HSBC Bank Egypt S.A.E.

Annual Report and Accounts 2019

HSBC

PUBLIC

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 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: Retail Banking and Wealth Management, 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 235,000 full-time employees.

HSBC has a primary share listing on the UK's London Stock Exchange and branch listings on the Hong Kong Stock Exchange and Bermuda Stock Exchange. Its shares are also listed on Euronext Paris and on the New York Stock Exchange.

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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 2019.

Economic review and future outlook

Egypt's economy strengthened for the third consecutive year in 2019, consolidating gains set in motion by the IMF-anchored economic reform programme initiated at the end of 2016.

The most striking gain last year was the stabilisation of domestic prices, with headline inflation dropping to 7 per cent at year-end, a fall of 7ppt on the early year high, and more than 24ppt below the cyclical peak that followed the 2016 devaluation. Core inflation also fell sharply. The trend took price growth to the lower boundary of the central bank's inflation target band, allowing it to deliver 350bps of monetary policy easing in the second half of the year. The cuts reverse much, but not all, of the prudential monetary tightening introduced in the early stages of the adjustment process, and leaves the authorities scope to cut further if prices continue to stabilise.

Alongside falling inflation, public finances also continued to normalise, with the budget deficit narrowing to 8.2 per cent of GDP in fiscal year 2018/19 – a drop of 1.5ppt year-over-year, and 4ppt of GDP below the level that preceded the start of the reform drive. Egypt also recorded a primary surplus for a second consecutive year. In line with its undertakings to the Fund, the authorities delivered a further round of subsidy cuts and continued to control closely gains in public sector wages. Although the IMF programme has been completed, the 2019/20 budget remained consistent with the rebalancing theme of the previous three years, targeting a further 1ppt drop in the deficit. The high debt stock and consequent large debt servicing bill will remain a constraint on the pace of adjustment, but policy rate cuts have already started to result in a fall in the average cost of borrowing.

Egypt's external account position also stabilised last year. The current account remained in deficit, but the shortfall was flat year-over-year at under 3 per cent. The trade position was bolstered by increases in oil and gas production, which boosted exports and cut the import bill, with Egypt becoming a net hydrocarbon exporter by the middle of the year. Non-merchandise revenues were also strong, with tourism revenues hitting a record high in the 12 months to September 2019 as international confidence in domestic security and political order continued to improve.

Non-oil merchandise exports did not strengthen meaningfully, however, with volumes and revenues falling short of expectations as they have since the reform programme began. Outside of the energy sector, FDI also continued to languish. In part, this likely reflected weak global risk appetite, but also structural shortcomings expressed in still poor scores in the World Bank's "Ease of Doing Business" and yet to be resolved by structural reform. Nevertheless, portfolio flows were very strong, with international investors owning close to USD20bn in local assets by the end of 2019, with the overwhelming investments being centred on short dated government debt. The capital surplus allowed the central bank to add to reserves, which ended 2019 at a record high for a sixth year in succession. The inflows also boosted the Egyptian Pound, which according to data was the best performing currency in the world on a carry-adjusted basis in 2019.

Growth remains firm at around 5.5-6 per cent, with net exports and consumption the prime drivers. Private sector investment was soft, and Egypt's PMI scores (a measure of the momentum in non-government economic activity) were weak into year-end. Nevertheless, ongoing economic stabilisation should boost confidence into 2020, supporting real wage growth and encouraging consumption. Lower nominal interest may also prove to be supportive of more rapid gains in corporate investment, especially if the authorities push forward with reforms that liberalise the domestic operating environment and promote the role of the private sector.

Business and operational activities

Financial Performance

For the financial year ending 31 December 2019, the Bank reported profit before tax of EGP7,418.5m, which is a 16.9 per cent increase over 2018. Profit after tax rose by 18.6 per cent, reaching EGP5,711.1m.

The Board of Directors proposed a 'full year' distribution to shareholders, of EGP3,379.6m (60 per cent of the profits available for distribution for 2019) representing a coupon for 2019 of EGP101.55 per share.

In line with legal requirements, the Board of Directors also proposed a 'full year' distribution of EGP563.3m (10 per cent of the profits available for distribution for 2019) to the Bank's employees being the profit sharing linked to performance.

The balance of the remaining profits available for appropriation, amounting to EGP1,690m, will be transferred to support the Bank's reserves and retained earnings, allocating EGP73m for the legal reserve, EGP281.6m for the general reserve and EGP1,335.4m will remain as retained earnings.

Global Banking (GB)

GB provides financial services and products to companies, governments and institutions. Our comprehensive range of products and solutions, across capital financing, advisory and transaction banking services, can be combined and customized to meet clients' specific objectives.

GB contains relationship managers and coverage teams, organised by sector, verticals, region and country to enable us to deliver seamless coverage to our clients, optimize our product capability and allow us to become more agile and holistic.

GB also offers financing and advisory services. Products include debt and equity capital raising, advisory, corporate lending, leveraged and acquisition finance, export and asset finance, real estate, infrastructure and project finance.

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

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

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

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

GB has played a pivotal role during 2019 leading the key credit and lending transactions in the country's strategic sectors including power, oil and gas, real estate and financial institutions. HSBC has been able to work with the government in many strategic situations through offering assistance by mobilising our international network of expertise and by bringing in overseas investors. GB continues to have a strong pipeline of business opportunities in the country in several sectors leveraging on the strength of HSBC's balance sheet, global network and sector expertise.

HSBC is the Bank of Choice for multinationals operating in Egypt with a distinctive international network and business model that have provided innovative solutions to multinational corporates. We are connected to a large network of international banking and finance experts while offering strong local expertise that supports 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. HSBC is focused on working with companies globally, from infrastructure giants to pharmaceutical firms to desalination experts, all keen to invest in the new development zone and to use it as a springboard to serve markets across the Middle East and South Asia.

Global Markets (GM)

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, oil and interest rate exposures. Also we are a market player offering our corporate clients tool to appropriately hedge their USD receivables through selling USD/EGP forward trades.

In 2019, HSBC Bank Egypt improved its positioning as one of the main players in the foreign exchange market. The Interbank liquidity witnessed significant improvement especially after the termination of the repatriation mechanism, while the Bank was a main contributor on the back of offshore investor inflows.

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

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

Commercial Banking (CMB)

In CMB we drive Business through:

- **Relationship management**: all CMB customers are managed, which ensures having the right expertise in each segment to well understand the customers' needs and drive growth
- **Network**: supporting our customers in their domestic and overseas business by capitalizing on the Bank's connectivity within the wider HSBC Group
- **Unique proposition**: providing our customers with the most comprehensive trade and receivables finance solutions along with leveraging on the power of our network to deliver solutions tailored to comply with the local market, our industry-leading capabilities, and being a leading trade service provider that oversees financial institutions. Customers have voted for HSBC as the "Best Trade Finance Bank in the Middle East" in the Euromoney 2020 Awards for the fourth consecutive year.
- **Customer Experience**: ensure the delivery of our products and services in a fair and transparent manner, and giving our customers the tools to raise their voice and responding to their needs with the suitable products.
- **Global Liquidity and Cash Management (GLCM)**: unique payments and cash management solutions that allow clients to more efficiently and securely process their day-to-day transactions on-line. Additionally, the team is ideally positioned to provide the full suite of treasury and cash management solutions and consultative services
- **SMEs**: focusing on driving the SMEs initiative through our SMEs dedicated team as well as our partnerships with EFG Hermes and engaging with micro finance companies directed to finance small and medium enterprise to support the Egyptian economy

In 2019, CMB was well positioned in the market, with PBT growth of 14 per cent, through partnering up with our local clients and leveraging on our network and focusing on trade corridors. This resulted in an overall enhanced customer experience, an endeavour that we will continue to drive in 2020.

Key achievements in 2019 are:

- 2019 was a strong year for our partnership with our customers. In CMB, we are proud to have acted as Joint Global Coordinator and Bookrunner on the largest IPO in Egypt since 2015. We also managed to finalise our second major successful Commodity and Structured Trade Finance (CSTF) deal with total of $185m, where HBEG's participation was $75m.
- In GLCM, we launched a number of solutions and products to customers, including the "Mobile Collections" product for corporates, helping them on their digital transformation journey. "Mobile Collections" allows businesses in Egypt to receive payments as well as providing additional security, speed and simplicity of using mobile phones. Since joining the Swift Global Payments Innovation service (GPI), customers are able to track their payments digitally at improved tracking speed and obtain confirmation about their cross- border payments to and from Egypt.
- In order to listen more closely to our customers and to increase their engagement with our senior management, the Customer Experience (CE) team conducted focus groups with customers from different sectors which were hosted by the Head of CMB and the CMB COO. The CE team encouraged customers to share their feedback about the overall relationship with the Bank.
- The CE team conducted monthly on-boarding surveys to cover all new customers and received response rates of 75-80 per cent which enabled us to streamline and shorten the on-boarding process. Currently, the majority of new-to-bank customers rate their on-boarding journey as "Excellent" and "Good". In addition, the turnaround time to on-board new customers was reduced by 75 per cent year-on-year despite doubling the number of new CMB accounts opened; which resulted in a new record in enabling account opening within 3 business days.
- In order to confirm to our customers the importance of SMEs and Business Banking segments in HSBC Bank Egypt, we launched the Business Banking proposition in a customer event with key note speakers from the Banking Regulator and prominent financial institutions.
- Leveraging on the power of our global network, we focused on trade corridors and "Belt and Road Initiative" (BRI) and established a China desk at the end of 2019 to minimise the language barrier and to deepen our wallet for further Chinese corridors in 2020.
- The simplification of the end-to-end guarantees process reduced manual steps; and a new tool additionally reduced c.70 per cent of the manually discounted alerts which in turn positively impacted the customers' journey.
- Aiming to deliver a superior Trade customer experience, we successfully completed the establishment of the Cairo Centre of Excellence during 2019.
- The launch of a number of automated solutions allowed a c.80 per cent success rate in accuracy of bills processes.
- Sustainability is a core pillar which CMB is driving to build the future and support the environment. In this respect, CMB hosted a sustainability team building event in 2019 where CMB team participated in cleaning Quaroun Lake in Fayoum.

With our unique product offering, strong local and international presence and resilient Relationship Managers and Client Management Office, we believe we are well positioned to deal with the challenges and opportunities that will present themselves in 2020.

Retail Banking and Wealth Management (RBWM)

Retail Banking and Wealth Management continued to deliver resilient and robust results in 2019, despite significant rate cuts which were witnessed throughout the year. RBWM managed to grow the balance sheet and hence increase revenue. Our strength lies in executing our well-defined strategy that focuses on premium customers while offering them a high-level standard service aiming at fulfilling our customers' financial needs.

RBWM's core strategic objective is to widen our prospect pool and to increase the market share in our target segment, through providing our customers with a wide range of financial services and global benefits. Building on our strong local, regional and global expertise and presence, we managed to serve over 200k customers. Our overall customer base grew by 2.4 per cent in 2019 while the composite of the base now weighs towards premium customers. The growth was supported by the roll-out of several initiatives and offers that aim at better customer service. The launch of the "Educational Corridor" offer is one of the key initiatives introduced to our Premier customers, leveraging on our international connectivity to assist parents in managing their children international educational needs.

The quality of products and services provided to our clients is the base of our solid and sustainable growth. HSBC thrived to continue growing its liabilities portfolio achieving a growth in the local currency portfolio of 12.7 per cent and 6.2 per cent for the foreign currency portfolio. Our risk appetite was reviewed and improved to make available credit facilities that support our customers in both their short and long term borrowing needs. In addition, we continued to review our products and pricing to ensure that we provide our customers with products that comply with regulatory regulations and our internal standards.

2019 was a prosperous year on the Wealth front and in cooperation with our insurance partner Allianz, we managed to provide our customers with the best-in-class products to meet the needs for protection and investment. The HSBC sponsored Money Market Fund has been reopened for new subscriptions for one month and has attracting EGP 330m net in new money.

One of the main pillars for supporting our growth strategy is streamlining our systems and processes by removing inefficiencies, improving the turn-around time and reducing manual intervention and overall costs. Accordingly, we launched new front-line systems to provide improved account opening and servicing journeys.

In Egypt, we are proud to offer a wide range of financial services to our customers through our network of 53 branches, our state-of-the-art internet and mobile banking platforms and call centre channel, in addition to our fleet of 191 Automatic Teller Machines (ATMs). As part of our continuous efforts to better serve our customers and to augment our presence, a new branch was opened in New Cairo and a number of our existing branches were remodelled.

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 analyse data and report to enable decision making, and
- Govern the risks through analysis, challenge and remediation.

Risk management starts with a strong risk culture, clear accountability and a formally defined risk appetite that articulates the level and types of risks the Bank will accept to achieve our strategic objectives. Our risk appetite shapes our requisite controls and dictates risk behaviour. We identify risks to our business and assess their materiality by considering their likelihood and potential customer, financial, reputational and regulatory impacts, as well as market conduct and competition outcomes. We manage these risks through a combination of limits and controls to ensure risks are within our appetite and, where necessary, these risks are escalated to senior management and risk governance committees to facilitate management decisions, challenge and remediation.

Risk governance and ownership

All employees are responsible for the management of risk, with the ultimate accountability residing with the Board. HSBC has a strong risk culture, which is embedded through clear and consistent communication and appropriate training for all employees. A comprehensive risk management framework is applied throughout the HSBC Group, with governance and corresponding risk management tools. This framework is underpinned by our risk culture and reinforced by the HSBC values.

A well-established risk governance and ownership structure ensures oversight of and accountability for the effective management of risk. The Board approves the Bank's risk appetite framework, plans and performance targets, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures.

The Board's Risk Committee is responsible for advising the Board on material risk matters and providing non-executive oversight of risk.

Under the authority delegated by the Board, the separately convened Risk Management Meeting (RMM) oversees risk management policy and the implementation of risk appetite and controls. The RMM together with the Asset and Liability Committee (ALCO) monitor all categories of risk, receive reports on actual performance and emerging issues, determine action to be taken and review the efficency of the Bank's risk management framework.

The framework is overseen by a dedicated Risk function which is independent from the global businesses, to provide challenge, appropriate oversight and balance in risk and reward decisions and is led by the Chief Risk Officer (CRO), who is the chairperson of RMM and reports to the Board Risk Committee chairman.

Risk Appetite

The Bank's approach to risk is encapsulated within our Risk Appetite Statement (RAS) which is approved by the Board.

The Risk Appetite Statement defines our desired forward-looking risk profile and informs the strategic and financial planning process. Key elements include:

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

Top and Emerging Risks

Our top and emerging risks framework helps enable us to identify forward looking risks so that we may take action either to prevent them materialising or limit their effect. Top risks are those that may have a material impact on the financial results, reputation or business model of the bank in the year ahead.
Emerging risks are those that have large unknown components and may form beyond a one-year horizon. If any of these risks were to occur, they could have a material effect on the bank.

These top and emerging risks are dynamic and broad including Geopolitical, Security, Regulatory, Information and Cyber Security/Data Integrity and Third-Party Outsourcing.

Adoption of IFRS9 "Financial Instruments"

HSBC Bank Egypt in 2018 completed the introduction of IFRS9 in accordance with HSBC Group approach and in 2019 successfully implemented IFRS9 to meet local standards established by the Central Bank of Egypt, which are now reflected in our financial statements.

People management and development

Employees

HSBC Bank Egypt employed 1,629 employees for its operations in Egypt as at 31 December 2019. 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.

2019 saw continued low levels of turnover but high levels of internal transfers and rotations. The largest transfer was experienced in our Trade Operations with 35 Full Time Employees voluntarily transferring to HSBC's Global

Service Centre located in Cairo to establish a Regional Centre of Excellence for Trade Operations. The first half of the year also saw a series of staff engagement activities such as ExConnect where all of the branches across our Egypt network received visits from an Executive Committee member to show appreciation to staff and discuss ways to improve the customer and employee experiences. The second half of the year saw the launch of Wellbeing, as well as Diversity and Inclusion activities.

Learning and Development

2019 saw continued investment in our people. Digital training resources were further expanded through tie ups with LinkedIn Learning, Degreed.com and other online learning platforms available through the HSBC University app and website. Flagship programmes supporting capital management were run in Egypt with participants from multiple countries in the HSBC Group

Diversity and Inclusion

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

Oversight of our Diversity and Inclusion agenda and related activities resides with our people leaders complemented by our country People Committee. Guidance is derived from our Group Diversity committee, supported by the Group People Committee. 2019 saw further improvement in our Diversity metrics with female colleagues making up 40 per cent of our Senior Management cadre and representing 44per cent of those on our succession lists for senior management roles.

