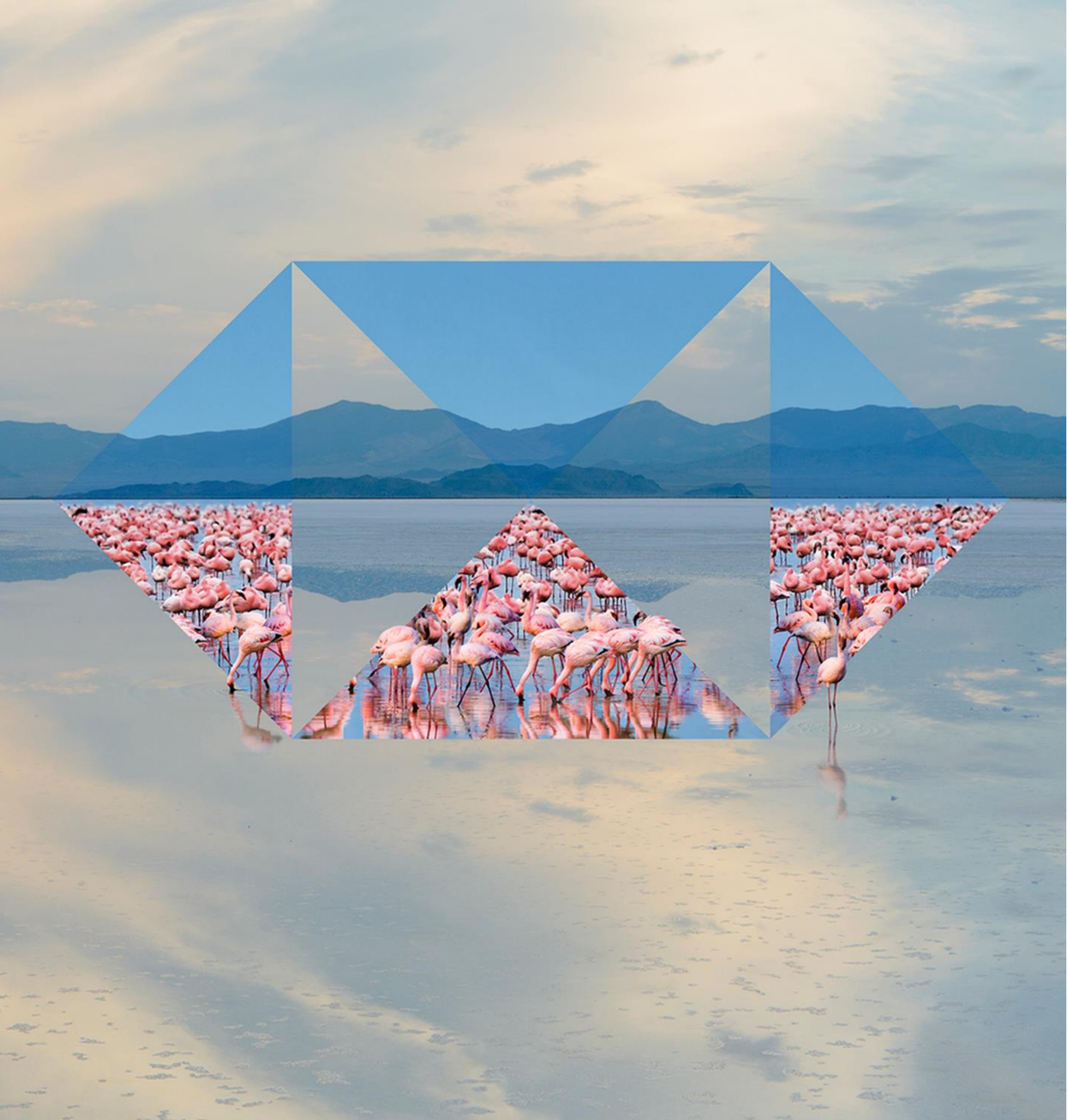
HSBC Bank Egypt S.A.E.

Annual Report and Accounts 2018



HSBC

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HSBC Bank Egypt SAE's ultimate parent company is HSBC Holdings plc. Headquartered in London, the HSBC Group is one of the world's largest banking and financial services organisations and one of the world's most valuable brands.

