HSBC Bank Egypt S.A.E.

Annual Report and Accounts 2021

HSBC

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 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 225,000 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 2021.

Economic Review and Future Outlook

The COVID-19 pandemic continued to generate economic headwinds and policy challenges, but Egypt has proved resilient, maintaining fiscal, currency and price stability throughout the year, and economic growth showing promising signs of returning to pre-pandemic trend levels. The performance compares favorably with economies elsewhere in the Middle East and in Africa, and reflects Egypt's strong endogenous growth drivers and the credibility of orthodox policies rooted in the 2016 reform programme.

The most recent GDP data show the economy expanded by 3.3% in real terms over 2020/21. This was down 0.3ppt on the previous fiscal year, but underlying data show the recovery built momentum over the year, peaking at over 7% y-o-y in Q4. The data also show a steady shift in the composition of growth, with the balance moving from a reliance on consumption to progressive increase in investment and export demand. On a sectoral basis, real estate proved robust throughout the year, construction benefited from higher public spending on infrastructure projects and oil and gas gained from rising global energy prices. The tourism sector remained well below pre-pandemic levels, but visitor numbers trended higher while strengthening remittances from the large expatriate population provided the economy with further external support. Having spiked when the pandemic first hit, unemployment fell 2ppt on its COVID-19 highs to 7.5%, 1.3ppt below the five-year average.

Inflation rose throughout much of 2021, driven higher by the narrowing output gap, higher food prices and rising global commodity prices. However, price growth remained contained, with the headline figure printing below the mid-point of the Central Bank's 5-9% target range throughout the year and averaging 5% for 2021 as a whole. This was little changed on 2020. Core inflation rose to around 5.5%, up 3ppt on 2020, but still relatively contained. Having cut interest rates by 4ppt to support growth in 2020, the benign inflation environment allowed the Central Bank to keep interest rates on hold in 2021. The currency was also broadly stable, ending 2021 little changed in nominal terms against the dollar at EGP15.7. The performance implies a modest real gain on a trade adjusted basis.

Preliminary data point to a budget deficit of a little under 8% in 2020-21, a high figure but broadly unchanged y-o-y despite the revenue disruption and higher spending pressures brought by the pandemic. The primary balance (excluding debt service) was in surplus for a fourth successive year and public debt held stable. There was more pressure on Egypt's external account position, with the current account deficit pushing wider y-o-y throughout the fiscal year. The deterioration was due in part to weaker tourism receipts driven by pandemic travel restrictions alongside a rising import bill. The pressure was partly offset by record remittance inflows and strong fees from Suez Canal. Portfolio capital inflows were also strong over 2021 and Central Bank reserves remained flat despite the higher current account shortfall and subdued FDI.

Business and Operational Activities

Financial performance

For the financial year ending 31 December 2021, the Bank reported profit before tax of EGP4,977.6m, which is a 2.51 percent decrease compared to 2020. Profit after tax decreased by 5.71 percent, reaching EGP3,400.6m.

The Board of Directors proposed a cash distribution of EGP 2,639.48m to Shareholders (80 percent of the profits available for distribution for 2021) representing a coupon of EGP 79.31 per share.

Also, the Board of Directors proposed a distribution of EGP419.3m (12 percent of the profits available for distribution for 2021) 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 EGP32.99m (1 percent of the profits available for distribution for 2021) The balance of the remaining profits available for appropriation, amounting to EGP207.71m, will be transferred to General Reserve to support the Bank's equity.

Global Banking (GB)

GB provides tailored financial services and products to corporates, governments and institutions worldwide. GB focuses on building partnerships with our clients to help them achieve consistent, long-term performance. We use the strength of HSBC's international network to connect emerging and mature markets, covering key growth areas.

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

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

These are the dynamics that we believe will drive the future of business in Egypt, and HSBC's Global Banking is focused on 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 clients' financial requirements and business goals for today and for the future

GB has played a fundamental role during 2021 supporting the country's strategic actions for meeting the budgetary requirements through tapping international markets. HSBC has worked with the government in a number of strategic situations through mobilizing our international network and expertise.

In February 2021, HSBC acted as Joint Lead Manager and Joint Book runner for the Arab Republic of Egypt's highly successful USD3.75 billion triple tranche bond. The bonds attracted an order-book of USD13.7 billion whereby the proceeds were directed to finance the government's funding requirements.

In September 2021, HSBC acted as Joint Lead Manager and Joint Book runner for the Arab Republic of Egypt's highly successful USD3 billion triple tranche bond. The bonds attracted an order-book exceeding USD8.25 billion which allowed the government to tighten pricing across the three tranches. The bond allowed the government to raise a significant portion of the fiscal year 2021/22 funding requirements.

GB has 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 companies 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 and 2021 on the back of massive outflows and inflows witnessed due to Global risk off/on mode.

We are as well the first bank to offer RMB currency for those clients who are trading with China in order to reduce their conversion cost and to offer an electronic Foreign Exchange platform where Corporate Client s can execute their FCY requirements online.

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

Securities Services business offers Direct Custody and Clearing product (DCC) with a range of Safe Keeping, Settlement and Asset Servicing Solutions. With 54 clients and an average of USD7 billion in assets under custody (AUC), HBEG is the only site in MENA region with full on-shore operations.

Commercial Banking (CMB)

In CMB we drive business through:

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

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

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.

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

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

Global 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.

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

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

Key highlights for 2021 include:

- International Corridors income YTD recorded a 20% increase over the same period last year, top 5 Corridors are the United Arab Emirates, United States, Germany, China and Thailand.
- Global Liquidity and Cash Management has newly released number of digital solutions and services to support our customers:
    - **Live Chat** has been launched to all HSBCnet customers with language support (English & Arabic), which is enables the customer to fully engage with an agent for account specific enquiries in real time.

- **Digital Servicing Requests** went live for all corporate customers on HSBCnet. to enable our customers to create, approve and submit service requests related to "Change of Correspondence Address" and "Change of Company Contact details.
- **Mobile Collections** offering by adding a second provider which provides more sophisticated reporting and reconciliation capabilities.
- **Payments to Wallets** has been introduced via ACH payment method as a part of the CBE's initiative under the financial inclusion agenda, whereby ACH payments (bulk debit with multiple credits) can now be made from corporate bank account to beneficiary mobile wallets.

♦ Global Trade and Receivable Finance has launched various digital solutions such as:

- **Sustainable Trade Instrument (STI)** proposition has been rolled-out where the trade instruments (guarantees, letters of credit …etc) made available to exclusively facilitate environmentally and/or socially sustainable economic activities as a part of supporting the transition to net zero through sustainable and green trade finance.
- **Swift for Corporates (S4C) platform**: S4C for Trade allows clients to exchange trade finance related messages with banks in an industry standard format to automate workflow of trade transaction lifecycle. This platform increases timeliness and efficiency of financial processing, eliminates manual processing and enhances visibility through a centralized view of trade transactions and credit lines globally.
- **Services Coverage:** GTRF has extended the trade services in more branches across the network to ensure proper delivery of our products and services, and giving our customers the tools to raise their voice and responding to their needs with the suitable products.

♦ HSBC is taking multiple actions to support the SMEs as well as considering new initiatives and offerings. This includes:

- Focusing on sectors where we have a competitive advantage including Digital, Supply Chain etc.
- Our strategic direction focus around ESG and the CBE's priorities, including Fintech, ecommerce and sustainability.
- Reviewing and launching tailored products and digital solutions specific to the sector's nature.
- Providing thought leadership by sponsoring and participating in events to support the SME sector.

Wealth and Personal Banking

HSBC Wealth and Personal Banking continued to deliver strong and robust results in 2021, were we managed to deliver a 5% uplift in revenue stream in 2021 compared to prior year.

The robust performance comes as a result of a well-designed strategy focusing on widening our prospect pool in target segments, through providing our customers with a wide range of financial services and benefits throughout various channels including a network of 51 branches, Strong digital platforms and our upgraded ATM fleet.

Customer Experience remains to be our main focus and priority and is reflected in all our initiatives and decisions to ensure that we provide our customers with the best in class service.

With the continuation of Covid 19, Health & Safety of our Customers and People remains to be our main focus. We continue to take all precautionary measures while ensuring that we remain connected to our customers without disrupting our operations or jeopardizing our first class customer experience

During 2021, we continued to grow our customer base reaching 236k client through building on the prosperous collaboration across the different lines of business and focusing on Employee Banking Solutions to drive high quality acquisitions through which we successfully acquired 79 new companies and managed to serve a wider customer base contributing by 74% to our new to bank acquisitions in premium segments, also, leveraging on our global connectivity in building up our Non Resident Egyptians proposition through expanding it to MENA markets and launching the new Non Resident Egyptians Savings Certificate which addresses the saving needs for Egyptians living abroad and granting one of the highest interest for a certificate in the market delivering 600 million EGP in total value. Adding to that, the Bank continued to support the country's financial inclusion agenda through various events with main focus on youth proposition.

On the Personal Lending side, we thrived to continue growing achieving a growth of 3 % on balances and 19% on related revenues over 2020. Moreover, we also managed to grow our Liabilities balances by 10% over prior year. On the Cards side, revenues are up 12% while balances are up 11% both comfortably maintained above yearly plan.

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 expanding our Insurance Partnership and HSBC's sponsored Money Market Fund has been reopened for new subscriptions attracting EGP350m, all leading to wealth revenue uplift of 20% vs last year.

In line with our growing commitment to drive Digital Growth and leveraging on our customers emerging needs for digital solutions, a new role was introduced dedicated to support our customer's education and direct them to the most efficient alternate channels meeting their day to day needs.

HSBC Digital performance witnessed a significant shift reflecting our customers trust in our channels, where 80% of our customers are now online registered and 60% of the New to Bank customers use the Digital Channels during their early relationship with the bank.

In-addition to an increase in the overall digital utilization, an increase of 7% in our Digital transactions and 13% in ATM transactions comparing to last year, while 96% of our Telegraphic Transfers are executed online vs 4% only in branches.

Also Wealth and Personal Banking successfully managed to Digitize 37% of the low value transactions in alignment with HSBC Strategy and the Country's priority to promote digital and cashless environment.

Building on our alternative direct channels and to meet our customers' needs we availed 20 new state-of-the-art ATMs, introducing new features facilitating our customer's financial requirements such as, adding new billers to Fawry bill payment service, launching Meeza deposits into other banks' account to our accounts/cards through our ATMs, to support country's direction to avail easy access to financial services for all citizens across Egypt, re- launching the Mobile ATM, in-addition to introducing some enhancements to our online platforms to facilitate the domestic transfers journey.

Leveraging on our international connectivity we launched ATM Dynamic Currency Conversion (DCC) which provides non-HSBC overseas customers the option of immediately converting the cost of a cash withdrawal at an HSBC ATM into the billing currency of their card this provides greater transparency to customers on FX rates and fees.

Following HSBC and the Country's direction to ensure inclusion in terms of accessibility for our special needs customers and our workforce, we managed to successfully meet our workforce representation and ease accessibility to our premises with a total of 6 ready branches in 2021 and a plan of additional 6 branches to be ready in 2022. This is in addition to the accessibility of our products and ensuring that it fulfils customer's special needs with a close eye on customer fairness and transparency which is a high priority for HSBC.

Streamlining processes and systems is a key enabler that support our ambitious growth strategy; through efficient management of resources while providing an exceptional customer experience. In 2021, we continued our focus on improving customer journeys, diversifying our service channels, eliminating process blocks, reducing turnaround time as well as upgrading our systems in line with the latest technology and security measures, this saved around 7,250 hours across 523 front liners (i.e. 13 hrs monthly/ FTE) also 45 process enhancement and staff empowerment initiatives took place which had a huge impact on customer experience.