Performance and Reward

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

HSBC Operations, Services and Technology (HOST)

In 2019, HOST continued to focus on the strategic business priorities: driving digitisation and streamlining processes; deepening business partnerships; and delivering Global Standards commitments. Customer-centricity, operational efficiency and service excellence underpinned our Transformation Agenda, and we delivered a series of strategic initiatives to uplift our digital capabilities, optimise our channels, automate and re-engineer our processes and simplify our technology.

Corporate Real Estate (CRE)

Over the past 12 months, CRE focus was directed towards finalising a study related to the location and workplace-strategy of our main office buildings, the Maadi Head Office (MHO) and Smart Village; known internally as ‘’Metro Plan exercise’’ which led to the preparation of another strategic project, ‘’Nile Project’’, that aims at refurbishing and implementing the latest open-work concepts in the Maadi Head-Office, which will enable working in a more modern, flexible, and innovative way that will better support employees and reflect the culture of HSBC.

CRE supported the business growth, via ATM and Branch location initiatives through the opening of a new Branch (Waterway Branch) located in one of the most prime locations in New Cairo to seize the business opportunities and best serve our customers. In addition, CRE applied the latest HSBC Branding guidelines to MHO façade, El Gouna and Downtown Branches reflecting improvement in the look and feel.
To improve workplace practices for better environmental sustainability, we replaced the personal bins with centralised recycling and general waste bins to achieve our reduce program targets.

Having Health and Safety as one of the key priorities in the workplace, CRE enhanced Health & Safety emergency arrangements across the portfolio through holding a series of Health & Safety workshops, awareness sessions, Branch inspections and onsite guidance conducted to all the bank.

Protective Security

HBEG Protective Security started the implementation of the latest security industrial technology standards through the deployment of integrated security systems to cover all HBEG Branches network and the off-site ATMs.

This enhancement helped to optimise physical security controls, minimise the risk related to human interference in the guarding process and to fulfil local regulatory requirements

Procurement and Supplier Risk Management

HBEG Procurement has embarked on a journey of streamlining and transformation to support the changing needs of our Bank, customers, and third-party suppliers. The function has reshaped and fundamentally changed the way we deliver our services to the business delivering in collaboration with our businesses and functions rationalising the Bank's suppliers addressable spend.

Procurement undertook a series of initiatives throughout 2019 and successfully managed to enhance the external third party risk management and its associated regulatory risk concentration, improved stakeholder's awareness and upgraded the quality of both risk assessments and data quality of HSBC external third parties related contracts via the global third party management tool "Archer".

Technology and Cyber

With an ongoing focus on Digital, we continued our strong partnership with business, supporting their growth and transformation; through the delivery of various technology solutions such as 'Track Payments', 'Direct Market Access', and streamlining printing of statements, in addition to supporting regulatory requirements such as introducing the national card 'Meeza'.

On operational resilience, the risk map rating for 'Information and Cyber Security Risk' changed from 'Red' to 'Amber' by uplifting system availability, resiliency and stability. Supporting of the infrastructure was upgraded, avoiding the risk of going out of support, and possible disruption of daily operations. All cyber alerts which were received through internal and external credible sources were properly handled; and through a strong patch management framework we were able to constantly patch our systems and their supporting infrastructure components with the latest security updates.

Multiple awareness sessions were delivered to HBEG staff, to raise staff maturity around the risks of phishing and social engineering, which demonstrated a strong acceptable level of awareness through Egypt's results in internal phishing tests conducted by HSBC. Moreover, service availability reached 99.98 per cent by end of 2019, with no major incidents with wide impact or outages reported.

Driving Digitization, Operational Transformation and Process Excellence

We continued the outsourcing of a number of bank operations processes to Global Service Centres ('GSC'), leveraging HSBC Group economies of scale, best practice and expertise. In addition, we continued a series of end-to-end reviews to streamline our processes which resulted in improving input quality, launching new strategic workflow tools, introducing digital smart forms for consumer account opening and servicing processes (launched one consolidated smart form having 21 services), reducing the turnaround time and enhancing the overall customer experience and enabling process automation/robotics.

People and Communications

To increase the level of employees' engagement and performance and to improve the wellbeing in our workplace, we held various skip-level exchange meetings with the teams to encourage the speak-up culture, and to better understand what motivates the employees and how can we share best practices across the teams.

Also, to help improve the work-life-balance approach across the bank, we continued to promote “Work from Home” across different functions in order to provide flexibility to the employees and to enhance their quality of life whilst supporting and maintaining a high service standard for the Bank.

We piloted a cross training program with other lines of business and initiated a collaborative problem-solving working group to improve communication across departments and to encourage continuous improvements, also to provide an opportunity to our employees to work alongside and gain experience of other roles within the Bank.

Internal Third Parties and Affiliates Management

Given HSBC’s significant dependency upon services provided by third parties and an increasingly demanding global regulatory environment, the management of Third Party Risk was considered as a key and top risk focus. We continued the Offshore Governance through the interaction and collaboration with Global Service Centres (‘GSC’) to ensure that we follow a consistent approach of active monitoring and oversight of the GSCs.

In addition we collaborated with our risk stewards and supporting functions to run a series of sessions across the bank to improve the awareness of managing our third party management risk. Also tracking the Service Quality via active engagement with business lines to ensure that COO functions are providing the services that the businesses require and to the quality standard expected.

Financial Crime Risk (FCR) Management

HSBC Bank Egypt continued its progress towards implementing an effective financial crime risk management capability in 2019. We completed the roll-out of major compliance systems and shifted our focus towards embedding a sustainable approach to financial crime risk management.

A new global compliance structure was introduced, designed to enable HSBC to build on achievements in managing financial crime risk effectively across the bank and to continue to strengthen financial crime detection, anti-money laundering, sanctions and anti-bribery and corruption compliance. A service-based operating model, where expertise is consolidated into global functional capabilities to best leverage and develop expertise, operates to consistent standards, and provides additional insight and support to global businesses. During 2019, both Fraud Risk and Tax Transparency Risk have been migrated to come under the remit of Financial Crime Risk Stewardship to ensure a wider coverage and scope of expertise of Financial Crime Compliance function over all related risks. These changes have included a stronger governance around managing Financial Crime Risk including the revamping of the Financial Crime Risk Management Committee in addition to the introduction of a standardised committee agenda items and new management information dashboard tools that drives the oversight and management of key risk areas as well as performance indicators.

The Compliance team worked to fully satisfy the requirements of implementing a more consistent, comprehensive approach to assessing Financial Crime Risk. This has included working on enhancing the governance and the controls around the Know-Your-Customer, Suspicious Transactions Reporting, Sanctions and Anti-Bribery and Corruption policies and procedures. This was addressed through the progress made in the Operational Effectiveness Exercise, which is a country diagnostic exercise designed to test the bank’s current state against the end state operationally effective target and transform all the activities into business as usual. To that end, HSBC Bank Egypt managed to complete all targets and milestones according to plan whereby majority of work completed in 2018 and full delivery of the program completed in October 2019.

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

Regulatory Compliance Risk Management

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

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

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

The Regulatory Compliance risk is:

- Measured by reference to identified metrics, incident assessments, regulatory feedback and the judgment and assessment of regulatory compliance teams;
- Monitored against the first line of defense risk and control assessments, the results of the monitoring and control assurance activities of the second line of defense functions, and the results of internal and external audits and regulatory inspections; and
- Managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to help ensure their observance.

Proactive risk control and/or remediation work is undertaken where required.

Key Developments in 2019

- We implemented a number of initiatives to raise our standards in relation to the conduct of our business.
- The reporting line of the Global Head of Regulatory Compliance was changed from reporting to the Group Chief Risk Officer to reporting to the Group Chief Compliance Officer.
- Regulatory Compliance and Financial Crime Risk were integrated into a new Compliance function from 1 November 2018, which is headed by the Group Chief Compliance Officer. Regulatory Compliance continues to be structured as a global function with regional and country Regulatory Compliance teams.
- In 2019, we continued to highlight conduct requirements as a global principle and elsewhere within the risk management framework, reflecting the individual responsibility and accountability we have for the delivery of fair conduct outcomes for customers and market integrity.
- The delivery of our annual global mandatory training course on conduct for all employees. This is complemented by an ongoing programme of newsletter, intranet and live-streamed communications, internal surveys of staff sentiment regarding progress in delivering good conduct, and conduct awareness campaigns.

Corporate Sustainability

Since its foundation in 1865, HSBC has adapted to and helped serve the needs of a changing world. It has financed economic growth, fostered international trade and overcome events such as economic crises. We recognise our wider commitments to the communities in which we operate and understand that economic growth must also be sustainable.

Today our sustainability approach focuses on three main areas: sustainable finance; sustainable supply chains; and employability and financial capability.

With technology developing at a rapid pace, a secondary education or university degree is no longer a guarantee of employment. A range of skills are now needed to succeed in the workplace. Financial literacy is also an increasingly important tool in a world of rising wealth inequality.

Against this backdrop, key projects have been implemented in Egypt in 2019:

- **Taqaddam**: In partnership with the British Council to implement an innovative youth development programme designed to equip young people (14-16-year-old) with a wide set of enduring personal and professional strengths and skills that will enable them to lead successful and fulfilling lives.
- **Tamkeen**: A dual literacy and vocational programme, beneficiaries who only complete the literacy program and attain the Egyptian Standard Literacy Exam, equivalent to the sixth grade, will be allowed to access the vocational training. Rawafed (our trusted partner) have an innovative accelerated curriculum that will enable the students to sit and pass the exams for the certificate within 9 months of starting the programme. Obtaining this certificate will give them more opportunities as it is a condition for applying for a driving license, micro finance loans, and being able to further their education through the Egyptian Adult Education program. They will acquire life skills and financial literacy knowledge that will help them with managing their finances, SMEs and future career paths. They will also acquire knowledge on how to take care of their health and those around them.
- Positive Planet (our partner's) mission is to help men and women across the world create the conditions for a better life for future generations. Having developed experience in financial inclusion which remains an important component of their activity, Positive Planet has also conducted projects centered on entrepreneurship, financial education, and the organisation of value chains. The goal is to enhance the readiness of employability as well as promote self-employment and entrepreneurship amongst vulnerable youth in Egypt.
- **Social Enterprise Development Accelerator (SEDA)**: The project targeted the Eco-system of social enterprises in Egypt by creating an enabling environment where social enterprises can grow and sustain financially and socially. The project invested heavily in two large local social enterprises which in turn each supported 50 social enterprises at the village/ grassroots level in Upper Egypt. These two social enterprises acted as umbrellas to reach the targeted 100 entities in local communities. The project included exchanges between women and youth-led organisations in the UK and Egypt to promote peer to peer exchanges and collaborations on mind sets and practices in the social and creative enterprise eco-system.
- **Library and Ecosystem Engagement Portal (LEEP) for Collaborative Impact & RISE Tours**: Launched the project focusing on empowering Egyptian social innovators by providing them with increased visibility and access to a space with credible sources of data, knowledge and a global network of like-minded individuals and institutions passionate about providing technical support and expertise that can contribute to improved quality of life for people and communities across Egypt. The project will benefit a total of 50 Egyptian Social Enterprises and 100 global community/network members.
- **The Water Academy**: In partnership with the American University in Cairo, HSBC initiated the Water Academy which served as a learning hub and research centre for water efficiency best management practices. It included education sessions, activities, information and research that helps in making water conservation part of everyday life. The Academy included both HSBC volunteers’ capacity building where we trained HBEG volunteers to become ambassadors for sustainability, advocating for the best practices in sustainability, specifically in water and agricultural related sustainable practices; as well as professional capacity building programme, aiming to qualify 30 professionals at the agricultural field to use modern irrigation techniques to save water and avoid the water scarcity problem in the future.
- **Ramadan Campaign**: HSBC Egypt continued our yearly Ramadan convoy initiative, where we distributed food supplies, solar lanterns and water tanks in the south Red Sea. In addition to providing shelter and maintenance of wells, benefiting a total of 5,500 families; organised the Eid Market Fair; an open shopping day where orphans had the chance to choose a variety of items based on their needs, during that day we benefited a total of 200 orphan bride to be and 500 children. In addition to the HBEG yearly Ramadan food packing activity in the head office and distributed the boxes to the neediest.

Acknowledgement

Based on the financial results of 2019, the Board would like to extend their congratulations and thanks to the HSBC staff for their efforts and achievements.

Shareholding

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

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

Equity Investments

HSBC Securities Egypt SAE (HCES)

The core business of HSBC Securities Egypt is trading cash equities listed on the Egyptian stock exchange on behalf of HSBC and HSBC's international investors. HCES is focused on the foreign institutional investor segment in the market and was able to be within the top five brokerage firms in the market serving foreign institutional investors.

In 2019 the EGX 30 appreciated by 7 per cent yet traded volumes shrunk by 23 per cent due to the developments in Emerging Markets. Foreign investors accounted for 27per cent of total traded volumes in the market.

In terms of the HCES performance in 2019, the company executed trades worth EGP8.6 billion throughout the year which reflects a year-on-year 26 per cent decrease in commissions due to reduced overall market traded volumes. The company generated a net profit of EGP2.4 million.

Looking ahead to 2020, with the Egyptian economy moving on the right track, with declining interest rates and the growing interest of foreign institutional investors in the Egyptian equity capital market, HCES is well positioned for an improved positive performance. The IPO momentum is also expected to pick up in the market and as HSBC Group has been mandated to manage a number of key IPOs, HCES is expected to benefit from the execution piece in the market.

HSBC Investment Company (Egypt) SAE

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

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)

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 organisational governance is evidenced by:

- The composition of the HBEG Board of Directors and the inclusion of independent, non-executive Directors
- The clear definition of Directors' duties
- The operation and composition of Board's committees including the Audit Committee, the Risk Committee, the Governance and Nominations Committee and the Salaries and 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 2019:

Retirement

- Retirement of Mrs. Hania Sadek as Executive Director effective 1 May 2019.

Resignations

- Resignation of Mr. Georges Elhedery as Non-Executive Director effective 29 June 2019.
- Resignation of Sir Sherad Cowper-Coles as Non-Executive Director effective 17 September 2019.

Appointments

- Appointment of Mr. Nadim Ghanem as Independent, Non-Executive Director effective 13 June 2019.
- Appointment of Mrs. Lamyaa El Bahy, Chief Financial Officer, as Executive Director effective 13 June 2019.
- Appointment of Christian Deseglise as Non-Executive Director effective 5 August 2019.
- Appointment of Martin Tricaud as Non-Executive Director effective 2 October 2019.

Mr. David Eldon CBE

Non-Executive Chairman

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

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

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

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

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

Mr. Eldon is a Fellow of the Chartered Institute of Bankers (FCIB). He holds an Honorary Doctor of Business Administration conferred by the City University of Hong Kong, was named the Hong Kong Business Person of the Year for 2003 and in 2004 was awarded the Gold Bauhinia Star (GBS) by the Government of Hong Kong. In

2005 he was made a Commander of the British Empire (CBE) for his contribution to banking. He was awarded the Asian Banker Lifetime Achievement Award for 2005. Mr. Eldon is a Justice of the Peace.

Mr. Jacques-Emmanuel Blanchet

Deputy Chairman and CEO

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

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

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

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

Mr. Abdel Halim Assem

Independent, non-executive Director

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

As the General Delegate for Egypt at Thales International ME from 1992 to 2012, he held responsibilities for design, conduct and implementation of the Group strategy in Egypt for the entire Thales portfolio and became the Special Advisor to the Chairman of Thales International ME. 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.

Sir Sherard Cowper-Cowles KCMG LVO

Non-Executive Director (resigned effective 17 September 2019)

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

From 2011 to 2013, he was Business Development Director, International, at BAE Systems plc. Earlier, he spent over 30 years in the British Diplomatic Service, which he joined straight from reading classics at Oxford, finishing his career as Ambassador to Israel, Saudi Arabia and then Afghanistan.

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

Mr. Christian Deseglise

Non-Executive Director (since 5 August 2019)

Christian Deseglise is Head of Sustainable Finance and Investments, Global Banking and Markets for HSBC. He is also a Non-Executive Director of HSBC in Egypt. Before this, he held various positions within HSBC, including Global Head of Central Banks, Global Head of Emerging Markets and a member of the Executive Committee of HSBC Global Asset Management.

Mr. Deseglise is a member of the One Planet Lab, a high level advisory group set up by President Macron to fuel future One Planet Summits with proposals to address challenges related to climate change. He is also a member of the WEF Global Future Council on Development Finance.

He is also an Adjunct Professor at Columbia University's SIPA, teaching on Emerging Markets, and the co-founder of Columbia University's BRIC-Lab.

Mr. Deseglise has written "Le Défi des Pays Emergents: Une Chance pour la France", which was published in France in April 2012, and numerous articles on Emerging Markets and Sustainable Finance.