Our global businesses serve more than 39 million customers worldwide through a network that covers 66 countries and territories with listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges.

HSBC provides a comprehensive range of banking products through its global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

Board of Directors

David Eldon, Chairman

Jacques-Emmanuel Blanchet, Deputy Chairman and CEO

Abdel-Halim Assem

Dr. Ziad Bahaa-Eldin[1]

Sir Sherard Cowper-Coles

Lamyaa El Bahy[2]

Georges Elhedery

Neveen El-Shafei

Hisham Mohsen

Hania Sadek

[1] resigned on 23 December 2018
[2] appointed on 6 December 2018 but was subject to regulatory approval as at 31 December 2018

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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 2018

Economic review and future outlook

Egypt kick-started a rebalancing process and broader reform programme in late 2016 that have continued to positively shape economic developments since.

The most evident gains have been on the external front. The liberalisation of the Foreign Exchange (FX) regime in late 2016, which caused the currency to fall in value by more than 100 per cent against the USD and led to a better functioning official foreign exchange market after years of dollar shortages, has continued to reap benefits on Egypt's external position.

The weaker currency provided support to exports and remittances, which continued to grow at double-digit rates through 2017/18 fiscal year (July 2017 – June 2018). The improved security situation also helped tourism receipts rise by 120 per cent year-on-year. The ramp up of Egypt's natural gas production also narrowed Egypt's energy deficit despite of rising oil prices. This all allowed the current account deficit to fall from USD14.4bn in 2016/17 to USD6bn in 2017/18 – its lowest level in four years.

The current account dynamic, along with financial support from the IMF and other multilateral agencies and a USD4bn international bond issuance at the start of the year, helped the Central Bank's (CBE) official reserve assets to rise to USD42bn by the end of 2018, up from USD36bn one year before and near their record high at close to six months of goods and services imports. This improvement in the external position prompted the Central Bank in November 2018 to terminate the foreign exchange repatriation mechanism that had encouraged investors to return to Egypt in 2017.

Despite of the improving fundamentals, broader emerging market volatility in Q2 18 led to a reversal of portfolio flows into Egypt. After peaking at USD22bn in March 2018 – to equal 31 per cent of total outstanding paper at the time – foreign investment in Egyptian treasury bills declined through the rest of the year, falling by 50 per cent to USD11bn by November.

Supply-side price pressures meanwhile, caused by fuel subsidy cuts and food-supply shortages, led to intermittent spikes in headline inflation through 2018, further deterring the Central Bank from cutting interest rates after Q1 18.

Egypt continued on its fiscal consolidation path through 2018, with subsidy cuts and spending controls helping narrow the fiscal shortfall by 0.5 per cent to 9.6 per cent of GDP in 2017/18. High interest rates and rising commodity prices however eroded some the reform gains. In the first quarter of its 2018/19 fiscal year (Q3 18 calendar year), Egypt recorded a budget deficit of EGP102bn (USD5.7bn). The shortfall was up 20 per cent on its level one year before but steady at 7.6 per cent of official GDP estimates, with 40 per cent of public expenditure going to public debt servicing.

High inflation and tight monetary policy also weighed on growth in 2018. The Purchasing Manager's Index showed economic activity contracting in all but three months in 2018.

Several factors should offer growth some support in 2019. Production from Egypt's natural gas field is expected to continue to rise through H1 19, reducing Egypt's dependency on energy imports. The restoration of flights between Russia and Cairo following their two-year suspension should also continue to provide a boost to tourism's nascent recovery. The government also enacted several long awaited reforms to the business environment, including a new investment law and an industrial licensing law. The challenge for Egypt going forward is on how to translate these reforms into job-creating Foreign Direct Investment.

Business and operational activities

For the financial year ending 31 December 2018, the Bank reported profit before tax of EGP6,344.9m, which is a 8 per cent increase over 2017. Profit after tax rose by 8 per cent, reaching EGP4,814.8m.

The Board of Directors proposed a ‘full year’ distribution to shareholders, of EGP2,881.4m (60 per cent of the profits available for distribution for 2018) representing a coupon for 2018 of EGP86.58 per share.

In line with legal requirements, the Board of Directors also proposed a ‘full year’ distribution of EGP480.3m (10 per cent of the profits available for distribution for 2018) to the Bank’s employees being the profit sharing linked to performance.