Risk Management

HSBC's risk management approach follows five steps:

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

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

Risk Appetite

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

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

Risk Environment

2021 saw further transformation of the Risk function to become more forward-looking and dynamic both in the financial and non-financial aspects of our risk management in an environment of economic and geopolitical uncertainty, heightened by the ongoing COVID-19 pandemic. Enhanced focus and investment into our non-financial risks including third-party risk management, fraud management, resilience risk, enhanced model risk oversight, and ongoing strengthening of cyber security and data integrity. Throughout the pandemic, we have continued to support our customers and adapted our operational processes to maintain high levels of service as our people, processes and systems continued to respond to the required changes, whilst ensuring the safety of our employees and customers remained a key priority. We have regularly conducted stress tests to assess the resilience of our balance sheet and capital adequacy, as well actionable insights to our credit portfolios. A quarterly Forward Economic Guidance exercise is undertaken integrating macroeconomic scenarios into forward looking model estimates of IFRS9 Estimated Credit Losses ('ECL'). The main 2022 Risk priority is the continuation in transforming the Risk function to support the business in growing safely and responding to changes in the internal and external environments including increased investment into Climate Risk and risk management support to the wider ESG standards.

People Management & Development

Employees

HSBC Bank Egypt employed 1565 people for its operations in Egypt as at 31 December 2021. 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.

Low turnover rates continued in 2021, however, recruitment activities were resumed in 2021 with 147 advertised roles and 9 local secondment opportunities throughout 2021. This was considered a high demand compared to 2020 given the challenges which COVID-19 introduced to the recruitment activities across various organizations.

Hiring activities for SMEs were definitely the highlight of 2021 as they produced many positive outcomes such as our ability to rely on both internal and external candidates for the SME hiring across the different bands and having many roles opening externally was an excellent opportunity to enhance HSBC's employer brand in Egypt as it allowed us to become more visible in the market as an attractive employer. Also, 2021 witnessed a promising opportunity for HSBC Egypt Bank with the introduction of roles that would be based in HSBC Bank Egypt yet have an extended responsibility to cover other countries within the Region, which generated a different career progression path for our employees who invested in themselves and stepped up to be appointed in such roles.

Working from home arrangements continued in 2021 which included Head office based staff and those with child care responsibilities and people more vulnerable to the virus. In addition, we participated in Banking Sector Vaccination Campaign sponsored by The Central Bank of Egypt (CBE) in coordination with the Federation of Egyptian Banks (FEB). For HSBC Bank, 578 Employees and family members registered themselves and got vaccinated under the campaign.

Staff engagement went down, however, this was a similar pattern to global trends across a range of industries in 2020-21, where many organizations saw a COVID-19 'Halo effect' as well as the general trend of increased anxiety and fatigue among employees, coupled with challenges of adapting to a longer-term hybrid working model. HR focus groups were delivered covering main survey indices including "Speak up" and "Career".

Learning and Development

2021 witnessed progress on many learning themes whether Business led training programs, Future Skills as well as Learning offering for our very junior population of non-clerks and people with disabilities.

Total of 299 virtual training sessions from 152 programs were attended by HBEG staff members. Number of training hours conducted are 52,000 across HBEG. As of mid -November 2021, we reached 85% seat utilization, from 1976 learner, out of which 905 are unique learner.

Two major programs that stood out in 2021 would be the full Learning plan which was designed to support "Lion's Den project "and the SMEs internal induction programme.

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. 2021 saw a continuation of our healthy position on Diversity metrics' with female colleagues making up 45 per cent of our Senior Management. 2021 also saw more investment in our 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.

Digital and Business Services (DBS) – The COO Organization

In 2021, DBS functions have played an instrumental role in enhancing systems, streamlining customers' journey and supporting business growth as well as enhancing staff skills:

- **Project Falcon:**
  HSBC Egypt managed to upgrade its core banking system from a legacy Group version to the latest and most advanced core banking version available in the Group. This will serve as a foundation of all our future digital and transformational initiatives in 2022 onwards. This programme was as part of a wider MEMA digital transformation programme which brings all of the MENA countries into the latest Group core banking version simplifying our IT estate; which will help reduce and optimize our IT support efforts and costs.

- **Project Nile:**

  Corporate Services 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. Site construction work has started as of Q4 2021 with a target completion date of Q2 2022.

- **The Lions' Den:**
  Under the sponsorship of HBEG CEO, DBS managed the "The Lions' Den" program; our enterprise wide corporate innovation programme; where all HSBC Egypt staff had the opportunity to join in a fun and engaging competition for implementing ideas that are simple, realistic and achievable. Also, helping staff invest in their self-development and enhance their skills and capabilities through different training courses from our Global HSBC University and leveraging on our external training programs. The Program consists of four phases: Team Formation, Pitch, Deep Dive and Execution.

  Throughout those phases, over 350 staff members representing different genders, business functions and business lines have participated and through different selection phases, three winning teams' ideas will be supported and sponsored by HSBC Egypt CEO to secure the required resources and funds to turn those ideas into actionable projects. The main themes of the ideas were related to sustainability, customer centricity and staff development, besides the three winning teams, seven ideas, simple to implement with minimal cost, were identified as Fast Track and have moved directly to execution phase; two ideas out of the seven are people related while the other five are sustainability ideas.

Technology and Cyber

Cyber-Security and fraud risks continue to be a key focus area for us, fostering secure and stable platforms for our customers remains a top priority. Our Global world class cyber security professionals continue to provide end-to-end security solutions including proactive 24/7x365 monitoring, technical analysis, threat response, and cyber intelligence.

However, this does not hamper our ability to remain agile and continue to provide our customers with new and leading innovative solutions. We continued to invest in our existing digital channels like our retail and corporate internet banking platforms as well as our ATM channels which witnessed a number of enhancements and new products like the introduction of the Mobile ATM, the currency exchange via ATMs for non-HSBC foreigners, and our general expansion of our fleet. We have also introduced this year our world class HSBC Evolve platform - HSBC Evolve is an award-winning intelligent and interactive single dealer platform which gives businesses access to a breadth of HSBC's products and services, 24 hours a day, five days a week.

Also our commitment to our regulators continues to be one of our top priorities; our teams; locally, regionally, and globally; continue to prioritize all our regulatory mandates. This year we managed to implement a number of key regulatory projects including the ATM Deposits via Meeza Network, supported foreign currencies cheques clearing, and enabled payments' systems to execute transactions within the set SLA.

While we are focused internally and are always trying to bring the best of what HSBC Group has to offer into the Egyptian market; yet we also recognize the potential of the Egyptian Fin-tech ecosystem; that is why this year we have been focused on building our network within the tech start-up space with the objective of identifying potential mutually beneficial partnerships with some of the existing Egyptian Fin-tech companies. Our Global Head of HSBC Invest (our corporate Venture Capital 'VC' arm) came to Egypt as part of a middle Eastern tour where he met with a number of high potential Egyptian start-ups, VCs, government entities and regulators. The aim of the visit was to get an initial understanding of this high potential growing market which could result in future investment(s) in Egyptian tech start-ups.

Corporate Services (CS)

In line with the Nile Project vision, CS progressed with Satellite Offices project in synergy with Future of Work model. The offices will focus on providing circa 100 extra work points with a work setting variety in order to service local population in the vicinity of each satellite location. The satellite offices will be set within four locations, three of which are HSBC retail/ office spaces specifically replacing underutilized areas. The created spaces will be available for both office & retail colleagues to perform non-ring fenced work with.

CS supported the business growth and managed to complete a new branch "Sodic" in Zayed – October area providing coverage in a new demographic area that serves clientele segment HSBC is targeting.

CS also continued to focus on maintaining the health and safety of all staff members and contractors during the COVID pandemic; providing ongoing guidance and support to businesses and functions for the management of COVID crisis, and continuously collaborating with Business Continuity Management and Human Resources for managing pertaining critical situation.

Protective Security (PS)

Protective Security worked with CS 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, real-time monitoring of branches and ATMs from the newly established country control room.

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.

HSBC Group continues to leverage, invest, and expand our Global Service Centre (GSC) in Cairo, a new Centre of Excellence (COE) for payments is currently being established as part of the GSC Cairo existing CoEs that are currently in operation.

We have also succeeded in improving the ATM disputes SLA for our customers to be 4 days instead of 23 days via challenging our current process in collaboration with our colleagues from the Retail and Contact Centre organization.

Procurement and Supplier Risk Management

Procurement continued to focus during 2021 on identifying opportunities to make business partners and suppliers journeys throughout procurement systems and processes simpler and efficient. We have introduced the Supplier Portal and Invoice Data Recognition technology which contributed in reducing the invoice payment turnaround time and enhancing the payment process accuracy, reducing manual inputs.

With a risk focus and to assure our business partners that payments are done in accordance with bank's internal policies and procedures we have introduced a new internal Procurement Compliance process reporting non-compliant instances.

External Third Party Risk management continued to be key priority and area of focus; a number of activities were concluded throughout the year to support our business partners in increasing governance and oversight and identifying areas that needs management attention.

Procurement introduced the sustainability risk lance in our Supplied Chain, starting with the identification and management of our key Third Parties who provide services/ products linked to sustainability risk exposure from environment and human rights angles which align with HSBC sustainability objectives.

Business Continuity and Incident Management (BCIM)

The Bank’s Business Continuity program reached higher maturity and convenient levels which helped in the effective response to various incidents in the previous years including the COVID incident.

All HBEG departments Business Continuity Plans (BCP) are regularly validated through different types of exercises to ensure our Business Continuity responses are appropriately implemented and are fit for purpose.

A sub Management Incident Group (MIG) committee chaired by CEO continues to convene on a weekly basis to review all the changes taking place on a country and bank level with regards to the changing COVID situation. All the COVID precautionary measures are still in place while being flexible to cope with the changing COVID situation and facilitate business needs ensuring staff safety is our first priority.

During 2021, the MIG successfully supported the implementation of the following:

In premises Vaccination campaign for HBEG and GSC staff sponsored by the Ministry of Health and the CBE;

Raising awareness by keeping our staff and contractors up-to-date with relevant information;

Regularly communicating with our employees on the latest developments, as well as establishing channels for employees to speak-up and voice out their feedback, concerns, and recommendations; and

Updating 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.

People and Communications

We firmly believe that our team members are our most critical asset, and accordingly 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 DBS People Managers Community forum which is an informal regular meeting where DBS people managers from different levels and functions come together to learn from each other’s experiences, challenges, and best practices.

More focus was given to skip-level meetings across DBS functions and town-halls in order to give more space for speak up culture and get to know more of staff pain points.

Financial Crime Risk Management

HSBC continued running an effective Financial Crime Risk management capability in 2021. Following the completion of rolling-out of major compliance transformation program in 2020, HSBC shifted the focus towards managing financial crime risk as a business as usual activity.

HSBC has a global structure that 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 in the areas of Anti-Money Laundering, Sanctions, Anti-Bribery and Corruption compliance, Internal & 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 and simplifying the governance under the business as usual status. Also, HSBC embarked on a process of simplifying the Financial Crime Policies including the Anti-Money Laundering policy.

Financial Crime Compliance team continued to support the business and customers during 2021 in the middle of extended 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

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

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

Key Risk Management Process

Regulatory Compliance oversees a program to maintain a mapping of regulatory obligations in its scope to 1st Line of Defense controls that are identified to address the regulatory obligations. In addition, regular assessment and reporting on the state of the risk is conducted, including inherent risk, status of control environment and residual risk.

Regulatory Compliance Risk Strategy maintains multiple procedure and methodology documents that provide a detailed overview of the Risk Assessment processes that are managed within Regulatory Compliance. These documents provide stakeholders with detailed information associated with the minimum standards and process steps associated with the RC Risk Assessments.

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

Key Developments in 2021

- We continue 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 monitor closely for regulatory developments and engage with regulators, as appropriate, to help ensure the new regulatory requirements.

- We focused in supporting CBE major initiatives Cashless Economy as an example by launching mobile collections. In addition to Financial Inclusion and SMEs initiatives, Where HSBC worked on launching multiple products and initiatives.
- 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.

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.

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

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

Advancements in digital technology and events such as COVID-19 are rapidly changing how we work and live, and affecting people's finances and livelihoods. That's why we are committed to building future skills – for our customers, employees and people in the communities we serve. A significant portion of our work is directed towards helping people develop the employability and financial skills they need to thrive. A brief of some of the flagship programs is presented below:

- **Tatawwar:** brings together students aged 15-18, schools, parents and the business community to help innovate for a shared future. It gives them the chance to build their social business skills, learn more about the sustainable development goals, connect with the corporate world, and hear advice from leaders in their respective areas (read more here). In the academic year 2020-2021 we have exceeded last year's enrollment with 8% (a total of 1,918 students in 684 schools). A massive achievement given the recent challenges. In the program semi-finals Egypt had 4 teams shortlisted whom over a month period, participated in prototyping workshops and entered the acceleration program that was delivered online.
- **Financial Capability for Low Income Workers:** the program aims to develop the financial capability of 650 low income workers across Egypt. It teaches personal money management skills including the key elements of personal finance such as spending wisely, budgeting, saving, investing and using credit. A six months mentoring will then ensure to build the financial behavior desired which ultimately aims to conclude by opening their first saving accounts.

