt q-o-q in June 2020 as the economy slowed, but fell back to its pre-

pandemic levels in September. The PMI and other high frequency data showed activity stabilising into the of the calendar year.

Business and Operational Activities

Financial performance

For the financial year ending 31 December 2020, the Bank reported profit before tax of EGP5,105.9m, which is a 31.2 per cent decrease compared to 2019. Profit after tax decreased by 36.9 per cent, reaching EGP3,606.7m.

In accordance with the Central Bank of Egypt instructions dated 11 January 2021, nil cash dividends will be distributed to Shareholders in order to support the bank's capital base to withstand any expected risk from COVID-19 pandemic.

The Board of Directors proposed a 'full year' distribution of EGP367.3m (10 per cent of the profits available for distribution for 2020) to the Bank's employees being the profit sharing linked to performance.

As per the CBE Law, the Board of Directors also proposed a distribution to Banking System Support and Development Fund of EGP36.7m (1 per cent of the profits available for distribution for 2020) The balance of the remaining profits available for appropriation, amounting to EGP3,269.3m, will be transferred to support the Bank's reserves and retained earnings, allocating EGP183.7m for the general reserve and EGP3,085.6m will remain as retained earnings.

Global Banking (GB)

GB provides tailored financial solutions to major government, corporate and institutional clients and private investors worldwide. The client-focused business lines deliver a full range of banking capabilities, including financing, advisory and transaction services, a markets business that provides services in credit, rates, foreign exchange, equities, money markets and securities services, and principal investment activities.

GB contains relationship managers and coverage teams, organised by sector, verticals, region and country to enable us 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 and acquisition finance, export & asset finance and infrastructure finance.

In this increasingly interconnected world, ideas and capital are flowing around the globe, driving growth and disrupting the status quo. New trade routes emerge, propelling emerging economies to the spotlight and creating opportunities for companies and financial institutions worldwide.

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

These are the dynamics that we believe will drive the future of business in Egypt, and HSBC Global Banking and Markets (GB&M) is focused on helping clients build success that stands the test of time:

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

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

Long-term commitment: Our bankers take the time to gain a deep understanding of your financial requirements and business goals for today and for the future

GB has played a pivotal role during 2020 supporting the country's strategic actions to meet budget requirements and stimulus package to contain COVID-19 pandemic implications through tapping international markets. HSBC has been able to work with the government in a number of strategic situations through offering assistance by mobilizing our international network and expertise.

In May 2020, HSBC acted as a Joint Lead Manager and Joint Bookrunner for the government of Egypt's highly successful USD5 billion triple bond with a record order-book reaching USD22 billion, proceeds were directed to finance 2020/2021 fiscal year budget as well as to finance COVID-19 related shortfalls on the Egyptian economy.

In September 2020, HSBC has acted as a Joint Green Structuring Advisor, Joint Lead Manager and Bookrunner on the Arab Republic of Egypt USD750 million 5-year inaugural Green bond offering. The transaction highlights Egypt's commitment and marks its first step towards the development and implementation of its sustainability agenda, with a focus on promoting clean transportation, renewable energy and sustainable water management, amongst other areas. The offering also marked the largest ever USD Green bond issuance out of the MENA region to date. The proceeds from this debut Green issuance was utilized to finance and refinance eligible Green Projects in accordance with Egypt's Sovereign Green Financing Framework.

In September 2020, HSBC acted as a Mandated Lead Arranger and Bookrunner for the Arab Republic of Egypt's Ministry of Finance term loan syndicated facility for USD2 billion with a tenor of 12 months. The Facility aims to diversify Egypt's sources of funding and its access to international capital market instruments. The Facility was utilized to finance the country's budgetary requirements, and support the country in safeguarding its strong economic trajectory over the past years and sustaining its strong footing to weather the prevailing volatility in the global markets.

GB continues to have a strong pipeline of business opportunities in the country in several sectors leveraging on the strength of HSBC's balance sheet, global network and sector expertise.

HSBC is the Bank of Choice for multinationals operating in Egypt with a distinctive international network and business model that have allowed the bank to provide clients with innovative solutions. We are connected to a large network of international banking and finance experts globally while offering strong local expertise that support our clients in the growth of their business activities especially through our leadership in Liquidity and Cash Management. Multinational coverage is provided through dedicated relationship management teams based on the ground in Cairo, working closely with the regional and global account managers to ensure consistency of offered services and alignment of objectives on a regional and global level. HSBC is focused on working with companies globally, from infrastructure giants to pharmaceutical firms and industrial conglomerates. HSBC has been delivering digital capabilities through unique digital solutions in addition to supporting clients with exceptional workflows to cater for their requirements during the challenging COVID-19 working arrangements safeguarding their employees and while ensuring no disruptions to the business.

Global Markets (GM)

Markets & Securities Services:

GM provides comprehensive foreign exchange services to corporate, institutional clients and offshore clients. We work on helping our corporate clients to find the best solutions to hedge foreign exchange, interest rate and precious metal exposures along with offering Fixed Income instruments as Treasury Bills and Bonds denominated in Egyptian Pound.

After the termination of repatriation mechanism in 2019 we became one of the most active players in the local interbank market, which even improved in 2020 on the back of massive outflows and inflows witnessed due to Global risk off/on mode.

We are as well the first bank to offer RMB currency for those clients who are trading with China in order to reduce their conversion cost.

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

From a Balance Sheet perspective, GM interacts actively with different lines of business to provide the required liquidity and to hedge the bank's overall interest rate risk while deploying excess of liquidity to ensure decent return at a minimum risk.

Securities Services business offers Direct Custody and Clearing product (DCC) with a range of Safe Keeping, Settlement and Asset Servicing Solutions. With 58 clients and an average of USD 8.5bn in assets under custody (AUC), HBEG is the only site in MENAT region with full on-shore operations.

Commercial Banking (CMB)

In CMB we drive business through:

Relationship management: all CMB customers are managed, which ensures having the right expertise in each segment to well understand the customers' needs and drive growth

Network: supporting our customers in their domestic and overseas business by capitalizing on the Bank's connectivity within the wider HSBC Group

Unique proposition: providing our customers with the most comprehensive trade and receivables finance solutions along with leveraging on the power of our network to deliver solutions tailored to comply with the local market, our industry-leading capabilities, and being a leading trade service provider that oversees financial institutions. Customers have voted for HSBC as the **"Best Trade Finance Bank in the Middle East"** in the Euromoney 2020 Award for the fourth consecutive year.

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

Global Liquidity and Cash Management (GLCM): unique payments and cash management solutions that allow clients to more efficiently and securely process their day-to-day transactions on-line. Additionally, the team is ideally positioned to provide the full suite of treasury and cash management solutions and consultative services. Customers have voted for HSBC Egypt as the **"Best Cash Manager in 2020 EUROMONEY"**

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

In 2020 despite the challenging working environment, CMB worked closely with customers throughout the year to provide the best support during the pandemic leveraging on our accelerated digital adoption, our close relationship with our customers, our network and focus on trade corridors. All this resulted in an overall enhanced customer experience, an endeavor that we will continue to drive in 2021.

Key highlights for 2020 include:

- ◆ **Becoming closer to our customers during the pandemic:** through launching virtual focus groups with customers which was hosted by CMB senior management, increased the number of calling activities from our relationship managers to our customers to ensure all their needs are fulfilled, enhanced our new accounts on-boarding time by 25%, while c.86% from customers provided us with good and excellent experience in the post on-boarding survey, launched post COVID-19 survey to selected customers where 90% of the customers were satisfied with the accessibility while 87% of the customers were using and satisfied with our digital channels. In addition to the positive results of our overall customer experience survey.

- ◆ **COVID 19 pandemic adaptation:** by reviewing all our customers touch points to ensure smooth and adequate handling of all our customers' requests and needs, while implementing all regulatory circulars in a timely manner.
- ◆ **Driving digital forward:** COVID-19 has impacted the businesses in different ways. One silver lining is the accelerated adoption of digital technologies. Our digital capabilities are playing an active role in helping clients keep their businesses running as usual and accelerating their adoption of digital solutions.

GTRF has launched various digital solutions such as:

- ◆ **Mobile Tracker and Authorization** The solution allows our clients to manage global trade transactions online in real time 24/7.
- ◆ The **Digital Trade Open Accounts platform**, a new feature that allows our clients to submit their Open Account applications digitally. The launch of this new feature helped save thousands of customers' visits to branches and offered more opportunities as we expand our digital capabilities and reach towards our GTRF clients. This new feature of our HSBCnet Internet Trade Services (ITS) platform has materially ameliorated our customers' experience through an easier, safer, faster and more effective route to HSBC.

Global Liquidity and Cash Management launched a number of solutions and products, and enhanced existing offerings as well:

- ◆ **HSBCnet Mobile application**, providing our customers with a seamless and secure digital banking experience.
- ◆ **An enhanced simplified version of HSBCnet**, designed to meet the needs of our Business Banking and SME customers.
- ◆ **Transfers to Wallets**, enabled transfers from bank accounts to wallets through ACH given the prevailing COVID-19 situation and in line with the Central Bank of Egypt "CBE".

Launched virtual assistance on our public website to ensure 24/7 first customer feedback

We launched new products and solutions:

- ◆ **The Green Trade Finance Framework** The GTRF Green Trade Finance proposition covers all funded solutions within GTRF. The framework aligns to the industry-wide standard, i.e. Green Loan Principles (GLP) developed by Loan Market Association (LMA). Target corporates range from green projects, traditional businesses transforming into environmentally-friendly manufacturing to sustainable energy producers
- ◆ **GTRF's automated AML system (Customer Surveillance)** has been deployed in 2020 bringing total coverage of core trade transactions to 81%.

With our unique product offering, strong local & international presence, digital & innovation adaptation and resilient Relationship Managers, we believe we are well positioned to cope with the challenges and opportunities that will present themselves in 2021.

Wealth and Personal Banking

HSBC Wealth and Personal Banking continued to deliver strong and robust results in 2020, despite the outbreak of the pandemic and the challenging market conditions. During such unprecedented times HSBC prioritized the health and safety of our Customers and Staff and remained closely

connected to them. We continued to focus on enriching customers lives by providing banking services to enable them manage their day to day finances and savings at all times.

Wealth and Personal Banking managed to maintain nearly the same revenue stream in 2020 compared to prior year.

Our sustainable performance is built on our well defined strategy focusing on widening our prospect pool in target segments, through providing our customers with a wide range of financial services and benefits, maintaining Customer Experience and the high level standard service at the heart of all our decisions and actions.

Even with the COVID-19 challenges imposed on the global economy, HSBC managed to immediately mobilize resources at a significantly noticeable speed and our operations have proven to be highly resilient. Egypt Wealth and Personal Banking has put the safety of the employees and customers as its prime focus, taking all precautionary measures to protect our human power without disrupting our operations or jeopardizing our first class customer experience.

Capitalizing on our strong Direct Channels and Digital platform, we successfully managed to continue serving customers and provide them with alternative solutions minimizing their Branch visits at such unprecedented times. Also this comes with the strong empowerment of our Contact Center, where new services were availed to facilitate our customers' journeys.

Staying connected with our customers throughout the unprecedented times was a challenge where HSBC successfully proved leadership in meeting customers' expectations by reaching out to them through our various channels.

The quality of products and services provided to our Customers is the base of our solid and sustainable growth. On the Personal lending side, we thrived to continue growing despite prevailing challenges achieving a growth of 2% on balances and 4% on related revenues over 2019. Moreover, we also managed to grow our Liabilities balances by 8% over prior year. On the Cards side, revenues and balances were both comfortably maintained above targeted levels.

On the Wealth front, we continued to provide our customers with premium investment products positioning HSBC in a unique way for high net worth clients, which is reflected in our Insurance Partners continuous trust and investment into the partnership with HSBC. Also, HSBC's sponsored Money Market Fund has been reopened for new subscriptions attracting EGP346m net new money proving success.

Also building on the prosperous collaboration across the different lines of business and focusing on Employee Banking Solutions to drive high quality acquisitions, we successfully acquired new companies and managed to serve a wider customer base contributing by 63% to our new to Bank acquisitions.

Leveraging on our global connectivity will continue to be a key driver for further growing our Customer base, which continues to show year over year progress reaching circa 222K Customers.

We continue to support the country's "Financial Inclusion Plan" by successfully expanding our financial services, serving a wider prospect pool including the youth and the elderly customers. Capitalizing on our digital investments by providing more efficient digital solutions to our personal and corporate customers. Also leveraging on international corridor services with focus on Egyptians working abroad while continuously working on improving our customer journeys and procedures to cater for customer's culture and different needs, will enable us to achieve our financial inclusion strategy by 2023.

In line with our growing commitment to drive digital growth and leverage on the emerging need for more efficient digital solutions, we have successfully implemented multiple emerging technologies projects to better meet our customers changing needs. Moreover, we have enhanced our ATMs fleet by replacing 100% of the outdated ones and adding 10 new state-of-the-art ATMs in new prime locations.

Building upon the momentum of streamlining our systems and processes being a key pillar for supporting our growth strategy, we continue to enhance the efficiency of our processes and reduce turnaround time serving our customers while providing exceptional customer experience.

Wealth and Personal Banking will continue to build on its commitment to be at the forefront of the fight against financial crime, we will continue our journey to set the industry standard in our effectiveness at managing financial crime risk, protecting the business, our customers, our staff and the financial system.

HSBC is well positioned to support the growing needs of our retail customers through a full suite of services presented through 52 Branches helping customers to realise their ambitions, aiming at providing a seamless banking experience whether locally or internationally.

Risk Management

HSBC's risk management approach follows five steps:

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

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

Risk Appetite

The Bank's approach to risk is encapsulated within our Risk Appetite Statement (RAS) which is approved by the Board. It defines our desired forward-looking risk profile and informs the strategic and financial planning process. It provides an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels, helping to enable senior management to allocate capital, funding and liquidity optimally to finance growth, while monitoring exposure and the cost impacts of managing non-financial risks. Key elements include:

- ◆ Risks that we accept as part of doing business, such as credit risk, market risk, and capital and liquidity risk;

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

Risk Environment

In 2020, we continued to refine and evolve our risk management, by enhancing both the financial and non-financial aspects of our risk appetite statements against a backdrop of increasing economic and geopolitical uncertainty, which considerably heightened with the COVID-19 pandemic outbreak. Specific emphasis was not just on Credit risk but also capital and liquidity risk and non-financial risks including third-party risk management, enhanced model risk oversight, and ongoing strengthening of cyber security and data integrity.

COVID-19

A range of risk management initiatives were introduced in response to the pandemic, including but not limited to; ongoing priority in ensuring the safety of our employees and customers; operating within our Business Continuity Plans to maintain services for customers whilst reducing risk of virus spread; supporting customers under the CBE capital payment/interest 6 month moratorium and subsequent ongoing support in line with CBE guidance to those customers facing financial challenges; enhanced stress-testing; quarterly Forward Economic Guidance integrating macroeconomic scenarios into forward looking model estimates of IFRS9 Estimated Credit Losses (ECL) and increased fraud vigilance.