The balance of the remaining profits available for appropriation, amounting to EGP1,440.90m, will be transferred to support the Bank’s reserves and retained earnings, allocating EGP240.1m for the legal reserve, EGP240.1m for the general reserve and EGP960.7m 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, organized by sector, verticals, region and country to enable us better to deliver seamless coverage to our clients, optimize our product capability and allow us to become more agile and holistic.

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

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.

The key to lasting success is not simply gaining a competitive edge but maintaining it over the long term. 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 your business, and HSBC Global Banking and Markets (GB&M) is focused on helping you 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 2018 leading the key credit and lending transactions in the country’s strategic sectors including power, oil and gas and financial institutions. During 2018, HSBC has also assisted the government with arranging an USD4bn triple tranche Eurobond in the international markets. 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. CBE had renewed a repurchase transaction with a consortium of international banks including HSBC for a total amount of USD3.8bn. The transaction reflected the confidence of the international market in the success of the Egypt’s economic programme.

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 working with dozens of Chinese companies, 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 were a market player offering our corporate clients tool to hedge their USD receivables through aggressively selling USD/EGP forward trades.

In 2018, 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 HBEG 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)

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 2019 that will allow us to strategically partner with our customers, while promoting the right means of doing so.

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, apparent from our recently won award for the “Best Trade Finance Bank”
- **Customer Experience**: ensure the delivery of our products and services in a fair and transparent manner, the customers have the tools to raise their voice along with providing them 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 2018, CMB was well positioned in the market, with asset growth of 29 per cent and deposits growth of 16 per cent, through partnering up with our local clients and leveraging on our network, with more focus on trade corridors. This resulted in an overall enhanced customer experience, an endeavour that we will continue to drive in 2019. Key achievements in 2018 are:

- Enhanced the customer on-boarding turnaround time by an average of 60 per cent, thus positively impacting the customer journey.
- Enhanced customer experience through the appointment of a “Customer Experience Lead” who is key in driving customer experience across CMB
- HSBC Egypt has been awarded as Number 1 “Market Leader for Trade Finance” in Euromoney’s Annual Trade Finance Survey
- In GLCM we launched a number of solutions and products to customers, including a Virtual Cards proposition, enhanced the liabilities reporting through the launch of a liquidity management portal for customers as well as the enablement of government payments to our client. Additionally, and as per our digital transformation plan, we enhanced our channels through introducing a new user interface for HSBCnet and Move Money
- We introduced a number of automation solutions including the automation of vessel checking which has reduced the turnaround time from circa 7.5 minutes to 6 seconds

Retail Banking and Wealth Management (RBWM)

In Retail Banking and Wealth Management, our strategy and strength lies in our continuous efforts to create value for our clients and shareholders. We continue to focus on enriching customer lives by providing a wide range of banking services to enable them managing their day-to-day finances and savings needs.

In Egypt, we are proud to offer diversified financial services to our customers through our network of 54 branches, our state of the art internet and mobile banking platforms and call centre, in addition to our fleet of 192 Automated Teller Machines (ATMs).

HSBC Bank Egypt managed to adapt to the changing market dynamics and continued to deliver strong and solid performance throughout the years. Keeping our customers at the heart, offering our customers a premium experience is always the core of our activities and decisions. Accordingly we continued to build on the high service quality by focusing on our key products and services to attain and maintain living the brand and increasing customer satisfaction.

RBWM’s strategic thrust is based on widening our prospect pool in target segments whilst enhancing cross selling opportunities of Assets and Wealth products through driving high quality acquisitions. In 2018 and in line with our strategy, we successfully grew our customer base by 14 per cent. This was supported by several initiatives that were rolled out to highlight the benefits and services that we provide to our clients. This is in addition to the competitive rates of the newly introduced USD Time Deposit which was reflected in a FCY Portfolio growth by 14.5 per cent.

In line with our commitment to increase our product mix and building up on HSBC’s position in Wealth Management, the Allianz Unit-Linked product was launched, expanding the range of Wealth Insurance products offered to our customers. This is in addition to availing HSBC standard global transfers functionality in Egypt through Internet Banking, allowing instant international transfers between customers’ accounts locally and globally.