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

In 2003, Mr Deseglise and his wife Genevieve Maquinay established Foundation Caring for Colombia to provide assistance to the unprivileged in Colombia.

Mrs. Lamyaa El Bahy

Executive Director (since 13 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.

Mrs. 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. Georges Elhedery

Non-Executive Director (resigned effective 29 June 2019)

Georges was the CEO for HSBC in MENAT from July 2016 to April 2019, before being appointed as Group Head of Global Markets.

A senior global markets banker with extensive trading experience in London and Tokyo, Georges joined HSBC in 2005 and held a series of leadership roles in the Group's Global Banking and Markets (GBM) business in London, including Deputy Global Head of Rates.

Georges moved to Dubai in 2010 as Head of Global Markets MENA and became Regional Head of GBM, MENA, before his appointment as CEO MENAT in July 2016.

Georges holds a master's degree in Statistics and Economics from ENSAE Paris and a degree in Engineering from Ecole Polytechnique in Paris.

Mrs. Neveen El-Shafei

Independent, Non-Executive Director

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

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

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

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

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

Mr. Nadim Ghanem

Independent Non-executive Director (since 13 June 2019)

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

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

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

Mr. Ghanem holds a BSc. in Chemical Engineering from Cairo University and a Diploma in Refining and Chemical Engineering from the “Institut Francais du Petrole” in Rueil Malmaison, France. He is married and has two daughters.

Mr. Hisham Mohsen

Non-executive Director, Representative of Misr Insurance Company

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

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

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

Mrs. Hania Sadek

Executive Director (retired on 30 April 2019)

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

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

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

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

Mr. Martin Tricaud

Non-executive Director (since 2 October 2019)

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

Before his appointment as the Chief Executive Officer MENAT in May 2019, he was the CEO of HSBC Australia, Group General Manager, from 2017 to 2019. Prior to that, Mr. Tricaud was also President and CEO of HSBC Korea from 2013 to 2017.

He joined HSBC in 2001 and has held a number of key roles in HSBC Bank Egypt as Senior General Manager GM&CMB, Regional Head of Corporate and Institutional Banking in HSBC Bank Middle East Limited, GBM Co-Head of Coverage for CEE/CIS countries in London, and GBM Global Head of Multinationals in London. Prior to joining HSBC, he has held various positions in CCF France.

Mr. Tricaud holds a Master's degree in Law from Paris Sorbonne University and Bachelor's degree of Law and Bachelor of History from Paris X University. He also graduated from Institute d'Etudes Politiques de Paris and preparation to Ecole Nationale d'Administration ('ENA').

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. Hisham Mohsen (Chairman), Mrs. Neveen El-Shafei and Mr. Nadim Ghanem.

Risk Committee

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

Governance and Nomination Committee

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

Salaries and Remuneration Committee

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

Governance Committees

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

Executive Committee (EXCO)

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

Risk Management Committee (RMM)

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

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

Financial Crime Risk Management Committee (FCRMC)

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

Assets and Liabilities Committee (ALCO)

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

Country Impairment Forum (CIF)

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

Auditors’ report

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

Report on the separate financial statements

We have audited the accompanying separate financial statements of HSBC Bank, Egypt (SAE), which comprise the statement of financial position of HSBC Bank, Egypt (SAE) as of 31 December 2019 and the separate statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility for the financial statements

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

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

Auditors’ responsibility

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

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

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

Opinion

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of HSBC Bank, Egypt (SAE) as of 31 December 31 2019, and its separate financial performance and cash flows for the year then ended, in accordance with the rules of preparation and presentation of the Banks’ financial statements approved by the Central Bank of Egypt on 16 December 2008 as amended by regulations issued on 26 February 2019, and the prevailing Egyptian laws and regulations relating to the preparation of these separate financial statements.

Report on other legal and regulatory requirements

Nothing has come to our attention that the Bank had violated the provisions of law No.88 of 2003 during the year ended on 31 December 2019 or its article of incorporation.

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

The financial information included in the Board of Directors' report, prepared in accordance with law no. 159 of 1981 and its executive regulations, are in agreement with the Bank's records within the limits that such information is recorded therein.

Cairo: February 18, 2020

Auditors

Mohamed Elmoataz
F.R.A. (133)
R.A.A. (12747)
CBE Register No. (231)
PricewaterhouseCoopers Ezzeldeen, Diab & Co.
Public Accountants and Consultants
Plot No 211, Second Sector, City Center New Cairo 11835, Egypt

Farid Samir Farid, CPA
F.R.A. (210)
R.A.A. (8739)
CBE Register No. (544)
Deloitte Saleh, Barsoum and AbdelAziz
Accountants and Auditors
2005 A Cornish El Nil – Ramlet Boulaq, 11221 , Egypt

Statement of financial position

HSBC Bank Egypt SAE

Separate statement of financial postition as at 31 December 2019

(All amounts in EGP000)

	Note	2019	2018
Assets			
Cash and balances with Central Bank of Egypt	15	11,365,612	4,456,369
Due from banks	16	17,500,656	27,685,244
Financial assets at fair value through profit & loss	17	-	9,884
Loans and advances to banks	18	268,888	493,430
Loans and advances to customers	19	33,031,185	33,493,226
Financial derivatives and coverage activities	20	6,652	3,418
Financial investments	21	40,761,041	34,460,280
Investments in subsidiaries	22	35,517	35,517
Intangible assets	23	56,560	4,408
Other assets	24	1,816,489	1,186,706
Deferred tax assets	31	89,717	67,176
Investment property	26	62,225	61,529
Fixed assets	25	362,092	394,808
Total assets		**105,356,634**	**102,351,995**
Liabilities and shareholders' equity			
Liabilities			
Due to banks	27	1,980,894	3,119,787
Customers' deposits	28	83,298,180	80,231,530
Financial derivatives	20	51,634	3 046
Subordinated loans	39	2,072,000	2,072,000
Other liabilities	29	1,353,497	2,695,943
Other provisions	30	251,228	291,585
Current income tax		621,373	960,760
Defined benefits obligations	32	436,956	352,849
Total liabilities		**90,065,762**	**89,727,500**
Shareholders' equity			
Paid-up capital	33	2,795,567	2,795,567
Reserves	34	3,910,479	3,101,019
Retained earnings	34	8,584,826	6,727,909
Total shareholders' equity		**15,290,872**	**12,624,495**
Total liabilities and shareholders' equity		**105,356,634**	**102,351,995**

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 2019

(All amounts in EGP000)

	Note	2019	2018
Interest income from loans and similar income	6	10,573,073	9,679,043
Interest expense on deposits and similar expense	6	(3,302,552)	(2,901,120)
Net interest income		**7,270,521**	**6,777,923**
Fees and commissions income	7	1,394,791	1,299,738
Fees and commissions expense	7	(162,594)	(212,238)
Net fees and commissions income		**1,232,197**	**1,087,500**
Dividends income	8	18,683	9,136
Net trading income	9	1,152,692	875,892
Financial investment gain	21	2,819	12,951
Credit impairment (charged)	12	(145,279)	(408,684)
Administrative expenses	10	(2,209,913)	(2,103,899)
Other operating income	11	96,732	94,057
Profit before income tax		**7,418,452**	**6,344,876**
Income tax expenses	13	(1,707,367)	(1,530,055)
Net profit for the year		**5,711,085**	**4,814,821**
Earnings per share (EGP/share)			
Basic	14	152.33	129,87

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 2019

(All amounts in EGP000)

	2019	2018
Net Profit for the year	5,711,085	4,814,821
Items that may be reclassied to profit or loss		
Net changes on investments avilable for sale	-	(102,537)
Net changes on investments in financial investment at FVOCI	415,324	-
Expected credit loss through financial investment at FVOCI	6,868	-
tal impact related to other comprehensive income/(Loss)	**422,192**	**(102,537)**
Net fees and commissions income	**6,133,277**	**4,712,284**

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 2019

(All amounts in EGP000)

	Note	2019	2018
Cash Flows from operating activities			
Net profit before income tax		7,418,452	6,344,876
Adjustments to reconcile net profit to net cash flows from operating activities			
Depreciation and amortisation		80,933	64,705
Impairment of assets		145,279	408,684
Other provisions formed		80,911	88,779
Provisions no longer required		(13,718)	(36,455)
Revaluation differences for provisions other than loans provision		(8,249)	57
(Gain) from sale of property and equipment		(11,504)	(12,216)
(Gain) from sale of investments		(2,904)	(322)
Cost (reversal) of impairment of subsidiaries		-	(12,517)
Other valuation differences on financial investments		248,419	(7,666)
Dividends received		(18,683)	(9,136)
Operating income before changes in Assets and liabilities		**7,919,016**	**6,828,789**
Net decrease (increase) in assets and liabilities			
Due from banks		(7,491,629)	(981,422)
Treasury bills		(3,843,164)	(7,312,978)
Financial investments at fair value through profit & loss		9,884	10,410
Loans and advances to customers		389,846	(6,994,182)
Loans and advances to banks		224,542	899,240
Financial derivatives (net)		45,354	(1,883)
Other assets		(219,133)	(348,507)
Due to banks		(1,138,893)	(1,609,757)
Customers' deposits		3,066,650	12,403,156
Other liabilities		(1,342,446)	(30,426)
End of service compensation benefits		84,107	53,118
Utilized from other provisions		(103,912)	(186,081)
Income tax paid		(2,077,150)	(1,525,655)

Net cash flows generated from operating activities		**(4,476,928)**	**1,203,822**
Cash flows from investing activities			
Payments to purchase fixed assets and branches preparation		(35,730)	(79,911)
Proceeds from sale of fixed assets		12,236	21,671
Payments to purchase intangible assets		(66,067)	(1,143)
Payments for purchase of financial investments		(2,861,576)	(560,612)
Proceeds from sale (redemption) of financial investments		3,200	1,090,274
Dividends received		18,683	9,136
Net cash flows (used in) generated from investing activities		**(2,929,254)**	**479,415**
Cash flows from financing activities			
Dividends paid		(3,361,692)	(3,126,004)
Net cash flows (used in) financing activities		**(3,361,692)**	**(3,126,004)**
Net change in cash and cash equivalents during the year		(10,767,874)	(1,442,767)
Cash and cash equivalents at the beginning of the year		25,072,399	26,515,166
Cash and cash equivalents at the end of the year		**14,304,525**	**25,072,399**
Cash and cash equivalents are represented in:			
Cash and balances with Central Bank of Egypt		11,372,286	4,456,369
Due from banks		17,509,116	27,685,244
Treasury bills		34,766,358	30,229,080
Balance with Central Bank of Egypt as statutory reserve		(10,083,390)	(3,182,896)
Due from banks of maturity more than 3 months		(4,493,487)	(3,902,352)
Treasury bills of maturity more than 3 months from date of acquisition		(34,766,358)	(30,213,046)
Cash and cash equivalents	**36**	**14,304,525**	**25,072,399**

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 2019

(All amounts in EGP 000)

	Note	Paid up capital	General Reserve	Legal Reserve	Special Reserve	Capital Reserve	Reserve for excess over par value – issuance premium	Fair Value Reserve	IFRS 9 Reserve	General Risk Reserve	Retained Earnings	Total
Balance as at 31 December 2017		**2,795,597**	**1,419,750**	**861,375**	**63,466**	**14,130**	**6,728**	**(44,307)**	**433,383**	**-**	**5,488,123**	**11,038,215**
Dividents paid for year 2017	35	-	-	-	-	-	-	-	-	-	(3,126,004)	**(3,126,004)**
Transferred to Legal Reserve	34	-	-	223,293	-	-	-	-	-	-	(223,293)	**-**
Transferred to General Reserve	34	-	223,293	-	-	-	-	-	-	-	(223,293)	**-**
Transferred to Capital Reserve	34	-	-	-	-	2,445	-	-	-	-	(2,445)	**-**
Net change in investement at fair value through OCI	34	-	-	-	-	-	-	(102,537)	-	-	-	**(102,537)**

Net Profit for the year ended 31 December 2018		-	-	-	-	-	-	-	-	-	4,814,821	**4,814,821**
Balances as of 31 December 2018		**2,795,567**	**1,643,043**	**1,084,668**	**63,466**	**16,575**	**6,728**	**(146,844)**	**433,383**	**-**	**6,727,909**	**12,624,495**
Balance as of 31 December 2018		**2,795,567**	**1,643,043**	**1,084,668**	**63,466**	**16,575**	**6,728**	**(146,844)**	**433,383**	**-**	**6,727,909**	**12,624,495**
Changes in intial application of IFRS 9 – Remeasurement	34 /31	-	-	-	-	-	-	41,071	-	(5,183)	-	**35,888**
Changes in intial application of IFRS 9 – Reclassification	34 /31	-	-	-	-	-	-	(141,096)	-	-	-	**(141,096)**
Balance as of 1 January 2019		**2,795,567**	**1,643,043**	**1,084,668**	**63,466**	**16,575**	**6,728**	**(246,869)**	**433,383**	**(5,183)**	**6,727,909**	**12,519,287**
Dividents paid for year 2018	35	-	-	-	-	-	-	-	-	-	(3,361,692)	**(3,361,692)**
Transferred to Legal Reserve	34	-	-	240,130	-	-	-	-	-	-	(240,130)	**-**
Transferred to General Reserve	34	-	240,130	-	-	-	-	-	-	-	(240,130)	**-**
Transferred to Capital Reserve	34	-	-	-	-	12,216	-	-	-	-	(12,216)	**-**
Net change in investement at fair value through OCI	34	-	-	-	-	-	-	422,192	-	-	-	**422,192**
Transferred to General Risk Reserve	34	-	-	-	(63,466)	-	-	-	(433,383)	496,849	-	**-**

Net Profit for the year ended 31 December 2019	-	-	-	-	-	-	-	-	-	5,711,085	**5,711,085**
Balance as of 31 December 2019	**2,795,567**	**1,883,173**	**1,324,798**	**-**	**28,791**	**6,728**	**175,323**	**-**	**491,666**	**8,584,826**	**15,290,872**

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 2019

(All amounts in EGP 000)

	Note	2019	2018
Net profit for the year (as per income statement)		5,711,085	4,814,821
Less:			
Gain from sale of fixed assets transferred to capital reserve according to law		(11,504)	(12,216)
General bank risk reserve		(66,609)	-
Net profit for the year available for appropriation		**5,632,972**	**4,802,605**
Retained earnings at the beginning of the year	34	2,873,741	1,913,088
Total		**8,506,713**	**6,715,693**
Appropriation:			
Legal reserve	34	72,984	240,130
General reserve	34	281,649	240,130
Shareholders' dividends	35	3,379,641	2,881,431
Employees' profit share	35	563,297	480,261
Retained earnings at the end of the year		4,209,142	2,873,741
		8,506,713	**6,715,693**

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 2019
(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 53 branches, 1 central vault and 7 small units served by more than 1,629 staff at the date of the balance sheet.

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

The financial statements for the year ended 31 December 2019 have been approved for issuance by the Board of Directors on 13 February 2020.

2. Summary of significant accounting policies

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

A. Basis of preparation of financial statements

The financial statements are prepared in accordance with the Central Bank of Egypt's (CBE) instructions approved by its Board of Directors on 16 December 2008 as amended by regulations issued on 26 February 2019 and with the requirements of applicable Egyptian laws and regulations.

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

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

The separate financial statements of the Bank should be read with its consolidated financial statements, for the fiscal year ended on 31 December 2019 to get complete information on the Bank's financial position, results of operations, cash flows and changes in ownership rights.

B. Standards applied during the year

- The bank has prepared the financial statements at 31 December 2018 in accordance with the instructions of the Central Bank of Egypt (CBE rules approved by its Board of Directors on 16 December 2008 and starting from 01 January 2019, the financial statements have been prepared according to Central Bank of Egypt (CBE) instructions dated 26 February 2019 to prepare financial statements according to IFRS 9 Financial Instruments).

- The bank has applied the requirements of IFRS 9 “Financial Instruments” effectively on 1 January 2019. The classification, measurement and impairment requirements are applied retroactively by modifying the initial statement of financial position at the date of initial application. As permitted by IFRS 9, the bank has not restated the comparative amounts. Therefore, for disclosures, subsequent amendments to IFRS 7 are applied only to the current period. The disclosures for the comparative year show the same disclosures made in the previous year. The transition impact of IFRS 9 as of 1 January 2019 is shown in note no (41).

B.1. Classification of financial assets and financial liabilities:

At initial recognition, financial assets have been classified and measured according to amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The financial assets have been classified according to how they are managed (the entity's business model) and their contractual cash flow characteristics.