People Management & Development

Employees

HSBC Bank Egypt employed 1658 people for its operations in Egypt as at 31 December 2020. 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.

2020 saw continued low levels of turnover but high levels of internal transfers and rotations. A further transformation programme was completed consolidating some operational tasks in the growing HSBC Global Service Centre supporting HSBC in Egypt and other countries.

A number of measures were put into place to respond to the COVID19 outbreak. These included enhanced preventative measure to make our work premises as safe as possible, enhanced health care provisions as well as running a series of well-being programmes focused on supporting the physical and mental health of our people and their families. All staff that that could work for home were able to do so. This included Head office based staff and those with child care responsibilities and people more vulnerable to the virus. Around 50% of our total population and 90% of our Head Office based staff worked productively from home.

Staff engagement continued to improve with staff appreciating the measures that have been put in place to keep them and their families safe through the COVID-19 outbreak. People leaders have also shared that they have the right tools and skills to lead their people effectively in the different circumstances. Three bank wide surveys were run in 2020 including a dedicated survey to COVID-19 measures.

Learning and Development

The COVID-19 situation resulted in the suspension of classroom based learning in early March 2020. Courses including the full leadership suite of training, credit skills and a bank wide Customer Service

Culture improvement programme were delivered via Zoom. The innovative Customer Service programme also introduced an application that staff can use to explore expectations and recognise exceptional customer service.

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. 2020 saw further improvement in our Diversity metrics with female colleagues making up 48 per cent of our Senior Management cadre and represent 44 per cent of those on our succession lists for senior management roles. 2020 also saw the bank establish a pipeline to ensure better workforce representation from people with disabilities; meeting our legal obligations and living up to our social commitments.

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.

HSBC Operations, Services and Technology (HOST) – The COO Organization

In 2020, HOST functions have played an instrumental role during the COVID-19 crisis. As the crisis broke, HSBC Egypt management responded swiftly by initiating our emergency response framework and invoking our Major Incident Group (MIG) led by our CEO. HOST functions were key enablers that supported the implementation of the various MIG decisions which kept our staff and customers safe while ensuring that our business operations were not disrupted.

MIG's first and most critical priority was to ensure the safety of our staff, customers, and other stakeholders, and accordantly the following decisions were taken:

- ◆ Enabling work from home for 90% of our Head Office users as well as for our high risk and vulnerable employees.
- ◆ Creating a safe office environment for our colleagues that still had to go to office/ branches, making sure to embed and enforce the highest levels of health and safety measures, including Personal Protective Equipment's (PPEs), hand sanitizers, temperature screening devices, sneeze guards, etc...
- ◆ Creating clear processes and procedures explaining how to act, report, and respond to the various situations. An HSBC Global micro-website was established and shared with all employees – the website is a one stop shop for all COVID related information including guidance, news, updates, and other supporting materials.
- ◆ Raising awareness by keeping our staff and contractors up-to-date with relevant information, making sure that our people fully understood the potential risks and fully complied with the implemented pre-cautionary measures. Specialized awareness sessions were conducted to our caterers, cleaning crews, office boys, drivers, and security guards.

- ◆ Regularly communicating with our employees on the latest developments, as well establishing channels for employees to speak-up and voice out their feedback, concerns, and recommendations.
- ◆ Prohibiting cross sites visits between locations to minimize the risk of virus transmission.
- ◆ Transforming from physical meetings and training sessions to virtual meetings and training sessions.
- ◆ Restricting business travel.
- ◆ Complying with all Central Bank and governmental instructions and guidelines.
- ◆ Communicating with all critical third parties to ensure they have an appropriate response plan for COVID-19.
- ◆ Proactively developing a comprehensive return to office plan which would be used to safely manage the return to office in a controlled and phase based manner at the right time.

Despite all of this focus on the health and safety aspects, we continued to focus on our strategic business priorities, continued to drive our digitization agenda, streamline and improve our internal processes, deepening our business partnerships, and delivering our strategic projects.

Technology and Cyber

IT was all about innovation, resilience and growth. In a time of crisis service resilience and availability is a key success factor in-which our technology team managed to deliver 99.99% service availability across 635 IT services consumed by our stakeholders.

Supporting the customer-centric strategy, we introduced new services like voice biometrics, up scaled the branch network queueing system and modernized our ATM fleet.

With extensive solutions portfolio delivery, new services were introduced (ATM Deposits via Meeza Network, and IBAN implementation for payments).

Leveraging on the Group's new agreements with our Global network service providers, we managed to significantly improve the speed and resilience of our international connectivity while reducing our overall international network costs.

Fostering secure and stable platforms to our customers remained a key focus area, Cybersecurity team remained vigilant to proactively work on the remediation of the ever evolving cyber-vulnerabilities and maintain compliance with the regulator requirements. Our team of cyber security specialists continued their on-going journey of raising the awareness and education of our colleagues about the ever-evolving cyber security threats.

From a control and governance perspective our technology team continued to run an effective control environment, one testament to that is the issuance of an effective external audit report for the fourth consecutive year by our external auditor "Deloitte".

Corporate Real Estate (CRE)

Over the past 12 months, CRE focus was directed towards maintaining the health and safety of all staff members and contractors during the COVID pandemic; the team provided guidance and support to businesses and functions for the management of COVID crisis through holding various awareness sessions, and through a continuous collaboration with Business Continuity Management and Human Resources for managing this critical situation.

CRE continued working on the strategic project “Nile Project” that aims at refurbishing and implementing the latest open-work concepts in HSBC Egypt Maadi Head Office which will enable working in a more modern, flexible, and innovative way that will better support employees and reflect the culture of HSBC.

CRE supported the business growth and managed to complete the ATM modernization and expansion projects which aims to enhance the customer journey through implementing the latest HSBC look and feel design guidelines and expanding our reach to all our customers.

Protective Security (PS)

Protective Security worked on the implementation of the latest security industrial technology standards through the deployment of integrated security systems to be compliant with the CBE mandatory requirements and HSBC’s Global strategy.

This enhancement helped to improve physical security controls, and fulfil local regulatory requirements.

Operations, Transformation, and Process Excellence

Operations continued the focus on enhancing our internal processes through investment in technology and simplification initiatives with the aim to increase agility, leverage synergies, and enhance the pace of execution so that we can better serve our customers across all business lines.

We introduced an advanced platform to digitize the customer onboarding and servicing activities. In addition, HSBC Egypt had the chance to introduce the first system robot in the region, called “Nile” which automated some parts of the customer due diligence onboarding activities.

Following the country’s direction towards a less cash intensive economy, we managed to improve the usage of our e-channels and supported the business in providing new payments solutions to our customers with introducing “call center initiated transfers” that helped decrease the footprint in branches.

A good portion of our operations team are cross trained. This enabled us to absorb extra payments traffic smoothly by the redeployment of cross trained staff members from other functions which witnessed volume decreases.

Having cost management as a key focus area, we have been able to identify streamlining opportunities in the printing center and insurance policies while maintaining the maximum benefits.

Procurement and Supplier Risk Management

Procurement managed to develop the relationship with our business partners to enhance the end-to-end process, speed-to-market, strategic third party management and development of a pipeline of cost optimization opportunities, as well as driving improvements in our overall third party management, including quality and cost. We helped our stakeholders in achieving their strategic objectives by ensuring that they are buying the right things, at the right way, price and time.

Supporting growth, procurement enabled businesses and functions across the bank to maximize their value and minimize the risk from external spend with suppliers through providing four core services designed to help our business partners 'Buy, Pay, and Manage' effectively.

Driving streamlining and enhancing our systems, procurement undertook a series of initiatives and system implementations throughout 2020. Introducing “Fusion” to enhance the way we pay out Third Parties and reimburse our employee expenses and manage our requisitions. Introducing “Emptoris” and “Archer” platforms in the third party management space bringing together third party risk, management and contract governance in order to make it increasingly simpler, better and faster for business partners to fulfil their accountabilities associated with the use of third party suppliers.

Third Party Risk Management (TPRM)

Third Party Risk Management continue to be a key top risk, as the bank continues to depend on third-party service providers, we continue to ensure that our third party risk governance framework is robust, and well implemented by our third party engagement managers. Our procurement specialists' conducts regular awareness sessions to ensure that our third party engagement managers are properly following the framework, and are maintaining end to end responsibility for risk and relationship management of our third parties.

A new committee was established (Outsourcing Approval Committee) to drive a consistent and coherent approach for managing risks related to Outsourcing activities through reviewing and approving all outsourcing engagements, evaluating the regulatory requirements and ensuring they are embedded in our governance framework.

People and Communications

We firmly believe that our team members are our most critical asset, and accordantly we continue to focus on our people agenda to ensure that our employees remain engaged and performing at their best. We continue to run our HOST People Managers Community forum which is an informal regular meeting where HOST people managers from different levels and functions come together to learn from each other's experiences, challenges, and best practices. From those meetings our people managers agree on actions and drive them in a consistent format to all members of the HOST organization this has yielded better employee engagement scores reflected in the Group's snapshot survey results. Our key focus areas on the people agenda front has been; and will continue to be; on:

- ◆ Promoting a speak-up culture
- ◆ Supporting our colleagues career development plans and aspirations
- ◆ Up-skilling our workforce through HSBC's impressive learning resources

Financial Crime Risk Management

HSBC continued its progress towards implementing an effective financial crime risk management capability in 2020. We completed the roll-out of a major compliance transformation program and shifted our focus towards the business as usual activities to manage the financial crime risk.

A new Global Compliance structure was introduced in 2019 and embedded globally in 2020. This is 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, anti-bribery and corruption compliance, internal and external fraud, and tax transparency risk. 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.

The Compliance team worked to fully satisfy the requirements of implementing a more consistent, comprehensive approach to assessing Financial Crime Risk. 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. This was addressed through the progress made in 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. To that end, HSBC Bank Egypt managed to complete all targets and milestones according to plan and declare a "Business as Usual" status within 2020, after being tested and confirmed by Global Compliance Assurance and Internal Audit.

Financial Crime Compliance team continued to support the business and customers during 2020 in the middle of the Covid-19 pandemic and the surrounding exceptional circumstances, and provided the required guidance and advice to the business to support and protect customers and employees while ensuring full compliance to regulatory expectations and prudent risk management standards.

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

Regulatory Compliance (RC) Risk Management

Regulatory Compliance risk is the risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence.

Regulatory Compliance Risk is part of operational risk, and arises from the risks associated with breaching our duty to clients and other counterparties, inappropriate market conduct and breaching other regulatory requirements.

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

Key Developments in 2020

- ◆ We continued our commitment to work with our Regulator to manage the safety of the financial system by adhering to the spirit and the letter of the rules and regulations governing our industry.
- ◆ We monitored closely for regulatory developments and engaged with the regulators, as appropriate, to help ensure the new regulatory requirements such as those in response to COVID-19 are implemented effectively and in a timely manner.
- ◆ We continued to enhance our management of conduct in a number of areas, including the treatment of potentially vulnerable customers, governance of product arrangements, and encouragement of 'speak up' culture. At the forefront of the current conduct risk considerations is the fair treatment of customers in financial difficulty and ensuring credit support provided as the result of the outbreak not exploited. We are fully focused on providing appropriate customer outcomes at all circumstances.
- ◆ We continued to promote and encourage good conduct through our people's behaviors and decision making to deliver fair outcome to customers and preserve market integrity.

Corporate Sustainability

At HSBC, we recognize that how we do business is as important as what we do. We have a responsibility to our customers, employees and the communities in which we operate and understand that to achieve success in the long term, economic growth must also be sustainable.

We aim to minimize our impact on the environment and to help the global transition to a low-carbon economy.

We are mindful of our social responsibilities, and committed to high standards of governance. We have set out an ambition to build a net zero global economy. To enable this, we plan to prioritize financing and investment that helps to build a thriving, resilient future for businesses and society.

Our goal is to align financed emissions from our portfolio of customers to the Paris Agreement goal of net zero by 2050 or sooner. We also aim to bring carbon emissions from our own operations and supply chain to net zero by 2030.

We also focus on providing our customers, our communities and our people with the skills needed to succeed in a global economy through our various Future Skills programmes, we are providing customers, communities, and our people with the financial capability, and employability skills needed to prepare for the future.

During 2020, we have continued to implement projects that address key issues in the communities where we operate, and we have adapted to support new need as a consequence of the global pandemic:

- ◆ **COVID-19 response:** As an immediate response, HBEG allocated all of the committed Ramadan budget in addition to extra funding from the local uncommitted budget to reach out to a total of 14,200 families (around 56,800 individuals) covering 12 governorates in Egypt. The project outreach focused on laid off or unemployed individuals and widows supporting orphans. The immediate response covered the distribution of hygiene kits and food supply in addition to providing hot meals for hospital staff workers in two of the neediest hospitals in Upper Egypt. In addition, we have adapted all of our existing and new programmes under the “Future Skills” sustainability pillar to the current situation, ensuring the implementation through digital platforms.
- ◆ **Developing a Participatory Mangrove Ecosystem Restoration Model (MERS):** Aligning to our Net-Zero Strategy and focusing on “Unlocking Next-generation Climate Solutions” HBEG partnered with the American University in Cairo to implement a 5-year Nature Based Solutions (NBS) project addressing climate change challenges and enhancing the environmental, social and economic resilience of the local communities through the restoration and rehabilitation of mangrove ecosystem in Egypt. The MERS project seeks to contribute to greenhouse gas mitigation, climate resilience and more sustainable production of food and materials within thriving economies.
- ◆ **Taqaddam:** In partnership with the British Council and continuing with our Taqaddam programme, we have managed to launch the free Taqaddam Life Skills App on the UN World Skills Day – July 15th - which helps young people anywhere in the world to develop essential skills for life, work and to thrive in the society.
- ◆ **Tamkeen:** Concluded the first year of the programme which focused on a dual literacy and vocational training. 40% of the targeted beneficiaries started their own small projects and 50% managed to find a job. Due to the pandemic two new modules were added to the programme. First on how to keep safe at their work and home environment and stopping of spreading of diseases. The second imparted basic IT and online skills which included learning how to use a computer, surf the internet, access online learning platforms and utilize social media for growing their businesses.
- ◆ **Youth Education to Promote Entrepreneurship and Employability:** The project focuses on enhancing the readiness of employability and promoting self-employment amongst 300 vulnerable youths in Egypt with the help of two local NGOs. The activities include training on life-skills for employability, CV workshops, mock-up job fairs and coaching services. Due to the COVID-19 pandemic we added a new intervention within the activities of the project which aims at increasing

the financial capability of 24 entrepreneurs who got affected to help keeping them in business equipping them with the necessary skills to be able to adapt to "crisis markets".