- **Building a Financially Capable Generation:** our new global financial literacy program which has been piloted across several countries, including Egypt. It supported 541 students in 4 schools with the help of HSBC volunteers, students aged 12-16, on their way to financial capability by helping them recognise how attitudes and beliefs impact their ability to make the best money management decisions. The students also participated in a global Innovation Challenge to put in practice their learning by solving community related challenges around financial resilience. Egypt team won second place in the global competition.
- **C3 Social Impact Accelerator:** this unique accelerator program aims to support entrepreneurs with innovative concepts that help widen their impact on society and the environment at the same time enhancing their business growth and financial performance. The finalists are offered tailored training with impact investors and business leaders from the social enterprise world. In the 2021 edition, 42 semi-finalists participated in a three-month virtual program spanning from March to June. We received 1046 applications from 8 countries, a 162% increase from the previous year. Egyptian start-up "Baramoda" won the top prize at this year's round.
- **Social and Economic Empowerment of Youth without Parental Care:** The program is in partnership with Wataneya Society for the Development of Orphanages. The project support care leavers from the public orphanages in making a successful transition to independence through economic and social empowerment. The project focus on developing the skills of 100 children and youth without parental care in the following pillars: employability, life skills and psychological wellbeing within 20 institutional homes. In addition to building the capacities and providing quality education to 20 caregivers working in institutional homes to enable them to support children and care leavers for a smooth transition into independence.
- **Creating Source of Income:** In partnership with AlHassan Foundation, the project focus on empowering wheelchair users in Egypt through generating source of income for them and their families and provide them with all the available resources to help them live an active life. The funding will be allocated to microfinance small projects for wheelchair users throughout Egypt. Employability is a major challenge in Egypt for persons with physical challenges across all governorates; accordingly, AlHassan FDN decided to contribute in solving this issue through funding their small projects according to their case & conditions. The project will benefit a total of 30 wheelchair users and their families. The project is a great example to reach effective inclusion & integration in our society through funding SMEs owned and managed by wheelchair users all over Egypt's governorates.
- **Strengthening Resilience and Providing Livelihood Support in North Sinai:** Partnering with the International Committee of Red Cross the objective of the program is to alleviate the immediate suffering and provide sustainable resilience building and livelihood support to people affected by displacement, instability and violence in North Sinai. This includes making sure people affected can meet their basic needs, build their lives in safe conditions and create their own livelihood opportunities in a local market. By involving the affected people in the needs assessment and design, we are able to ensure the program is tailored and best meets the needs of the people. The project focus very much on investing in people's existing strengths and capacities to ensure they can best capitalize on opportunities. The prorgam targets a total of 1000 households impacting 5000 individuals.

- **Support Refugees in Egypt with Livelihood Opportunities:** the project focus on providing guidance on labor market opportunities and registration of 300 refugees in job placement services. 300 refugees who have been assessed to be eligible for self-reliance activities, particularly youth and female household will be supported to register in job placements services. They also receive vocational trainings to enhance their employability. The project is in partnership with UNHCR.
- **Developing a Participatory Mangrove Ecosystem Restoration Model (MERS):** following our partnership with the American University in Cairo, we started the implementation of our adopted Nature Based solution project to address climate change challenges and enhance the environmental, social and economic resilience of the local communities through the restoration and rehabilitation of mangrove ecosystem in Egypt. By increasing the area of mangrove stands in selected degraded mangroves sites, through plantation, restoration and regeneration of mangrove seedlings thus increasing carbon dioxide sequestration. To ensure the successful scalability of mangrove forests development projects by developing a commercially viable business model in collaboration with the local communities establishing ecosystem based small businesses and improving their livelihood and economic conditions; To develop a community participatory model guarantees the active participation and collaboration of local communities in this project, thus ensuring the projects sustainability; In addition to, establishing a Climate Smart Agri Hub at CARES AUC to act as a state of the art research and training facility disseminating the MERS model and transferring the knowledge harnessed here to others, multiplying the impact and driving public and private investment into climate action solutions; The project will also develop a GIS based knowledge platform on, breaking mangrove forests, CO 2 sequestration and biodiversity conservation barriers to investment in climate action by bridging the lack of information gap and offering an inventory of ideas and lessons learnt from the project.

Customer Protection

HSBC has established an in-house Customer Protection Unit in line of CBE regulations with the following recognized as the primary focus areas:

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

Acknowledgment

Based on the financial results of 2021, the Board would like to extend their congratulations and thanks to the HSBC Egypt staff for their efforts and achievements.

Shareholding

HSBC Bank Egypt SAE is a 94.5 per cent owned subsidiary of HSBC Holdings plc through HSBC Holdings 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)

HSBC has decided to close HSBC Securities Egypt S.A.E., the bank's local brokerage firm in Egypt which served only to execute trades for HSBC London underlying clients.
The continued development of market infrastructure in Egypt means that we can now conduct those trades through third party providers and use the capital previously deployed in the securities trading business to support the broader growth of HSBC Bank Egypt and our customers in the country. The Financial Regulatory Authority and the Egyptian Stock Exchange are in full alignment on our next steps.

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)
- HSBC Securities Egypt S.A.E. (under liquidation)
- 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 Nomination Committee and the Salaries and Remuneration Committee.
- The frequency of meetings of the Board and of the Board's committees in line with local regulatory requirements
- The internal control framework, reflected in the structure and operation of the Bank
- The adoption and implementation of internal policies and procedures covering all business aspects
- The existence of transparent communication and disclosure channels

The Board of Directors

The following changes took place to the HBEG Board of Directors during 2021:

Resignation

- Resignation of Mr. Hesham Mohsen, HSBC Bank Egypt S.A.E Independent Non-Executive Director effective 18th of March 2021.

- Resignation of Mrs. Neveen El Shafei, HSBC Bank Egypt S.A.E Independent Non-Executive Director effective 18th of March 2021.

- Resignation of Mr. Martin Tricaud, HSBC Bank Egypt S.A.E Non-Executive Director effective 30th of June 2021.
- Resignation of Mr. David Eldon, HSBC Bank Egypt S.A.E Non-Executive Chairman effective 22nd of September 2021.

Appointments

- Appointment of Mr. Nasser Alshaali as HSBC Bank Egypt S.A.E Non-Executive Director effective 17th of August 2021 and as HSBC Bank Egypt S.A.E Chairman effective 22nd of September 2021.
- Appointment of Mr. Stephen Moss as HSBC Bank Egypt S.A.E Non-Executive Director effective 7th of July 2021.
- Appointment of Mrs. Hanan Abdel Meguid HSBC Bank Egypt S.A.E Non-Executive Director effective 7th of July 2021.

Mr. Nasser Alshaali

Non- Executive Chairman

Nasser Alshaali was appointed HSBC Bank Egypt Chairman effective 7th of September 2020.

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

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

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

Mr. Todd Wilcox

Executive Director (since June 2020)

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

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

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

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

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

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

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

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

Mrs. Lamyaa El Bahy

Executive Director (since June 2019)

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

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

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

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

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

Mr. Stephen Moss

Non-Executive Director (since July 2021)

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

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

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

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

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

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

Mr. Christian Deseglise

Non-Executive Director (since August 2019)

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

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

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

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

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

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 Exterieur de la France CNCCEF.

Mrs. Hanan Abdel Meguid

Independent, Non-Executive Director (since July 2021)

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

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

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

Mr. Nadim Ghanem

Independent Non-Executive Director (since June 2019)

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

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

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

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

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

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

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

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), Mr. Christian Deseglise and Mr. Abdel Halim Assem.

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), Mr. Nadim Ghanem, 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. Christian Deseglise 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. Hanan Abdel Meguid (Chairperson), Mr. Abdel Halim Assem and Mr. Christian Deseglise.

Governance Committees

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

Executive Committee (EXCO)

The Executive Committee is an executive management committee that meets at least 10 times a year and operates as a general management committee with regards to the day-to-day management of the bank. The purpose of the Executive Committee is to maintain a reporting and control structure whereby all lines of business and functions are accountable to the individual members of the Committee who report to the Chief Executive Officer who chairs the Executive Committee.

Risk Management Committee (RMM)

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

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

Assets and Liabilities Committee (ALCO)

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

Auditors’ report

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

Report on the separate financial statements

We have audited the accompanying separate financial statements of HSBC Bank - Egypt (S.A.E.), which comprises the separate statement of financial position of HSBC Bank – Egypt (S.A.E) as of 31 December 2021 and the separate statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility for the financial statements

These separate financial statements are the responsibility of Bank’s management. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the rules of preparation and presentation of the Banks’ financial statements 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 (S.A.E.) as of 31 December 2021 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 issued 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

No material contravention, during the financial year ended 31 December 2021, of the provisions of Central Bank of Egypt and the Banking System Law no 194 of 2020 has come to our attention as part of our audit of the financial statements. In accordance with the requirements of Article 64 of the Central Bank of Egypt and Banking System Law No. 194 of 2020, the shareholders in the extraordinary general assembly held on 17 March 2021 agreed to increase the issued and paid-up capital of the bank to an amount of five billion Egyptian pounds, and this increase was set aside from the balance of retained earnings to amounts reserved under capital increase in the Statement of Changes in Equity until completion of the legal procedures as detailed in Note No (33).

The Bank keeps proper financial records, which include all that is required by the law and the Banks' 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.

Auditors

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R.A.A. (12747)
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Egyptian Financial
Supervisory Authority
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Accountants and Auditors
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Statement of financial position

HSBC Bank Egypt SAE

Separate statement of financial postition as at 31 December 2021

(All amounts in EGP000)

	Note	2021	2020
Assets			
Cash and balances with Central Bank of Egypt	15	8,643,628	8,075,506
Due from banks	16	35,635,993	23,211,367
Loans and advances to banks	17	337,144	206,507
Loans and advances to customers	18	32,811,375	36,314,668
Financial derivatives and coverage activities	19	189,285	110,233
Financial investments	20	17,059,513	12,175,038
Treasury bills	21	34,131,632	33,687,617
Investments in subsidiaries	22	35,517	35,517
Intangible assets	23	346,367	176,293
Other assets	24	2,282,257	1,849,088
Deferred tax assets	31	108,816	102,288
Investment property	26	62,091	83,527
Fixed assets	25	621,786	466,178
Total assets		**132,265,404**	**116,493,827**
Liabilities and shareholders' equity			
Liabilities			
Due to banks	27	1,415,553	2,462,336
Customers' deposits	28	106,451,121	90,219,973
Financial derivatives and coverage activities	19	267,191	189,733
Subordinated loans	39	2,072,000	2,072,000
Other liabilities	29	2,357,163	4,978,729
Other provisions	30	421,396	455,960
Current income tax		843,444	657,343
Defined benefits obligations	32	566,319	460,160
Total liabilities		**114,394,187**	**101,496,234**
Shareholders' equity			
Paid-up capital	33	2,795,567	2,795,567
Amounts reserved under capital increase	33	2,204,433	-
Reserves	34	4,423,133	4,386,162
Retained earnings	34	8,448,084	7,815,864
Total shareholders' equity		**17,871,217**	**14,997,593**
Total liabilities and shareholders' equity		**132,265,404**	**116,493,827**

The accompanying notes from 1 to 41 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 2021

(All amounts in EGP000)

	Note	2021	2020
Interest income from loans and similar income	6	9,144,465	9,211,434
Interest expense on deposits and similar expense	6	(2,809,387)	(2,786,368)
Net interest income		**6,335,078**	**6,425,066**
Fees and commissions income	7	1,237,569	1,062,074
Fees and commissions expense	7	(236,230)	(187,375)
Net fees and commissions income		**1,001,339**	**874,699**
Dividends	8	14,727	12,723
Net trading income	9	455,881	815,358
Financial investment income		2,180	397
Credit Loss impairment (charged)	12	(450,783)	(540,201)
Administrative expenses	10	(2,526,669)	(2,307,681)
Other operating income (expense)	11	145,848	(174,476)
Profit before income tax		**4,977,601**	**5,105,885**
Income tax expenses	13	(1,576,994)	(1,499,163)
Net profit for the year		**3,400,607**	**3,606,722**
Earnings per share (EGP/share)			
Basic	14	89.58	97.33