The financial assets measured at amortized cost if it is not measured at fair value through profit or loss and the following two conditions met:

- The management intention maintaining the asset in business model to collect contractual cash flow and; these contractual conditions of financial assets will build cash flow in certain dates which limited only on payment of principle and interest (SPPI).
- Debt instruments have been measured at fair value through other comprehensive income "FVOCI" if it is not measured at fair value through profit or loss and the following two conditions met:
  - the management intention maintaining the asset in business model to collect contractual cash flow and sell;
  - this contractual conditions of financial assets will build cash flow in certain dates, which limited only on payment of principle and interest (SPPI).
- HSBC Group may choose without return to measure equity investment, which is not classified as trading investments to be as a fair value through other comprehensive income at initial recognition; and this choice will be made per each investment.
- All other financial assets will be classified as fair value through profit or loss.

B.2. Assessment of whether contractual cash flows are solely payments of principal and interest:

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Key similarities and differences between EAS 26 applied until 31 December 2018 and IFRS 9 applied starting from 1 January 2019 for the classification and measurement of financial assets are set out below:

	EAS 26	IFRS 9
Classification criteria	Financial assets are measured at amortized cost (loans & receivables and held to maturity), fair value through other Comprehensive income ('FVOCI') (AFS), or fair value through profit or loss (derivatives and trading) based on the nature of the instrument and the purpose for which it is held. Embedded derivatives are separated from their host contract unless the contract as a whole is measured at fair value through profit or loss. The fair value option applies where there are non-closely related embedded derivatives that are not bifurcated, financial instruments are managed on a fair value basis or where measuring at fair value through profit or loss would reduce or eliminate an accounting mismatch. AFS is the default category.	Debt instruments are measured at amortized cost or FVOCI based on their contractual terms and the business model in which they are held as set out in the accounting policies above. The concept of embedded derivatives does not apply to financial assets. Therefore, the fair value option only applies where it would reduce or eliminate an accounting mismatch. Fair value through profit or loss is the default category. Equity securities are measured at fair value through profit or loss unless, where permitted by IFRS 9, the option has been exercised to measure at FVOCI.
Presentation	Upon disposal of AFS securities (debt instruments and equity securities) the cumulative gains or losses in other comprehensive income are recognized in profit or loss.	Upon disposal of debt instruments measured at FVOCI the cumulative gains or losses in other comprehensive income are recognized in profit or loss. Cumulative gains or losses in other comprehensive income are not recognized in profit or loss on the disposal of equity securities measured at FVOCI.

The reconciliation of presentation and measurement differences arising from the adoption of IFRS 9 as of 1 January 2019 is shown in note (41). In general:

- Loans and advances to banks and to customers and non-trading reverse repurchase agreements that are classified as loans and receivables under EAS 26 are measured at amortized cost under IFRS 9.
- Debt securities classified as available for sale are measured at Fair Value through Other Comprehensive Income (FVOCI).
- Treasury and other eligible bills classified as available for sale are measured at FVOCI.
- All equity securities remain measured at fair value with the fair value movements shown in profit or loss or other comprehensive income. The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and strategic investments where the bank holds the investments other than to generate a capital return.

The classification and measurement of financial liabilities in accordance with IFRS 9 Financial Instruments remains largely unchanged from EAS 26 Financial Instruments: Recognition and Measurement.

- IFRS 9 contains two categories of financial liabilities:
  - Financial liabilities at amoritized cost; and
  - Financial liabilities as of fair value through profit or loss (FVTPL).

Financial liabilities classified as of amortized cost are subsequently measured at amortized cost using the effective interest method. Financial liabilities classified as of fair value through profit or loss are subsequently measured at fair value with changes in fair value recognized in profit or loss.

- IFRS 9 requires all financial liabilities to be measured at amortized cost unless either:

- the financial liability is required to be measured at FVTPL because it is held for trading (e.g. some other derivatives); or
- the entity elects to measure the financial liability at FVTPL (using the fair value option).

B.3. Business Model:

- The bank assesses the objective of the business model in which the asset is maintained at the business portfolio level. This method better reflects how business is managed and how information is presented to management. The following information is taken into consideration:
  - Specific policies and objectives of the business portfolios and practical application of these policies. In particular, whether the management strategy focuses on the achievement of contractual interest income and the realization of cash flows through the sale or retention of assets for liquidity purposes.
  - The risks that affect the performance of the business model (and the financial assets that are retained within that business model), how these risks are managed; the frequency, value and timing of the sales in prior periods, the reasons for such sales, as well as their forecast for future sales activities. Information on sales activities cannot be taken into account alone from the rest of the activities. Rather, they are part of a comprehensive assessment of how the Bank achieves the objectives of managing the financial assets as well as how to achieve cash flows.
- Financial assets held for trading or managed, whose performance is measured at fair value, are measured at fair value through profit or loss where they are not held to collect contractual cash flows and are not held for the purpose of collecting cash flows and the sale of financial assets.
- Assess whether contractual cash flows are only payments of the original amount and interest on the original amount outstanding.
- For the purposes of this valuation, the original amount is determined on the basis of the fair value of financial assets at initial recognition. Interest is determined on the basis of the time value of the money and the credit risk associated with the original principal over a given period of time or other basic lending risk and costs (eg liquidity risk and administrative costs), as well as profit margin.

B.4. Impairment:

The recognition and measurement of impairment is intended to be more forward-looking than under EAS 26 and the resulting impairment charge may be more volatile. The adoption has resulted in a change in the total level of impairment allowances as set out in Note (41), since all financial assets are assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with EAS 26.

IFRS 9 - in accordance with Central Bank regulations issued on 26 February 2019 - supersedes the “Occurred Losses Model" of the Central Bank issued on 16 December 2008 with the “Expected Credit Loss Model”. The new impairment model applies to all financial assets in addition to some loan commitments and contracts and financial guarantee contracts.

Under IFRS 9 credit losses are recognized earlier than what they were recognized according to the Central Bank's instructions issued on 16 December 2008.

	EAS 26	IFRS 9
Scope	For amortized cost assets, impairment is recognized when there is objective evidence of impairment. Losses are measured by comparing the carrying amount with the discounted future cash flows. Losses which may arise from future events are not recognized.	The same recognition and measurement requirements apply to both amortized cost and FVOCI financial assets. Impairment is not recognized on equity securities which are measured at FVOCI. Impairment is recognized for all financial assets in scope at either 12-month ECL Or lifetime ECL. All reasonable and supportable information, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date is used in measuring ECL.
Application	Accounting policies generally make a distinction between individually significant loans and homogeneous groups of loans which are assessed collectively.	The distinction between individual and collective assessment is less relevant. In general, whether loans are managed through wholesale credit risk systems or retail credit risk systems is relevant because of differences in the types of information available and the way credit risk is managed.
Impaired/ Stage 3	The criteria used to determine whether there is objective evidence of impairment are the same for individually significant loans assessed under EAS 26 and for IFRS 9. The determination of the realisable value of security is based on the most recently updated market value at the time the impairment assessment is performed and is not consider expected future changes in market prices. Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant using either roll rate methodologies or historical loss rate experience for loans. Under these methodologies, impairment allowances are recognized at a portfolio level. However, loans are classified as impaired for presentation purposes when they are more than 90 days past due or have been renegotiated for credit risk reasons. For retail loans, an exception is made for individual loans that are in arrears by more than 90 days but have been individually assessed to have no indications of impairment, and these are not classified as impaired.	The stage 3 population is consistent with impaired loans under EAS 26 which are considered individually significant. For wholesale loans, individual discounted cash flow calculations continue to be performed. However, the net realisable value of security is adjusted for expected future changes in market and the losses reflecting cash flows under different scenarios are probability- weighted to determine the ECL rather than using the best estimate of cash flows. For the retail population, stage 3 is determined by considering the relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 90 days, or a concession has been granted to the borrower for economic or legal reasons relating to the borrower’s financial condition, or the loan is otherwise considered to be in default. The result may, therefore, not be the same as that determined by the EAS 26 statistical methods and the population disclosed as stage 3 will not necessarily correspond with that disclosed as impaired in accordance with EAS 26.

Stage 2	This is not an EAS 26 concept.	An assessment of whether credit risk has increased significantly since initial recognition, resulting in transfer to stage 2, 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:

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

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') .For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

CRR at origination	Significance criteria – Number of CRR grade notches ≥
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 notches
8.3	0 notches

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 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 judgment is 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.

Stage 1	This is not an EAS 26 concept. However, incurred but not yet identified impairment is assessed on loans for which no evidence of impairment has been specifically identified by estimating a collective allowance determined after taking into account factors including the estimated period between impairment occurring and the loss being identified. This is assessed empirically on a periodic basis and may vary over time. Similarly, for homogeneous groups of loans and advances, which are assessed under EAS 26 on a collective basis	Financial assets which are not considered to have significantly increased in credit risk have loss allowances measured at an amount equal to 12-month ECL. This 12-month time horizon is likely to be equal to or longer than the period estimated under EAS 26
Movement between stages	This is not an EAS 26 concept.	Financial assets can be transferred between the different categories 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 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	Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date.	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. 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 group 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 the 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 recognized 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 recognized as a provision. The bank will in general apply three forward-looking global economic scenarios determined with reference to external forecast distributions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments.

C. Subsidiaries

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

D. Segment reporting

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

E. Foreign currency transactions and balances

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

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

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

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

F. Financial assets

Accounting policies applied till 31 December 2018:

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

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

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

- Financial assets are classified as held for trading if they are acquired or incurred principally for the purpose of selling in the near-term or if they are part of the financial instruments portfolio that is managed together and there is evidence resulting from recent actual transactions that profit can be recognised. Derivatives can be classified as held for trading unless they are identified as hedging instruments
- Financial assets designated at fair value through profit or loss are recognised when:
  - doing so significantly reduces measurement inconstancies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and issued debt securities;
  - equity investments that are managed and evaluated at a fair-value basis, in accordance with risk management or investment strategy and preparing reports to top management on that basis, are classified as fair value through profit and loss; and
  - financial instruments, such as debt instrument which contain one or more embedded derivatives that may significantly affect the cash flows, are classified at fair value through profit and loss.
- Gains and losses arising from changes in the fair value of derivatives managed in conjunction with designated financial assets or financial liabilities are recorded in the ‘Net income from financial instruments classified at fair value through profit and loss’
- It is not permitted to reclassify any derivative out of the financial instrument valued at fair value through profit or loss category during its holding period. Also, it is not permitted to reclassify any financial instrument valued at fair value through profit or loss category if it is initially recorded by the Bank at fair value through profit or loss

In all cases, the Bank should not reclassify any financial instrument into financial instruments measured at fair value through profit and loss or held-for-trading investments

F.2. Loans and receivables

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

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

F.3. Financial investments held to maturity

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

F.4. Financial investments available for sale

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

The following applies to financial assets:

- Purchases or sales of financial assets at fair value through profit or loss, held-to-maturity financial investments and available-for-sale financial investments are recognised at the trade date, which is the date the Bank is committed to purchase or sell the financial assets
- Financial assets that are not classified at fair value through profit or loss at initial recognition are recognised at fair value plus transaction cost, while the financial assets classified as at fair value through profit or loss are initially recognised at fair value only, and the transaction cost is recognised in the income statement under 'Net trading income'
- Financial assets are derecognised when the rights to receive cash flows have expired or when the Bank transfers all asset risks and rewards to another party, while a financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired
- Available-for-sale financial investments and financial assets designated at fair value through profit and loss are subsequently measured at fair value, while held-to-maturity investments are measured subsequently at amortised cost
- Gains and losses arising from changes in the fair value of financial assets designated at fair value through profit or loss are recorded in the income statement during the period it occurred, while gains and losses arising from changes in the fair value of available-for-sale financial investments are recognised in the 'Fair value reserve for available-for-sale investments' in equity until the financial asset is sold or impaired. At which time, the cumulative gain or loss previously recognised in equity should be recognised in profit or loss
- Interest income related to monetary assets classified as available-for-sale is recognised based on the amortised cost method in the income statement. The foreign currency revaluation differences related to available-for-sale investments are recognised in the income statement. Dividends related to available-for-sale equity instruments are recognised in the income statement when they are declared
- The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset or current bid prices, the Bank establishes fair value using valuation techniques. These include the use of recent arm's-length transactions, discounted cash flow analysis, option pricing models or other valuation techniques commonly used by market participants if the Bank could not assess the value of the equity classified as available for sale. These instruments should be valued at cost and will be subject to impairment test
- Debt instruments can be reclassified from available-for-sale investments to 'loans and receivables' or 'financial assets held to maturity' when the Bank has the intention and ability to hold the instrument on the future or until maturity. Any related profits or losses that have been previously recognised in equity are treated as follows:
    1. Profits and losses related to reclassified financial assets, with fixed maturity, are amortised using the effective interest method over the remaining life of the held-to-maturity investment. The difference between the amortised cost and the redemption value is amortised using the effective interest rate method over the remaining life of the financial asset. In case of financial asset's impairment, any profits or losses previously recognised in equity are to be recognised in the income statement.
    2. Profits and losses related to the financial assets without fixed maturity are recorded in equity until selling or disposing of it. In case of impairment, profit and losses that have been previously recognised directly in equity are recognised in the income statement
- If the Bank changes its estimates regarding payments or proceeds, the book value of a financial asset (or group of financial assets) has to be adjusted to reflect the actual cash inflows and the change in this estimate through calculating the present value of estimated future cash flows using the effective interest rate for the financial instrument. This adjustment is recognised as either income or expense in the income statement
- In all cases, if the Bank re-classified financial assets in accordance with what is referred to above, and the Bank subsequently increase its future cash proceeds estimates resulted from an increase in the recoverable amount from its cash receipts, this increase is recognised as an adjustment to the effective interest rate, not as an adjustment in the book value of the asset at the date of change in the estimate

Accounting policies applied starting 1 January 2019:

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

F.5. Financial instruments measured at amortized cost:

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

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

F.6. Financial assets measured at fair value through other comprehensive income (FVOCI):

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

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

F.7. Equity securities measured at fair value with fair value movements presented in OCI:

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

F.8. Financial instruments designated at fair value through profit or loss:

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

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

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

G. Netting between financial instruments

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

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

H. 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.

2019

	Level 1 Quoted market price	Level 2 Using observable inputs	Level 3 With significant unobservable inputs	Investment with amortized cost	Total
Recurring fair value measurements assets					
Financial assets at fair value through other comprehensive income	-	40,761,041	-	-	**40,761,041**
Total	**-**	**40,761,041**	**-**	**-**	**40,761,041**

2018

	Level 1 Quoted market price	Level 2 Using observable inputs	Level 3 With significant unobservable inputs	Investment with amortized cost	Total
Recurring fair value measurements assets					
Financial assets at fair value through other comprehensive income	-	2,967,203	-	-	**2,967,203**
Financial assets at fair value through profit and loss	-	9,884	-	-	**9,884**
Treasury bills		-	-	31,493,077	**31,493,077**
Total	**-**	**2,977,087**	**-**	**31,493,077**	**34,470,164**

I. Derivative financial instruments

Derivatives are recognised at fair value at the date of the derivative contract and are subsequently revaluated at fair value. Fair values are obtained from quoted market prices in active markets, or according to the recent market deals, or the revaluation methods as the discounted cash flow modules and the pricing lists modules, as appropriate. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

- Derivatives that do not qualify for hedge accounting

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

J. Interest income and expense

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

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

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

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

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

K. Fees and commission income

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

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

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

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

L. Dividends income

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

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

These are shown in the assets side as an addition to the 'Due from banks (balances with CBE with exception of reserve ratio)' line item in the balance sheet. On the other hand, the Bank's obligation arising from financial instruments acquired under purchase and resale agreements is shown as an addition to the 'Due to banks (Due to Central Bank of Egypt)' line item in the balance sheet. Differences between the sale and repurchase price or between the purchase and resale price are recognised as interest expense or income throughout the period of agreements using the effective interest rate method.

N. Impairment of financial assets

Accounting policies applied till 31 December 2018:

Financial assets at amortised cost:

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

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

- Cash flow difficulties experienced by the borrower
- Breach of the loan agreement, eg default
- Expected bankruptcy of the borrower or subject to liquidation lawsuit or restructuring the finance granted to it
- Deterioration of competitive position of the borrower
- Granting privileges or assignments by the Bank to the borrower due to economic or legal reasons, which are not granted by the Bank in the normal course of business
- Impairment of guarantee
- Deterioration of creditworthiness

A substantive proof for impairment loss of the financial assets is the existence of clear information indicating a measurable decline in the expected future cash flows of such category since initial recognition, although such decline is not identifiable for each individual asset i.e. increase in default cases for one of the banking products.

The Bank estimates the period between losses occurring and its identification for each specific portfolio. In general, the periods used vary between three months to twelve months.