- ◆ **Education for Employment:** The project supports unemployed Egyptian youth to learn about and be trained in employability skills required by employers, and the skills that are likely to be in demand in the near future. The project addresses three main problems that face Egyptian Youth in the five biggest governorates: lack of skills required for unemployed youth under the age of 30, addressed through the "Job Placement Training Programme" (JPTP); lack of basic employability and job finding skills, addressed through a "Career Direction Programme" (CD) and lack of awareness of employability skills in the general public, addressed through "Public Awareness Activities ". All of the programme activities take into account the need for social distancing and online and virtual meetings.
- ◆ **JA New Financial Literacy Programme:** A new programme has been developed in collaboration with Junior Achievement (INJAZ) aiming at spreading awareness and addressing financial literacy among young people. The programme focus on building financial capability for school students through digital tools and a global financial capability competition for young people to apply their learnings and come up with an innovative idea to support others in their communities.
- ◆ **Climate Action Network (CAN):** To provide a framework to those highly committed colleagues in demand of a grassroots initiative to work in sustainability, we have created the CAN teams, which is open to all HSBC employees that are dedicated to drive the change to support the HSBC's sustainability strategy. Activities can range from educating colleagues about sustainability and minimizing the environmental impact at the workplace, to a wider support of our strategy, including the sustainable finance portfolio.

Acknowledgment

Based on the financial results of 2020, 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 (HCES)

The core business of HSBC Securities Egypt is trading cash equities listed on the Egyptian stock exchange on behalf of HSBC and HSBC's international investors. 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.

Year 2020 was an exceptional year with many difficulties due to the COVID-19 pandemic. Naturally the EGX 30 was affected and lost over 22% of its value, whilst foreign activity in the market declined. In terms of the HCES performance in 2020, the company executed trades worth EGP5.6bn throughout the year which reflects a year-on-year 35% decrease in commissions due to reduced foreign activity and greater competition. As a result of the reduced volumes, HCES incurred losses totaling EGP3m.

As a response to the COVID-19, a split site operation was adopted - traders and sales traders were split between the Maadi Head Office and the disaster recovery site in Smart Village in order to minimize the risk of business disruption in case of infection. This set-up is expected to continue in 2021.

Looking ahead to 2021, with the Egyptian economy moving on the right track, with declining interest rates and the growing interest of foreign institutional investors in the Egyptian equity capital market, HCES is well positioned for an improved positive performance. The IPO momentum is also expected to return during H2 2021 and as HSBC Group has been mandated to manage a number of key IPOs, HCES is expected to benefit from the execution piece in the market.

HSBC Investment Company (Egypt) SAE

The liquidation of HSBC Investment Company Egypt, a 40% owned company by HBEG, was completed in December 2020 where the remaining balances resulting from the liquidation was distributed to the shareholders according to their contribution in paid-up capital.

Other Investments

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

- ◆ Egyptian Mortgage Refinance Company (EMRC)
- ◆ The Egyptian Credit Bureau (I-Score)
- ◆ Misr Company for Clearing, Settlement and Depository (MCDR)
- ◆ Swift Company
- ◆ Kol Yom' Money Market Fund

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

HBEG's commitment to organizational governance is evidenced by:

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

The Board of Directors

The following changes took place to the HBEG Board of Directors during 2020:

Resignation

- ◆ Resignation of Mr. Jacques-Emmanuel Blanchet Deputy Chairman and Chief Executive Officer effective 30th of June 2020.

Appointments

- ◆ Appointment of Mr. Todd Wilcox as Deputy Chairman and Chief Executive Officer effective 24st of June 2020.

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 Government of Dubai's International Financial Centre Authority until June 2011 and was then a member of the DIFC Higher Board until December 2020. He was 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, and a Member of various Asian-based Advisory Boards. He holds a number of other 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. Todd Wilcox

Executive Director (since June 2020)

Todd Wilcox was appointed HSBC Bank Egypt Deputy Chairman and Chief Executive Officer effective 24th of June 2020.

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

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

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

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

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

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

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

Mrs. Lamyaa El Bahy

Executive Director (since June 2019)

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

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

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

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

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

Mr. Martin Tricaud

Non-Executive Director (since October 2019)

Mr. Martin Tricaud is Group General Manager, Chief Executive Officer of the Middle East, North Africa and Turkey ('MENAT') region, HSBC Group and Deputy Chairman of HSBC Bank Middle East Limited.

Martin leads HSBC in the Middle East, North Africa and Turkey (MENAT) where it serves three million customers in nine countries from a network of 350 offices, making it the largest and most widely represented international bank in the region.

Martin took up his present role in June 2019. He served as Chief Executive Officer of HSBC Australia from April 2017, as Chief Executive Officer of HSBC Korea for four years prior to that, and from 2010

to 2013 he was Global Head of Multinationals for HSBC's Global Banking and Markets business in London, having previously held leadership positions in that business in Europe and the Middle East.

With two decades in senior leadership roles with HSBC in Asia, the UK, Europe and the Middle East, Martin has a particular insight into the strategic opportunities of linking MENAT to the rest of the world – especially to Asia and China and the countries connected to the Belt & Road Initiative.

Mr Martin graduated from the Institut d'Etudes Politiques de Paris, holds a Master's in Law from La Sorbonne University, Paris, and a Bachelor's degree in History from Paris Nanterre (Paris X) University.

A member of the boards of directors of HSBC Bank Middle East Limited, HSBC Saudi Arabia, HSBC Bank Egypt S.A.E. and HSBC Bank A.S. (Turkey), Martin was appointed a Conseiller du Commerce Extérieur de la France by French government decree in 2001, and is a board member of the Financing and Accounting Centre of Excellence (FACE) in Saudi Arabia.

Mr. Christian Deseglise

Non-Executive Director (since August 2019)

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

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

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

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

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

Mr. Abdel Halim Assem

Independent, Non-Executive Director (since March 2016)

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. Prior to this Mr. Assem had a long career with Thomson-CSF in Egypt before becoming the Country Delegate for Thomson-CSF Egypt.

Mr. Assem is a member of the Board of France - Egypt Presidential Business Council and is a member of the Board of the French Chamber of Commerce.

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 Extérieur de la France CNCCEF.

Mr. Hisham Mohsen

Non-Executive Director, Representative of Misr Insurance Company (since April 2016)

Mr. Hisham Mohsen is the Chief Executive Officer of Inward Reinsurance Sector 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. Neveen El-Shafei

Independent, Non-Executive Director (since June 2015)

Mrs. Neveen El-Shafei was appointed Assistant Minister of Investment in August 2013 and served in her role 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. Prior to this, 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 and corporate banker at Commercial International Bank (CIB), where, among other responsibilities, she took an active role in participating in Egypt's privatization 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. Nadim Ghanem

Independent Non-Executive Director (since June 2019)

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

He oversaw the revamping and automation of Fuels Operational facilities between 1991 and 1995, and the design, construction and operation of a manufacturing Lubricating Oil Blending Plant in Asher in 1999.

Following the Esso and Mobil merger in 2000, he assumed responsibilities for the Lubricants and Asphalt operations in Tunisia till 2004 and thereafter became responsible for the Distribution operations in Europe, Africa and the Middle East causing significant improvements on customer service levels. In 2009, he joined the Portfolio group that is responsible for M&A and contributed to the divestment of companies in Austria, Switzerland and the UK. In 2013 he moved to Finance and became Business Services Manager and Controller for ExxonMobil in Egypt, Saudi Arabia and the UAE Downstream, having overall responsibility for the accounting, treasury and tax in these countries. In addition, throughout the years, he served as Director and Board Member in many ExxonMobil regional entities.

Mr Ghanem holds a BSc. in Chemical Engineering from Cairo University and a Diploma in Refining and Chemical Engineering from the "Institut Francais du Petrole" in Rueil Malmaison, France.

The Board Committees

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

Audit Committee

The Audit Committee is responsible for reviewing and monitoring financial and internal audit matters, and for ensuring that effective systems of internal control (including financial control) are in place. The members of the Audit Committee are Mr. Nadim Ghanem (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 Mr. Christian Deseglise (Chairman), Mrs. Neveen El-Shafei, Mr. Abdel Halim Assem and Mr. Todd Wilcox.

Governance and Nomination Committee

The Governance and Nomination Committee is responsible for leading the process for Board appointments and for identifying and nominating, for approval by the Board, candidates for appointment to the Board in addition to evaluating the bank's governance system. The members of the Governance and Nominations Committee are Mr. Abdel Halim Assem (Chairman), Mr. Hisham Mohsen and Mr. Nadim Ghanem.

Salaries and Remuneration Committee

The Salaries and Remuneration Committee considers remuneration matters for the bank in the context of the Group's remuneration policy, proposes the fees for directors for approval by the Board and the shareholders and reviews performance-based remuneration with reference to corporate goals and objectives. The members of the Salaries and Remunerations Committee are Mrs. Neveen El-Shafei (Chairperson), Mr. Abdel Halim Assem and Mr. Christian Deseglise.

Governance Committees

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

Executive Committee (EXCO)

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.

Risk Management Committee (RMM)

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

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

Financial Crime Risk Management Committee (FCRMC)

Financial Crime Risk Management Committee (FCRMC) is a formal governance committee established to ensure effective enterprise-wide management of financial crime risk and to support the CEO in discharging his financial crime risk responsibilities. The scope of the FCRMC covers all business activities, products and services in HSBC Bank Egypt. This includes all outsourced activities delegated to another part of the Bank or a third party. FCRMC is chaired by the CEO and reports to the Audit Committee of the Board.

Assets and Liabilities Committee (ALCO)

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

recommend proposals and decisions for approval to the CFO. The ALCO reports to the Risk Committee of the Board.

Country Impairment Forum (CIF)

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

Auditors' report

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

Report on the separate financial statements

We have audited the accompanying separate financial statements of HSBC Bank, Egypt (SAE), which comprise the statement of financial position of HSBC Bank, Egypt (SAE) as of 31 December 2020 and the separate statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

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

Auditors' responsibility

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

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

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

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 31 2020, and its separate financial performance and cash flows for the year then ended, in accordance with the rules of preparation and presentation of the Banks' financial statements approved by the Central Bank of Egypt on 16 December 2008 as amended by regulations issued on 26 February 2019, and the prevailing Egyptian laws and regulations relating to the preparation of these separate financial statements.

Report on other legal and regulatory requirements

In September 2020, the Central Bank and Banking Institutions Law No. 194 for the year 2020 was issued which cancelled the Central Bank, Banking and Monetary Institutions Law No. 88 for the year 2003. Article No. 4 of Law No. 194 allows the addressees a transition period for the compliance with the new law.

In light of the preceding paragraph, nothing has come to our attention that makes us believe that during the financial year ending December 31, 2020, the bank has not been in compliance with the provisions of the Central Bank, Banking and the Monetary Institutions Law No. 88 for the year 2003 that was in force until its cancellation on September 15, 2020 by the issuance of the Central Bank and Banking Institutions Law No. 194 for the year 2020, taking into consideration the provisions of article No. 4 of Law No. 194 for the year 2020.

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 thereto.

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

Cairo: February 14, 2021

Auditors

Mohamed Elmoataz

F.R.A. (133)

R.A.A. (12747)

CBE Register No. (231)

PricewaterhouseCoopers Ezzeldeen, Diab & Co.

Public Accountants and Consultants

Plot No 211, Second Sector, City Center New Cairo 11835,
Egypt

Farid Samir Farid, CPA

F.R.A. (210)

R.A.A. (8739)

CBE Register No. (544)

Deloitte Saleh, Barsoum and AbdelAziz

Accountants and Auditors

2005 A Cornish El Nil – Ramlet Boulaq, 11221 , Egypt

Statement of financial position

HSBC Bank Egypt SAE

Separate statement of financial position as at 31 December 2020

(All amounts in EGP000)

	Note	2020	2019
Assets			
Cash and balances with Central Bank of Egypt	15	8,075,506	11,365,612
Due from banks	16	23,211,367	17,500,656
Loans and advances to banks	17	206,507	268,888
Loans and advances to customers	18	36,314,668	33,031,185
Financial derivatives and coverage activities	19	110,233	6,652
Financial investments	20	12,175,038	5,994,683
Treasury bills	21	33,687,617	34,766,358
Investments in subsidiaries	22	35,517	35,517
Intangible assets	23	176,293	56,560
Other assets	24	1,849,088	1,816,489
Deferred tax assets	31	102,288	89,717
Investment property	26	83,527	62,225
Fixed assets	25	466,178	362,092
Total assets		116,493,827	105,356,634
Liabilities and shareholders' equity			
Liabilities			
Due to banks	27	2,462,336	1,980,894
Customers' deposits	28	90,219,973	83,298,180
Financial derivatives and coverage activities	19	189,733	51,634
Subordinated loans	39	2,072,000	2,072,000
Other liabilities	29	4,978,729	1,353,497
Other provisions	30	455,960	251,228
Current income tax		657,343	621,373
Defined benefits obligations	32	460,160	436,956
Total liabilities		101,496,234	90,065,762
Shareholders' equity			
Paid-up capital	33	2,795,567	2,795,567
Reserves	34	4,386,162	3,910,479
Retained earnings	34	7,815,864	8,584,826
Total shareholders' equity		14,997,593	15,290,872
Total liabilities and shareholders' equity		116,493,827	105,356,634

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

Statement of income

HSBC Bank Egypt SAE

Separate statement of income for the year ended 31 December 2020

(All amounts in EGP000)

	Note	2020	2019
Interest income from loans and similar income	6	9,211,434	10,573,073
Interest expense on deposits and similar expense	6	(2,786,368)	(3,302,552)
Net interest income		6,425,066	7,270,521
Fees and commissions income	7	1,062,074	1,394,791
Fees and commissions expense	7	(187,375)	(162,594)
Net fees and commissions income		874,699	1,232,197
Dividends	8	12,723	18,683
Net trading income	9	815,358	1,152,692
Financial investment income		397	2,819
Credit Loss impairment (charged)	12	(540,201)	(145,279)
Administrative expenses	10	(2,307,681)	(2,209,913)
Other operating expense	11	(174,476)	96,732
Profit before income tax		5,105,885	7,418,452
Income tax expenses	13	(1,499,163)	(1,707,367)
Net profit for the year		3,606,722	5,711,085
Earnings per share (EGP/share)			
Basic	14	97.33	152.33

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

Statement of comprehensive income

HSBC Bank Egypt SAE

Separate statement of comprehensive income for the year ended 31 December 2020

(All amounts in EGP000)

	2020	2019
Net Profit for the year	3,606,722	5,711,085
Items that may be reclassified to profit or loss		
Net changes on investments available for sale	-	-
Net changes on investments in financial investment at FVOCI	79,552	415,324
Expected credit loss through financial investment at FVOCI	(36,615)	6,868
tal impact related to other comprehensive income/(Loss)	42,937	422,192
Net fees and commissions income	3,649,659	6,133,277

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

Statement of cash flows

HSBC Bank Egypt SAE

Separate statement of cash flows for the year ended 31 December 2020

(All amounts in EGP000)