To meet our customers’ needs, we offer credit facilities to assist them in their short or longer-term borrowing requirements. Therefore policy enhancements were implemented to reflect an increased risk lending appetite for both Premier and Advance customers by offering competitive interest rates.

To maintain its leading position in the market and continue to provide best-in-class digital solutions to our customers, HSBC continues to invest in its digital platform, where the first self-service Digital Unit was introduced to HSBC Bank Egypt in the Gezira Sporting Club. This is in addition to availing new features on our ATMs such as transfers between HSBC customers’ accounts as well as card-less cash deposit.

Building up on the momentum of streamlining our systems and processes as it is one of the main factors supporting our growth strategy and picking up on previous years' progress, new projects were initiated and implemented to level inefficiency elimination, reducing turn-around time and overall costs. In line with our strategy, we have rationalized our network to improve efficiency and to have a better mix in our distribution. With the aim of ensuring our presence close to our customers in order to better serve their needs, we continue to relocate our branches to more accessible locations, and to explore new opportunities in fast growing areas.

HSBC aims to set the industry standard for knowing our customers and detecting, deterring and protecting against financial crime. Safeguarding the business is our prime area of focus through effectively managing financial crime risk and protecting our customers through Global Standards by ensuring that sufficient controls are in place to mitigate risk.

Risk management

All of the Bank's activities involve, to varying degrees, the analysis, evaluation, acceptance and management of risks or combinations of risks. The most important categories of risk that the Bank is exposed to are credit risk (including cross-border country risk), market risk, operational risks in various forms, liquidity risk, reputational risk, legal risk and sustainability (environmental and social) risks. The Bank continues to enhance its capabilities and coverage of financial crime controls.

The risk profiles of the Bank change constantly under the influence of a wide range of factors. The risk management framework established by the Bank fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interdependencies.

Risk governance and ownership

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 authority delegated by the Board, the separately convened monthly 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 efficacy of the Bank's risk management framework.

In its oversight and stewardship of risk management, RMM is supported by a dedicated Risk function headed by the Chief Risk Officer (CRO), who is the chairperson of RMM and reports to the Board Risk Committee chairman.

Risk has functional responsibility for the principal financial risk types, namely retail and wholesale credit, market, operational, security and fraud risks. For these it establishes policy, exercises bank-wide oversight and provides reporting and analysis of portfolio composition.

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 the qualitative and quantitative expressions of the risks which the Bank is prepared to embrace in alignment with its strategy and business plans. Quantitative metrics are assigned to eight key categories: earnings, capital, liquidity and funding, credit risk covering impairment and diversification, other risk categories, financial crime and internal audit. Measurement against the metrics serves to:

- Guide underlying business activity, ensuring it is aligned to the Risk Appetite Statement;
- Enable the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and

- Promptly identify business decisions needed to mitigate risk.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending and trade finance, but also from off-balance sheet products such as guarantees and from the Bank's holdings of debt and other securities. Credit risk generates the largest regulatory capital requirement of the risks we incur.

Credit risk management

The Wholesale (corporate) and Retail Risk functions report to the CRO. Their responsibilities include:

- Formulating and recording detailed credit policies and procedures, consistent with local regulations and HSBC Group policy.
- Issuing policy guidelines on appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain high-risk sectors.
- Undertaking independent reviews and objective assessment of risk. Wholesale Risk assesses all commercial non-bank credit facilities and exposures prior to the facilities being committed to customers or transactions being undertaken. Above certain designated limits exposures require Board approval and HSBC Group concurrence.
- Monitoring the performance and management of portfolios.
- Maintaining policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to the Bank's capital base and remain within regulatory and internal limits.
- Maintaining the governance and operation of the Bank's risk rating framework and systems, to classify exposures taking into account regulatory requirements.
- Reporting on retail portfolio performance, high risk portfolios, risk concentrations, country limits and cross-border exposures, large impaired accounts, impairment allowances and stress testing results and recommendations to the Risk Management Meeting, the Risk Committee and the Board of Directors.
- Acting on behalf of the Bank as the primary interface, for credit-related issues, with external parties.
- The Bank implements credit policies, procedures and lending guidelines that meet local requirements and conform to the HSBC Group standards.