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

- In case there is no objective evidence that an impairment loss has been incurred on a financial instrument considered individually, whether being significant or not, the Bank includes that financial asset in a group of financial assets having similar characteristics in terms of credit risk and tests the whole group for impairment according to the historical default rates

- An individually impairment test is made for a financial asset if there is objective evidence that this asset is impaired. If the impairment occurred, this asset will be separated from group of financial assets that are collectively evaluated for impairment
- If the result of the previous test did not recognise impairment loss, this asset will be added to the group of financial assets that are collectively evaluated for impairment. Impairment loss is calculated by the difference between the carrying amount and the present value of estimated future recoverable cash flows, excluding future expected credit loss not charged yet, discounted at the financial assets' original effective interest rate. This impairment is booked in the income statement as 'Impairment loss', and the book value of the financial asset is reduced by the impairment amount using the 'impairment loss provision'

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

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

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

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

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

Available-for-sale investments:

At each balance sheet date, the Bank estimates if there is objective evidence that impairment loss for an asset or a group of assets classified as available-for-sale occurred. For equity instruments classified as available-for-sale investments, impairment is recognised if the decline is significant or a prolonged decline on its fair value below its book value is observed.

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

Accounting policies applied starting 1 January 2019:

Expected Credit Loss for IFRS 9 application:

Credit-impaired (stage 3)

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

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

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

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

Write-off

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

Renegotiation

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

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

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

Loan modifications that are not credit-impaired

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

Significant increase in credit risk (stage 2)

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

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

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

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

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

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

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

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

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

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgments is 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 is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

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

Credit-impaired (Stage 3)

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

- Significant financial difficulty of the issuer or the borrower, eg known cash flow difficulties experienced by the borrower, or deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful;
- A breach of contract, such as a default or past due event, eg contractual payments of either principal or interest being past due for more than 90 days;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- Where relevant, the disappearance of an active market for that financial asset because of financial difficulties (experienced by the issuer); and

- A concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that HSBC would not otherwise consider, eg forgiveness or postponement of principal, interest or fees, where the concession is not insignificant.

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

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

Definition of default

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

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

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

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

Upgrading from Stage 2 to Stage 1:

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

Upgrading from Stage 3 to Stage 2:

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

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

Forward- looking economic inputs

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

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

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

Critical accounting estimates and judgments

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

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

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

O. 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

P. 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).

Q. 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.

R. Impairment of non-financial assets

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

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

S. 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.

S.1. Leasing

Finance lease contracts recognise rent as expense in the period it occurred in income statement, including maintenance cost related to the leased assets.

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

Operating lease payments less any discounts granted to lessee are recognised as expenses in the income statement using the straight line method over the contract time.

S.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.

T. 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.

U. 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 calculate the ECL at the same way shown in previous points.

V. Financial guarantees contracts

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

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

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

W. Employees’ benefits

End of service benefits

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

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

Share-based payments

HSBC Holding plc grants shares to eligible employees under a share-based payment scheme, ‘equity settled’. HSBC Egypt bears the cost of these shares which are amortised in the income statement on a straight-line basis.

X. 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.

Y. Capital

Y.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.

Y.2. Dividends

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

Z. 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.

AA. Corresponding figures

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

3. Financial risk management

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

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

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

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

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

A. Credit risk

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

A.1. Credit risk measurement

Loans and advances to banks and customers

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

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

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

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

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

Bank's internal ratings scale

Rating description	Rating
Performing loans	1-6
Regular watching	7
Watch list	8
Non-performing loans	9-10

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

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

Debt instruments and Treasury bills

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

A.2. Limiting and preventing risks policies

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

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

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

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

Collaterals

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

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

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

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

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

Derivatives

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

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

Master netting arrangements

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

Credit-related commitment

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

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

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

A.3. Impairment and provisioning policies

The internal rating systems described in note (A-1) focus more on credit quality at the inception of lending and investment activities. Otherwise, impairment provisions recognised at the balance sheet date for financial reporting purposes are losses that have been incurred and based on objective evidence of impairment, as will be mentioned below. Due to the different methodologies applied, the amounts of incurred credit losses charged to the financial statements are usually lower than the expected amount determined from the expected loss models used.

Credit quality of financial instruments

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

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

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

Credit quality classification

Accounting policies applied after 1 January 2019

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)

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

Interest in suspense amounted by EGP 694,029 thousands.

31 December 2109	Loans and advances to customers	Allowance / provision for ECL
Stage 1	75.91%	4.01%
Stage 2	15.50%	17.56%
Stage 3	8.59%	78.43%
	100%	**100%**

Reconciliation of changes in expected credit loss

Loans and advances to customers

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	
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
As at 1 January 2019	23,826,274	(139,164)	9,652,241	(703,634)	2,952,864	(1,477,511)	**36,431,379**	**(2,320,309)**
Transfer from stage 1 to stage 2	(633,117)	(3,116)	633,117	3,116	-	-	**-**	**-**
Transfer from stage 2 to stage 1	784,170	13,447	(784,170)	(13,447)	-	-	**-**	**-**
Transfer to stage 3	-	-	(437,320)	(142,226)	437,320	142,226	**-**	**-**
Transfer from stage 3	-	-	3,495	1,528	(3,495)	(1,528)	**-**	**-**
ECL Other movement	-	39,258	-	462,546	-	(414,666)	**-**	**87,138**
Balance volume movement	3,319,490	-	(3,495,340)	-	(297,144)	-	**(472,994)**	**-**
As at 31 December 2019	**27,296,817**	**(89,575)**	**5,572,023**	**(392,117)**	**3,089,545**	**(1,751,479)**	**35,958,385**	**(2,233,171)**

Items affected by IFRS 9 not included in FVOCI

	31 December 2109		01 January 2019	
	Gross value	**ECL**	**Gross value**	**ECL**
Cash and balances at CBE	11,372,286	6,674	4,456,369	5,399
Due from banks	17,509,116	8,460	27,685,244	5,017
Loans and advances to Customers / Banks	36,227,273	2,233,171	36,367,219	2,320,309
Other Assets	1,819,371	2,882	1,188,272	1,566
Total (1)	**66,928,046**	**2,251,187**	**69,697,104**	**2,332,291**

Items affected by IFRS 9 included in FVOCI

	31 December 2109		01 January 2019	
	Fair value	**ECL**	**Fair value**	**ECL**
Financial Investements	40,761,041	47,939	33,064,329	41,071
Total (2)	**40,761,041**	**47,939**	**33,064,329**	**41,071**
Total (1)+(2)	**107,689,087**	**2,299,126**	**102,761,433**	**2,373,362**

Impairment loss was EGP 2,380,563 thousands on 31 December 2018 and it was related to loans provision only.

ECL for other provisions on 31 December 2019 was EGP 205,700 thousands, while it was EGP 187,237 thousands on 31 December 2018.

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.

Accounting policies applied before 1 January 2019

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

	2018	
Bank's rating	**Loans and advances**	**Impairment provision**
Performing loans	83.43%	33%
Regular watching	3.69%	2%
Special follow-up	4.92%	4%
Non-performing loans	7.96%	61%
	100%	**100%**

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

- Payment delinquency of obligor
- Breach of loan conditions (ie non-payment)
- Initiation of bankruptcy or entering a liquidation or finance restructures
- Deterioration of the borrower's competitive position
- For economical or legal reasons, the Bank granted the borrower additional benefits that will not be done in normal circumstances
- Impairment in the value of collateral
- Deterioration of customer credit status

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

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

A.4. Measurement module banking general risk

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

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

Below is a statement of institutional worthiness according to internal ratings, compared to CBE ratings and rates of provisions needed for assets' impairment related to credit risk (before 1 January 2019):

CBE Classification	**CBE Categorization**	**CBE Rating**	**Internal Classification**	**Internal Rating Categorization**
1	Low risk	-	1	Performing loans
2	Average risk	1%	1	Performing loans
3	Satisfactory risk	1%	1	Performing loans
4	Reasonable risk	2%	1	Performing loans
5	Acceptable risk	2%	1	Performing loans
6	Marginally acceptable risk	3%	2	Regular watching
7	Watch list	5%	3	Watch worry list
8	Substandard	20%	4	Non performing loans
9	Doubtful	50%	4	Non performing loans
10	Bad debts	100%	4	Non performing loans

Starting 1 January 2019 and after implementing CBE regulations for IFRS 9, Customer Loans have been reclassified into 3 stages based on each facility credit characteristics.

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

A.5. Maximum limits for credit risk before collaterals

	2019	2018
Balance sheet items exposed to credit risks		
Due from banks	17,509,116	27,685,244
Debt instrument – FVTPL	-	9,884
Loans to banks	268,888	493,430
Loans and advances to customers:		
Retail loans:		
Overdrafts	49,722	67,340
Credit cards	1,412,097	1,267,213
Personal loans	4,085,911	4,198,725
Mortgage loans	2,361	3,553
Corporate loans:		
Overdrafts	2,402,273	2,649,571
Direct loans	16,011,546	17,170,050
Syndicated loans	11,994,475	11,074,926
Financial derivative instruments	6,652	3,418
Financial investments:		
Debt instruments	40,706,727	34,425,867
Other assets	848,045	774,484
Total	**95,297,813**	**99,823,705**
Off-balance sheet items exposed to credit risk		
Loan commitments and other irrevocable commitments related to credit	2,789,539	4,160,226
Letters of credit	418,923	1,568,423
Letters of guarantee	23,960,755	24,419,706
Total	**27,169,217**	**30,148,355**

The above table represents the maximum limit for credit risk as at 31 December 2019 and 31 December 2018, 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, 37.73 per cent – as at 31 December 2019 - of the total maximum limit exposed to credit risk resulted from loans and advances to customers against 36.59 per cent as at 31 December 2018 while 42.72 per cent – as at 31 December 2019 - represents investments in debt instruments against 34.49 per cent as at 31 December 2018.

The management is confident of its ability to maintain control on an ongoing basis and maintain the minimum credit risk resulting from loan and advances, and debt instruments as follows:

- 89.22 per cent – as at December 2019 - of the loans and advances portfolio having no past due or impairment indicators against 88.29 per cent as at 31 December 2018
- Loans and advances that have been evaluated for impairment on an individual basis of total amount EGP3,057,206 thousand – as at December 2019 - against EGP2,911,032 thousand as at 31 December 2018

- Investments in debt instruments and Treasury bills due from the Egyptian government reached 100 per cent

A.6. Loans and advances

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

	Loans and Advances to Customers 2019	Loans and Advances to Banks 2019	Loans and Advances to Customers 2018	Loans and Advances to Banks 2018
Neither having past dues nor impaired	32,082,639	268,888	32,163,761	493,430
Having past due but not impaired	818,540	-	1,356,585	-
Subject to impairment	3,057,206	-	2,911,032	-
Total	**35,958,385**	**268,888**	**36,431,378**	**493,430**
Less:				
Interest in suspense	(694,029)	-	(557,589)	-
Expected credit loss	(2,233,171)	-	(2,380,563)	-
Net	**33,031,185**	**268,888**	**33,493,226**	**493,430**

The Bank's total impairment loss for loans and advances amounted to EGP2,233,171 thousand against EGP2,380,563 thousand as at 31 December 2018, of which EGP1,751,479 thousand against EGP1,456,780 thousand as at 31 December 2018 represents impairment of specific loans and the remainder amounting to EGP481,692 thousand against EGP923,783 thousand as at 31 December 2018 represents impairment loss for the credit portfolio as a group.

The Bank reviewed the risks surrounding the loan portfolio and carried out stress testing to determine the impact of political and economic risks and prepare a plan to address these risks, which lead to the collective provision amounting to EGP340,371 thousand as at 31 December 2019 against EGP594,284 thousand as at 31 December 2018.

Note 19 includes additional information regarding impairment loss on loans and advances to customers.

The Bank's portfolio decreased by 1.30 per cent during the year. The Bank concentrates on dealing with large institutions or banks or individuals of credit worthiness.

Loans and advances neither having past due nor subject to impairment

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

2019

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

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

2018

	Retail				Corporate				
Rating	**Overdrafts**	**Credit cards**	**Personal loans**	**Mortgage loans**	**Overdrafts**	**Direct loans**	**Syndicated loans**	**Total loans and advances to customers**	**Total loans and advances to banks**
Performing loans	56,714	1,233,180	3,970,165	2,493	1,997,988	11,527,059	10,332,824	**29,120,423**	**493,430**
Regular follow-up	-	-	-	-	67,506	1,195,640	-	**1,263,146**	**-**
Special follow-up	-	-	-	-	85,818	1,090,230	604,144	**1,780,192**	**-**
Total	**56,714**	**1,233,180**	**3,970,165**	**2,493**	**2,151,312**	**13,812,929**	**10,936,968**	**32,163,761**	**493,430**

Loans and advances having past dues and not impaired

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

2019

	Retail				
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Total
Past due up to 30 days	8,215	20,920	118,049	832	**148,016**
Past due 30-60 days	324	8,803	39,542	-	**48,669**
Past due 60-90 days	400	5,125	16,786	-	**22,311**
Total	**8,939**	**34,848**	**174,377**	**832**	**218,996**

2019

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

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

2018

	Retail				
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Total
Past due up to 30 days	9,488	19,119	143,181	1,060	**172,848**
Past due 30-60 days	103	6,662	59,518	-	**66,283**
Past due 60-90 days	438	3,466	11,822	-	**15,726**
Total	**10,029**	**29,247**	**214,521**	**1,060**	**254,857**

2018

	Corporate			
	Overdrafts	Direct loans	Syndicated loans	Total
Past due up to 30 days	-	529,227	-	**529,227**
Past due 30-60 days	-	154,388	-	**154,388**
Past due 60-90 days	-	418,113	-	**418,113**
Total	**-**	**1,101,728**	**-**	**1,101,728**

Loans and advances subject to individual impairment

Loans and advances to customers

Loans and advances are subject to individual impairment before taking into consideration cash flows from guarantees amounting to EGP3,057,206 thousand against EGP2,911,032 thousand as at 31 December 2018.

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

2019

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

Under IFRS 9, total retail stage 3 portfolio as at 31 December 2019 is amounted to EGP50,249 thousand.

2018

	Retail				Corporate			
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Overdrafts	Direct loans	Syndicated loans	Total
Individual loans subject to impairment	597	4,786	14,039	-	498,260	2,255,392	137,958	**2,911,032**
Fair value of collateral (Real estate mortgage and pledge over shares)	-	-	-	-	-	474,717	-	**474,717**
Fair value of collateral (Commercial mortgage)	-	-	-	-	-	628,232	-	**628,232**

Restructured loans and advances

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

	2019	2018
Loans and advances to customers		
Corporate		
Direct loans	3,073,167	3,686,602
Retail		
Personal loans	476	591
Total	**3,073,643**	**3,687,193**

A.7. Debt instruments and Treasury bills

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

	Treasury bills	Investments in securities	Total
Less than A-	34,766,358	5,940,369	40,706,727
Total	**34,766,358**	**5,940,369**	**40,706,727**

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

Geographical sectors

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

	Arab Republic of Egypt				
	Cairo	**Alexandria and Delta**	**Upper Egypt, Sinai and Red sea**	**Other Countries**	**Total EGP (000)**
Due from banks	5,971,581	-	-	11,537,535	**17,509,116**
Loans and advances to banks	198,898	-	-	69,990	**268,888**
Loans and advances to customers					
Retail:					
Overdrafts	41,391	6,088	2,243	-	**49,722**
Credit cards	1,412,097	-	-	-	**1,412,097**
Personal loans	3,589,150	373,696	123,065	-	**4,085,911**
Mortgage loans	2,361	-	-	-	**2,361**
Corporate:					
Overdrafts	2,162,148	235,250	4,875	-	**2,402,273**
Direct loans	13,617,729	2,386,972	6,845	-	**16,011,546**
Syndicated loans	11,674,524	86,131	233,820	-	**11,994,475**
Derivative financial instruments	6,652	-	-	-	**6,652**
Financial investment:					
Debt instruments	40,706,727	-	-	-	**40,706,727**
Other assets	810,205	31,939	5,901	-	**848,045**
Total as at 31 December 2019	**80,193,463**	**3,120,076**	**376,749**	**11,607,525**	**95,297,813**
Total as at 31 December 2018	**77,244,014**	**2,828,520**	**427,378**	**19,323,793**	**99,823,705**

Business sectors

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

	Industrial sector	Commercial sector	Service sector	Governmental sector	Other activities	Individuals	Total
Due from banks	-	-	-	17,509,116	-	-	**17,509,116**
Loans and advances to banks	-	-	-	-	268,888	-	**268,888**
Loans and advances to customers							
Retail:							
Overdrafts	-	-	-	-	-	49,722	**49,722**
Credit cards	-	-	-	-	-	1,412,097	**1,412,097**
Personal loans	-	-	-	-	-	4,085,911	**4,085,911**
Mortgage loans	-	-	-	-	-	2,361	**2,361**
Corporate:							
Overdrafts	1,942,808	231,951	176,261	-	51,253	-	**2,402,273**
Direct loans	10,760,663	2,303,895	2,433,460	47	513,481	-	**16,011,546**
Syndicated loans	2,305,473	757,961	1,689,923	5,063,661	2,177,457	-	**11,994,475**
Derivative financial instruments	-	-	6,652	-	-	-	**6,652**
Financial investment:							
Debt instruments	-	-	-	40,706,727	-	-	**40,706,727**
Other assets	-	-	-	-	848,045	-	**848,045**
Total as at 31 December 2019	**15,008,944**	**3,293,807**	**4,306,296**	**63,279,551**	**3,859,124**	**5,550,091**	**95,297,813**
Total as at 31 December 2018	**14,411,129**	**1,624,920**	**6,456,280**	**66,363,977**	**4,175,713**	**5,430,568**	**99,823,705**

B. Market risk

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

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

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

B.1. Market risk measurement techniques

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

Value at risk

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

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

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

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

The average daily VAR for the Bank during the current year was EGP152,289 thousand, against EGP60,495 thousand for 2018.