	Note	2020	2019
Cash Flows from operating activities			
Net profit before income tax		5,105,885	7,418,452
Adjustments to reconcile net profit to net cash flows from operating activities			
Depreciation and amortisation		115,731	80,933
Impairment of assets		582,822	145,279
Other provisions formed		264,383	80,991
Provisions no longer required		(2)	(13,718)
Revaluation differences for provisions other than loans provision		(822)	(8,249)
Loss / (Gain) from sale of property and equipment		9,661	(11,504)
(Gain) from sale of investments		-	(2,904)
Loss from Intangible assets		1,957	-
Other valuation differences on financial investments		63,939	248,419
Dividends received		(12,723)	(18,683)
Operating income before changes in Assets and liabilities		6,130,831	7,919,016
Net decrease (increase) in assets and liabilities			
Due from banks		4,459,070	(7,491,629)
Treasury bills		1,785,523	(3,843,164)
Financial investments at fair value through profit & loss		-	9,884
Loans and advances to customers		(3,870,659)	389,846
Loans and advances to banks		62,381	224,542
Financial derivatives (net)		34,518	45,354
Other assets		(30,691)	(219,133)
Due to banks		481,442	(1,138,893)
Customers' deposits		6,921,793	3,066,650
Other liabilities		3,625,232	(1,342,446)
End of service compensation benefits		23,204	84,107
Utilized from other provisions		(58,827)	(103,912)
Income tax paid		(1,475,764)	(2,077,150)

Net cash flows generated from operating activities	18,088,053	(4,476,928)
Cash flows from investing activities		
Payments to purchase fixed assets and branches preparation	(217,033)	(35,730)
Proceeds from sale of fixed assets	7,796	12,236
Payments to purchase intangible assets	(206,690)	(66,067)
Payments for purchase of financial investments	(9,568,908)	(2,861,576)
Proceeds from sale (redemption) of financial investments	3,398,397	3,200
Dividends received	12,723	18,683
Net cash flows (used in) generated from investing activities	(6,573,715)	(2,929,254)
Cash flows from financing activities		
Dividends paid	(3,942,938)	(3,361,692)
Net cash flows (used in) financing activities	(3,942,938)	(3,361,692)
Net change in cash and cash equivalents during the year	7,571,400	(10,767,874)
Cash and cash equivalents at the beginning of the year	14,304,525	25,072,399
Cash and cash equivalents at the end of the year	21,875,925	14,304,525
Cash and cash equivalents are represented in:		
Cash and balances with Central Bank of Egypt	8,076,623	11,372,286
Due from banks	23,217,899	17,509,116
Treasury bills	33,687,617	34,766,358
Balance with Central Bank of Egypt as statutory reserve	(6,397,779)	(10,083,390)
Due from banks	(3,720,028)	(4,493,487)
Treasury bills of maturity more than 3 months from date of acquisition	(32,988,407)	(34,766,358)
Cash and cash equivalents	36	21,875,925
		14,304,525

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

Statement of changes in the shareholders' equity

Separate statement of changes in equity for the year ended 31 December 2020

(All amounts in EGP 000)

	Note	Paid up capital	General Reserve	Legal Reserve	Special Reserve	Capital Reserve	Reserve for excess over par value – issuance premium	Fair Value Reserve	IFRS 9 Reserve	General Risk Reserve	General Bank Risk Reserve	Retained Earnings	Total
Balances as of 31 December 2018		2,795,567	1,643,043	1,084,668	63,466	16,575	6,728	(146,844)	433,383	-	-	6,727,909	12,624,495
Changes in initial application of IFRS 9 – Remeasurement	34	-	-	-	-	-	-	41,071	-	(5,183)	-	-	35,888
Changes in initial application of IFRS 9 – Reclassification	34	-	-	-	-	-	-	(141,096)	-	-	-	-	(141,096)
Balance as of 1 January 2019		2,795,567	1,643,043	1,084,668	63,466	16,575	6,728	(246,869)	433,383	(5,183)	-	6,727,909	12,519,287
Dividends paid for year 2018	35	-	-	-	-	-	-	-	-	-	-	(3,361,692)	(3,361,692)
Transferred to Legal Reserve	34	-	-	240,130	-	-	-	-	-	-	-	(240,130)	-
Transferred to General Reserve	34	-	240,130	-	-	-	-	-	-	-	-	(240,130)	-
Transferred to Capital Reserve	34	-	-	-	-	12,216	-	-	-	-	-	(12,216)	-
Net change in investment at fair value through OCI	34	-	-	-	-	-	-	422,192	-	-	-	-	422,192

Transferred to General Risk Reserve	34	-	-	-	(63,466)	-	-	-	(433,383)	496,849	-	-	-
Net Profit for the year ended 31 December 2019		-	-	-	-	-	-	-	-	-	-	5,711,085	5,711,085
Balance as of 31 December 2019		2,795,567	1,883,173	1,324,798	-	28,791	6,728	175,323	-	491,666	-	8,584,826	15,290,872
Balance as of 1 January 2020		2,795,567	1,883,173	1,324,798	-	28,791	6,728	175,323	-	491,666	-	8,584,826	15,290,872
Dividends paid for year 2019	35	-	-	-	-	-	-	-	-	-	-	(3,942,938)	(3,942,938)
Transferred to Legal Reserve	34	-	-	72,984	-	-	-	-	-	-	-	(72,984)	-
Transferred to General Reserve	34	-	281,649	-	-	-	-	-	-	-	-	(281,649)	-
Transferred to Capital Reserve	34	-	-	-	-	11,504	-	-	-	-	-	(11,504)	-
Transferred to General Bank Risk Reserve	34	-	-	-	-	-	-	-	-	-	66,609	(66,609)	-
Net change in investment at fair value through OCI	34	-	-	-	-	-	-	42,937	-	-	-	-	42,937
Net Profit for the year ended 31 December 2020		-	-	-	-	-	-	-	-	-	-	3,606,722	3,606,722
Balance as of 31 December 2020		2,795,567	2,164,822	1,397,782	-	40,295	6,728	218,260	-	491,666	66,609	7,815,864	14,997,593

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

Proposed profit of appropriation statement

HSBC Bank Egypt SAE

Separate proposed profit of appropriation statement for the year ended 31 December 2020

(All amounts in EGP 000)

	Note	2020	2019
Net profit for the year (as per income statement)		3,606,722	5,711,085
Less:			
Gain from sale of fixed assets transferred to capital reserve according to law		-	(11,504)
General bank risk reserve		66,609	(66,609)
Net profit for the year available for appropriation		3,673,331	5,632,972
Retained earnings at the beginning of the year	34	4,209,142	2,873,741
Total		7,882,473	8,506,713
Appropriation:			
Legal reserve	34	-	72,984
General reserve	34	183,667	281,649
Banking System Support and Development Fund		36,733	-
Shareholders' dividends	35	-	3,379,641
Employees' profit share	35	367,333	563,297
Retained earnings at the end of the year		7,294,740	4,209,142
		7,882,473	8,506,713

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

Notes on the accounts

HSBC Bank Egypt SAE

Notes to the separate financial statements for the year ended 31 December 2020

(In the notes, all amounts are shown in thousands of Egyptian pounds unless otherwise stated)

1. Background

HSBC Bank Egypt SAE provides retail, corporate and investment banking services in the Arab Republic of Egypt through 52 branches, and 7 small units served by more than 1,658 staff at the date of the balance sheet.

HSBC Bank Egypt SAE is established according to the Investment Law, in accordance with the decision no.60 for year 1982 taken by the minister of investment and international 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 2020 have been approved for issuance by the Board of Directors on 10 February 2021.

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 as amended by regulations issued on 26 February 2019 and with the requirements of applicable Egyptian laws and regulations.

The separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities classified as trading or held at fair value through profit or loss, available for sale investment and all derivatives contracts.

The separate and consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with the relevant domestic laws and the Egyptian financial reporting standards, the affiliated companies are entirely included in the consolidated financial statements and these companies are the companies that the Bank - directly or indirectly has more than half of the voting rights or has the ability to control the financial and operating policies, regardless of the type of activity, the Bank's consolidated financial statements can be obtained from the Bank's management. The Bank accounts for investments in subsidiaries and associate companies in the separate financial statements at cost minus impairment loss.

The separate financial statements of the Bank should be read with its consolidated financial statements, for the year ended on 31 December 2020 to get complete information on the Bank's financial position, results of operations, cash flows and changes in ownership rights.

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 owns 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) represents valuation differences resulted from changes in 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 carried at fair value are reported as part of the fair value gain or loss. For example, valuation differences resulting from non-monetary assets such as equity instruments held at fair value through profit or loss are recognized in the income statement as part of the 'fair value gain or loss', while valuation differences resulting from non-monetary assets such as equity instruments classified as available for sale financial assets are recognised as 'Net change in available-for-sale investments' under the equity reserves.

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 instruments measured at amortized cost:

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

The bank may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the bank intends to hold the loan, the loan commitment is included in the impairment calculations.

E.2. Financial assets measured at fair value through other comprehensive income (FVOCI):

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

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

E.3. Equity securities measured at fair value with fair value movements presented in OCI:

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

E.4. Financial instruments designated at fair value through profit or loss:

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

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

Designated financial assets are recognised when the bank enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the bank enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis'.

Impact of adopting IFRS 9 on Balance Sheet

	Classification and Measurement	Carrying amount as at 31-Dec-20	Carrying amount as at 31-Dec-19
Assets			
Cash and balances at Central Bank of Egypt	Amortized cost	8,075,506	11,365,612
Due from Banks	Amortized cost	23,211,367	17,500,656
Loans and advances to Customers/Banks	Amortized cost	36,521,175	33,300,073
Treasury Bills	FVOCI	33,687,617	34,766,358
Financial Investments	FVOCI	12,175,038	5,994,683
Investments in subsidiaries	Cost	35,517	35,517
Other Assets	Amortized cost	1,849,088	1,816,489
Financial derivatives and coverage activities	FVTPL	110,233	6,652
Total Assets		115,665,541	104,786,040
Liabilities			
Due to Banks	Amortized cost	2,462,336	1,980,894
Customers' deposits	Amortized cost	90,219,973	83,298,180
Subordinated loans	Amortized cost	2,072,000	2,072,000
Financial derivatives and coverage activities	FVTPL	189,733	51,634
Other Liabilities	Amortized cost	4,978,729	1,353,497
Total Liabilities		99,922,771	88,756,205

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. Fair value hierarchy

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

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

2020

	Level 2 Using observable inputs	Total
Recurring fair value measurements assets		
Financial assets at fair value through other comprehensive income	45,862,655	45,862,655
Financial Derivatives	110,233	110,233
Total	45,972,888	45,972,888

2019

	Level 2 Using observable inputs	Total
Recurring fair value measurements assets		
Financial assets at fair value through other comprehensive income	40,761,041	40,761,041
Financial Derivatives	6,652	6,652
Total	40,767,693	40,767,693

H. 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'.

I. 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 period when it is appropriate to reach the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows, considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

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

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

- ◆ 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

J. Fees and commission income

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

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

Fees and commissions related to debt instruments measured by fair value are recognised as income at initial recognition. Fees and commissions related to 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. Long period financial planning and custody services and management fees are recognised over the period in which the service is provided.

K. Dividends income

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

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

These are shown in the assets side as an addition to the 'Due from banks (balances with CBE with exception of reserve ratio)' line item in the balance sheet. On the other hand, the Bank's obligation arising from financial instruments acquired under purchase and resale agreements are shown as an addition to the 'Due to banks (Due to Central Bank of Egypt)' 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.

M. Impairment of financial assets

Expected Credit Loss

Credit-impaired (stage 3)

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

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

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

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

Renegotiation

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

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

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

Loan modifications that are not credit-impaired

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

Significant increase in credit risk (stage 2)

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

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

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

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

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

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

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

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

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

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

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

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

Purchased or originated credit-impaired (POCI)

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

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

Movement between stages

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

Measurement of ECL

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

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

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

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

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

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

- ◆ While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.
- ◆ The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as of the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realization of collateral based on its estimated fair value of collateral at the time of expected

realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the Bank and the judgment of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies are approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

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

Credit-impaired (Stage 3)

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

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

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

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

Definition of default

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

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

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

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

Upgrading from Stage 2 to Stage 1:

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

Upgrading from Stage 3 to Stage 2:

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

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

Forward- looking economic inputs

The bank will in general apply three forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and two, less likely, 'Outer' scenarios, referred to as the Upside and Downside scenarios. The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside and Downside are constructed following a standard process supported by a scenario narrative reflecting the Bank's current top and emerging risks and by consulting external and internal subject matter experts. The relationship between the Outer scenarios and Central scenario will generally be fixed with the Central scenario being assigned a weighting of 80 per cent and the Upside and Downside scenarios 10 per cent each, with the difference between the Central and Outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The Outer scenarios are economically plausible, consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years, after which the forecasts will revert to a view based on average past experience. The spread between the central and outer scenarios is grounded on consensus distributions of projected gross domestic product of Egypt.

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

The bank recognises that the Consensus Economic Scenario approach using three scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including

the production of extra scenarios. If conditions warrant, this could result in a management overlay for economic uncertainty which is included in the ECL.

Critical accounting estimates and judgments

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

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

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

N. Investment property

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

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

Buildings	20 Years
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O. 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).

P. 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.

Q. 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.

R. 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.

R.1. Leasing

Finance lease contracts recognise rent as expense in the period 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.

R.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.

S. 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.

T. Other provisions

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

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

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

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

U. 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.

V. 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.

W. 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.

X. Capital

X.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.

X.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.

Y. 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.

Z. 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.

Credit quality of financial instruments

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

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

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

Credit quality classification

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

* Customer risk rating

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

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

(All amounts in EGP 000)

31 December 2020	Strong	Good	Satisfactory	Sub-Standard	Credit Impairment	Total	Allowance /Provision for ECL	Net
Loans and advances to customers at amortized cost								
Stage 1	3,504,054	5,767,543	14,633,332	2,404,845	-	26,309,774	(71,634)	26,238,140
Stage 2	-	223,466	3,969,718	5,691,765	-	9,884,949	(495,743)	9,389,206
Stage 3	-	-	-	-	3,606,808	3,606,808	(2,078,578)	1,528,230
Total as of 31 December 2020	3,504,054	5,991,009	18,603,050	8,096,610	3,606,808	39,801,531	(2,645,955)	37,155,576

(All amounts in EGP 000)

31 December 2019	Strong	Good	Satisfactory	Sub-Standard	Credit Impairment	Total	Allowance /Provision for ECL	Net
Loans and advances to customers at amortized cost								
Stage 1	6,885,048	1,864,015	16,318,739	2,229,015	-	27,296,817	(89,575)	27,207,242
Stage 2	13	28,011	1,647,052	3,896,947	-	5,572,023	(392,117)	5,179,906
Stage 3	-	-	-	-	3,089,545	3,089,545	(1,751,479)	1,338,066
Total as of 31 December 2019	6,885,061	1,892,026	17,965,791	6,125,962	3,089,545	35,958,385	(2,233,171)	33,725,214

The net amount is not including interest in suspense amounted EGP 840,908 thousands on Dec 2020 against EGP 694,029 thousands on Dec 2019.