The accompanying notes from 1 to 41 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 2021

(All amounts in EGP000)

	Note	2021	2020
Net Profit for the year		3,400,607	3,606,722
Items that may be reclassied to profit or loss			
Net changes on investments avilable for sale		-	-
Net changes on investments in financial investment at FVOCI	34	(82,145)	79,552
Expected credit loss through financial investment at FVOCI	12	2,058	(36,615)
Actourial Losses		(42,830)	-
Total impact related to other comprehensive income/(Loss)		**(122,917)**	**42,937**
Net fees and commissions income		**3,277,690**	**3,649,659**

The accompanying notes from 1 to 41 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 2021

(All amounts in EGP000)

	Note	2021	2020
Cash Flows from operating activities			
Net profit before income tax		4,977,601	5,105,885
Adjustments to reconcile net profit to net cash flows from operating activities			
Depreciation and amortization		193,337	115,731
Impairment of assets		450,783	582,822
Other provisions formed	(30)	48,765	264,383
Provisions no longer required	(30)	(41,455)	(2)
Revaluation differences for provisions other than loans provision	(30)	(336)	(822)
(Gain) / Loss from sale of property and equipment	(11)	(11,457)	9,661
Loss from Intangible assets		-	1,957
Other valuation differences on financial investments		(19,731)	63,939
Dividends received	(8)	(14,727)	(12,723)
Operating income before changes in Assets and liabilities		**5,582,780**	**6,130,831**
Net decrease (increase) in assets and liabilities			
Due from banks		(14,442,079)	4,459,070
Loans and advances to customers	(18)	3,055,887	(3,870,659)
Loans and advances to banks	(17)	(130,637)	62,381
Financial derivatives (net)	(19)	(1,594)	34,518
Other assets	(24)	(433,922)	(30,691)
Due to banks	(27)	(1,046,783)	481,442
Customers' deposits	(28)	16,231,148	6,921,793
Other liabilities	(29)	(2,621,566)	3,625,232
End of service compensation benefits	(32)	106,159	23,204
Utilized from other provisions	(30)	(41,538)	(58,827)
Income tax paid		(1,413,899)	(1,475,764)
Net cash flows generated from operating activities		**4,843,956**	**16,302,530**
Cash flows from investing activities			
Payments to purchase fixed assets and branches preparation	(25)	(253,415)	(217,033)

Proceeds from sale of fixed assets		16,206	7,796
Treasury Bills	(21)	(485,846)	1,785,523
Payments to purchase intangible assets	(23)	(255,020)	(206,690)
Payments for purchase of financial investments	(20)	(6,011,176)	(9,568,908)
Proceeds from sale (redemption) of financial investments	(20)	1,106,118	3,398,397
Dividends received	(8)	14,727	12,723
Net cash flows (used in) generated from investing activities		**(5,868,406)**	**(4,788,192)**
Cash flows from financing activities			
Dividends paid		(367,333)	(3,942,938)
Net cash flows (used in) financing activities		(367,333)	**(3,942,938)**
Net change in cash and cash equivalents during the year		(1,391,783)	7,571,400
Cash and cash equivalents at the beginning of the year		21,875,925	14,304,525
Cash and cash equivalents at the end of the year		**20,484,142**	**21,875,925**
Cash and cash equivalents are represented in:			
Cash and balances with Central Bank of Egypt		8,644,566	8,076,623
Due from banks		35,643,270	23,217,899
Treasury bills		34,131,632	33,687,617
Balance with Central Bank of Egypt as statutory reserve		(6,936,453)	(6,397,779)
Due from banks		(16,867,241)	(3,720,028)
Treasury bills of maturity more than 3 months from date of acquisition		(34,131,632)	(32,988,407)
Cash and cash equivalents	**36**	**20,484,142**	**21,875,925**

The accompanying notes from 1 to 41 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 2021

(All amounts in EGP 000)

	Note	Paid up capital	Amounts Reserved Under Capital Increase	General Reserve	Legal Reserve	Capital Reserve	Reserve for excess over par value – issuance premium	Fair Value Reserve	General Risk Reserves	General Bank Risk Reserve	Retained Earnings	Total
Balances as of 31 December 2019		**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		-	-	-	-	-	-	-	-	-	(3,942,938)	(3,942,938)
Transferred to legal reserve		-	-	-	72,984	-	-	-	-	-	(72,984)	**-**
Transferred to general reserve		-	-	281,649	-	-	-	-	-	-	(281,649)	**-**
Transferred to general risk reserve		-	-	-	-	-	-	-	-	66,609	(66,609)	**-**
Transferred to Capital Reserve		-	-	-	-	11,504	-	-	-	-	(11,504)	**-**
Net change in investement at fair value through OCI		-	-	-	-	-	-	79,552	-	-	-	**79,552**
ECL change in fair Value of investement through OCI		-	-	-	-	-	-	(36,615)	-	-	-	**(36,615)**
Net Change in OCI		**-**	**-**	**-**	**-**	**-**	**-**	**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**
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**
Amounts Reserved under Capital Increase	**(33)**	-	2,204,433	-	-	-	-	-	-	-	(2,204,433)	-	**-**
Dividents paid for year 2020		-	-	-	-	-	-	-	-	-	(367,333)		**(367,333)**
Transferred to General Reserve	**(34)**	-	-	183,667	-	-	-	-	-	-	(183,667)		**-**
Transferred to General Bank Risk Reserve	**(34)**	-	-	-	-	-	-	-	-	(66,609)	66,609		**-**
Net change in investement at fair value through OCI		-	-	-	-	-	-	(82,145)	-	-	-		**(82,145)**
ECL change in fair Value of investement through OCI		-	-	-	-	-	-	2,058	-	-	-		**2,058**
Actourial losses		-	-	-	-	-	-	-	-	-	(42,830)		**(42,830)**
Net Change in OCI		-	-	-	-	-	-	(80,087)	-	-	(42,830)		**(122,917)**
Transfer to banking system support and development fund		-	-	-	-	-	-	-	-	-	(36,733)		**(36,733)**
Net Profit for the year ended 31 December 2021		-	-	-	-	-	-	-	-	-	3,400,607		3,400,607
Balance as of 31 December 2021		**2,795,567**	**2,204,433**	**2,348,489**	**1,397,782**	**40,295**	**6,728**	**138,173**	**491,666**	**-**	**8,448,084**		**17,871,217**

The accompanying notes from 1 to 41 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 2021

(All amounts in EGP 000)

	Note	2021	2020
Net profit for the year (as per income statement)		3,400,607	3,606,722
Less:			
Gain from sale of fixed assets transferred to capital reserve according to law	11	(11,457)	-
General bank risk reserve		(89,661)	66,609
Net profit for the year available for appropriation		**3,299,489**	**3,673,331**
Add:			
Retained earnings at the beginning of the year	34	7,294,740	4,209,142
Less:			
Accounting Treatement	34	(42,830)	-
Amounts reserved under capital increase	33	(2,204,433)	-
Retained earning balance		**5,047,477**	**4,209,142**
Total		**8,346,966**	**7,882,473**
Appropriation:			
General reserve	34	164,975	183,667
Banking System Support and Development Fund		32,995	36,733
Shareholders' dividends	35	1,979,528	-
Employees' profit share	35	419,306	367,333
Retained earnings at the end of the year		5,750,162	7,294,740
Total		**8,346,966**	**7,882,473**

The accompanying notes from 1 to 41 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 2021
(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 51 branches and 7 small units served by more than 1,570 staff at the date of the financial position.

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

The financial statements for the year ended 31 December 2021 have been approved for issuance by the Board of Directors on 10 February 2022. The shareholders have the right to amend these financial statements after their issuance.

2. Summary of significant accounting policies

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

A. Basis of preparation of financial statements

The financial statements are prepared in accordance with the 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 held at fair value through profit or loss, investment through other comprehensive income and all derivatives contracts.

B. Subsidiaries

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

- Investments in subsidiaries in the separate financial statements are accounted for using the cost method. According to this method, investments recorded at cost of acquisition including goodwill and less any impairment losses. Dividends are recorded in the income statement when the right of distribution is authorized.

C. Segment reporting

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

D. Foreign currency transactions and balances

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

- Net trading income for the assets/liabilities held for trading.
- Other operating income (expenses) for the other items.

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

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

E. Financial assets

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

F. Valuation of financial instruments

All financial instruments are recognized initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the bank recognizes the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognized in the income statement over the life of the transaction either until the transaction matures or is closed out, the valuation inputs become observable or the bank enters into an offsetting transaction.

F.1. Financial instruments measured at amortized cost

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

F.2. Financial assets measured at fair value through other comprehensive income (‘FVOCI’)

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

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

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

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

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

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

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

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

G. Netting between financial instruments

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

H. Financial Liabilities

H.1 Measurement categories

Financial liabilities are classified at Amortized cost, except for:

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

H.2 Derecognition

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

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

I. 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.

2021

	Level 2 Using observable inputs	Total
Recurring fair value measurements assets		
Financial assets at fair value through other comprehensive income	51,191,145	51,191,145
Financial Derivatives - Assets	189,285	189,285
Financial Derivatives - Liabilities	(267,191)	(267,191)
Total	**51,113,239**	**51,113,239**

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 - Assets	110,233	110,233
Financial Derivatives - Liabilities	(189,733)	(189,733)
Total	**45,783,155**	**45,783,155**

J. 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'.

K. Interest income and expense

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

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

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

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

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

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

L. 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 (K/2) above. Fees and commissions that represent part of the financial asset effective rate are recognised as adjustment to the effective interest rate.

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

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

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

M. Dividends income

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

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

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

O. Impairment of financial assets

Expected Credit Loss

Credit-impaired (stage 3)

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

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

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

Write-off

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

Renegotiation

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

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

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

Loan modifications that are not credit-impaired

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

Significant increase in credit risk (stage 2)

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

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

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

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

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

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

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

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

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

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

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

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

Purchased or originated credit-impaired (POCI)

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

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

Movement between stages

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

Measurement of ECL

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

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

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

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

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

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

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

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

Forward-looking economic inputs

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

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

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

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

Critical accounting estimates and judgements

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

Judgements Estimates:

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

Period over which ECL is measured

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

Credit-impaired (Stage 3)

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

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

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

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

Definition of default

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

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

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

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

Upgrading from Stage 2 to Stage 1:

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

Upgrading from Stage 3 to Stage 2:

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

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

Forward- looking economic inputs

The bank will in general apply four forward-looking global future economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and three, less likely, 'Outer' scenarios, referred to as the Upside and Downside and the extra downside scenarios (2). The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside and Downside are constructed following a standard process supported by a scenario narrative reflecting the Bank's current top and emerging risks and by consulting external and internal subject matter experts. The relationship between the Outer scenarios and Central scenario will generally be fixed with the Central scenario being assigned a weighting of 75% and the Downside and the extra downside 5% ,15% each, and 5% for the upside, with the difference between the Central and Outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The Outer scenarios are economically plausible, consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years, after which the forecasts will revert to a view based on average past experience. The spread between the central and outer scenarios is grounded on consensus distributions of projected gross domestic product of Egypt.

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

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

Critical accounting estimates and judgments

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

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

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

P. 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

Q. 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).

R. 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.

S. Impairment of non-financial assets

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

The impairment loss is 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.

T. 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.

T.1 Leasing

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

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

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

T.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.

U. 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 within three months from the date of acquisition.

V. 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.

W. Financial guarantees contracts

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

X. 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 charged in the income statement in light of the bank's shares in the expenses sent from the head office which are paid by the bank.

Y. 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.

Z. Capital

Z.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.

Z.2 Dividends

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

AA. 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.