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

	2019			2018		
	Average	High	Low	Average	High	Low
Foreign exchange risk	151,253	613,636	10,381	58,913	238,635	6,475
Interest rate risk	1,036	1,395	715	1,276	1,629	752
Total VAR	**152,289**	**615,031**	**11,096**	**60,189**	**240,264**	**7,227**

Trading portfolio VAR by risk type

	2019			2018		
	Average	High	Low	Average	High	Low
Foreign exchange risk	151,253	613,636	10,381	58,913	238,635	6,475
Interest rate risk	117	829	24	122	193	26
Total VAR	**151,370**	**614,465**	**10,405**	**59,035**	**238,828**	**6,501**

Non-trading portfolio VAR by risk type

	2019			2018		
	Average	High	Low	Average	High	Low
Interest rate risk	1,027	1,372	743	1,260	1,609	844
Total VAR	**1,027**	**1,372**	**743**	**1,260**	**1,609**	**844**

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:

2019	EGP	USD	EUR	GBP	Other	Total
Financial assets:						
Cash and balances with Central bank	(11,096,251)	(179,010)	(51,269)	(27,518)	(11,564)	**(11,365,612)**
Due from banks	(1,780,052)	(13,937,524)	(180,726)	(1,396,875)	(205,479)	**(17,500,656)**
Loans and advances to banks	(198,897)	(69,991)	-	-	-	**(268,888)**
Loans and advances to customers	(18,155,472)	(9,512,654)	(5,346,683)	(12,014)	(4,362)	**(33,031,185)**
Derivative financial instruments	-	(6,652)	-	-	-	**(6,652)**
Financial investments:						
Financial investment at Fair value through other comprehensive income	(34,439,489)	(6,321,552)	-	-	-	**(40,761,041)**
Other financial assets	(597,344)	(216,145)	(19,203)	(11,597)	(3,756)	**(848,045)**
Total financial assets	**(66,267,505)**	**(30,243,528)**	**(5,597,881)**	**(1,448,004)**	**(225,161)**	**(103,782,079)**
Financial liabilities						
Due to banks	1,899,527	77,074	8	688	3,597	**1,980,894**
Customer deposits	43,934,547	33,740,142	3,940,586	1,433,084	249,821	**83,298,180**
Financial derivative	-	48,808	2,826	-	-	**51,634**
Other financial liabilities	2,358,651	273,470	10,817	26,232	106,197	**2,775,367**

Total financial liabilities	**48,192,725**	**34,139,494**	**3,954,237**	**1,460,004**	**359,615**	**88,106,075**
Net financial position	**(18,074,780)**	**3,895,966**	**(1,643,644)**	**12,000**	**134,454**	**(15,676,004)**
Commitments related to credit and contingent liabilities	11,987,669	11,299,200	3,506,947	37,665	337,736	**27,169,217**
2018						
Total financial assets	**(55,154,358)**	**(37,385,691)**	**(5,718,029)**	**(1,627,470)**	**(235,932)**	**(100,121,480)**
Total financial liabilities	**41,449,216**	**38,476,204**	**4,293,222**	**1,699,369**	**351,214**	**86,269,225**
Net financial position – balance sheet	**(13,705,142)**	**1,090,513**	**(1,424,807)**	**71,899**	**115,282**	**(13,852,255)**
Commitments related to credit and contingent liabilities	10,983,690	15,562,878	3,023,174	30,846	547,767	**30,148,355**

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:

2019	**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	-	-	-	-	-	(11,365,612)	**(11,365,612)**
Due from banks	(11,915,042)	(3,956,296)	-	-	-	(1,629,318)	**(17,500,656)**
Loans and advances to banks	-	(268,406)	(482)	-	-	-	**(268,888)**
Loans and advances to customers	(18,977,011)	(1,983,953)	(7,251,411)	(2,117,870)	(2,700,940)	-	**(33,031,185)**
Financial derivatives	(6,652)	-	-	-	-	-	**(6,652)**
Financial investments:							
Financial investment at Fair value through other comprehensive income	(650,000)	(9,295,782)	(28,446,235)	(2,314,710)	-	(54,314)	**(40,761,041)**
Other financial assets	-	-	-	-	-	(848,045)	**(848,045)**
Total financial assets	**(31,548,705)**	**(15,504,437)**	**(35,698,128)**	**(4,432,580)**	**(2,700,940)**	**(13,897,289)**	**(103,782,079)**
Financial liabilities							
Due to banks	-	-	-	-	-	1,980,894	**1,980,894**
Customer deposits	13,776,723	5,294,630	12,685,340	17,082,845	4,231	34,454,411	**83,298,180**
Financial derivatives	51,634	-	-	-	-	-	**51,634**

Other financial liabilities	-	-	-	-	2,072,000	703,367	**2,775,367**
Total financial liabilities	**13,828,357**	**5,294,630**	**12,685,340**	**17,082,845**	**2,076,231**	**37,138,672**	**88,106,075**
Interest repricing gap	**(17,720,348)**	**(10,209,807)**	**(23,012,788)**	**12,650,265**	**(624,709)**	**23,241,383**	**(15,676,004)**
2018							
Total financial assets	**(43,392,456)**	**(11,752,988)**	**(30,246,700)**	**(4,566,742)**	**(2,129,703)**	**(8,032,891)**	**(100,121,480)**
Total financial liabilities	**14,427,094**	**4,724,278**	**14,069,547**	**15,647,648**	**2,072,000**	**35,328,658**	**86,269,225**
Interest repricing gap	**(28,965,362)**	**(7,028,710)**	**(16,177,153)**	**11,080,906**	**(57,703)**	**27,295,767**	**(13,852,255)**

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.

2019

Financial liabilities	Up to 1 month	Over than 1 month to 3 months	Over than 3 months to 1 year	Over than 1 year to 5 years	More than 5 years	Total
Demand deposits	33,360,762	-	-	-	-	**33,360,762**
Saving deposits	19,395,247	-	-	-	-	**19,395,247**
Accrued interest on saving deposits	100,296	-	-	-	-	**100,296**
Time deposits and Saving certificates	7,558,028	4,160,075	9,036,750	10,547,031	-	**31,301,884**
Other deposits	1,406,186	-	-	-	-	**1,406,186**
Due to banks	1,980,894	-	-	-	-	**1,980,894**
Other loans	26,801	51,008	238,615	1,263,105	2,858,472	**4,438,001**
Total of financial liabilities according to maturity date	**63,828,214**	**4,211,083**	**9,275,365**	**11,810,136**	**2,858,472**	**91,983,270**

2018

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	31,059,196	-	-	-	-	**31,059,196**
Saving deposits	18,531,892	-	-	-	-	**18,531,892**
Accrued interest on saving deposits	128,048	-	-	-	-	**128,048**
Time deposits and Saving certificates	7,778,392	3,232,312	9,694,425	11,005,668	-	**31,710,797**
Other deposits	1,299,101	-	-	-	-	**1,299,101**
Due to banks	3,119,787	-	-	-	-	**3,119,787**
Other loans	34,720	66,080	308,000	1,636,320	3,498,625	**5,543,745**
Total of financial liabilities according to maturity date	**61,951,136**	**3,298,392**	**10,002,425**	**12,641,988**	**3,498,625**	**91,392,566**

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

2019

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

2018

	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total
Loan commitments and other irrevocable commitments related to credit	4,160,226	-	-	**4,160,226**
Letters of credit	1,568,423	-	-	**1,568,423**
Letters of guarantee	24,419,706	-	-	**24,419,706**
Operating lease commitments	12,385	25,319	-	**37,704**
Total	**30,160,740**	**25,319**	**-**	**30,186,059**

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 EGP406,311 thousand as at 31 December 2019 against EGP(102,537) thousand as at 31 December 2018.

D.2. Financial instruments not measured at fair value

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

	Book value	Fair value
Financial assets		
Due from banks	17,500,656	17,514,458
Loans and advances to banks	268,888	268,888
Loans and advances to customers		
Retail	5,550,091	5,502,810
Corporate	30,408,294	28,244,021
Financial liabilities		
Due to banks	1,980,894	1,994,495
Customer deposits		
Retail	48,059,858	48,113,049

Corporate	35,238,322	35,277,323
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 held-to-maturity assets investments as available-for-sale investments are measured at fair value except for equity instruments whose market value cannot be reliably determined. Fair value of held-to-maturity investments is based on market prices or broker prices. Fair value is estimated using quoted market prices for financial paper with similar credit maturity and yield characteristics, where information is not available.

Due to banks and customers

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

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

E. Capital management

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

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

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

CBE requires the following from the Bank:

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

The numerator in capital adequacy comprises the following two tiers:

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

- 45 per cent of positive foreign currency reserves
- Hybrid instruments
- Loans (deposits) subordinated
- Provision for impairment losses for loans and contingent liabilities (not exceeding 1.25 per cent of total assets and contingent liabilities applying the risk weights, the provision for the non-performing loans, contingent liabilities) must be enough to face any liabilities it formed for

The denominator of the capital adequacy comprises:

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

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

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

	2019	2018
Capital		
Tier 1 after disposals (going concern capital) (1)		
Share capital	2,795,568	2,795,568
Reserves	3,236,762	2,751,016
General risk Reserve	491,666	433,383
Retained earnings	2,878,776	1,917,714
Additional going concern capital	1,714,018	1,445,265
Change in fair value of investments at FVOCI	415,324	-
Total disposals from going concern capital	(631,018)	(615,394)
Total going concern capital after disposals (common equity)	**10,901,096**	**8,727,552**
Tier 2 after disposal (gone concern capital) (2)		
45 per cent of fair value of investments carried at amortized cost	-	5,033
Subordinated (deposits) loans	2,072,000	2,072,000
Impairment losses provision for performing loans and advances contingent liabilities	201,769	618,815
Total tier 2 after disposals (gone concern capital)	**2,273,769**	**2,695,848**
Total capital adequacy after disposals (1+2)	**13,174,865**	**11,423,400**
Risk (credit, market and operational)		
Credit risk including the excess of top 50 customers' exposures	57,397,029	63,215,975
Capital requirements for market risk	890,580	17,600
Capital requirements for operational risk	13,410,590	11,497,020
Total credit, market and operational risks	**71,698,199**	**74,730,595**
Capital adequacy ratio (%)	**18.38%**	**15.29%**

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:

	2019	2018
Tier 1 after disposals (going concern capital)	**10,901,096**	**8,727,552**
Total on-balance sheet exposures, derivatives contracts and financial papers operations	104,799,270	101,788,629
Total off- balance sheet exposures	20,279,475	19,303,307
Total on-balance sheet and off-balance sheet exposures	**125,078,745**	**121,091,936**
Leverage financial ratio (%)	**8.72%**	**7.21%**

G. Measurement uncertainty and sensitivity analysis of ECL estimates

- Guidance Expected credit loss impairment allowances recognised 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

- HSBC Bank Egypt has adopted the use of three scenarios, representative of our view of forecast economic conditions, sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario), and two, less likely 'outer' scenarios, referred to as the Upside and Downside scenarios. Each outer scenario is consistent with a probability of 10%, while the Central scenario is assigned the remaining 80%, according to the decision of HSBC Bank Egypt's senior management. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. Key scenario assumptions are set using the average of forecasts of external economists, helping to ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information. The Central, Upside and Downside scenarios selected with reference to external forecast distributions using the above approach are termed the 'consensus economic scenarios'.

- 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.

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

* 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.

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

* ECL sensitivities exclude portfolios unlisting less complex modelling approaches
** ECL sensitivity includes only on-balance sheet financial instruments to which IFRS 9 impairment requirements are 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. Impairment losses for loans and advances

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

B. Impairment of available-for-sale equity investments

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

C. Fair value of derivatives

Fair value of financial instruments not quoted in an active market is determined using valuation techniques. These techniques (as models) are tested and reviewed yearly using qualified independently personnel other than those who prepared the techniques. All the models were prepared before and after using them to ensure that their results reflect accurate data and prices comparable to the market. These models are used to the extent it is practical actual data; however, some areas such as credit risk related to the Bank and counterparty volatility and correlations require management estimations. Changes in these estimation factors can affect the financial instrument's fair value disclosure. For example, to the extent that management uses credit marginal less than 20 points, the estimated net fair value of derivatives amounted to EGP6,652 thousand in assets against EGP51,643 thousand in liabilities that represent its fair value as shown in note 20.

D. Held-to-maturity investments

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

If classification of investments as held-to-maturity is suspended, the carrying amount shall increase by EGP14,021 thousand to reach its fair value by increasing the valuation reserve available for sale within the equity caption.

E. Income tax

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

5. Segment analysis

A. By activity segment

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

- **Large enterprises medium and small**

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

- **Investment**

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

- **Individuals**

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

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

31 December 2019

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

31 December 2018

	Corporate	Investment	RBWM	Other activities	Total
Income and expenses according to activity segment					
Income activity segment	5,276,418	744,256	1,889,663	907,449	**8,817,786**
Expenses activity segment	(952,641)	(33,659)	(1,086,984)	(26,709)	**(2,099,993)**
Provisions	(478,347)	-	29,720	75,710	**(372,917)**
Profit before tax	**3,845,430**	**710,597**	**832,399**	**956,450**	**6,344,876**
Tax	(1,205,998)	(207,982)	(116,075)	-	**(1,530,055)**
Profit for the year	**2,639,432**	**502,615**	**716,324**	**956,450**	**4,814,821**
Assets and liabilities according to activity segment					
Assets activity segment	34,727,751	57,750,057	5,619,134	4,255,053	**102,351,995**
Total assets	**34,727,751**	**57,750,057**	**5,619,134**	**4,255,053**	**102,351,995**
Liabilities activity segment	35,809,756	1,381,871	46,451,082	6,084,791	**89,727,500**
Total liabilities	**35,809,756**	**1,381,871**	**46,451,082**	**6,084,791**	**89,727,500**

B. Analysis according to the geographical segment

31 December 2019

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

31 December 2018

	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	8,393,308	357,617	66,860	**8,817,785**
Expenses geographical segment	(2,058,947)	(31,518)	(9,527)	**(2,099,992)**
Provisions	(373,217)	(3,656)	3,956	**(372,917)**
Profit before tax	**5,961,144**	**322,443**	**61,289**	**6,344,876**
Tax	(1,530,055)	-	-	**(1,530,055)**
Profit for the year	**4,431,089**	**322,443**	**61,289**	**4,814,821**
Assets and liabilities according to geographical segment				
Assets geographical segment	98,710,436	3,171,478	470,081	**102,351,995**
Total assets	**98,710,436**	**3,171,478**	**470,081**	**102,351,995**
Liabilities geographical segment	81,612,693	6,778,974	1,335,833	**89,727,500**
Total liabilities	**81,612,693**	**6,778,974**	**1,335,833**	**89,727,500**

6. Net interest income

	2019	2018
Interest from loans and similar income:		
Loans and advances to customers	4,104,130	3,976,995
Loans and advances to banks	-	29,273
Treasury bills and Treasury bonds	4,639,180	3,937,346
Deposits and current accounts	1,182,084	1,204,638
Financial Investments at FVOCI	647,679	530,791
	10,573,073	**9,679,043**
Interest on deposits and similar expenses:		
Deposits and current accounts:		
Banks	(1,183)	(1,179)
Customers	(2,916,940)	(2,475,865)
Other loans	(384,429)	(424,076)
	(3,302,552)	**(2,901,120)**
Net	**7,270,521**	**6,777,923**