31 December 2020	Loans and advances to customers	Allowance / provision for ECL
Stage 1		2.71%
Stage 2		18.74%
Stage 3		78.55%
	100%	100%

31 December 2019	Loans and advances to customers	Allowance / provision for ECL
Stage 1	75.91%	4.01%
Stage 2	15.50%	17.56%
Stage 3	8.59%	78.43%
	100%	100%

Reconciliation of changes in gross carrying / nominal amount and allowances for loans and advances customers
(All amounts in EGP 000)

	Non Credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
December 2020	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
As at 1 January 2020	27,296,817	(89,575)	5,572,023	(392,117)	3,089,545	(1,751,479)	35,958,385	(2,233,171)
Transfer from stage 1 to stage 2	(12,289,551)	51,889	12,289,551	(51,889)	-	-	-	-
Transfer from stage 2 to stage 1	10,859,355	(79,378)	(10,859,355)	79,378	-	-	-	-
Transfer to stage 3	-	-	(843,922)	77,329	843,922	(77,329)	-	-
Transfer from stage 3	-	-	35,857	(12,657)	(35,857)	12,657	-	-
ECL Other movement	-	45,430	-	(195,787)	-	(262,427)	-	(412,784)
Balance volume movement	443,153	-	3,690,795	-	(290,802)	-	3,843,146	-
As at 31 December 2020	26,309,774	(71,634)	9,884,949	(495,743)	3,606,808	(2,078,578)	39,801,531	(2,645,955)

Non Credit impaired				Credit impaired				
Stage 1		Stage 2		Stage 3			Total	
December 2019	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
As at 1 January 2019	23,826,274	(139,164)	9,652,241	(703,634)	2,952,864	(1,477,511)	36,431,379	(2,320,309)
Transfer from stage 1 to stage 2	(4,008,857)	22,929	4,008,857	(22,929)	-	-	-	-
Transfer from stage 2 to stage 1	2,762,057	(47,756)	(2,762,057)	47,756	-	-	-	-
Transfer to stage 3	-	-	(437,320)	142,226	437,320	(142,226)	-	-
Transfer from stage 3	-	-	17,415	(8,308)	(17,415)	8,308	-	-
ECL Other movement	-	74,416	-	152,772	-	(140,049)	-	87,139
Balance volume movement	4,717,343	-	(4,907,113)	-	(283,224)	-	(472,994)	-
As at 31 December 2019	27,296,817	(89,575)	5,572,023	(392,117)	3,089,545	(1,751,479)	35,958,385	(2,233,170)

Items affected by IFRS 9 not included in FVOCI

	31 December 2020		31 December 2019	
	Gross value	ECL	Gross value	ECL
Cash and balances at CBE	8,076,623	1,117	11,372,286	6,674
Due from banks	23,424,406	6,532	17,778,004	8,460
Loans and advances to Customers / Banks	39,801,531	2,645,955	35,958,385	2,233,171
Other Assets	1,850,062	974	1,819,371	2,882
Total (1)	73,152,622	2,654,578	66,928,046	2,251,187

Items affected by IFRS 9 included in FVOCI

	31 December 2020		31 December 2019	
	Fair value	ECL	Fair value	ECL
Financial Investments	45,862,655	11,325	40,761,041	47,939
Total (2)	45,862,655	11,325	40,761,041	47,939
Total (1)+(2)	119,015,277	2,665,903	107,689,087	2,299,126

Impairment loss was EGP 2,645,955 thousands on 31 December 2020 while it was EGP 2,233,171 on 31 December 2019 and it was related to Loans provision only. ECL for other provisions on 31 December 2020 was EGP 408,027 thousands, while it was EGP 205,700 thousands on 31 December 2019.

The Bank has formed an additional impairment in an amount of EGP M 239 to address the economic risks associated with the pandemic and conservatively account for the impact on the economic credit losses.

Quality classification definitions

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

Risk rating scales

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

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

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

A.4. Measurement module banking general risk

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

The Bank calculates the provisions required for impairment of assets exposed to credit risk, including commitments relating to credit on the basis of rates determined by CBE. In case, the provision for impairment losses according to credit worthiness rules issued by CBE exceeds the provision required according to discounted cash flow and historical default rates methods, this increase shall be debited from the retained earnings and credited to the 'general banking risk reserve' under the equity caption. This reserve is regularly adjusted with this increase and decrease, to equal the amount of increase and decrease in the two provisions. This reserve is not distributable. Note 34 shows the 'general banking risk reserve' movement during the year.

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

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

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

A.5. Maximum limits for credit risk before collaterals

	2020	2019
Balance sheet items exposed to credit risks		
Due from banks	23,217,899	17,509,116
Loans to banks	206,507	268,888
Loans and advances to customers:		
Retail loans:		
Overdrafts	57,601	49,722
Credit cards	1,404,560	1,412,097
Personal loans	4,195,543	4,085,911
Mortgage loans	1,858	2,361
Corporate loans:		
Overdrafts	2,910,366	2,402,273
Direct loans	20,313,218	16,011,546
Syndicated loans	10,918,385	11,994,475
Financial derivative instruments	110,233	6,652
Financial investments:		
Debt instruments	45,805,949	40,706,727
Other assets	1,140,874	848,045
Total	110,282,993	95,297,813
Off-balance sheet items exposed to credit risk		
Loan commitments and other irrevocable commitments related to credit	3,358,260	2,789,539
Letters of credit	86,702	418,923
Letters of guarantee	28,346,741	23,960,755
Total	31,791,703	27,169,217

The above table represents the maximum limit for credit risk as at 31 December 2020 and 31 December 2019, 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, 36.09 per cent – as at 31 December 2020 - of the total maximum limit exposed to credit risk resulted from loans and advances to customers against 37.73 per cent as at 31 December 2019 while 41.53 per cent – as at 31 December 2020 - represents investments in debt instruments against 42.72 per cent as at 31 December 2019.

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:

- ◆ 89.97 per cent – as at December 2020 - of the loans and advances portfolio having no past due or impairment indicators against 89.22 per cent as at 31 December 2019
- ◆ Loans and advances that have been evaluated for impairment on an individual basis of total amount EGP3,606,808 thousand – as at December 2020 - against EGP3,089,545 thousand as at 31 December 2019
- ◆ Investments in debt instruments and Treasury bills due from the Egyptian government reached 100 per cent

A.6. Loans and advances

Loans and advances are summarised as per 'CBE Obligor Risk Rating' - as follows:

	Loans and Advances to Customers 2020	Loans and Advances to Banks 2020	Loans and Advances to Customers 2019	Loans and Advances to Banks 2019
Neither having past dues nor impaired	35,411,543	206,507	32,082,639	268,888
Having past due but not impaired	830,374	-	818,540	-
Subject to impairment	3,559,614	-	3,057,206	-
Total	39,801,531	206,507	35,958,385	268,888
Less:				
Interest in suspense	(840,908)	-	(694,029)	-
Expected credit loss	(2,645,955)	-	(2,233,171)	-
Net	36,314,668	206,507	33,031,185	268,888

The Bank's total impairment loss for loans and advances amounted to EGP2,645,955 thousand against EGP2,233,171 thousand as at 31 December 2019, of which EGP2,078,577 thousand against EGP1,751,479 thousand as at 31 December 2019 represents impairment of specific loans and the remainder amounting to EGP567,378 thousand against EGP481,692 thousand as at 31 December 2019 represents impairment loss for the credit portfolio as a group.

The Bank reviewed 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 EGP126,009 thousand as at 31 December 2020 against EGP247,850 thousand as at 31 December 2019.

Note 18 includes additional information regarding impairment loss on loans and advances to customers. The Bank's portfolio decreased by 10.69 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.

2020

Rating	Retail				Corporate			Total loans and advances to customers	Total loans and advances to banks
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Overdrafts	Direct loans	Syndicated loans		
Performing loans	50,460	1,328,617	3,952,357	1,767	1,941,215	13,480,841	9,839,021	30,594,278	206,507
Regular follow-up	-	-	-	-	68,910	1,469,892	8,470	1,547,272	-
Special follow-up	-	-	-	-	470,021	2,545,243	254,729	3,269,993	-
Total	50,460	1,328,617	3,952,357	1,767	2,480,146	17,495,976	10,102,220	35,411,543	206,507

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

2019

Rating	Retail				Corporate			Total loans and advances to customers	Total loans and advances to banks
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Overdrafts	Direct loans	Syndicated loans		
Performing loans	40,164	1,371,803	3,899,689	1,528	1,731,885	10,966,199	10,552,168	28,563,436	268,888
Regular follow-up	-	-	-	-	57,878	1,319,617	-	1,377,495	-
Special follow-up	-	-	-	-	35,986	1,078,591	1,027,131	2,141,708	-
Total	40,164	1,371,803	3,899,689	1,528	1,825,749	13,364,407	11,579,299	32,082,639	268,888

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:

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.

2020	Retail				Total
	Overdrafts	Credit cards	Personal loans	Mortgage loans	
Past due up to 30 days	4,593	28,334	132,991	-	165,918
Past due 30-60 days	1,190	13,708	49,237	-	64,135
Past due more than 60 days	964	19,299	29,039	92	49,394
Total	6,747	61,341	211,267	92	279,447

2020	Corporate			Total
	Overdrafts	Direct loans	Syndicated loans	
Past due up to 30 days	-	205,241	-	205,241
Past due 30-60 days	-	221,159	-	221,159
Past due 60-90 days	-	124,527	-	124,527
Total	-	550,927	-	550,927

2019	Retail				Total
	Overdrafts	Credit cards	Personal loans	Mortgage loans	
Past due up to 30 days	8,215	20,920	118,049	832	148,016
Past due 30-60 days	324	8,803	39,542	-	48,669
Past due more than 60 days	400	5,125	16,786	-	22,311
Total	8,939	34,848	174,377	832	218,996

2019	Corporate			Total
	Overdrafts	Direct loans	Syndicated loans	
Past due up to 30 days	-	438,457	-	438,457
Past due 30-60 days	-	93,163	-	93,163
Past due 60-90 days	-	67,924	-	67,924
Total	-	599,544	-	599,544

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 EGP3,559,614 thousand against EGP3,057,206 thousand as at 31 December 2019.

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

2020	Retail			Corporate			Total
	Overdrafts	Credit cards	Personal loans	Overdrafts	Direct loans	Syndicated loans	
Individual loans subject to impairment	394	14,602	31,919	430,221	2,266,313	816,165	3,559,614
Fair value of collateral (Real estate mortgage and pledge over shares)	-	-	-	-	541,818	-	541,818
Fair value of collateral (Commercial mortgage)	-	-	-	-	2,007,922	-	2,007,922

Under IFRS 9, total retail stage 3 portfolio as at 31 December 2020 is amounted to EGP94,107 thousand.

2019	Retail			Corporate			Total
	Overdrafts	Credit cards	Personal loans	Overdrafts	Direct loans	Syndicated loans	
Individual loans subject to impairment	618	5,446	11,846	576,524	2,047,596	415,176	3,057,206
Fair value of collateral (Real estate mortgage and pledge over shares)	-	-	-	-	507,379	-	507,379
Fair value of collateral (Commercial mortgage)	-	-	-	-	1,694,968	-	1,694,968

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 judgement. These policies are reviewed regularly. Restructuring is usually applied to Term loans.

	2020	2019
Loans and advances to customers		
Corporate		
Direct loans	2,616,995	3,073,167
Retail		
Personal loans	421	476
Total	2,617,416	3,073,643

A.7. Debt instruments and Treasury bills

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

	Treasury bills	Investments in securities	Total
Less than A-	33,687,617	12,118,332	45,805,949
Total	33,687,617	12,118,332	45,805,949

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	12,663,320	-	-	10,554,579	23,217,899
Loans and advances to banks	137,866	-	-	68,641	206,507
Loans and advances to customers					
Retail:					
Overdrafts	48,198	6,609	2,794	-	57,601
Credit cards	1,404,560	-	-	-	1,404,560
Personal loans	3,707,626	372,619	115,298	-	4,195,543
Mortgage loans	1,858	-	-	-	1,858
Corporate:					
Overdrafts	2,614,279	294,315	1,772	-	2,910,366
Direct loans	17,896,925	2,410,043	6,250	-	20,313,218
Syndicated loans	10,640,066	49,009	229,310	-	10,918,385
Derivative financial instruments	110,233	-	-	-	110,233
Financial investment:					
Debt instruments	45,805,949	-	-	-	45,805,949
Other assets	1,435,897	30,301	613	-	1,466,811
Total as at 31 December 2020	96,466,777	3,162,896	356,037	10,623,220	110,608,930
Total as at 31 December 2019	80,193,463	3,120,076	376,749	11,607,525	95,297,813

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	-	-	-	23,217,899	-	-	23,217,899
Loans and advances to banks	-	-	-	-	206,507	-	206,507
Loans and advances to customers							
Retail:							
Overdrafts	-	-	-	-	-	57,601	57,601
Credit cards	-	-	-	-	-	1,404,560	1,404,560
Personal loans	-	-	-	-	-	4,195,543	4,195,543
Mortgage loans	-	-	-	-	-	1,858	1,858
Corporate:							
Overdrafts	1,777,882	526,030	597,740	-	8,714	-	2,910,366
Direct loans	12,747,999	2,766,833	4,061,793	-	736,593	-	20,313,218
Syndicated loans	2,093,197	999,451	1,166,452	4,830,309	1,828,976	-	10,918,385
Derivative financial instruments	-	-	110,233	-	-	-	110,233
Financial investment:							
Debt instruments	-	-	-	45,805,949	-	-	45,805,949
Other assets	-	-	-	-	1,466,811	-	1,466,811
Total as at 31 December 2019	16,619,078	4,292,314	5,936,218	73,854,157	4,247,601	5,659,562	110,608,930
Total as at 31 December 2018	15,008,944	3,293,807	4,306,296	63,279,551	3,859,124	5,550,091	95,297,813

B. Market risk

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

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

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

B.1. Market risk measurement techniques

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

Value at risk

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

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

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

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

The average daily VAR for the Bank during the current year was EGP 370,837 thousand, against EGP 152,289 thousand for 2019.