AB. Earnings per share

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

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

AC. Corresponding figures

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

3. Financial risk management

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

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

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

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

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

A. Credit risk

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

A.1. Credit risk measurement

Loans and advances to banks and customers

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

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

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

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

Bank’s internal ratings scale

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

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

Debt instruments and Treasury bills

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

A.2. Limiting and preventing risks policies

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

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

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

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

Collaterals

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

- Real estate mortgage
- Business assets mortgage, such as machines and goods; 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 recognized at the balance sheet date using expected credit loss, as will be mentioned below. Due to the different methodologies applied, the amounts of incurred credit losses charged to the financial Statements are usually lower than the expected amount determined from the expected loss models used.

Credit quality of financial instruments

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

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

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

Credit quality classification

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

* Customer risk rating

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

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

(All amounts in EGP 000)

31 December 2021	Strong	Good	Satisfactory	Sub-Standard	Credit Impairment	Total	Allowance /Provision for ECL	Net
Loans and advances to customers at amortized cost								
Stage 1	5,966,557	3,293,614	14,003,120	1,986,526	-	25,249,817	(77,511)	25,172,306
Stage 2	133,595	85,422	1,717,777	4,961,925	-	6,898,719	(395,386)	6,503,333
Stage 3	-	-	-	-	3,912,141	3,912,141	(2,128,516)	1,783,625
Total as of 31 December 2021	**6,100,152**	**3,379,036**	**15,720,897**	**6,948,451**	**3,912,141**	**36,060,677**	**(2,601,413)**	**33,459,264**

(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**

The net amount is not including interest in suspense amounted EGP 647,889 thousand on Dec 2021 against EGP 840,908 thousands on Dec 2020.

31 December 2021	Loans and advances to customers	Allowance / provision for ECL
Stage 1	70.02%	0.31%
Stage 2	19.13%	5.73%
Stage 3	10.85%	54.41%
	100%	**7.77%**
31 December 2020	**Loans and advances to customers**	**Allowance / provision for ECL**
Stage 1	66.10%	0.27%
Stage 2	24.84%	5.02%
Stage 3	9.06%	57.63%
	100%	**7.12%**

Reconciliation of changes in gross carrying / nominal amount and allownaces for loans and advances customers

(All amounts in EGP 000)

	Non Credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
December 2021	**Gross carrying / nominal amount**	**Allowance for ECL**	**Gross carrying / nominal amount**	**Allowance for ECL**	**Gross carrying / nominal amount**	**Allowance for ECL**	**Gross carrying / nominal amount**	**Allowance for ECL**
As at 1 January 2021	26,309,774	(71,634)	9,884,949	(495,743)	3,606,808	(2,078,578)	**39,801,531**	**(2,645,955)**
Transfer from stage 1 to stage 2	(11,194,949)	25,328	11,194,949	(25,328)	-	-	**-**	**-**
Transfer from stage 2 to stage 1	8,266,427	(44,489)	(8,266,427)	44,489	-	-	**-**	**-**
Transfer to stage 3	-	-	(1,316,674)	53,309	1,316,674	(53,309)	**-**	**-**
Transfer from stage 3	-	-	358,981	(81,870)	(358,981)	81,870	**-**	**-**
ECL Other movement	-	13,284	-	109,757	-	(78,499)	**-**	**44,542**
Balance volume movement	1,868,565	-	(4,957,059)	-	(652,360)	-	**(3,740,854)**	**-**
As at 31 December 2021	**25,249,817**	**(77,511)**	**6,898,719**	**(395,386)**	**3,912,141**	**(2,128,516)**	**36,060,677**	**(2,601,413)**

	Non Credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
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)**

Gross balances and Expected credit losses by stages

	31 December 2021				31 December 2020			
	Stage One	Stage two	Stage three	Total	Stage One	Stage two	Stage three	Total
Cash and balances at CBE	938	-	-	938	1,117	-	-	1,117
Due from banks / Loans to banks	7,277	-	-	7,277	6,532	-	-	6,532
Loans and advances to Customers	77,511	395,386	2,128,516	2,601,413	71,634	495,744	2,078,577	2,645,955
Other Assets	1,597	130	-	1,727	403	571	-	974
Financial Investment	13,383	-	-	13,383	11,325	-	-	11,325
Credit Commitments	48,603	286,554	31,732	366,889	38,980	357,145	11,902	408,027
Total	**149,309**	**682,070**	**2,160,248**	**2,991,627**	**129,991**	**853,460**	**2,090,479**	**3,073,930**

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 period.

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

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

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

A.5. Maximum limits for credit risk before collaterals

	2021	2020
Balance sheet items exposed to credit risks		
Due from banks	35,643,270	23,217,899
Loans to banks	337,144	206,507
Loans and advances to customers:		
Retail loans:		
Overdrafts	78,584	57,601
Credit cards	1,545,599	1,404,560
Personal loans	4,148,791	4,195,543
Mortgage loans	1,019	1,858
Corporate loans:		
Overdrafts	2,608,508	2,910,366
Direct loans	17,988,192	20,313,218
Syndicated loans	9,689,984	10,918,385
Financial derivative instruments	189,285	110,233
Financial investments:		
Debt instruments	51,131,200	45,805,949
Other assets	1,559,016	1,466,811
Total	**124,920,592**	**110,608,930**
Off-balance sheet items exposed to credit risk		
Loan commitments and other irrevocable commitments related to credit	2,595,251	3,358,260
Letters of credit	1,961,344	944,528
Letters of guarantee	27,697,738	27,488,915
Total	**32,254,333**	**31,791,703**

The above table represents the maximum limit for credit risk as of 31 Dec 2021 and 31 December 2020, 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, 28.87% as of 31 December 2021, of the total maximum limit exposed to credit risk resulted from loans and advances to customers against 36.09% as of 31 December 2020 while 40.93% as of 31 December 2021 represents investments in debt instruments against 41.53% as of 31 December 2020.

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:

- 85.69% as of 31 December 2021, of the loans and advances portfolio having no past due or impairment indicators against 89.97% as of 31 December 2020.
- Loans and advances that have been assessed for impairment individually reached an amount of EGP 4,099,984 thousand as of 31 December 2021, against EGP 3,606,808 thousand as of 31 December 2020.
- Investments in debt instruments and Treasury bills due from the Egyptian government reached 100%.

A.6. Debt instruments and treasury bills

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

December 2021	Treasury Bills	Investments In Securities	Total
Less than B+	34,131,632	16,999,568	51,131,200
Total	**34,131,632**	**16,999,568**	**51,131,200**

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

Geographical sectors

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

	Arab Republic of Egypt				
	Cairo	**Alexandria and Delta**	**Upper Egypt, Sinai and Red sea**	**Other countries**	**Total EGP (000)**
Due from banks	19,071,564	-	-	16,571,706	**35,643,270**
Loans and advances to banks	268,570	-	-	68,574	**337,144**
Loans and advances to customers					
Retail:					
Overdrafts	69,770	6,723	2,091	-	**78,584**
Credit cards	1,545,599	-	-	-	**1,545,599**
Personal loans	3,708,896	331,084	108,811	-	**4,148,791**
Mortgage loans	1,019	-	-	-	**1,019**
Corporate:					
Overdrafts	2,102,215	504,604	1,689	-	**2,608,508**
Direct loans	15,668,768	2,313,079	6,345	-	**17,988,192**
Syndicated loans	9,522,546	15,517	151,921	-	**9,689,984**
Derivative financial instruments	189,285	-	-	-	**189,285**
Financial investment:					
Debt instruments	51,131,200	-	-	-	**51,131,200**
Other assets	1,535,786	21,981	1,249	-	**1,559,016**
Total as at 31 December 2021	**104,815,218**	**3,192,988**	**272,106**	**16,640,280**	**124,920,592**
Total as at 31 December 2020	**96,466,777**	**3,162,896**	**356,037**	**10,623,220**	**110,608,930**

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	Central	Individuals	Total
Due from banks	-	-	-	35,643,270	-	-	**35,643,270**
Loans and advances to banks	-	-	-	-	337,144	-	**337,144**
Loans and advances to customers							
Retail:							
Overdrafts	-	-	-	-	-	78,584	**78,584**
Credit cards	-	-	-	-	-	1,545,599	**1,545,599**
Personal loans	-	-	-	-	-	4,148,791	**4,148,791**
Mortgage loans	-	-	-	-	-	1,019	**1,019**
Corporate:							
Overdrafts	1,818,557	372,870	408,846	4,373	3,862	-	**2,608,508**
Direct loans	10,233,583	2,707,663	4,671,024	-	375,922	-	**17,988,192**
Syndicated loans	2,583,466	776,590	919,664	3,908,829	1,501,435	-	**9,689,984**
Derivative financial instruments	-	-	189,285	-	-	-	**189,285**
Financial investment:							
Debt instruments	-	-	-	51,131,200	-	-	**51,131,200**
Other assets	-	-	-	-	1,559,016	-	**1,559,016**
Total as at 31 December 2021	**14,635,606**	**3,857,123**	**6,188,819**	**90,687,672**	**3,777,379**	**5,773,993**	**124,920,592**
Total as at 31 December 2020	**16,619,078**	**4,292,314**	**5,936,218**	**73,854,157**	**4,247,601**	**5,659,562**	**110,608,930**

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 investments at amortized cost and at FVOCI portfolios.

B.1. Market risk measurement techniques

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

Value at risk

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

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

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

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

The average daily VAR for the Bank during the current period was EGP 344,101 thousand against EGP 370,837 thousand for 31 December 2020.

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

	2021			2020		
	Average	**High**	**Low**	**Average**	**High**	**Low**
Foreign exchange risk	343,724	1,112,758	20,086	370,208	781,445	14,847
Interest rate risk	377	864	63	629	1,196	220
Total VAR	**344,101**	**1,113,622**	**20,149**	**370,837**	**782,641**	**15,067**

Trading portfolio VAR by risk type

	2021			2020		
	Average	High	Low	Average	High	Low
Foreign exchange risk	343,724	1,112,758	20,086	370,208	781,445	14,847
Interest rate risk	409	676	236	220	488	79
Total VAR	**344,133**	**1,113,434**	**20,322**	**370,428**	**781,933**	**14,926**

Non-trading portfolio VAR by risk type

	2021			2020		
	Average	High	Low	Average	High	Low
Interest rate risk	409	817	47	739	1,290	236
Total VAR	**409**	**817**	**47**	**739**	**1,290**	**236**

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:

2021	EGP	USD	EUR	GBP	Other	Total
Financial assets:						
Cash and balances with Central bank	(8,370,239)	(191,496)	(41,798)	(29,702)	(10,393)	**(8,643,628)**
Due from banks	(14,885,593)	(18,824,381)	(211,395)	(1,504,672)	(209,952)	**(35,635,993)**
Loans and advances to banks	(268,570)	(68,574)	-	-	-	**(337,144)**
Loans and advances to customers	(21,730,756)	(6,823,488)	(4,227,529)	(29,602)	-	**(32,811,375)**
Derivative financial instruments	(189,285)	-	-	-	-	**(189,285)**
Financial investments:						
Financial investment at Fair value through other comprehensive income	(16,338,328)	(721,185)	-	-	-	**(17,059,513)**
Treasury bills	(26,335,970)	(7,795,662)	-	-	-	**(34,131,632)**
Other financial assets	(1,459,234)	(79,518)	(18,707)	(1,557)	-	**(1,559,016)**
Total financial assets	**(89,577,975)**	**(34,504,304)**	**(4,499,429)**	**(1,565,533)**	**(220,345)**	**(130,367,586)**
Financial liabilities						
Due to banks	1,264,171	116,400	34,482	261	239	**1,415,553**
Customer deposits	64,022,610	36,794,976	3,684,777	1,544,527	404,231	**106,451,121**
Financial derivative	267,191	-	-	-	-	**267,191**
Other financial liabilities	2,085,776	524,598	187,169	2,813	2,754	**2,803,110**

Total financial liabilities	**67,639,748**	**37,435,974**	**3,906,428**	**1,547,601**	**407,224**	**110,936,975**
Net financial position	**(21,938,227)**	**2,931,670**	**(593,001)**	**(17,932)**	**186,879**	**(19,430,611)**
Commitments related to credit and contingent liabilities	**14,930,635**	**14,868,714**	**2,141,558**	**10,781**	**302,645**	**32,254,333**
2020						
Total financial assets	**(78,118,815)**	**(31,347,211)**	**(5,439,204)**	**(95,017)**	**(247,500)**	**(115,247,747)**
Total financial liabilities	**59,678,088**	**33,741,899**	**4,209,139**	**1,339,393**	**309,797**	**99,278,316**
Net financial position – balance sheet	**(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**