Operational Risk Management

The Bank defines operational risk as "the risk to achieving your strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events". Losses arising through fraud, unauthorized activities, errors, omission, inefficiency, systems failure or from external events all fall within the operational risk definition.

A formal governance structure provides oversight over the management of operational risk. The Risk Management Meeting convenes monthly to discuss operational risk issues and the effectiveness of internal controls.

In order to manage operational risks, the Bank has an Operational Risk Management Framework (ORMF), which includes the adoption of the Three Lines of Defense risk governance framework:

1. The First Line of Defense owns the operational risks. They are responsible for identifying, recording, reporting and managing risks, and ensuring that the right controls and assessments are in place to mitigate these risks. Most of the Bank's people are in the First Line of Defense, including Risk Owners, Control Owners and Business Risk and Control Managers (BRCMs).

2. The Second Line of Defense sets policy and guidelines for managing operational risk, and provides advice and guidance on effective risk management. The Second Line are risk management specialists comprising Risk Stewards and the Operational Risk Function.

3. The Third Line of Defense is Internal Audit team who independently ensures that the Bank is managing operational risk effectively.

A centralized database is used to record the results of the operational risk management process. Operational risk and control assessments, and losses, are input and maintained by the business units. Management is responsible for implementing the required standards of operational risk control throughout their operations and where deficiencies are evident, rectifying them within a reasonable timeframe.

The Bank maintains and tests contingency facilities to support operations in the event of unforeseen disasters.

Cyber Security Risk

Information and Cyber Security Risk is one of the most material residual risks for HSBC and the financial industry in general. The nature of this risk is broad and rapidly evolving. HSBC's operational risk taxonomy assesses such risk under three categories – Internal Information, Third Party Information and External Information Security and Cyber Event.

Our businesses have consistently improved the understanding of Information and Cyber Security risks during 2018 and internal conversations have matured from focus on the procedural aspects of assessing risk to considering how best to manage identified risks through control change. This is demonstrated in governance forums across the first and second lines of defense. Identification of critical systems and data has been completed and initial control remediation has commenced. At HSBC Group level, a program is in place to develop business continuity plans in the event of a catastrophic cyber event.

Information and Cyber Security threats will continue to represent a top risk for banks world-wide and remain a key focus for HSBC Group, HSBC Bank Egypt and the banking industry as a whole.

Adoption of IFRS9 "Financial Instruments"

During 2018, HSBC Bank Egypt completed the implementation of IFRS9 in accordance with HSBC Group approach and models and our financial results are now reported to HSBC Group on this basis. Final guidance regarding local regulatory approach to IFRS9 is anticipated during Q1 19. Accounting impacts, if any, from the local IFRS9 approach will be reflected in our relevant future financial statements.

People management and development

Employees

HSBC Bank Egypt employed 1,673 full time employees for its operations in Egypt as at 31 December 2018. 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.

2018 saw continued low levels of turnover but high levels of internal transfers and rotations. This reflects the continued commitment to career development and providing people with skills including the ability to keep skills relevant for future demands. 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 on bank-wide conversations to further define how HSBC can be the best place to work as well as a bank.

Learning and Development

2018 saw continued investment in our people. A bank-wide job fair was run as well as the launch of an in-depth on-boarding programme for new-to-bank Retail Banking and Wealth Management staff. 2018 also saw the graduation from the internal Credit Skills programme which seeks to give future Relationship Managers in the Corporate Bank a solid foundation in all aspects of Risk management. The HSBC University expanded further both in the offerings of online programmes where staff have access to over 9,000 online courses but also the establishment of HSBC University campuses in the UAE and the UK.

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. 2018 saw further improvement in our Diversity metrics with female colleagues now making up 40 per cent of our Senior Management cadre.

Performance and Reward

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

In 2018, we further embedded “Everyday Performance Management” which considers both the performance (what) and Behavior (how) achievements of each employee before deciding on a year-end ratings and subsequent reward outcomes.

HSBC Operations, Services and Technology (HOST)

In 2018, HOST continued to focus on the strategic business priorities: driving digitization and streamlining processes; deepening business partnerships; and delivering Global Standards commitments. Customer-centricity, operational efficiency and service excellence underpinned our Transformation Agenda, and we delivered a series of strategic initiatives to uplift our digital capabilities, optimize our channels, automate and re-engineer our processes and simplify our technology.