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

Stress testing

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

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

B.2. VAR summary

Total VAR according to risk type

	2020			2019		
	Average	High	Low	Average	High	Low
Foreign exchange risk	370,208	781,445	14,847	151,253	613,636	10,381
Interest rate risk	629	1,196	220	1,036	1,395	715
Total VAR	370,837	782,641	15,067	152,289	615,031	11,096

Trading portfolio VAR by risk type

	2020			2019		
	Average	High	Low	Average	High	Low
Foreign exchange risk	370,208	781,445	14,847	151,253	613,636	10,381
Interest rate risk	220	488	79	117	829	24
Total VAR	370,428	781,933	14,926	151,370	614,465	10,405

Non-trading portfolio VAR by risk type

	2019			2019		
	Average	High	Low	Average	High	Low
Interest rate risk	739	1,290	236	1,027	1,372	743
Total VAR	739	1,290	236	1,027	1,372	743

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:

2020	EGP	USD	EUR	GBP	Other	Total
Financial assets:						
Cash and balances with Central bank	(7,818,345)	(174,518)	(38,310)	(27,587)	(16,746)	(8,075,506)
Due from banks	(8,013,417)	(14,883,142)	(44,530)	(39,679)	(230,599)	(23,211,367)
Loans and advances to banks	(137,866)	(68,641)	-	-	-	(206,507)
Loans and advances to customers	(22,601,043)	(8,344,279)	(5,342,565)	(26,626)	(155)	(36,314,668)
Derivative financial instruments	(110,233)	-	-	-	-	(110,233)
Financial investments:						
Financial investment at Fair value through other comprehensive income	(11,423,280)	(751,758)	-	-	-	(12,175,038)
Treasury bills	(26,653,434)	(7,034,183)	-	-	-	(33,687,617)
Other financial assets	(1,361,197)	(90,690)	(13,799)	(1,125)	-	(1,466,811)
Total financial assets	(78,118,815)	(31,347,211)	(5,439,204)	(95,017)	(247,500)	(115,247,747)
Financial liabilities						
Due to banks	2,358,168	86,654	16,966	548	-	2,462,336
Customer deposits	51,796,515	32,715,294	4,134,232	1,322,735	251,197	90,219,973
Financial derivative	189,733	-	-	-	-	189,733
Other financial liabilities	5,333,672	939,951	57,941	16,110	58,600	6,406,274

Total financial liabilities	56,067,810	33,741,899	4,209,139	1,339,393	309,797	99,278,316
Net financial position	(18,440,727)	2,394,688	(1,230,065)	1,244,376	62,297	(15,969,431)
Commitments related to credit and contingent liabilities	13,878,843	12,525,207	4,964,374	18,081	405,198	31,791,703
2019						
Total financial assets	(66,803,991)	(30,243,528)	(5,597,881)	(1,448,004)	(225,161)	(104,318,565)
Total financial liabilities	48,400,974	34,139,494	3,954,237	1,460,004	359,615	88,314,324
Net financial position – balance sheet	(18,403,017)	3,895,966	(1,643,644)	12,000	134,454	(16,004,241)
Commitments related to credit and contingent liabilities	11,987,669	11,299,200	3,506,947	37,665	337,736	27,169,217

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:

2020	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	-	-	-	-	-	(8,075,506)	(8,075,506)
Due from banks	(18,533,975)	(3,720,028)	-	-	-	(957,364)	(23,211,367)
Loans and advances to banks	-	(206,507)	-	-	-	-	(206,507)
Loans and advances to customers	(12,302,565)	(1,899,959)	(2,360,413)	(19,751,731)	-	-	(36,314,668)
Financial derivatives	(110,233)	-	-	-	-	-	(110,233)
Financial investments:							
Financial investment at Fair value through other comprehensive income	-	(114,412)	(355,211)	(11,449,343)	(199,366)	(56,706)	(12,175,038)
Treasury bills	-	(699,210)	(32,988,407)	-	-	-	(33,687,617)
Other financial assets	-	-	-	-	-	(1,466,811)	(1,466,811)
Total financial assets	(30,946,773)	(6,640,116)	(35,704,031)	(31,201,074)	(199,366)	(10,556,387)	(115,247,747)
Financial liabilities							
Due to banks	-	-	-	-	-	2,462,336	2,462,336
Customer deposits	31,106,166	3,547,581	8,302,536	11,379,895	4,290	35,879,505	90,219,973

Financial derivatives	189,733	-	-	-	-	-	189,733
Other financial liabilities	-	-	-	-	2,072,000	2,233,750	6,406,274
Total financial liabilities	31,295,899	3,547,581	8,302,536	11,379,895	2,076,290	40,575,591	99,278,316
Interest repricing gap	349,126	(3,092,535)	(27,401,495)	(19,821,179)	1,876,924	30,019,204	(15,969,431)
2018							
Total financial assets	(31,548,705)	(15,504,437)	(35,698,128)	(4,432,580)	(2,700,940)	(14,433,775)	(104,318,565)
Total financial liabilities	14,036,606	5,294,630	12,685,340	17,082,845	2,076,231	37,138,672	88,314,324
Interest repricing gap	(17,512,099)	(10,209,807)	(23,012,788)	12,650,265	(624,709)	23,241,383	(16,004,241)

C. Liquidity risk

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

Liquidity Risk Management Organization and Measurement Tools

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

Board Risk Committee:

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

Asset & Liability Committee (ALCO):

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

Liquidity risk management process

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

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

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

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

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

Non-derivative cash flows

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

2020

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	34,421,663	-	-	-	-	34,421,663
Saving deposits	21,665,040	-	-	-	-	21,665,040
Accrued interest on saving deposits	69,036	-	-	-	-	69,036
Time deposits and Saving certificates	9,182,329	3,671,477	8,578,809	14,058,222	-	35,490,837
Other deposits	1,810,009	-	-	-	-	1,810,009
Due to banks	2,462,337	-	-	-	-	2,462,337
Other loans	19,762	37,611	175,307	931,357	2,421,140	3,585,177
Total of financial liabilities according to maturity date	69,630,176	3,709,088	8,754,116	14,989,579	2,421,140	99,504,099

2019

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	33,360,762	-	-	-	-	33,360,762
Saving deposits	19,395,247	-	-	-	-	19,395,247
Accrued interest on saving deposits	100,296	-	-	-	-	100,296
Time deposits and Saving certificates	7,558,028	4,160,075	9,036,750	10,547,031	-	31,301,884
Other deposits	1,406,186	-	-	-	-	1,406,186
Due to banks	1,980,894	-	-	-	-	1,980,894
Other loans	26,801	51,008	238,615	1,263,105	2,858,472	4,438,001
Total of financial liabilities according to maturity date	63,828,214	4,211,083	9,275,365	11,810,136	2,858,472	91,983,270

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 37

2020

	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total
Loan commitments and other irrevocable commitments related to credit	3,358,260	-	-	3,358,260
Letters of credit	86,702	-	-	86,702
Letters of guarantee	28,346,741	-	-	28,346,741
Operating lease commitments	16,594	17,589	-	34,183
Total	31,808,297	17,589	-	31,825,886

2019

	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total
Loan commitments and other irrevocable commitments related to credit	2,789,539	-	-	2,789,539
Letters of credit	418,923	-	-	418,923
Letters of guarantee	23,960,755	-	-	23,960,755
Operating lease commitments	16,886	20,793	-	37,679
Total	27,186,103	20,793	-	27,206,896

D. Fair value of financial assets and liabilities

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

The change in estimated fair value of financial investments measured at FVOCI using valuation methods for the year amounted to EGP 77,160 thousand as at 31 December 2020 against EGP 406,311 thousand as at 31 December 2019.

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	23,211,367	23,228,458
Loans and advances to banks	206,507	206,507
Loans and advances to customers		
Retail	5,659,562	5,601,038
Corporate	34,141,969	31,970,800

Financial liabilities		
Due to banks	2,462,336	2,718,802
Customer deposits		
Retail	51,769,856	51,966,254
Corporate	38,450,117	38,595,984
Subordinated loans	2,072,000	2,072,000

Due from banks

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

Loans and advances to customers

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

Due to banks and customers

The estimated fair value of deposits of indefinite maturity, which includes interest-free deposits, is the amount paid on call.

The estimated fair value of fixed interest-bearing deposits and other loans not traded in an active market is based on discounted cash flows using interest rates for new debts of similar maturity dates.

E. Capital management

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

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

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

CBE requires the following from the Bank:

- ◆ Maintaining 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:

	2020	2019
Capital		
Tier 1 after disposals (going concern capital) (1)		
Share capital	2,795,568	2,795,568
Reserves	3,602,899	3,236,762
General risk Reserve	491,666	491,666
Retained earnings	4,202,836	2,878,776
Additional going concern capital	3,210,566	1,714,018
Change in fair value of investments at FVOCI	218,260	415,324
Total disposals from going concern capital	(790,644)	(631,018)
Total going concern capital after disposals (common equity)	13,731,151	10,901,096
Tier 2 after disposal (gone concern capital) (2)		
Subordinated (deposits) loans	2,072,000	2,072,000
Impairment losses provision for performing loans and advances contingent liabilities	129,992	201,769
Total tier 2 after disposals (gone concern capital)	2,201,992	2,273,769
Total capital adequacy after disposals (1+2)	15,933,143	13,174,865
Risk (credit, market and operational)		
Credit risk including the	51,330,167	46,468,628
Excess of top 50 customers' exposures	-	10,928,401
Capital requirements for market risk	468,950	890,580
Capital requirements for operational risk	13,292,440	13,410,590
Total credit, market and operational risks	65,091,557	71,698,199
Capital adequacy ratio (%)	24.48%	18.38%

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:

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

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

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

Ratio elements

A) The numerator elements

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

B) The dominator elements

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

	2020	2019
Tier 1 after disposals (going concern capital)	13,731,151	10,901,096
Total on-balance sheet exposures, derivatives contracts and financial papers operations	115,809,852	104,799,270
Total off- balance sheet exposures	21,619,045	20,279,475
Total on-balance sheet and off-balance sheet exposures	137,428,897	125,078,745
Leverage financial ratio (%)	9.99%	8.72%

G. Measurement uncertainty and sensitivity analysis of ECL estimates

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

Methodology for Developing Forward Looking Economic Scenarios

- ◆ The Bank in general use three economic scenarios representative of HSBC's view of forecast economic conditions, sufficient to calculate unbiased expected loss in most economic environments. In 2020, and due to the economic effects of Covid-19 outbreak, the Bank applied four forward-looking global scenarios. They represent a 'most likely outcome', (the Central scenario) and three, less likely, 'outer' scenarios referred to as the Upside and Downside and Additional Downside scenarios. The probability weight between Other

scenarios and Central scenario was fixed with the Central scenario being assigned a weighting of 70 per cent, the Downside scenario 15 per cent, the Upside 10 per cent and Additional Downside 5 per cent each (three economic scenarios in 2019: The Central scenario's weight was 80 per cent and 10 per cent for each Outer scenario).

- ◆ For the Central scenario, HSBC Bank Egypt sets key assumptions such as GDP growth, using either the average of external forecasts (commonly referred to as consensus forecasts) for most economies, or market prices. An external provider's global macro model, conditioned to follow the consensus forecasts, projects the other paths required as inputs to credit models. This external provider is subject to HSBC Bank Egypt's risk governance framework, with oversight by a specialist internal unit.

Wholesale analysis

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

	2020	2019
IFRS 9 ECL sensitivity to future economic conditions*		
ECL coverage of financial instruments as at 31 December 2020**		
Reported ECL (EGPm)	641	369
Gross carrying/nominal amount (EGPm)***	173,129	159,857
Reported ECL coverage (percentage)	0.37%	0.23%
Coverage ratio by scenario (percentage)		
Consensus Upside scenario	0.26%	0.21%
Consensus Downside scenario	0.45%	0.26%
Consensus Additional downside scenario	0.90%	
Consensus Central scenario	0.35%	0.23%

* excludes ECL and financial instruments relating to defaulted obligors

** includes off-balance sheet financial instruments that are subject to significant measurement Uncertainty

*** includes low credit risk financial instruments such as debt instruments at FVOCI, which have low ECL coverage ratios under all the above scenarios

Retail analysis

- ◆ HSBC has developed and implemented a globally consistent methodology for incorporating forecasts of economic conditions into ECL estimates. The impact of economic scenarios on PD is modelled at a portfolio level. Historic relationships between observed default rates and macro-economic variables are integrated into ('IFRS 9 ECL') estimates by leveraging economic response models.

- ◆ The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset or assets. The impact on (LGD) is modelled for mortgage portfolios by forecasting future loan-to-value ('LTV') profiles for the remaining maturity of the asset by leveraging national level forecasts of the house price index and applying the corresponding LGD expectation.

	2020	2019
IFRS 9 ECL sensitivity to future economic conditions*		
ECL coverage of financial instruments as at 31 December 2020**		
Reported ECL (EGPm)	118	51
Gross carrying/nominal amount (EGPm)	5,660	5,550
Reported ECL coverage (percentage)	2.08%	0.91%
Coverage ratio by scenario (percentage)		
Consensus Upside scenario	1.84%	0.87%
Consensus Downside scenario	2.20%	0.99%
Consensus Additional downside scenario	3.39 %	-
Consensus Central scenario	1.99%	0.89%

* ECL sensitivities exclude portfolios unlisting less complex modelling approaches

** ECL sensitivity includes only on-balance sheet financial instruments to which IFRS 9 impairment requirements are applied

Economic scenarios sensitivity analysis of ECL estimates

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

4. Significant accounting estimates and assumptions

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

A. 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 EGP 110,233 thousand in assets against EGP 189,733 thousand in liabilities that represent its fair value as shown in note 19.

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 EGP 16,413 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 2020

	Corporate	Investment	WPB	Other activities	Total
Income and expenses according to activity segment					
Income activity segment	4,042,061	992,578	2,122,683	1,009,618	8,166,940
Expenses activity segment	(1,057,797)	(54,547)	(1,192,959)	(11,468)	(2,316,771)
Provisions	(555,992)	-	(70,820)	(117,472)	(744,284)
Profit before tax	2,428,272	938,031	858,904	880,678	5,105,885
Tax	(1,186,356)	(208,131)	(104,676)	-	(1,499,163)
Profit for the year	1,241,916	729,900	754,228	880,678	3,606,722
Assets and liabilities according to activity segment					
Assets activity segment	35,685,171	69,070,539	4,255,002	7,483,115	116,493,827
Total assets	35,685,171	69,070,539	4,255,002	7,483,115	116,493,827
Liabilities activity segment	47,958,267	73,548	51,892,389	1,572,030	101,496,234
Total liabilities	47,958,267	73,548	51,892,389	1,572,030	101,496,234

31 December 2019

	Corporate	Investment	WPB	Other activities	Total
Income and expenses according to activity segment					
Income activity segment	5,159,519	1,044,716	2,185,696	1,393,245	9,783,176
Expenses activity segment	(994,541)	(41,775)	(1,197,540)	46,930	(2,186,926)
Provisions	(187,357)	-	21,325	(11,766)	(177,798)
Profit before tax	3,977,621	1,002,941	1,009,481	1,428,409	7,418,452
Tax	(1,351,117)	(237,036)	(119,214)	-	(1,707,367)
Profit for the year	2,626,504	765,905	890,267	1,428,409	5,711,085
Assets and liabilities according to activity segment					
Assets activity segment	36,752,597	62,467,168	5,730,934	405,935	105,356,634
Total assets	36,752,597	62,467,168	5,730,934	405,935	105,356,634
Liabilities activity segment	37,951,024	65,265	47,710,534	4,338,939	90,065,762
Total liabilities	37,951,024	65,265	47,710,534	4,338,939	90,065,762

B. Analysis according to the geographical segment

31 December 2020

	Arab Republic of Egypt			Upper Egypt, Sinai and Red sea	Total
	Cairo	Alexandria and Delta			
Income and expenses according to geographical segment					
Income geographical segment	7,831,452	277,906		57,581	8,166,939
Expenses geographical segment	(2,269,048)	(36,683)		(11,038)	(2,316,769)
Provisions	(728,979)	(14,587)		(719)	(744,285)
Profit before tax	4,833,425	226,636		45,824	5,105,885
Tax	(1,499,163)	-		-	(1,499,163)
Profit for the year	3,334,262	226,636		45,824	3,606,722
Assets and liabilities according to geographical segment					
Assets geographical segment	112,784,202	3,330,921		378,704	116,493,827
Total assets	112,784,202	3,330,921		378,704	116,493,827
Liabilities geographical segment	93,220,911	6,938,322		1,337,001	101,496,234
Total liabilities	93,220,911	6,938,322		1,337,001	101,496,234