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:

2021	**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	-	-	-	-	-	(8,643,628)	**(8,643,628)**
Due from banks	(30,140,011)	(4,059,199)	-	-	-	(1,436,783)	**(35,635,993)**
Loans and advances to banks	-	(337,144)	-	-	-	-	**(337,144)**
Loans and advances to customers	(11,615,414)	(1,439,197)	(1,829,303)	(17,927,461)	-	-	**(32,811,375)**
Financial derivatives	(189,285)	-	-	-	-	-	**(189,285)**
Financial investments:							
Financial investment at Fair value through other comprehensive income	-	(613,019)	(3,717,622)	(12,565,475)	(103,452)	(59,945)	**(17,059,513)**
Treasury bills	-	-	(34,131,632)	-	-	-	**(34,131,632)**
Other financial assets	-	-	-	-	-	(1,559,016)	**(1,559,016)**
Total financial assets	**(41,944,710)**	**(6,448,559)**	**(39,678,557)**	**(30,492,936)**	**(103,452)**	**(11,699,372)**	**(130,367,586)**
Financial liabilities							
Due to banks	-	-	-	-	-	1,415,553	**1,415,553**
Customer deposits	37,597,034	6,125,451	6,694,820	13,249,373	4,486	42,779,957	**106,451,121**
Financial derivatives	267,191	-	-	-	-	-	**267,191**

Other financial liabilities	9,124	-	-	-	2,072,000	721,986	**2,803,110**
Total financial liabilities	**37,873,349**	**6,125,451**	**6,694,820**	**13,249,373**	**2,076,486**	**44,917,496**	**110,936,975**
Interest repricing gap	**(4,071,361)**	**(323,108)**	**(32,983,737)**	**(17,243,563)**	**1,973,034**	**33,218,124**	**(19,430,611)**
2020							
Total financial assets	**(30,946,773)**	**(6,640,116)**	**(35,704,031)**	**(31,201,074)**	**(199,366)**	**(10,556,387)**	**(115,247,747)**
Total financial liabilities	**33,396,423**	**3,547,581**	**8,302,536**	**11,379,895**	**2,076,290**	**40,575,591**	**99,278,316**
Interest repricing gap	**2,449,650**	**(3,092,535)**	**(27,401,495)**	**(19,821,179)**	**1,876,924**	**30,019,204**	**(15,969,431)**

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.

2021

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

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**

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

2021

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

2020

	Up to 1 year	Over 1 year and less 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**

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 (84,823) thousand as of 31 December 2021, against EGP 77,160 thousand for the year ended 31 December 2020.

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.

2021

	Book value	Fair value
Financial assets		
Due from banks	35,635,993	35,634,151
Loans and advances to banks	337,144	337,144
Loans and advances to customers		
Retail	5,773,993	5,772,316
Corporate	30,286,684	27,951,892
Financial liabilities		
Due to banks	1,415,553	1,626,085
Customer deposits		
Retail	57,014,426	57,086,150
Corporate	49,436,695	49,498,887
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.

Financial investments

Financial investments shown in the above schedule includes only investments at amortized cost as investments at FVOCI are measured at fair value except for equity instruments whose market value cannot be reliably determined. Fair value of investments at amortized cost is based on market prices or broker prices. Fair value is estimated using quoted market prices for financial paper with similar credit maturity and yield characteristics where information is not available.

Due to banks and customers

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

E. Capital management

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

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

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

CBE requires the following from the Bank:

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

The numerator in capital adequacy comprises the following two tiers:

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

The denominator of the capital adequacy comprises:

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

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

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

	2021	**2020**
Capital		
Tier 1 after disposals (going concern capital) (1)		
Share capital	2,795,567	2,795,567
Reserves	3,786,566	3,602,899
General risk Reserve	491,666	491,666
Retained earnings	7,236,320	4,202,836
Additional going concern capital	208,113	3,210,566
Change in fair value of investments at FVOCI	138,173	218,260
Total disposals from going concern capital	(1,088,379)	(790,644)
Total going concern capital after disposals (common equity)	**13,568,026**	**13,731,150**

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	149,309	129,992
Total tier 2 after disposals (gone concern capital)	**2,221,309**	**2,201,992**
Total capital adequacy after disposals (1+2)	**15,789,335**	**15,933,142**
Risk (credit, market and operational)		
Credit risk	53,674,394	51,330,167
Capital requirements for market risk	452,040	468,950
Capital requirements for operational risk	12,841,230	13,292,440
Total credit, market and operational risks	**66,967,664**	**65,091,557**
Capital adequacy ratio (%)	**23.58%**	**24.48%**

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:

	2021	2020
Tier 1 after disposals (going concern capital)	**13,568,027**	**13,731,151**
Total on-balance sheet exposures, derivatives contracts and financial papers operations	131,359,691	115,809,852
Total off- balance sheet exposures	21,340,795	21,619,045
Total on-balance sheet and off-balance sheet exposures	**152,700,486**	**137,428,897**
Leverage financial ratio (%)	**8.89%**	**9.99%**

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 75 pr cent, the Downside scenario 15 per cent, the Upside 5 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.

	2021	2020
IFRS 9 ECL sensitivity to future economic conditions*		
ECL coverage of financial instruments as at 31 December 2020**		
Reported ECL (EGPm)	505	641
Gross carrying/nominal amount (EGPm)***	193,116	173,129
Reported ECL coverage (percentage)	0.26%	0.37%
Coverage ratio by scenario (percentage)		
Consensus Upside scenario	0.16%	0.26%
Consensus Downside scenario	0.35%	0.45%
Consensus Additional downside scenario	0.44%	0.90%
Consensus Central scenario	0.22%	0.35%

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

Retail analysis

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

	2021	2020
IFRS 9 ECL sensitivity to future economic conditions*		
ECL coverage of financial instruments as at 31 December 2020**		
Reported ECL (EGPm)	44	118
Gross carrying/nominal amount (EGPm)	5,774	5,660
Reported ECL coverage (percentage)	0.77%	2.08%
Coverage ratio by scenario (percentage)		
Consensus Upside scenario	0.49%	1.84%
Consensus Downside scenario	0.75%	2.20%
Consensus Additional downside scenario	0.82%	3.39%
Consensus Central scenario	0.56%	1.99%

* 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 apllied

Economic scenarios sensitivity analysis of ECL estimates

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

4. Significant accounting estimates and assumptions

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

A. Expected credit loss measuremet

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

B. Fair valuation of Financial investments

Refer to note “F. Valuation of financial instruments”

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 derivative amounted to EGP 189,285 thousand in assets against EGP 267,191 thousand in liabilities that represent its fair value. note (19)

D. Income tax

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

5. Segment analysis

A. By activity segment

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

- **Large enterprises medium and small**

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

- **Investment**

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

- **Individuals**

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

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

31 December 2021

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

31 December 2020

	Corporate	Investment	WPB	Central	Total
Income and expenses according to activity segment					
Income activity segment	3,606,242	2,407,449	2,143,812	60,645	**8,218,148**
Expenses activity segment	(943,801)	(151,171)	(1,163,449)	(49,260)	**(2,307,681)**
Provisions	(750,058)	29,040	(80,499)	(3,065)	**(804,582)**
Profit before tax	**1,912,383**	**2,285,318**	**899,864**	**8,320**	**5,105,885**
Tax	(1,186,356)	(208,131)	(104,676)	-	**(1,499,163)**
Profit for the year	**726,027**	**2,077,187**	**795,188**	**8,320**	**3,606,722**
Assets and liabilities according to activity segment					
Assets activity segment	36,862,742	68,181,880	5,460,096	5,989,109	**116,493,827**
Total assets	**36,862,742**	**68,181,880**	**5,460,096**	**5,989,109**	**116,493,827**
Liabilities activity segment	37,867,818	3,790,145	49,514,157	10,324,114	**101,496,234**
Total liabilities	**37,867,818**	**3,790,145**	**49,514,157**	**10,324,114**	**101,496,234**

B. Analysis according to the geographical segment

31 December 2021

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

31 December 2020

	Arab Republic of Egypt			
	Cairo	**Alexandria and Delta**	**Upper Egypt, Sinai and Red sea**	**Total**
Income and expenses according to geographical segment				
Income geographical segment	7,894,800	278,011	45,337	**8,218,148**
Expenses geographical segment	(2,253,797)	(40,550)	(13,334)	**(2,307,681)**
Provisions	(789,678)	(14,924)	20	**(804,582)**
Profit before tax	**4,851,325**	**222,537**	**32,023**	**5,105,885**
Tax	(1,424,420)	(65,340)	(9,403)	**(1,499,163)**
Profit for the year	**3,426,905**	**157,197**	**22,620**	**3,606,722**
Assets and liabilities according to geographical segment				
Assets geographical segment	112,341,669	3,134,210	1,017,948	**116,493,827**
Total assets	**112,341,669**	**3,134,210**	**1,017,948**	**116,493,827**
Liabilities geographical segment	92,480,980	6,365,376	2,649,878	**101,496,234**
Total liabilities	**92,480,980**	**6,365,376**	**2,649,878**	**101,496,234**

6. Net interest income

	2021	2020
Interest from loans and similar income:		
Loans and advances to customers	3,390,884	3,450,748
Treasury bills	3,159,156	4,055,119
Deposits and current accounts	582,025	498,941
Financial Investments at FVOCI	2,012,400	1,206,626
	9,144,465	**9,211,434**
Interest on deposits and similar expenses:		
Deposits and current accounts:		
Banks	(1,121)	(1,056)
Customers	(2,575,651)	(2,518,978)
Other loans	(232,615)	(266,334)
	(2,809,387)	**(2,786,368)**
Net	**6,335,078**	**6,425,066**

7. Net fees and commissions income

	2021	2020
Fees and commissions income:		
Fees and commissions related to credit	1,182,240	1,004,986
Custody fees	49,989	52,734
Other fees	5,340	4,354
	1,237,569	**1,062,074**
Fees and commissions expenses:		
Brokerage fees paid	(5,008)	(5,009)
Other fees paid	(231,222)	(182,366)
	(236,230)	**(187,375)**
Net	**1,001,339**	**874,699**

8. Dividends

	2021	2020
Equity instruments	14,727	12,121
Investments in subsidiaries	-	602
Net	**14,727**	**12,723**

9. Net trading income

	2021	2020
Foreign exchange operations:		
Gain from foreign currency transactions	375,747	603,323
Gain from debt instruments held for trading	80,141	211,999
Gain from forward deals revaluation and currency swap	(7)	36
Net	**455,881**	**815,358**

10. Administrative expenses

	2021	2020
Staff costs		
Wages, salaries and benefits	510,527	526,325
Social insurance	25,726	26,288
End of Service Compensation	89,214	56,972
	625,467	**609,585**
Other administrative expenses	1,901,202	1,698,096
	2,526,669	**2,307,681**

11. Other operating income (expense)

	2021	2020
(Loss)/Gain 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	(2,767)	2,446
Gain /(Loss) from sale of property and equipment	11,457	(9,661)
Operating lease	80,202	59,034
Investment property depreciation	(10,102)	(11,514)
Other provision	(7,310)	(264,381)
Gain from money market funds	1,432	1,560
Head office services' revenue	72,240	47,692
Other	696	348
Net	**145,848**	**(174,476)**

12. Credit impairment recovered (charged)

	2021	2020
Loans and advances to customers		
Loans and advances to customers	(447,406)	(587,176)
Cash and balances with Central Bank	179	5,553
Due from Banks	(745)	1,822
Financial Investments	(2,058)	38,418
Other assets	(753)	1,182
Net	**(450,783)**	**(540,201)**

13. Income tax expenses

	2021	2020
Current taxes	(1,600,000)	(1,589,778)
Prior year adjustments	28,912	78,044
Deferred tax (note 31)	(5,906)	12,571
Net	**(1,576,994)**	**(1,499,163)**

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

	2021	2020
Profit before tax	4,977,601	5,105,885
Tax rate	22.50%	22.50%
Income tax calculated on accounting profit	**1,119,960**	**1,148,824**
Add		
Unrecognized tax expenses	457,034	350,339
Net income tax	**1,576,994**	**1,499,163**
Effective tax rate	**31.68%**	**29.36%**

Taxation position

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

A. Corporate tax

Years since inception till year 2018

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

Year 2019
Tax inspection preparations in progress.