7. Net fees and commissions income

	2019	2018
Fees and commissions income:		
Fees and commissions related to credit	1,294,584	1,188,694
Custody fees	96,656	107,408
Other fees	3,551	3,636
	1,394,791	**1,299,738**
Fees and commissions expenses:		
Brokerage fees paid	(5,431)	(4,536)
Other fees paid	(157,163)	(207,702)
	(162,594)	**(212,238)**
Net	**1,232,197**	**1,087,500**

8. Dividends

	2019	2018
Equity instruments	11,911	9,136
Investments in subsidiaries	6,772	-
Net	**18,683**	**9,136**

9. Net trading income

	2019	2018
Foreign exchange operations:		
Gain from foreign currency transactions	1,093,143	818,478
Gain from debt instruments held for trading	59,532	57,402
Gain from forward deals revaluation and currency swap	17	12
Net	**1,152,692**	**875,892**

10. Administrative expenses

	2019	2018
Staff costs		
Wages, salaries and benefits	487,074	455,011
Social insurance	26,776	22,118
End of Service Compensation	156,127	86,347
	669,977	**563,476**
Other administrative expenses	1,539,936	1,540,423
	2,209,913	**2,103,899**

11. Other operating income (expense)

	2019	2018
(Loss)/Profit from revaluation of monetary assets and liabilities determined in foreign currency other than those classified for trading or originally classified at fair value through profit and loss	(32,613)	257
Gain from sale of property and equipment	11,504	12,216
Operating lease	54,382	59,886
Investment property depreciation	(6,066)	(5,848)
Provisions no longer required	94,717	44,137
Other provision	(67,273)	(52,324)
Gain from money market funds	2,143	-
Head office services' revenue	38,878	30,585
Other	1,060	5,148
Net	**96,732**	**94,057**

12. Credit impairment recovered (charged)

	2019	2018
Loans and advances to customers		
Loans and advances to customers	(132,377)	(408,684)
Cash and balances with Central Bank	(1,275)	-
Due from Banks	(3,443)	-
Financial Investments	(6,868)	-
Other assets	(1,316)	-
Net	**(145,279)**	**(408,684)**

13. Income tax expenses

	2019	2018
Current taxes	(1,845,000)	(1,553,500)
Prior year adjustments	118,083	14,000
Deferred tax (note 31)	19,550	9,445
Net	**(1,707,367)**	**(1,530,055)**

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

	2019	2018
Profit before tax	7,418,452	6,344,876
Tax rate	22.50%	22.50%
Income tax calculated on accounting profit	**1,669,152**	**1,427,597**
Add (less)		
Unrecognized tax expenses	38,215	102,458
Net income tax	**1,707,367**	**1,530,055**
Effective tax rate	**23.02%**	**24.11%**

Taxation position

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

A. Corporate tax

Years since inception until 2017

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

Year 2018

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

B. Salary tax

Years from 1982 to 2018

These years were inspected and were settled.

C. Stamp duty tax

From 1982 to 2018

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.

	2019	2018
Net profit distributable for the year	5,632,972	4,802,605
Employees' profit share (estimated)	(563,297)	(480,261)
Profit attributable to shareholders of the bank	**5,069,675**	**4,322,344**
Common shares issued - weighted average (1,000 shares)	33,281	33,281
Earnings per share/EGP	**152.33**	**129.87**

15. Cash and balances with the Central Bank of Egypt

	2019	2018
Cash	1,288,896	1,273,473
Due from Central Bank (within the statutory reserve)	10,083,390	3,182,896
Impairment loss	(6,674)	-
	11,365,612	**4,456,369**
Non-interest-bearing balances	**11,365,612**	**4,456,369**

16. Due from banks

	2019	2018
Current accounts	1,629,318	2,767,625
Deposits	15,879,798	24,917,619
	17,509,116	**27,685,244**
Impairment loss	(8,460)	-
	17,500,656	**27,685,244**
Due from Central Bank (other than the statutory reserve)	5,792,905	8,391,551
Local banks	178,676	326,022
Foreign banks	11,537,535	18,967,671
	17,509,116	**27,685,244**
Impairment loss	(8,460)	-
	17,500,656	**27,685,244**
Non-interest-bearing balances	1,629,318	2,767,625
Interest-bearing balances	15,879,798	24,917,619
	17,509,116	**27,685,244**
Impairment loss	(8,460)	-
	17,500,656	**27,685,244**
Current balances	**17,500,656**	**27,685,244**

17. Financial assets at fair value through profit and loss

	2019	2018
Debt instruments		
Governmental bonds	-	9,884
Total debt instruments	**-**	**9,884**
Total finance assets at fair value through profit and loss	**-**	**9,884**

18. Loans and advances to banks

	2019	2018
Term loans	268,888	493,430
Total	**268,888**	**493,430**
Current balances	198,898	415,271
Non-current balances	69,990	78,159
	268,888	**493,430**

19. Loans and advances to customers

	2019	2018
Retail:		
Overdrafts	49,722	67,340
Credit cards	1,412,097	1,267,213
Personal loans	4,085,911	4,198,725
Mortgage loans	2,361	3,553
Total	**5,550,091**	**5,536,831**
Corporate loans including small loans for economic activities:		
Overdrafts	2,402,273	2,649,571
Direct loans	16,011,546	17,170,050
Syndicated loans	11,994,475	11,074,926
Total	**30,408,294**	**30,894,547**
Total loans and advance to customers	**35,958,385**	**36,431,378**
Less: provision for impairment losses	(2,233,171)	(2,380,563)
Less: interest in suspense	(694,029)	(557,589)
Net	**33,031,185**	**33,493,226**
Distributed as follows:		
Current balances	14,917,448	15,073,925
Non-current balances	18,113,737	18,419,301
Total	**33,031,185**	**33,493,226**

During the year ended 31 December 2019, the Bank has accepted trading financial securities with a fair value amounting to EGP507,379 thousand as a commercial loan guarantee.

Provision for impairment losses:

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

31 December 2019

	Retail				
	Overdrafts	**Credit cards**	**Personal loans**	**Mortgage loans**	**Total**
Balance at 31 December 2018	595	6,405	32,531	2	**39,533**
Effect of IFRS 9	644	6,932	35,207	2	**42,785**
Balance at 1 January 2019	**1,239**	**13,337**	**67,738**	**4**	**82,318**
Impairment losses charged/(released)	(192)	(5,444)	(15,758)	(4)	**(21,389)**
Amounts written off during the year	(92)	(2,621)	(7,437)	-	**(10,150)**
Foreign revaluation difference related to provision	-	-	(152)	-	**(152)**
Balance at the end of the year	**955**	**5,272**	**44,391**	**-**	**50,618**

	Corporate			
	Overdrafts	Direct loans	Syndicated loans	Total
Balance at 31 December 2018	303,906	1,853,398	183,725	**2,341,029**
Effect of IFRS 9	(12,338)	(75,051)	(15,577)	**(102,966)**
Balance at 1 January 2019	**291,568**	**1,778,347**	**168,148**	**2,238,063**
Impairment losses charged	12,970	82,657	58,148	**153,775**
Amounts written off during the year	-	(97,249)	-	**(97,249)**
Foreign revaluation difference related to provision	(9,450)	(60,221)	(42,365)	**(112,036)**
Balance at the end of the year	**295,088**	**1,703,534**	**183,931**	**2,182,553**

31 December 2018

	Retail				
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Total
Balance at the beginning of the year	798	9,823	79,979	38	**90,638**
Impairment losses charged/(released)	(319)	(2,531)	(45,527)	(36)	**(48,413)**
Amounts written off during the year	(33)	(616)	(2,041)	(2)	**(2,692)**
Balance at the end of the year	**446**	**6,676**	**32,411**	**-**	**39,533**

	Corporate			
	Overdrafts	Direct loans	Syndicated loans	Total
Balance at the beginning of the year	280,457	865,081	825,210	**1,970,748**
Impairment losses charged	39,202	253,283	164,612	**457,097**
Amounts written off during the year	-	(11,753)	-	**(11,753)**
Foreign revaluation difference related to provision	(6,438)	(41,592)	(27,032)	**(75,062)**
Balance at the end of the year	**313,221**	**1,065,019**	**962,790**	**2,341,030**

20. 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 2019

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

31 December 2018

	Contract/notional amount Assets	Contract/notional amount Liabilities	Assets	Liabilities
Derivatives held for trading				
Foreign currency derivatives				
Currency forward contracts	721,847	(721,847)	3,418	(3,046)
Total assets (liabilities) of derivatives held for trading			**3,418**	**(3,046)**

21. Financial investments

	2019	2018
Equity instruments unlisted (at cost)	31,151	-
Debt instruments listed (at FMV)*	5,940,369	-
Debt instruments unlisted (mutual fund)**	23,163	-
	5,994,683	**-**
Treasury bills	34,766,358	-
Total FVOCI	**40,761,041**	**-**
Financial investments Available-for-sale		
Equity instruments unlisted (at cost)	-	25,271
Debt instruments listed (at FMV)*	-	2,941,932
Total available-for-sale investments	**-**	**2,967,203**
Financial investments at amortized cost		
Mutual funds	-	9,142
Treasury bills	-	31,483,935
Total financial investments at amortized cost	**-**	**31,493,077**
Total financial investments	**40,761,041**	**34,460,280**
Current balances	37,777,309	31,613,848
Non-current balances	2,983,732	2,846,432
	40,761,041	**34,460,280**
Fixed interest debt instruments	40,729,890	34,425,867
	40,729,890	**34,425,867**

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

31 December 2019

Balance at beginning of the year	2,976,345
Effect of IFRS 9 – re-measurement	11,183
Balance at the beginning of the year after amendment	**2,987,528**
Additions	2,861,577
Disposals (sale/redemption)	(296)
Monetary assets revaluation	(100,447)
Gain from change in FMV	246,321
Balance at the end of the year	**5,994,683**

31 December 2018

Balance at beginning of the year	3,600,556
Additions	560,612
Disposals (sale/redemption)	(1,089,952)
Monetary assets revaluation	7,666
Loss from change in FMV	(102,537)
Balance at the end of the year	**2,976,345**

Financial investments at fair value through other comprehensive income (T-bills):

31 December 2019

Balance at beginning of the year	31,483,935
Effect of applying IFRS 9	(152,280)
Balance at the beginning of the year after amendment	**31,331,655**
Additions	32,645,273
Deductions	(29,231,600)
Exchange revaluation differences for foreign financial assets	(147,973)
Gain/(loss) from change in FMV	169,003
Balance at the end of the year	**34,766,358**

Treasury bills

	2019	**2018**
Treasury bills - Egyptian	33,177,241	31,483,935
Treasury bills - American	1,589,117	-

Total	**34,766,358**	**31,483,935**

Treasury bills represent the following:

	2019	2018
91 days maturity	-	16,150
182 days maturity	1,926,018	113,600
273 days maturity	2,654,738	2,747,125
364 days maturity	30,185,602	31,005,789
Unearned interest	-	(2,398,729)
Total	**34,766,358**	**31,483,935**

* Debt instruments at listed fair market value include local bonds amounting to EGP5,415,553 thousand (EGP2,941,932 thousand as at 31 December 2018) secured by the Egyptian Ministry of Finance.

** Treasury bills includes EGP202,926 thousand related to end of service compensation benefits as at 31 December 2019 and Treasury bills fair value reserve 1,275 (cost of Treasury bills EGP 352,849 thousand as at 31 December 2018).

*** Treasury bills fair value reserve reached EGP16,724 as at 31 December 2019 against (EGP152,280 as at 31 December 2018) with net change of EGP169,004 thousand.

Financial investment details

	Fair value	Fair value	Book value	Book value	Cost/Amortised cost	Cost/Amortised cost
	2019	2018	2019	2018	2019	2018
Equity instruments unlisted (at cost)	N/A	N/A	31,151	25,271	24,975	25,271
Debt instruments listed (at FMV)	5,940,369	2,941,932	5,940,369	2,941,932	5,849,907	2,934,729
Mutual Fund	23,163	20,326	23,163	9,142	9,142	9,142
Treasury bills	34,766,358	31,331,655	34,766,358	31,483,935	34,749,635	31,483,935
	40,729,890	**34,293,913**	**40,761,041**	**34,460,280**	**40,633,659**	**34,453,077**

Financial Investment income

	2019	2018
Gain on sale of equity instruments not listed in market	2,904	322
Recovery of investment in subsidiaries' impairment	-	12,517
Loss on sale of equity instruments available-for-sale	(85)	112
	2,819	**12,951**

22. Investment in subsidiaries

The Bank's net investment in subsidiaries amounted to EGP35,517 thousand as at 31 December 2019 (EGP35,517 thousand as at 31 December 2018).

31 December 2019

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

31 December 2018

	Company's country	Company's assets	Company's liabilities (without equity)	Company's revenues	Company's gains	%
HSBC Securities Egypt Company SAE	Egypt	44,853	3,892	23,680	11,158	98%
Total		**44,853**	**3,892**	**23,680**	**11,158**	

23. Intangible assets

	Computer software	
	2019	**2018**
Balance at the beginning of the current year		
Cost	18,406	17,263
Accumulated amortisation	(13,998)	(11,575)
Net book value at the beginning of the current year	**4,408**	**5,688**
Additions	66,067	1,143
Amortisation	(13,915)	(2,423)
Net book value as at end of year	**56,560**	**4,408**
Balance at the end of the current year		
Cost	84,473	18,406
Accumulated amortisation	(27,913)	(13,998)
Net book value as at end of year	**56,560**	**4,408**

24. Other assets

	2019	2018
Accrued revenues	848,045	774,484
Prepaid expenses	41,585	39,520
Costs of branches under construction	31,510	18,590
Others	898,231	354,112
Impairment loss	(2,882)	-
Total	**1,816,489**	**1,186,706**

- Other assets include EGP536,486 thousand as at 31 December 2019 and EGP123,145 thousand as at 31 December 2018 due from Central bank of Egypt from selling T-Bills.

25. Fixed assets

	Land and buildings	Leasehold improvement	Machines and equipment	Others	Total
Balance as at the beginning of the current year					
Cost	416,931	165,918	105,573	205,005	**893,427**
Accumulated depreciation	(199,221)	(102,785)	(75,747)	(120,866)	**(498,619)**
Net book value at the beginning of the current year	**217,710**	**63,133**	**29,826**	**84,139**	**394,808**
Additions	-	17,871	1,402	16,457	**35,730**
Transferred from Fixed assets (Cost)	(12,611)	-	-	-	**(12,611)**
Transferred from Fixed assets (accumulated depreciation)	5,849	-	-	-	**5,849**
Disposals (cost)	(3,008)	(615)	(277)	(16,715)	**(20,615)**
Disposals (accumulated depreciation)	2,428	609	210	16,636	**19,883**
Depreciation for the year	(17,094)	(10,037)	(6,637)	-27,184	**(60,952)**
Net book value at the end of the year	**193,274**	**70,961**	**24,524**	**73,333**	**362,092**
Balance as at the end of the current year					
Cost	401,312	183,174	106,698	204,747	**895,931**
Accumulated depreciation	(208,038)	(112,213)	(82,174)	(131,414)	**(533,839)**
Net book value at the end of the year	**193,274**	**70,961**	**24,524**	**73,333**	**362,092**

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.

	2019	2018
Balance at the beginning of the year		
Cost	111,857	132,274
Accumulated depreciation	(50,328)	(53,949)
Net book value at the beginning of the year	**61,529**	**78,325**
Transferred to fixed assets (Cost)	12,611	(20,417)
Transferred to fixed assets (accumulated depreciation)	(5,849)	9,469
Depreciation	(6,066)	(5,848)
Net book value as at the end of year	**62,225**	**61,529**
Balance at the end of the year		
Cost	124,468	111,857
Accumulated depreciation	(62,243)	(50,328)
Net book value as at the end of year	**62,225**	**61,529**

27. Due to banks

	2019	2018
Current accounts	1,980.894	3,119,787
	1,980.894	**3,119,787**
Central bank	11,737	-
Foreign banks	1,969,157	3,119,787
	1,980.894	**3,119,787**
Non-interest-bearing balances	1,980.894	3,119,787
	1,980.894	**3,119,787**
Current Balances	**1,980.894**	**3,119,787**

28. Customers' deposits

	2019	2018
Demand deposits	33,360,761	31,059,196
Time and call deposits	21,652,353	21,154,792
Certificates of deposits	7,483,632	8,186,549
Saving deposits	19,395,247	18,531,892
Other deposits	1,406,187	1,299,101
	83,298,180	**80,231,530**
Corporate deposits	35,238,322	33,463,125
Retail deposits	48,059,858	46,768,405
	83,298,180	**80,231,530**
Non-interest bearing balances	34,454,411	31,366,009
Fixed interest bearing balances	48,843,769	48,865,521
	83,298,180	**80,231,530**
Current balances	74,221,225	70,654,520
Non-current bearing balances	9,076,955	9,577,010
	83,298,180	**80,231,530**

Customers' deposits include deposits of EGP1,067,601 thousand as at 31 December 2019 against EGP955,345 thousand as at 31 December 2018, which represent collateral for irrecoverable commitments. There is no major difference between its carrying value and fair value.