Corporate Real Estate (CRE)

Over the past 12 months, CRE focus was directed towards developing and implementing optimisation strategies for our property portfolio, supporting business growth via ATM and branch location initiatives through the relocation of two vital branches, the remodeling of a customer service unit to a full service branch, the full refurbishment of remote branch, introducing the digital journeys to customers and the relocation of two departments to the Head Office to support greater cross-functional collaboration and deliver annual cost saving. In addition, CRE improved the look and feel of some of our branches in our branch refurbishment journey to improve the customer experience.

Procurement and Supplier Risk Management

Our contract management, supplier management and travel facilities underwent ongoing transformation to achieve global consistency. Procurement collaborated with businesses and functions to reduce the Bank’s addressable third-party spend achieving saves validated by Group representing 310 per cent of HBEG’s 2018 stretch target and completed the rollout of various tools to improve the risk supplier and contract management and to provide a simple and consistent experience to all HBEG staff.

Technology and Cyber

With an ongoing focus on Digital, we continued to deploy a number of technology solutions to evergreen infrastructure; uplift system availability, resiliency and stability; and support regulatory requirements. This is in addition to handling properly all cyber incidents and initiating various awareness sessions to HBEG staff to ensure a solid understanding and adherence.

Driving Digitization, Operational Transformation and Process Excellence

We completed the outsourcing of a number of bank operations to Global Service Centres (GSC), leveraging HSBC Group economies of scale, best practice and expertise. In addition, we undertook a series of end-to-end reviews to streamline our processes which resulted in improving input quality, launching new workflow tools as a pilot country within the group, reducing turnaround time and enhancing overall customer experience.

People and Communications

To promote 'the Healthiest Human System' and how to improve the wellbeing in our workplace, we held various skip-level exchange meetings with the teams to encourage the speak-up culture, and better understand what the Healthiest Human System means to each one and how can we share best practices across the teams. Also, to help improving 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 high service standard for the Bank. Moreover, we communicated regularly with the staff through active and ongoing channels including Newsletters, Town Hall Meetings and Exchange Meetings.

Internal Third Parties and Affiliates Management

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. Also tracking the Service Quality via active engagement with business lines to ensure that HOST functions are providing the services that the businesses require and to the quality standard expected.

Financial Crime Compliance (FCC)

HSBC Bank Egypt continued its progress towards implementing an effective financial crime risk management capability in 2018. We completed the roll-out of major compliance systems and shifted our focus towards embedding a sustainable approach to financial crime risk management.

Governance and structure

The Country Head of FCC ('MLRO') reports to the CEO and has reporting access to the Audit Committee and the Risk Committee of the Board of Directors, to align with our global business structure and help ensure coverage of local regulatory requirements.

Under the authority delegated by the Board, the Financial Crime Risk Management Committee ('FCRMC') convenes monthly to oversee Financial Crime Risk management policy and the implementation of risk appetite and controls.

FCC Operating Model and 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. 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 standardized 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 and the majority of work was completed in 2018 with an expected full delivery of the program in H1 19.

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

Regulatory Compliance Risk Management

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

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

Governance and structure

The country Head of RC reports to the CEO and has reporting access to the Audit Committee to align with our global business structure and help ensure coverage of local regulatory requirements, RC is structured to ensure breaches and emerging risks are promptly identified and escalated and to keep program current by reacting to “triggers” including regulatory changes.

Key risk management process

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

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

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

Managing Conduct

It is the policy of HSBC Group to observe high standards of integrity and fair dealing in the conduct of its business and to act with due skill, care and diligence.

HSBC’s approach to Conduct is designed to ensure that, through our actions and behaviors, we deliver fair outcomes for our customers and do not disrupt the orderly and transparent operation of financial markets.

Conduct remained a key focus area in 2018 and the Conduct agenda will continue to remain a priority for our customers, for our regulators and for the banking industry. In March 2018, a “Conduct week” was launched aiming to raise the level of awareness across all functions and lines of business.

Corporate Sustainability

For HSBC, sustainability means building our business for the long term by balancing social, environmental, and economic considerations in all the decisions we make. This enables us to foster growth which is both sustainable and commercially viable.