Year 2020
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 until 2020

Tax inspection preparations in progress.

C. Stamp duty tax

From 1982 to 2020

These years were inspected and tax was fully settled.

14. Earnings per share

Basic

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

	2021	2020
Net profit distributable for the year	3,400,607	3,606,722
Employees' profit share (estimated)	(419,306)	(367,333)
Profit attributable to shareholders of the bank	**2,981,301**	**3,239,389**
Common shares issued - weighted average (1,000 shares)	33,281	33,281
Earnings per share/EGP	**89.58**	**97.33**

15. Cash and balances with the Central Bank of Egypt

	2021	2020
Cash	1,708,113	1,678,844
Due from Central Bank (within the statutory reserve)	6,936,453	6,397,779
Impairment loss	(938)	(1,117)
	8,643,628	**8,075,506**
Non-interest-bearing balances	**8,643,628**	**8,075,506**

16. Due from banks

	2021	2020
Current accounts	1,436,783	957,364
Deposits	34,206,487	22,260,535
	35,643,270	**23,217,899**
Impairment loss	(7,277)	(6,532)
	35,635,993	**23,211,367**
Due from Central Bank (other than the statutory reserve)	16,867,241	11,733,651
Local banks	2,204,323	929,669
Foreign banks	16,571,706	10,554,579
	35,643,270	**23,217,899**
Impairment loss	(7,277)	(6,532)
	35,635,993	**23,211,367**
Non-interest-bearing balances	1,436,783	957,364
Interest-bearing balances	34,206,487	22,260,535
	35,643,270	**23,217,899**
Impairment loss	(7,277)	(6,532)
	35,635,993	**23,211,367**
Current balances	**35,635,993**	**23,211,367**

17. Loans and advances to banks

	2021	2020
Term loans	337,144	206,507
Total	**337,144**	**206,507**
Current balances	268,570	137,866
Non-current balances	68,574	68,641
	337,144	**206,507**
Interest bearing balances	337,144	206,507

18. Loans and advances to customers

	2021	2020
Retail:		
Overdrafts	78,584	57,601
Credit cards	1,545,599	1,404,560
Personal loans	4,148,791	4,195,543
Mortgage loans	1,019	1,858
Total	**5,773,993**	**5,659,562**
Corporate loans including small loans for economic activities:		
Overdrafts	2,608,508	2,910,366
Direct loans	17,988,192	20,313,218
Syndicated loans	9,689,984	10,918,385
Total	**30,286,684**	**34,141,969**
Total loans and advance to customers	**36,060,677**	**39,801,531**
Less: provision for impairment losses	(2,601,413)	(2,645,955)
Less: interest in suspense	(647,889)	(840,908)
Net	**32,811,375**	**36,314,668**

During the year ended 31 December 2021, the Bank has accepted trading financial securities with a fair value amounting to EGP 481,053 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 2021

	Retail				
	Overdrafts	**Credit cards**	**Personal loans**	**Mortgage loans**	**Total**
Balance at 1 January 2021	**6,110**	**44,639**	**66,955**	**10**	**117,714**
Impairment losses charged/(released)	(4,733)	519	(8,122)	(10)	**(12,346)**
Amounts written off during the year	(251)	(41,582)	(44,991)	-	**(86,824)**
Amounts recovered during year	75	12,513	13,041	-	**25,629**
Foreign revaluation difference related to provision	(8)	-	(65)	-	**(73)**
Balance at the end of the year	**1,193**	**16,089**	**26,818**	**-**	**44,100**

	Corporate			
	Overdrafts	**Direct loans**	**Syndicated loans**	**Total**
Balance at 1 January 2021	**389,889**	**1,891,317**	**247,035**	**2,528,241**
Impairment losses charged	875,376	(387,424)	(28,200)	**459,752**
Amounts written off during the year	(11,193)	(411,850)	-	**(423,043)**
Amounts recovered during year	6,516	-	-	**6,516**
Foreign revaluation difference related to provision	-	(14,153)	-	**(14,153)**
Balance at the end of the year	**1,260,588**	**1,077,890**	**218,835**	**2,557,313**

31 December 2020

	Retail				
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Total
Balance at the beginning of the year	1,354	14,405	34,958	4	**50,721**
Impairment losses reversed	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			
	Overdrafts	Direct loans	Syndicated loans	Total
Balance at the beginning of the year	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**

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 2021

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

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)**

20. Financial investments

	2021	2020
Equity instruments unlisted (at cost)	31,964	31,151
Debt instruments listed (at FMV)*	16,999,568	12,118,332
Debt instruments unlisted (mutual fund)**	27,981	25,555
Total financial investments	**17,059,513**	**12,175,038**
Current balances	4,330,641	469,623
Non-current balances	12,728,872	11,705,415
	17,059,513	**12,175,038**
Fixed interest debt instruments	16,999,568	12,118,332
	16,999,568	**12,118,332**

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

31 December 2021

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

31 December 2020

Balance at beginning of the year	**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**

Debt instruments include local bonds amounting to EGP 16,999,568 thousand (EGP 12,118,332 in 31 December 2020) secured by the Egyptian Ministry of Finance.

Financial Investments details

	Fair value 2021	Fair value 2020	Book value 2021	Book value 2020	Cost/Amortised cost 2021	Cost/Amortised cost 2020
Equity instruments unlisted (at cost)	-	-	31,964	31,151	25,536	24,975
Debt instruments listed (at FMV)	16,999,568	12,118,332	16,999,568	12,118,332	16,885,429	11,960,578
Mutual Fund	27,981	25,555	27,981	25,555	9,142	9,142
	17,027,549	**12,143,887**	**17,059,513**	**12,175,038**	**16,920,107**	**11,994,695**

21. Treasury bills

	2021	2020
Treasury bills - Egyptian **	30,209,941	30,542,401
Treasury bills - American	3,921,691	3,145,216
Total	**34,131,632**	**33,687,617**

Treasury bills represent the following:

	2021	2020
91 days maturity	-	699,210
182 days maturity	196,580	974,287
273 days maturity	1,436,778	2,506,283
364 days maturity	32,498,274	29,507,837
Total	**34,131,632**	**33,687,617**

**Treasury bills fair value reserve reached EGP (14,617) as of 31 Dec 2021 against EGP 26,591 as of 31 December 2020 (with net change of EGP (41,208) thousands).

Financial investment details

	Fair value 2021	Fair value 2020	Book value 2021	Book value 2020	Cost/Amortised cost 2021	Cost/Amortised cost 2020
Treasury bills	34,131,632	33,687,617	34,131,632	33,687,617	34,146,249	33,661,026
	34,131,632	**33,687,617**	**34,131,632**	**33,687,617**	**34,146,249**	**33,661,026**

22. Investment in subsidiaries

The Bank's net investment in subsidiaries amounted to EGP35,517 thousand (EGP35,517 thousand as at 31 December 2021).

31 December 2021

	Company's country	Company's assets	Company's liabilities (without equity)	Company's revenues	Company's loss	%
HSBC Securities Egypt Company SAE	Egypt	27,305	6,972	6,385	(8,826)	98%
Total		**27,305**	**6,972**	**6,385**	**(8,826)**	

31 December 2020

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

23. Intangible assets

	Computer software	
	2021	**2020**
Balance at the beginning of the current year		
Cost	288,246	84,473
Accumulated amortisation	(68,496)	(27,913)
Impairment provision	(43,457)	-
Net book value at the beginning of the current year	**176,293**	**56,560**
Additions	255,020	206,690
Disposals (Cost)	(6,104)	(2,917)
Disposals (Accumulated depreciation)	-	960
Amortisation	(78,842)	(41,543)
Impairment provision	-	(43,457)
Net book value as at end of year	**346,367**	**176,293**
Balance at the end of the current year		
Cost	537,162	288,246
Accumulated amortisation	(147,338)	(68,496)
Impairment provision	(43,457)	(43,457)
Net book value as at end of year	**346,367**	**176,293**

24. Other assets

	2021	2020
Accrued revenues	1,452,299	1,140,874
Prepaid expenses	23,234	37,233
Ownership assets transferred to B&D	10,293	-
Costs of branches under construction	18,177	19,387
Due from CBE from selling Gov bills and bonds	106,717	325,937
Others	673,264	326,631
Impairment loss	(1,727)	(974)
Total	**2,282,257**	**1,849,088**

25. Fixed assets

	Land and buildings	Leasehold improvement	Machines and equipment	Others	Total
Balance as at the beginning of the current year					
Cost	341,997	269,127	222,785	183,928	**1,017,837**
Accumulated depreciation	(192,860)	(128,222)	(133,049)	(97,528)	**(551,659)**
Net book value at the beginning of the current year	**149,137**	**140,905**	**89,736**	**86,400**	**466,178**
Additions	-	2,876	233,468	17,071	**253,415**
Transferred from Fixed assets (Cost)	20,671	-	-	-	**20,671**
Transferred from Fixed assets (accumulated depreciation)	(9,336)	-	-	-	**(9,336)**
Disposals (cost)	(5,140)	(14,867)	(14,925)	(35,060)	**(69,992)**
Disposals (accumulated depreciation)	2,820	13,324	14,236	34,863	**65,243**
Depreciation for the year	(11,923)	(39,988)	(30,138)	(22,344)	**(104,393)**
Net book value at the end of the year	**146,229**	**102,250**	**292,377**	**80,930**	**621,786**
Balance as at the end of the current year					
Cost	357,528	257,136	441,328	165,939	**1,221,931**
Accumulated depreciation	(211,299)	(154,886)	(148,951)	(85,009)	**(600,145)**
Net book value at the end of the year	**146,229**	**102,250**	**292,377**	**80,930**	**621,786**

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.

	2021	2020
Balance at the beginning of the year		
Cost	183,783	124,468
Accumulated depreciation	(100,256)	(62,243)
Net book value at the beginning of the year	**83,527**	**62,225**
Transferred to fixed assets (Cost)	(20,671)	59,315
Transferred to fixed assets (accumulated depreciation)	9,336	(26,499)
Depreciation	(10,101)	(11,514)
Net book value as at the end of year	**62,091**	**83,527**
Balance at the end of the year		
Cost	163,112	183,783
Accumulated depreciation	(101,021)	(100,256)
Net book value as at the end of year	**62,091**	**83,527**

27. Due to banks

	2021	2020
Current accounts	1,415,553	2,462,336
	1,415,553	**2,462,336**
Central bank	7,724	11,431
Foreign banks	1,407,829	2,450,905
	1,415,553	**2,462,336**
Non-interest-bearing balances	1,415,553	2,462,336
	1,415,553	**2,462,336**
Current Balances	**1,415,553**	**2,462,336**

28. Customers' deposits

	2021	2020
Demand deposits	42,845,955	34,421,663
Time and call deposits	22,501,074	22,455,218
Certificates of deposits	14,161,670	10,140,510
Saving deposits	24,827,364	21,392,573
Other deposits	2,115,058	1,810,009
	106,451,121	**90,219,973**
Corporate deposits	49,436,695	38,450,117
Retail deposits	57,014,426	51,769,856
	106,451,121	**90,219,973**
Non-interest bearing balances	42,779,957	35,879,505
Fixed interest bearing balances	63,671,164	54,340,468
	106,451,121	**90,219,973**

Customers' deposits include deposits of EGP 1,814,936 thousand as of 31 December 2021 against EGP 1,493,388 thousand as of 31 December 2020, which represent collateral for irrecoverable commitments. There is no major difference between its carrying value and fair value.