31 December 2019

	Arab Republic of Egypt			Upper Egypt, Sinai and Red sea	Total
	Cairo	Alexandria and Delta			
Income and expenses according to geographical segment					
Income geographical segment	9,378,800	334,975		69,401	9,783,176
Expenses geographical segment	(2,138,491)	(37,208)		(11,225)	(2,186,924)
Provisions	(104,236)	(26,396)		(47,168)	(177,800)
Profit before tax	7,136,073	271,371		11,008	7,418,452
Tax	(1,707,367)	-		-	(1,707,367)
Profit for the year	5,428,706	271,371		11,008	5,711,085
Assets and liabilities according to geographical segment					
Assets geographical segment	101,527,343	3,420,580		408,711	105,356,634
Total assets	101,527,343	3,420,580		408,711	105,356,634
Liabilities geographical segment	81,997,111	6,710,246		1,358,405	90,065,762
Total liabilities	81,997,111	6,710,246		1,358,405	90,065,762

6. Net interest income

	2020	2019
Interest from loans and similar income:		
Loans and advances to customers	3,450,748	4,104,130
Loans and advances to banks	-	-
Treasury bills and Treasury bonds	4,055,119	4,639,180
Deposits and current accounts	498,941	1,182,084
Financial Investments at FVOCI	1,206,626	647,679
	9,211,434	10,573,073
Interest on deposits and similar expenses:		
Deposits and current accounts:		
Banks	(1,056)	(1,183)
Customers	(2,518,978)	(2,916,940)
Other loans	(266,334)	(384,429)
	(2,786,368)	(3,302,552)
Net	6,425,066	7,270,521

7. Net fees and commissions income

	2020	2019
Fees and commissions income:		
Fees and commissions related to credit	1,004,986	1,294,584
Custody fees	52,734	96,656
Other fees	4,354	3,551
	1,062,074	1,394,791
Fees and commissions expenses:		
Brokerage fees paid	(5,009)	(5,431)
Other fees paid	(182,366)	(157,163)
	(187,375)	(162,594)
Net	874,699	1,232,197

8. Dividends

	2020	2019
Equity instruments	12,121	11,911
Investments in subsidiaries	602	6,772
Net	12,723	18,683

9. Net trading income

	2020	2019
Foreign exchange operations:		
Gain from foreign currency transactions	603,323	1,093,143
Gain from debt instruments held for trading	211,999	59,532
Gain from forward deals revaluation and currency swap	36	17
Net	815,358	1,152,692

10. Administrative expenses

	2020	2019
Staff costs		
Wages, salaries and benefits	514,021	487,074
Social insurance	26,288	26,776
End of Service Compensation	69,276	156,127
	609,585	669,977
Other administrative expenses	1,698,096	1,539,936
	2,307,681	2,209,913

11. Other operating income (expense)

	2020	2019
Gain /(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	2,446	(32,613)
(Loss)/Gain from sale of property and equipment	(9,661)	11,504
Operating lease	59,034	54,382
Investment property depreciation	(11,514)	(6,066)
Provisions no longer required	-	94,717
Other provision	(264,381)	(67,273)
Gain from money market funds	1,560	2,143
Head office services' revenue	47,692	38,878
Other	348	1,060
Net	(174,476)	96,732

12. Credit impairment recovered (charged)

	2020	2019
Loans and advances to customers		
Loans and advances to customers	(587,176)	(132,377)
Cash and balances with Central Bank	5,553	(1,275)
Due from Banks	1,822	(3,443)
Financial Investments	38,418	(6,868)
Other assets	1,182	(1,316)
Net	(540,201)	(145,279)

13. Income tax expenses

	2020	2019
Current taxes	(1,589,778)	(1,845,000)
Prior year adjustments	78,044	118,083
Deferred tax (note 31)	12,571	19,550
Net	(1,499,163)	(1,707,367)

Note 31 shows additional information about deferred income tax. Income taxes differ when current applicable tax rates are used, as follows:

	2020	2019
Profit before tax	5,105,885	7,418,452
Tax rate	22.50%	22.50%
Income tax calculated on accounting profit	1,148,824	1,669,152
Add (less)		
Unrecognized tax expenses	350,339	38,215
Net income tax	1,499,163	1,707,367
Effective tax rate	29.36%	23.02%

Taxation position

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

A. Corporate tax

Years since inception until 2017

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

Year 2018

Tax return has been delivered and all tax liabilities has been paid.

B. Salary tax

Years from 1982 to 2018

These years were inspected and were settled.

Year 2019

Tax inspection preparations in progress.

C. Stamp duty tax

From 1982 to 2018

These years were inspected and tax was fully settled.

Year 2019

Tax inspection preparations in progress.

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.

	2020	2019
Net profit distributable for the year	3,606,722	5,632,972
Employees' profit share (estimated)	(367,333)	(563,297)
Profit attributable to shareholders of the bank	3,239,389	5,069,675
Common shares issued - weighted average (1,000 shares)	33,281	33,281
Earnings per share/EGP	97.33	152.33

15. Cash and balances with the Central Bank of Egypt

	2020	2019
Cash	1,678,844	1,288,896
Due from Central Bank (within the statutory reserve)	6,397,779	10,083,390
Impairment loss	(1,117)	(6,674)
	8,075,506	11,365,612
Non-interest-bearing balances	8,075,506	11,365,612

16. Due from banks

	2020	2019
Current accounts	957,364	1,629,318
Deposits	22,260,535	15,879,798
	23,217,899	17,509,116
Impairment loss	(6,532)	(8,460)
	23,211,367	17,500,656
Due from Central Bank (other than the statutory reserve)	11,733,651	5,792,905
Local banks	929,669	202,225
Foreign banks	10,554,579	11,513,986
	23,217,899	17,509,116
Impairment loss	(6,532)	(8,460)
	23,211,367	17,500,656
Non-interest-bearing balances	957,364	1,629,318
Interest-bearing balances	22,260,535	15,879,798
	23,217,899	17,509,116
Impairment loss	(6,532)	(8,460)
	23,211,367	17,500,656
Current balances	23,211,367	17,500,656

17. Loans and advances to banks

	2020	2019
Term loans	206,507	268,888
Total	206,507	268,888
Current balances	137,866	198,898
Non-current balances	68,641	69,990
	206,507	268,888

18. Loans and advances to customers

	2020	2019
Retail:		
Overdrafts	57,601	49,722
Credit cards	1,404,560	1,412,097
Personal loans	4,195,543	4,085,911
Mortgage loans	1,858	2,361
Total	5,659,562	5,550,091
Corporate loans including small loans for economic activities:		
Overdrafts	2,910,366	2,402,273
Direct loans	20,313,218	16,011,546
Syndicated loans	10,918,385	11,994,475
Total	34,141,969	30,408,294
Total loans and advance to customers	39,801,531	35,958,385
Less: provision for impairment losses	(2,645,955)	(2,233,171)
Less: interest in suspense	(840,908)	(694,029)
Net	36,314,668	33,031,185
Distributed as follows:		
Current balances	16,562,937	14,917,448
Non-current balances	19,751,731	18,113,737
Total	36,314,668	33,031,185

During the year ended 31 December 2020, the Bank has accepted trading financial securities with a fair value amounting to EGP 541,818 thousand as a commercial loan guarantee.

Expected Credit Loss:

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

31 December 2020

	Retail				Total
	Overdrafts	Credit cards	Personal loans	Mortgage loans	
Balance at 1 January 2020	1,354	14,405	34,958	4	50,721
Impairment losses charged/(released)	4,732	30,537	35,463	6	70,738
Amounts written off during the year	(26)	(6,017)	(8,177)	-	(14,220)
Amounts recovered during year	49	5,714	4,704	-	10,467
Foreign revaluation difference related to provision	1	-	7	-	8
Balance at the end of the year	6,110	44,639	66,955	10	117,714

	Corporate			Total
	Overdrafts	Direct loans	Syndicated loans	
Balance at 1 January 2020	757,117	1,056,854	368,479	2,182,450
Impairment losses charged	(296,120)	840,758	(28,200)	516,438
Amounts written off during the year	(74,986)	-	(92,239)	(167,225)
Amounts recovered during year	5,416	1,150	-	6,566
Foreign revaluation difference related to provision	(1,538)	(7,445)	(1,005)	(9,988)
Balance at the end of the year	389,889	1,891,317	247,035	2,528,241

31 December 2019

	Retail				Total
	Overdrafts	Credit cards	Personal loans	Mortgage loans	
Balance at the beginning of the year	1,239	13,337	67,747	4	82,327
Impairment losses reversed	13	5,998	(27,336)	-	(21,325)
Amounts written off during the year	(135)	(11,568)	(16,561)	-	(28,264)
Amounts recovered during year	244	6,638	11,245	-	18,127
Foreign revaluation difference related to provision	(7)	-	(137)	-	(144)
Balance at the end of the year	1,354	14,405	34,958	4	50,721

	Corporate			Total
	Overdrafts	Direct loans	Syndicated loans	
Balance at the beginning of the year	291,568	1,778,347	168,148	2,238,063
Impairment losses charged	531,747	(597,972)	219,927	153,702
Amounts written off during the year	(25,933)	(77,424)	-	(103,357)
Amounts recovered during year	-	6,108	-	6,108
Foreign revaluation difference related to provision	(40,265)	(52,205)	(19,596)	(112,066)
Balance at the end of the year	757,117	1,056,854	368,479	2,182,450

19. Financial derivatives and coverage activities

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

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

31 December 2020

	Contract/notional amount Assets	Contract/notional amount Liabilities	Assets	Liabilities
Derivatives held for trading				
Foreign currency derivatives				
Currency Options	115,966	(115,966)	3,705	(3,705)
Currency forward contracts	4,312,265	(4,312,265)	106,528	(186,028)
Total assets (liabilities) of derivatives held for trading			110,233	(189,733)

31 December 2019

	Contract/notional amount Assets	Contract/notional amount Liabilities	Assets	Liabilities
Derivatives held for trading				
Foreign currency derivatives				
Currency forward contracts	2,735,454	(2,735,454)	6,652	(51,634)
Total assets (liabilities) of derivatives held for trading			6,652	(51,634)

20. Financial investments

	2020	2019
Equity instruments unlisted (at cost)	31,151	31,151
Debt instruments listed (at FMV)*	12,118,332	5,940,369
Debt instruments unlisted (mutual fund)**	25,555	23,163
	12,175,038	5,994,683
Total financial investments	12,175,038	5,994,683
Current balances	469,623	3,010,951
Non-current balances	11,705,415	2,983,732
	12,175,038	5,994,683
Fixed interest debt instruments	12,118,332	5,940,369
	12,118,332	5,940,369

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

31 December 2020

Balance at the beginning of the year after amendment	5,994,683
Additions	9,568,908
Disposals (sale/redemption)	(3,398,397)
Monetary assets revaluation	(59,840)
Gain from change in FMV	69,684
Balance at the end of the year	12,175,038

31 December 2019

Balance at beginning of the year	2,987,528
Additions	2,861,577
Disposals (sale/redemption)	(296)
Monetary assets revaluation	(100,447)
Gain from change in FMV	246,321
Balance at the end of the year	5,994,683

* Debt instruments at listed fair market value include local bonds amounting to EGP 12,118,332 thousand (EGP 5,415,553 thousand as at 31 December 2019) secured by the Egyptian Ministry of Finance.

Financial Investments details

	Fair value 2020	Fair value 2019	Book value 2020	Book value 2019	Cost/Amortised cost 2020	Cost/Amortised cost 2019
Equity instruments unlisted (at cost)	N/A	N/A	31,151	31,151	24,975	24,975
Debt instruments listed (at FMV)	12,118,332	5,940,369	12,118,332	5,940,369	11,960,578	5,849,907
Mutual Fund	25,555	23,163	25,555	23,163	9,142	9,142
	12,143,887	5,963,532	12,175,038	5,994,683	11,994,695	5,884,024

21. Treasury bills

	2020	2019
Treasury bills - Egyptian	30,542,401	33,177,241
Treasury bills - American	3,145,216	1,589,117
Total	33,687,617	34,766,358

Treasury bills represent the following:

	2020	2019
91 days maturity	699,210	-
182 days maturity	974,287	1,926,018
273 days maturity	2,506,283	2,654,738
364 days maturity	29,507,837	30,185,602
Unearned interest	-	-
Total	33,687,617	34,766,358

Treasury Bills

31 December 2020

Balance at beginning of the year	34,766,358
Additions	29,835,009
Deductions	(30,919,519)
Exchange revaluation differences for foreign financial assets	(4,099)
Gain/(loss) from change in FMV	9,868
Balance at the end of the year	33,687,617

** Treasury bills includes EGP 486,861 thousand related to end of service compensation benefits and Treasury bills fair value reserve 4,387 (cost of Treasury bills EGP 202,926 thousand as at 31 December 2019).

*** Treasury bills fair value reserve reached EGP 26,591 as at 31 December 2020 against (EGP 16,724 as at 31 December 2019) with net change of EGP 9,868 thousand.

Financial investment details

	Fair value 2020	Fair value 2019	Book value 2020	Book value 2019	Cost/Amortised cost 2020	Cost/Amortised cost 2019
Treasury bills	33,687,617	34,766,358	33,687,617	34,766,358	33,661,026	34,749,635
	33,687,617	34,766,358	33,687,617	34,766,358	33,661,026	34,749,635

22. Investment in subsidiaries

The Bank's net investment in subsidiaries amounted to EGP35,517 thousand (EGP35,517 thousand as at 31 December 2019).

31 December 2020

	Company's country	Company's assets	Company's liabilities (without equity)	Company's revenues	Company's gains	%
HSBC Securities Egypt Company SAE	Egypt	32,340	3,180	10,214	(3,062)	98%
Total		32,340	3,180	10,214	(3,062)	

31 December 2019

	Company's country	Company's assets	Company's liabilities (without equity)	Company's revenues	Company's gains	%
HSBC Securities Egypt Company SAE	Egypt	37,280	2,811	13,583	2,365	98%
Total		37,280	2,811	13,583	2,365	

23. Intangible assets

	Computer software	
	2020	2019
Balance at the beginning of the current year		
Cost	84,473	18,406
Accumulated amortisation	(27,913)	(13,998)
Net book value at the beginning of the current year	56,560	4,408
Additions	206,690	66,067
Disposals (Cost)	(2,917)	-
Disposals (Accumulated depreciation)	960	-
Amortisation	(41,543)	(13,915)
Impairment provision	(43,457)	-
Net book value as at end of year	176,293	56,560
Balance at the end of the current year		
Cost	288,246	84,473
Accumulated amortisation	(68,496)	(27,913)
Impairment provision	(43,457)	-
Net book value as at end of year	176,293	56,560

24. Other assets

	2020	2019
Accrued revenues	1,140,874	848,045
Prepaid expenses	37,233	41,585
Costs of branches under construction	19,387	31,510
Others	652,568	898,231
Impairment loss	(974)	(2,882)
Total	1,849,088	1,816,489

- ◆ Other assets include EGP 325,937 thousand as at 31 December 2020 and EGP 536,486 thousand as at 31 December 2019 due from Central bank of Egypt from selling T-Bills.