29. Other liabilities

	2019	2018
Accrued interest	364,216	402,114
Deferred income	101,707	121,510
Accrued expenses	339,151	440,748
Creditors	361,031	192,070
Other credit balances	187,392	1,539,501
Total	**1,353,497**	**2,695,943**

In 31 December 2018 Other Liabilities include an amount of EGP 1,377,998 thousands due to Central bank of Egypt from buying T-Bills.

30. Other provisions

	Provision for claims		Provision for contingent liabilities		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Balance at the beginning of the year	104,348	203,497	187,237	221,788	291,585	425,285
Effect of IFRS 9	-	-	4,531	-	4,531	-
	104,348	**203,497**	**191,768**	**221,788**	**296,116**	**425,285**
Formed during the year	45,046	88,779	35,945	-	80,991	88,779
Provisions valuation differences	(569)	57	(7,680)	-	(8,249)	57
	148,825	**292,333**	**220,033**	**221,788**	**368,858**	**514,121**
Used during the year	(89,586)	(186,081)	(14,326)	-	(103,912)	(186,081)
No longer required	(13,711)	(1,904)	(7)	(34,551)	(13,718)	(36,455)
Balance at the end of the year	**45,528**	**104,348**	**205,700**	**187,237**	**251,228**	**291,585**

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	
	2019	**2018**	**2019**	**2018**
Fixed assets	-	-	(15,424)	(12,223)
End of service liability	100,453	79,399	-	-
Other	4,688	-	-	-
Total tax assets (liabilities)	**105,141**	**79,399**	**(15,424)**	**(12,223)**
Net deferred tax assets	**89,717**	**67,176**		

Deferred tax assets and liabilities movements

	Deferred tax assets		Deferred tax liabilities	
	2019	**2018**	**2019**	**2018**
Balance at the beginning of the year	79,399	67,439	(12,223)	(9,708)
IFRS 9 impact at the beginning of the year	2,991	-	-	-
Additions	22,751	11,960	(3,201)	(2,515)
Balance at the end of the year	**105,141**	**79,399**	**(15,424)**	**(12,223)**

32. Defined benefits obligations

The end of service compensation benefits amounted to EGP436,956 thousand as at 31 December 2019 (EGP352,849 thousand as at 31 December 2018).

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

	2019	**2018**
Liability recorded on balance sheet		
End of service compensation	436,956	352,849
Amounts recognised in income statement:		
End of service compensation (Note 10)	156,127	86,347

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)

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 2019	**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 2018	**33.280566**	**2,795,567**	**2,795,567**	**6,728**

A. Authorised capital

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

According to the extraordinary general assembly decision on 30 November 2010, the authorised capital has been increased to EGP5,000,000,000.

B. Issued and paid-up capital

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

34. Reserves and retained earnings

	2019	2018
Reserves		
General reserve	1,883,173	1,643,043
Legal reserve	1,324,798	1,084,668
Special reserve	-	63,466
Capital reserve	28,791	16,575
Other reserves – issuance premium	6,728	6,728
Fair value reserve – available-for-sale investments	175,323	(146,844)
IFRS 9 reserve	-	433,383
General risk reserve	491,666	-
Total reserves at the end of the year	**3,910,479**	**3,101,019**

Reserves movements during the year are as follows:

A. General reserve

	2019	2018
Balance at the beginning of the year	1,643,043	1,419,750
Transferred from prior year profits	240,130	223,293
Balance at the end of the year	**1,883,173**	**1,643,043**

B. Legal reserve

	2019	2018
Balance at the beginning of the year	1,084,668	861,375
Transferred from prior year profits	240,130	223,293
Balance at the end of the year	**1,324,798**	**1,084,668**

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

C. Special reserve

	2019	2018
Balance at the beginning of the year	63,466	63,466
Transferred to general risk reserve	(63,466)	-
Balance at the end of the year	**-**	**63,466**

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

D. Capital reserve

	2019	2018
Balance at the beginning of the year	16,575	14,130
Transferred from prior year profits	12,216	2,445
Balance at the end of the year	**28,791**	**16,575**

E. Reserve for excess over par value – issuance premium

	2019	2018
Balance at the beginning of the year	6,728	6,728
Balance at the end of the year	**6,728**	**6,728**

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

F. Fair value reserve

	2019	2018
Balance at the beginning of the year	(146,844)	(44,307)
Effect of IFRS 9	(100,025)	-
Balance at the beginning of the year – after amendment	**(246,869)**	**(44,307)**
Net change in investments at FVOCI – T-bills	169,003	-
Net change in investments at FVOCI – Bonds	237,308	(102,537)
Net change in investments at FVOCI – Mutual funds	2,837	-
Net change in investments at FVOCI – Equity instruments	6,176	-
Release of ECL – Debt instruments	6,868	-
Balance at the end of the year	**175,323**	**(146,844)**

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

G. IFRS 9 reserve

	2019	2018
Balance at the beginning of the year	433,383	433,383
Transferred to general risk reserve	(433,383)	-
Balance at the end of the year	**-**	**433,383**

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

Total credit risk which constitutes the basis for the calculation amounted to EGP43Bn as at 31 December 2018 (without considering the credit concentration risk) according to the capital adequacy model prepared at that date.

H. General risk reserve

	2019	2018
Transferred from special reserve	63,466	-
Transferred from IFRS 9 reserve	433,383	-
Transferred from credit impairment to general risk reserve	(5,183)	-
Balance at the end of the year	**491,666**	**-**

I. Retained earnings

	2019	2018
Movement on retained earnings		
Balance at the beginning of the year	6,727,909	5,488,123
Net profit for year	5,711,085	4,814,821
Dividends for previous year	(3,361,692)	(3,126,004)
Transferred to legal reserve	(240,130)	(223,293)
Transferred to capital reserve	(12,216)	(2,445)
Transferred to general reserve	(240,130)	(223,293)
Balance at the end of the year	**8,584,826**	**6,727,909**

35. Dividends

Payment of dividends is not registered unless being approved by the general assembly. The Board of Directors proposed to the general assembly that was held on 10 March 2020 a payment of EGP101.55 per share as cash dividends for the year 2019 with a total amount of EGP3,379,641,477 (payment of EGP86.58 per share as cash dividends for year 2018 with a total amount of EGP2,881,431,404). In addition to cash dividends to shareholders, the Board of Directors proposed in the general assembly meeting to distribute 563,297,188 as employees' distribution related to the profit in year 2019. (The actual employees' dividends distributed in 2018 amount to EGP480,260,456).

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:

	2019	2018
Cash and due from the CBE (note 15)	1,288,896	1,273,473
Due from banks (note 16)	13,015,629	23,782,892
Treasury bills (note 17)	-	16,034
	14,304,525	**25,072,399**

37. Commitment and contingent liabilities

A. Legal claims

There are lawsuits filed against the Bank as at 31 December 2019. The charged provision amounting to EGP570 thousand, provision of EGP804 thousand has been refunded during the year. And no provision had been used during this period.

B. Commitments for loans, guarantees and facilities

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

	2019	2018
Acceptances	752,046	742,287
Letters of guarantee	24,440,443	25,020,460
Letter of credit (import and export)	1,006,836	1,923,014
Other contingent liabilities	201,533	164,637
Commitments for loans	1,835,960	3,253,302
Cash margin	(1,067,601)	(955,345)
Total	**27,169,217**	**30,148,355**

C. Commitments for operating lease contracts

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

	2019	2018
Less than one year	16,886	12,385
More than one year and less than five years	20,793	25,319
Total	**37,679**	**37,704**

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.

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	
	2019	2018
Subordinated loans (39)	2,072,000	2,072,000
	2,072,000	**2,072,000**
Interest from loans	384,429	424,076

B. Loans and advances to related parties

	Subsidiaries	
	2019	2018
Loans and advances to customers		
Existing loans at the beginning of the year	-	-
Loans issued during the year	11,928	-
Loans collected during the year	(11,928)	-
Existing loans at the end of the year	**-**	**-**
Interest from loans	-	-

C. Deposits from related parties

	Subsidiaries	
	2019	2018
Due to customers		
Deposits at the beginning of the financial year	56,152	47,497
Deposits received during the financial year	-	10,098
Deposits redeemed during the financial year	(12,246)	(1,443)
Deposits at the end of the financial year	**43,906**	**56,152**
The cost of deposits and similar costs	1,455	1,227

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

D. Other related party transactions

	HSBC group		Subsidiaries	
	2019	2018	2019	2018
Operating lease	46,161	46,039	1,286	1,163
Administrative costs - IT	-	-	210	600
Fees and communication income	-	-	311	274

The cost of services provided by HSBC Group as at 31 December 2019 amounted to EGP740,308 thousand against EGP863,370 thousand as at 31 December 2018.

	HSBC group		Subsidiaries	
	2019	2018	2019	2018
Due from banks	260,285	223,817		-
Loans and advances to banks	69,990	78,159		-
Due to banks	463,239	1,431,380		-
Investments in subsidiaries	-	-	35,517	35,517
Other liabilities – rent insurance	-	-	268	710

On 17 September 2007, HSBC Middle East agreed with HSBC Egypt, HSBC Bahrain (on 2 November 2007) and HSBC Hong Kong (on 21 September 2011) to sell to HSBC Egypt part of loans' portfolio originally granted by HSBC Middle East, HSBC Bahrain, and HSBC Hong Kong to certain corporates. HSBC Egypt purchased these loans based on nominal value with no recourse. According to the above-mentioned agreement, interest will be split among HSBC Egypt, HSBC Middle East and HSBC Bahrain based on the percentage of loans bought by HSBC Egypt to the total granted loans. These loans are subject to classification and general provisioning rules as set out by the CBE. The balance of such loans, as at 31 December 2019, amounted to USD6,588 thousand equivalent to EGP105,675 thousand and has been presented as loans to customers.

E. Board of Directors and top management benefits

The average net monthly salary paid to the top 20 employees in the Bank for the year of 2019 amounted to EGP8,741 thousand (EGP8,710 thousand average net monthly salary paid to the top 20 employees for the year 2018).

39. Subordinated loans

	Current interest rate	2018	2017
Subordinated loan, variable interest rate (1)	16.75%	272,000	272,000
Subordinated loan, variable interest rate (2)	15.00%	1,800,000	1,800,000
		2,072,000	**2,072,000**

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

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

40. Mutual funds

HSBC first mutual fund (kol youm)

The mutual fund is an activity authorised for the Bank by virtue of Capital Market Law No.95/1992 and its Executive Regulations. The fund is managed by Hermes for Managing Mutual Funds. The certificates of the fund reached 1,000,000 certificates with an amount of EGP100,000,000 of which 50,000 certificates (with nominal value of EGP5,000,000) were allocated to the Bank to undertake the funds' activity.

The Bank held as at 31 December 2019, a number of 78,559 certificates amounting to EGP9,141,998 with a redeemable value amounting to EGP23,163,247 against 78,559 certificates amounting to EGP9,141,998 with redeemable value amounting to EGP20,325,703 as at 31 December 2018.

The redeemable value of the certificate amounted to EGP294.85 as at 31 December 2019 against EGP258.73 as at 31 December 2018. The outstanding certificates as at 31 December 2019 reached 3,303,320 certificates against 2,691,527 certificates as at 31 December 2018.

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 EGP3,551 thousand for the year ended 31 December 2019 against EGP3,636 thousand for the year ended 31 December 2018 under the item of fees and commission income caption in the income statement.

41. Impact of adopting IFRS 9 on 1 January 2019

(All amounts in EGP000)

	EAS 26 measurment category	IFRS 9 measurment category	Net Book Value 31 December 2018	Remeasurment	Reclassification	Net Book Value 1 January 2019
Assets						
Cash and balances at CBE	Amortized cost	Amortized cost	4,456,369	(5,399)	-	4,450,970
Due from Banks	Amortized cost	Amortized cost	27,685,244	(5,.017)	-	27,680,227
Loans and advances to Customers/Banks	Amortized cost	Amortized cost	33,986,656	60,254	-	34,046,910
Treasury Bills	Amortized cost	FVOCI	31,483,935	-	(152,280)	31,331,655
Financial Investments – debt instruments	AFS	FVOCI	2,967,203	-	-	2,967,203
Financial Investments – debt instruments held for trading	Held for trading	FVTPL	9,884	-	-	9,884
Mutual funds	Cost	FVOCI	9,142	-	11,184	20,326
Investments in subsidiaries – equity instruments	Cost	Cost	35,517	-	-	35,517
Other Assets (Prepayments, Accrud income)	Amortized cost	Amortized cost	1,186,706	(1,566)	-	1,185,140
Deferred Tax	Amortized cost	Amortized cost	67,176	2,991	-	70,167
Other Assets including intangible assets, property and equipments	Amortized cost	Amortized cost	460,745	-	-	460,745
Financial drevatives	FVTPL	FVTPL	3,418	-	-	3,418
Total Assets			**102,351,995**	**51,263**	**(141,096)**	**102,262,162**
Liabilities						
Due to Banks	Amortized cost	Amortized cost	3,119,787	-	-	3,119,787
Customers' deposits	Amortized cost	Amortized cost	80,231,530	-	-	80,231,530
Subordinated loans	Amortized cost	Amortized cost	2,072,000	-	-	2,072,000
Financial drevatives	FVTPL	FVTPL	3,046	-	-	3,046
Current Income Tax	Amortized cost	Amortized cost	960,760	10,846	-	971,606
ECL (Offbalance sheet & Other contingent liabilities)	Amortized cost	Amortized cost	291,585	4,529	-	296,114
Other Liabilities	Amortized cost	Amortized cost	3,048,792	-	-	3,048,792
Total Liabilities			**89,727,500**	**15,375**	**-**	**89,742,875**

Shareholders’ Equity				
Paid Up Capital	2,795,567	-	-	2,795,567
General Risk Reserve	-	(5,183)	-	(5,183)
Reserves	3,101,019	41,071	(141,096)	3,000,994
Retained Earnings	6,727,909	-	-	6,727,909
Total Shareholdrs’ Equity	**12,624,495**	**35,888**	**(141,096)**	**12,519,287**

HSBC Bank Egypt head office and branches

HSBC Bank Egypt SAE

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SWIFT: EBBK EGCX

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

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

City Stars branch
City Stars mall Ground Floor, Phase 2, Omar Ibn El Khattab Street, Heliopolis,
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Corniche El Maadi branch
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Down Town branch
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Gezira Sporting Club branch
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Maadi branch
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Cairo, Egypt
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Maadi Club branch
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Masaken Sheraton branch
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Nile View branch
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El Obbour Buildings branch
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El Orouba branch
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Cairo, Egypt.
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Safir branch
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El Shams Club branch
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El Thawra branch
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Cairo, Egypt
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New Cairo

Cairo Festival City branch
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Katameya Heights branch
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New Cairo, Egypt
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El Tagamoo branch
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5th Settlement, New Cairo
Cairo, Egypt
Tel: +2(02) 2920 1371/2920 1716

El Rehab branch
411, Commercial market,
El Rehab City
Cairo, Egypt
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Water Way branch
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North 90 Road, El Safa Compound,
New Cairo, Egypt
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Obbour City

Obbour City branch
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Obbour City, Egypt
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Giza

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Giza, Egypt
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El Batal branch
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Dokki branch
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Lebanon branch
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Mohandessin branch
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Giza, Egypt
Tel: +2(02) 3368 0102

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

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

Sheikh Zayed City and Sixth of October City

Arkan branch
Arkan Mall,
El Sheikh Zayed City, Entrance No.2
Giza, Egypt
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Dandy Mall branch
Dandy Mall, 28th Km, Cairo/Alexandria Desert Road
Giza, Egypt
Tel: +2(02) 3539 0174

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

Mall of Egypt branch
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6th of October City
Giza, Egypt
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Smart Village branch
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28th km Cairo/Alexandria Desert Road,
Egypt
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Alexandria

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Alexandria, Egypt
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Glym branch
556 Horreya Road,Glym,
Alexandria, Egypt
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Kafr Abdou branch
38 intersection of Ahmed Abdel Aziz Street and Abdel Kader Ragab Street,
Kafr Abdou, Roushdy,
Alexandria, Egypt
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Loran branch
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Saraya branch
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Hacienda branch
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El Gouna branch
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Sharm Azur branch
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