29. Other liabilities

	2021	2020
Accrued interest	337,330	358,013
Deferred income	102,159	84,877
Accrued expenses	377,760	365,983
Creditors	706,885	2,270,947
Due to CBE from selling Gov bills and bonds	6,896	1,509,754
Other credit balances	826,133	389,155
Total	**2,357,163**	**4,978,729**

30. Other provisions

	Provision for claims		Provision for contingent liabilities		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Balance at the beginning of the year	47,933	45,528	408,027	205,700	455,960	251,228
Formed during the year	48,765	59,590	-	204,793	48,765	264,383
Provisions valuation differences	(11)	(98)	(325)	(724)	(336)	(822)
	96,687	**105,020**	407,702	409,769	**504,389**	**514,789**
Used during the year	(41,538)	(57,085)	-	(1,742)	(41,538)	(58,827)
No longer required	(642)	(2)	(40,813)	-	(41,455)	(2)
Balance at the end of the year	**54,507**	**47,933**	**366,889**	**408,027**	**421,396**	**455,960**

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	
	2021	**2020**	**2021**	**2020**
Fixed assets	-	-	(34,983)	(20,009)
End of service liability	127,287	103,536	-	-
Other	16,512	18,761	-	-
Total tax assets (liabilities)	**143,799**	**122,297**	**(34,983)**	**(20,009)**
Net deferred tax assets	**108,816**	**102,288**		

Deferred tax assets and liabilities movements

	Deferred tax assets		Deferred tax liabilities	
	2021	**2020**	**2021**	**2020**
Balance at the beginning of the year	122,297	105,141	(20,009)	(15,424)
Additions	21,502	17,156	(14,974)	(4,585)
Balance at the end of the year	**143,799**	**122,297**	**(34,983)**	**(20,009)**

32. Defined benefits obligations

The end of service compensation benefits amounted to EGP 566,319 thousand as of 31 December 2021 (EGP 460,160 thousand as of 31 December 2020).

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

	2021	**2020**
Liability recorded on balance sheet		
End of service compensation	566,319	460,160
Amounts recognised in income statement:		
End of service compensation (Note 10)	89,214	56,972

The principal actuarial assumptions used are as follows:

- Rates of death/disability of the British table A49-52ULT
- Rate of salary increase Sx=S20 *(1.05) ^ (X-20).
- Discount rate used (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 2021	**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 2020	**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.

According to the extraordinary general assembly decision on 17 March 2021, the authorized capital has been increased to EGP 10,000,000,000 and the procedures for the increase will be completed after the approval of the General Investment Authority.

B. Issued and paid-up capital

- The issued and paid-up capital as at 31 December 2008 amounted to EGP1,508,500,056 represented in 17,958,334 fully paid shares at par value of EGP84 each. The foreign shareholders own 94.54 per cent of the capital, which was paid in US dollars at the prevailing rates on the subscription dates
- According to the extraordinary general assembly decision on 30 November 2010, the issued capital has been increased to EGP2,078,500,116, increasing by EGP570,000,060 by issuing 6,785,715 shares
- 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
- According to the extraordinary general assembly's decision on 17 March 2021, it was approved to increase the issued capital to EGP 5,000,000,040 by an increase of EGP 2,204,432,496 representing 26,243,244 shares deducted from the bank retained earnings and the procedures for the increase will be completed after the approval of the General Investment Authority.

34. Reserves and retained earnings

	2021	2020
Reserves		
General reserve	2,348,489	2,164,822
Legal reserve	1,397,782	1,397,782
Capital reserve	40,295	40,295
Other reserves – issuance premium	6,728	6,728
Fair value reserve – available-for-sale investments	138,173	218,260
General bank risk reserve	-	66,609
General risk reserve	491,666	491,666
Total reserves at the end of the year	**4,423,133**	**4,386,162**

Reserves movements during the year are as follows:

A. General reserve

	2021	2020
Balance at the beginning of the year	2,164,822	1,883,173
Transferred from prior year profits	183,667	281,649
Balance at the end of the year	**2,348,489**	**2,164,822**

B. Legal reserve

	2021	2020
Balance at the beginning of the year	1,397,782	1,324,798
Transferred from prior year profits	-	72,984
Balance at the end of the year	**1,397,782**	**1,397,782**

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

C. Capital reserve

	2021	2020
Balance at the beginning of the year	40,295	28,791
Transferred from prior year profits	-	11,504
Balance at the end of the year	**40,295**	**40,295**

D. Reserve for excess over par value – issuance premium

	2021	2020
Balance at the beginning of the year	6,728	6,728
Balance at the end of the year	**6,728**	**6,728**

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

E. Fair value reserve

	2021	2020
Balance at the beginning of the year	218,260	175,323
Net change in investments at FVOCI – T-bills	(41,208)	9,868
Net change in investments at FVOCI – Bonds	(43,615)	67,292
Net change in investments at FVOCI – Mutual funds	2,426	2,392
Net change in investments at FVOCI – Equity instruments	252	-
Release of ECL – Debt instruments	2,058	(36,615)
Balance at the end of the year	**138,173**	**218,260**

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

F. General risk reserve

	2021	2020
Balance at the begining of the year	491,666	491,666
Balance at the end of the year	**491,666**	**491,666**

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

G. General bank risk reserves

	2021	2020
Balance at the beginning of the year	66,609	-
Transferred from previous year profit	(66,609)	66,609
Balance at the end of the year	**-**	**66,609**

H. Retained earnings

	2021	2020
Movement on retained earnings		
Balance at the beginning of the year	7,815,864	8,584,826
Amounts reserved under capital increase	(2,204,433)	-
Net profit for year	3,400,607	3,606,722
Dividends for previous year	(367,333)	(3,942,938)
Transferred to legal reserve	-	(72,984)
Transferred to banking support and development fund	(36,733)	
Actourial Losses	(42,830)	
Transferred to capital reserve	-	(11,504)
Transferred to general reserve	(183,667)	(281,649)
Transferred to genral bank risk reserve	66,609	(66,609)
Balance at the end of the year	**8,448,084**	**7,815,864**

35. Dividends

Payment of dividends is not registered unless being approved by the general assembly. The board of directors will propose to the General assembly that will held on 17March 2022 a payment of EGP 59.48 per share as cash dividends for the year 2021 with a total amount of EGP 1,979,528,066 (as per CBE decision, no dividends was paid to shareholders for the year 2020), The Board of directors will propose to the general assembly that will held on 17March 2022 to distribute EGP 419,305,818 as employees' distribution related to the profit for year 2021. (The actual employees' dividends distributed for 2020 amount to EGP 367,333,088).

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:

	2021	2020
Cash and due from the CBE (note 15)	1,708,113	1,678,844
Due from banks (note 16)	18,776,029	19,497,871
Treasury bills (note 21)	-	699,210
	20,484,142	**21,875,925**

37. Commitment and contingent liabilities

A. Legal claims

There are lawsuits filed against the bank as at 31 Dec 2021. There is no provision formed during this year against these lawsuits and refund by EGP 642 thousand and utilized the amount of EGP 1,562 thousand from legal provision during the current year.

B. Commitments for loans, guarantees and facilities

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

	2021	2020
Acceptances	873,603	468,014
Letters of guarantee	29,301,689	28,827,815
Letter of credit (import and export)	2,172,329	1,099,016
Other contingent liabilities	260,186	199,451
Commitments for loans	1,461,462	2,690,795
Cash margin	(1,814,936)	(1,493,388)
Total	**32,254,333**	**31,791,703**

C. Commitments for operating lease contracts

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

	2021	2020
Less than one year	10,476	16,594
More than one year and less than five years	10,820	17,589
Total	**21,296**	**34,183**

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	
	2021	2020
Subordinated loans (39)	2,072,000	2,072,000
	2,072,000	**2,072,000**
Interest from loans	232,615	266,334

B. Deposits from related parties

	Subsidiaries	
	2021	2020
Due to customers		
Deposits at the beginning of the financial year	40,968	43,906
Deposits received during the financial year	17,839	41
Deposits redeemed during the financial year	(32,016)	(2,979)
Deposits at the end of the financial year	**26,791**	**40,968**
The cost of deposits and similar costs	1,416	1,454

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

C. Other related party transactions

	HSBC group		Subsidiaries	
	2021	2020	2021	2020
Operating lease	47,673	34,107	1,366	1,336
Administrative costs - IT	-	-	2,271	1,501
Fees and communication income	-	-	89	42

The cost of services provided by the HSBC Group on 31 Dec 2021 amounted to EGP 938,469 thousand (EGP 840,841 thousand as of 31 Dec 2020).

	HSBC group		Subsidiaries	
	2021	2020	2021	2020
Due from banks	1,132,041	678,503		
Loans and advances to banks	68,574	68,641		
Due to banks	455,098	1,817,658		
Investments in subsidiaries	-	-	35,517	35,517
Other liabilities – rent insurance	-	-	268	268

D. Board of Directors and top management benefits

The average net monthly salary paid to the top 20 employees in the Bank for the year ended 2021 amounted to EGP 5,325 thousand (EGP 8,382 thousand average net monthly salary paid to the top 20 employees for the year ended 2020).

39. Subordinated loans

	Current interest rate	2021	2020
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 authorized for the Bank by virtue of Capital Market Law No.95 for year1992 and its Executive Regulations. The fund is managed by Hermes for Managing Mutual Funds. The certificates of the fund reached 1,000,000 certificates with an amount of EGP 100,000,000 of which 50,000 certificate (with nominal value of EGP 5,000,000) were allocated to the Bank to undertake the funds' activity.
- The Bank held as of 31 Dec 2021, 78,559 certificates amounting to EGP 9,141,998 with a redeemable value amounting to EGP 27,981,093 against 78,559 certificates amounting to EGP 9,141,998 with redeemable value amounting to EGP 25,554,906 as of 31 December 2020.
- The redeemable value of the certificate amounted to EGP 356.18 against EGP 325.30 as of 31 December 2019. The outstanding certificates reached 3,840,876 certificates against 3,600,698 certificates as of 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 5,340 thousand for the year ended 31 Dec 2021 against EGP 4,354 thousand for the year ended 31 Dec 2020 under the item of fees and commission income caption in the income statement.

41.Important Events

Adjustment to the benchmark interest rate

Regulators and central banks in various jurisdictions have convened national working groups to identify replacement rates for the interbank offer rates ('IBORs') to facilitate an orderly transition to these rates.

Traditional IBOR benchmark rates are being replaced by new refined alternative reference rates like USD Libor is being replaced by Secured Overnight Financing Rates (SOFR), GBP Libor is being replaced by Sterling Overnight Index average (SONIA), Euro Libor is being replaced by Euro Short Term Rate (ESTR), CHF Libor is being replaced by Swiss Average Overnight Rate (SARON) and JPY Libor is being replaced by Tokyo Overnight Average Rate (TONAR).

Libor rate publication is being ceased by 31st December 2021 for GBP Libor, Euro Libor, CHF Libor & JPY Libor. In case of USD Libor, 1 week & 2 months' tenor rates are being ceased by 31st December 2021 and other USD Libor tenor rates will be ceased by 30th June 2023.

Libor rates are forward looking and published for a borrowing period (e.g. 1 month, 3 months, 6 months etc) and adjusted for credit risk spread while alternate reference rates (ARR) are overnight rates based on actual transactions hence adjustments for term spread and credit spread are required so that it would be economically equivalent to its predecessor on transition

The Bank has initiated a IBOR transition programme with the objective of facilitating an orderly transition from IBOR for the group and its clients. This programme oversees the transition by each of the businesses and is led by the Managing Director, Treasury. The programme is currently focused on evaluating the impact of the IBORs transition on legacy contracts as well as new issuance of contract which would refer to alternative reference rate and the proposed changes to processes, legal contracts, IT systems and communication with counterparties and customers. The Bank has begun to engage clients to determine their ability to transition in line with the readiness of the alternative rate product availability.
In combination with the greater number of legacy contracts requiring transition, this increases the overall level of execution risk on the transition process, thus potentially increasing the level of conduct and operational risks. Our plans are being adjusted to reflect both the greater effort required and associated risks. In addition to the heightened conduct and operational risks, the process of adopting new reference rates may expose the group to an increased level of financial risk, such as potential earnings volatility resulting from contract modifications and changes in hedge accounting relationships.

Furthermore, the transition to alternative reference rates could have a range of adverse impacts on our business, including legal proceedings or other actions regarding the interpretation and enforceability of provisions in IBOR-based contracts and regulatory investigations or reviews in respect of our preparation and readiness for the replacement of IBOR with alternative reference rates. We continue to engage with industry participants, the official sector and our clients to support an orderly transition and the mitigation of the risks resulting from the transition.

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