25. Fixed assets

	Land and buildings	Leasehold improvement	Machines and equipment	Others	Total
Balance as at the beginning of the current year					
Cost	401,312	183,174	106,698	204,747	895,931
Accumulated depreciation	(208,038)	(112,213)	(82,174)	(131,414)	(533,839)
Net book value at the beginning of the current year	193,274	70,961	24,524	73,333	362,092
Additions	-	105,148	52,853	59,032	217,033
Transferred from Fixed assets (Cost)	(59,315)	-	79,589	(79,589)	(59,315)
Transferred from Fixed assets (accumulated depreciation)	26,499	-	(35,362)	35,362	26,499
Disposals (cost)	-	(17,240)	(16,349)	(214)	(33,803)
Disposals (accumulated depreciation)	-	1,611	14,735	-	16,346
Depreciation for the year	(11,321)	(18,255)	(30,249)	(2,849)	(62,674)
Net book value at the end of the year	149,137	142,225	89,741	85,075	466,178
Balance as at the end of the current year					
Cost	341,997	271,082	222,791	183,976	1,019,846
Accumulated depreciation	(192,860)	(128,857)	(97,688)	(134,263)	(553,668)
Net book value at the end of the year	149,137	142,225	125,103	49,713	466,178

26. 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.

	2020	2019
Balance at the beginning of the year		
Cost	124,468	111,857
Accumulated depreciation	(62,243)	(50,328)
Net book value at the beginning of the year	62,225	61,529
Transferred to fixed assets (Cost)	59,315	12,611
Transferred to fixed assets (accumulated depreciation)	(26,499)	(5,849)
Depreciation	(11,514)	(6,066)
Net book value as at the end of year	83,527	62,225
Balance at the end of the year		
Cost	183,783	124,468
Accumulated depreciation	(100,256)	(62,243)
Net book value as at the end of year	83,527	62,225

27. Due to banks

	2020	2019
Current accounts	2,462,336	1,980,894
	2,462,336	1,980,894
Central bank	11,431	11,737
Foreign banks	2,450,905	1,969,157
	2,462,336	1,980,894
Non-interest-bearing balances	2,462,336	1,980,894
	2,462,336	1,980,894
Current Balances	2,462,336	1,980,894

28. Customers' deposits

	2020	2019
Demand deposits	34,421,663	33,360,761
Time and call deposits	22,455,218	21,652,353
Certificates of deposits	10,140,510	7,483,632
Saving deposits	21,392,573	19,395,247
Other deposits	1,810,009	1,406,187
	90,219,973	83,298,180
Corporate deposits	38,450,117	35,238,322
Retail deposits	51,769,856	48,059,858
	90,219,973	83,298,180
Non-interest bearing balances	35,879,505	34,454,411
Fixed interest bearing balances	54,340,468	48,843,769
	90,219,973	83,298,180
Current balances	78,835,788	66,211,104
Non-current bearing balances	11,384,185	17,087,076
	90,219,973	83,298,180

Customers' deposits include deposits of EGP 1,493,388 thousand as at 31 December 2020 against EGP 1,067,601 thousand as at 31 December 2019, which represent collateral for irrecoverable commitments. There is no major difference between its carrying value and fair value.

29. Other liabilities

	2020	2019
Accrued interest	358,013	364,216
Deferred income	84,877	101,707
Accrued expenses	365,983	339,151
Creditors	2,270,947	361,031
Other credit balances	1,898,909	187,392
Total	4,978,729	1,353,497

In 31 December 2020 Other Liabilities include an amount of EGP 1,509,754 thousands due to Central bank of Egypt from buying T-Bills.

30. Other provisions

	Provision for claims		Provision for contingent liabilities		Total	
	2020	2019	2020	2019	2020	2019
Balance at the beginning of the year	45,528	104,348	205,700	191,768	251,228	296,116
Formed during the year	59,590	45,046	204,793	35,945	264,383	80,991
Provisions valuation differences	(98)	(569)	(724)	(7,680)	(822)	(8,249)
	105,020	148,825	409,769	220,033	514,789	368,858
Used during the year	(57,085)	(89,586)	(1,742)	(14,326)	(58,827)	(103,912)
No longer required	(2)	(13,711)	-	(7)	(2)	(13,718)
Balance at the end of the year	47,933	45,528	408,027	205,700	455,960	251,228

31. 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	
	2020	2019	2020	2019
Fixed assets	-	-	(20,009)	(15,424)
End of service liability	103,536	100,453	-	-
Other	18,761	4,688	-	-
Total tax assets (liabilities)	122,297	105,141	(20,009)	(15,424)
Net deferred tax assets	102,288	89,717		

Deferred tax assets and liabilities movements

	Deferred tax assets		Deferred tax liabilities	
	2020	2019	2020	2019
Balance at the beginning of the year	105,141	79,399	(15,424)	(12,223)
IFRS 9 impact at the beginning of the year	-	2,991	-	-
Additions	17,156	22,751	(4,585)	(3,201)
Balance at the end of the year	122,297	105,141	(20,009)	(15,424)

32. Defined benefits obligations

The end of service compensation benefits amounted to EGP 460,160 thousand as at 31 December 2020 (EGP 436,956 thousand as at 31 December 2019).

Movement on defined benefit obligation presented in the liabilities is as follows:

	2020	2019
Liability recorded on balance sheet		
End of service compensation	460,160	436,956
Amounts recognised in income statement:		
End of service compensation (Note 10)	69,276	156,127

The principal actuarial assumptions used are as follows:

- ◆ Rates of death/disability of the British table A49-52ULT
- ◆ Rate of salary increase $S_x = S_{20} * (1.05)^{(X-20)}$
- ◆ Discount rate used (12.06%)

33. Paid up capital

	Number of shares (in millions)	Common Shares EGP(000)	Total EGP(000)	Issuance premium included in other reserve-issuance premium EGP(000)
Balance at the beginning of the year	33.280566	2,795,567	2,795,567	6,728
Balance at 31 December 2020	33.280566	2,795,567	2,795,567	6,728
Balance at the beginning of the last year	33.280566	2,795,567	2,795,567	6,728
Balance at 31 December 2019	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

34. Reserves and retained earnings

	2020	2019
Reserves		
General reserve	2,164,822	1,883,173
Legal reserve	1,397,782	1,324,798
Capital reserve	40,295	28,791
Other reserves – issuance premium	6,728	6,728
Fair value reserve – available-for-sale investments	218,260	175,323
General bank risk reserve	66,609	-
General risk reserve	491,666	491,666
Total reserves at the end of the year	4,386,162	3,910,479

Reserves movements during the year are as follows:

A. General reserve

	2020	2019
Balance at the beginning of the year	1,883,173	1,643,043
Transferred from prior year profits	281,649	240,130
Balance at the end of the year	2,164,822	1,883,173

B. Legal reserve

	2020	2019
Balance at the beginning of the year	1,324,798	1,084,668
Transferred from prior year profits	72,984	240,130
Balance at the end of the year	1,397,782	1,324,798

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

	2020	2019
Balance at the beginning of the year	-	63,466
Transferred to general risk reserve	-	(63,466)
Balance at the end of the year	-	-

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. Capital reserve

	2020	2019
Balance at the beginning of the year	28,791	16,575
Transferred from prior year profits	11,504	12,216
Balance at the end of the year	40,295	28,791

E. Reserve for excess over par value – issuance premium

	2020	2019
Balance at the beginning of the year	6,728	6,728
Balance at the end of the year	6,728	6,728

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

F. Fair value reserve

	2020	2019
Balance at the beginning of the year	175,323	(146,844)
Effect of IFRS 9	-	(100,025)
Balance at the beginning of the year – after amendment	175,323	(246,869)
Net change in investments at FVOCI – T-bills	9,868	169,003
Net change in investments at FVOCI – Bonds	67,292	237,308
Net change in investments at FVOCI – Mutual funds	2,392	2,837
Net change in investments at FVOCI – Equity instruments	-	6,176
Release of ECL – Debt instruments	(36,615)	6,868
Balance at the end of the year	218,260	175,323

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

G. IFRS 9 reserve

	2020	2019
Balance at the beginning of the year	-	433,383
Transferred to general risk reserve	-	(433,383)
Balance at the end of the year	-	-

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 2019 (without considering the credit concentration risk) according to the capital adequacy model prepared at that date.

H. General risk reserve

	2020	2019
Balance at the beginning of the year	491,666	-
Transferred from special reserve	-	63,466
Transferred from IFRS 9 reserve	-	433,383
Transferred from credit impairment to general risk reserve	-	(5,183)
Balance at the end of the year	491,666	491,666

I. General bank risk reserves

	2020	2019
Balance at the beginning of the year	-	-
Transferred from previous year profit	66,609	-
Balance at the end of the year	66,609	-

J. Retained earnings

	2020	2019
Movement on retained earnings		
Balance at the beginning of the year	8,584,826	6,727,909
Net profit for year	3,606,722	5,711,085
Dividends for previous year	(3,942,938)	(3,361,692)
Transferred to legal reserve	(72,984)	(240,130)
Transferred to capital reserve	(11,504)	(12,216)
Transferred to general reserve	(281,649)	(240,130)
Transferred to general bank risk reserve	(66,609)	-
Balance at the end of the year	7,815,864	8,584,826

35. Dividends

Payment of dividends is not registered unless being approved by the general assembly. As per the CBE Decision no dividends will be paid to shareholders for the year 2020 (payment of EGP 101.55 per share as cash dividends for year 2019 with a total amount of EGP 3,379,641,477). The Board of Directors proposed in the general assembly meeting that will be held on 17 March 2021 to distribute EGP 367,333,088 as employee's distribution related to the profit for year 2020. (The actual employee's dividends distributed for 2019 amount to EGP 563,297,188).

36. 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:

	2020	2019
Cash and due from the CBE (note 15)	1,678,844	1,288,896
Due from banks (note 16)	19,497,871	13,015,629
Treasury bills (note 17)	699,210	-
	21,875,925	14,304,525

37. Commitment and contingent liabilities

A. Legal claims

There are lawsuits filed against the Bank as at 31 December 2020. There is provision formed during this period against these lawsuits by EGP 867 thousand and refund by EGP 2 thousand and utilized the amount of EGP 93 thousand from legal provision during the current period.

B. Commitments for loans, guarantees and facilities

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

	2020	2019
Acceptances	468,014	752,046
Letters of guarantee	28,827,815	24,440,443
Letter of credit (import and export)	1,099,016	1,006,836
Other contingent liabilities	199,451	201,533
Commitments for loans	2,690,795	1,835,960
Cash margin	(1,493,388)	(1,067,601)
Total	31,791,703	27,169,217

C. Commitments for operating lease contracts

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

	2020	2019
Less than one year	16,594	16,886
More than one year and less than five years	17,589	20,793
Total	34,183	37,679

38. 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.

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

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	
	2020	2019
Subordinated loans (39)	2,072,000	2,072,000
	2,072,000	2,072,000
Interest from loans	266,334	384,429

B. Loans and advances to related parties

	Subsidiaries	
	2020	2019
Loans and advances to customers		
Existing loans at the beginning of the year	-	-
Loans issued during the year	-	11,928
Loans collected during the year	-	(11,928)
Existing loans at the end of the year	-	-
Interest from loans	-	-

C. Deposits from related parties

	Subsidiaries	
	2020	2019
Due to customers		
Deposits at the beginning of the financial year	43,906	56,152
Deposits received during the financial year	41	-
Deposits redeemed during the financial year	(2,979)	(12,246)
Deposits at the end of the financial year	40,968	43,906
The cost of deposits and similar costs	1,454	1,455

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

D. Other related party transactions

	HSBC group		Subsidiaries	
	2020	2019	2020	2019
Operating lease	34,107	35,204	1,366	1,286
Administrative costs - IT	-	-	1,501	210
Fees and communication income	-	-	42	311

The cost of services provided by HSBC Group as at 31 December 2020 amounted to EGP 840,841 thousand against EGP 740,308 thousand as at 31 December 2019.

	HSBC group		Subsidiaries	
	2020	2019	2020	2019
Due from banks	678,503	260,285		
Loans and advances to banks	68,641	69,990		
Due to banks	1,817,658	580,578		
Investments in subsidiaries	-	-	35,517	35,517
Other liabilities – rent insurance	-	-	268	268

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 2020, amounted to GBP 501 thousand equivalent to EGP 10,777 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 2020 amounted to EGP 8,382 thousand (EGP 8,741 thousand average net monthly salary paid to the top 20 employees for the year 2019).

39. Subordinated loans

	Current interest rate	2020	2019
Subordinated loan, variable interest rate (1)	12.75%	272,000	272,000
Subordinated loan, variable interest rate (2)	11.00%	1,800,000	1,800,000
		2,072,000	2,072,000

'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.

40. 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 2020, a number of 78,559 certificates amounting to EGP9,141,998 with a redeemable value amounting to EGP 25,554,906 against 78,559 certificates amounting to EGP 9,141,998 with redeemable value amounting to EGP 23,163,247 as at 31 December 2019.

The redeemable value of the certificate amounted to EGP 325.30 against EGP 294.85 as at 31 December 2018. The outstanding certificates as at 31 December 2019 reached 3,600,698 certificates against 3,303,320 certificates as at 31 December 2019.

According to the fund's management contract and its prospectus, HSBC Egypt shall obtain fee and commission for supervision on the fund and other managerial services rendered by the Bank. Total commission amounted to EGP 4,354 thousand for the year ended 31 December 2020 against EGP 3,551 thousand for the year ended 31 December 2019 under the item of fees and commission income caption in the income statement.

HSBC Bank Egypt head office and branches

HSBC Bank Egypt SAE

Head office

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

Cairo

Abou Dawoud El Zahiry branch

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

Baghdad Premier Centre

10 Baghdad Street, El Korba,
Cairo, Egypt
Tel: +2(02) 2418 9948

City Stars branch

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

Corniche El Maadi branch

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

Down Town branch

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

Hegaz branch

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

Heliopolis branch

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

Maadi branch

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

Maadi Club branch

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

Masaken Sheraton branch

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

Mokattam branch

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

Nasr City branch

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

New Maadi branch

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

Nile View branch

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

El Obbour Buildings branch

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

El Orouba branch

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

Safir branch

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

El Shams Club branch

15 Abdel Hamid Badawy Street, Heliopolis
Cairo, Egypt
Tel: +2(02) 2180 4829

El Thawra branch

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

New Cairo**Cairo Festival City branch**

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

Katameya Heights branch

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

El Tagamoo branch

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

El Rehab branch

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

Water Way branch

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

Obbour City**Obbour City branch**

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

Giza**Cairo branch**

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

Dokki branch

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

El Batal branch

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

Gameat El Doual branch

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

Gezira Sporting Club branch

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

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

Alexandria

Alexandria branch

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

Glym branch

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

Kafr Abdou branch

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

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

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

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