In Egypt, our sustainability strategy is guided by our global strategy and is tied to regional and national priorities. Today, our sustainability approach focuses on three main areas: sustainable finance; sustainable supply chains; and employability and financial capability.

In each of these areas, we have begun to take genuine strides forward. We have set out a series of commitments to contribute to the global transition to a low-carbon economy. We have also pledged long-term support to help people access education and training so they can acquire the skills they need to succeed in today's workplace. Also, through our partnerships with NGOs and other key stakeholders, we are encouraging responsible business in global supply chains.

Aligning with our sustainability strategy, in 2018, we reached out to more than 40,000 beneficiaries through various activities funded locally, regionally and globally and achieved 3,145 volunteering hours through the help of 324 staff volunteers.

Key projects in 2018 include:

- **Building Community Schools in Egypt**: In 2015, HSBC Egypt signed a three-year partnership with Misr El Kheir Foundation to build, refurbish and equip a total of 350 community schools in the poorest and remotely located villages in Egypt. A large number of students miss the chance for learning in the standard governmental education due to lack of places in classrooms and a lack of schools in local rural areas. The project offers quality education to more than 12,000 pupils between the ages of 6 to 14 and also supported the employment of a total of 700 facilitators. In 2018, we managed to complete the project and all 350 schools are operating in full capacity
- **Sponsored "Forsa Programme":** In partnership with Wataneya Society for the Development of Orphanages, HSBC Bank Egypt exclusively sponsored the first programme in Egypt that addresses youth development in institutional homes in Egypt focusing on discovering youth capabilities and making them socially integrated. The programme benefits a total of 200 youth orphans
- **Implemented the Job Placement Training Programme**: In collaboration with Education for Employment Egypt, HSBC Egypt managed to secure access to high-quality, market-driven job training and professional development support, leading to improved prospects for employment in decent jobs for a total of 250 unemployed and underprivileged youth aged between18 to 30
- **Source of Income Project:** HSBC Bank Egypt partnered with Al-Hassan Foundation to fund microfinance projects for wheelchair users throughout Egypt. Al-Hassan FDN is contributing to the employability challenge for physically impaired people through project financing. The funding will finance a total of 56 small projects that are diverse, productive, and inclusive for the underprivileged governorates in Egypt
- **Through the regional Ramadan campaign "Help us help others**": HSBC Egypt organised a food packing activity at the Head Office with the help of staff volunteers. In addition, a market fair was organized for a total of 700 orphans, distributing essentials like Eid clothes, toys, home appliances, linens and sanitary kits. The Bank also organised a Ramadan convoy that focused on reaching rural communities in the Eastern and Western deserts. The convoy included the distribution of food supplies, solar lanterns, water tanks and providing shelter to the elderly
- **Women Employability Booster:** This is a one year project (in partnership with Positive Planet International), contributing in boosting the employability of a total of 60 vulnerable young women, between the ages of 17 to 24 living in Upper Egypt. The project aims to equip young women with life skills for employability through practical training and to establish linkages with employers in their local communities
- **"JA more than Money":** In 2008, HSBC Group - in partnership with Junior Achievement World Wide - launched a global programme for students called "JA More Than Money"; which focuses on financial literacy and entrepreneurship. The programme empowers children by educating them early about financial terms, options and decisions. The programme is delivered to public school students in Egypt through INJAZ NGO with the help of HBEG volunteers. In 2018, the programme impacted a total of 5,492 students

HSBC Securities Egypt (HCES)

HCES' core business 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.

Stock market volumes had more than doubled in 2017 following the floatation of the Egyptian pound thus attracting foreign investors back to the Egyptian market. In 2018, overall market volumes slightly declined by 5 per cent and with the developments within Emerging Markets the Egyptian market was negatively affected and the EGX 30 lost 13.2 per cent of its value during the year. In spite of these developments, foreign investors' activity saw an increase of 8 per cent in market volumes compared to the previous year.

In terms of HCES performance in 2018 – the company saw increased activity executing trades worth EGP 11.7 billion throughout the year which reflects a year-on-year 27 per cent increase in commissions. Profitability generation further improved recording a net profit of EGP 9.5 million (ROE of 38 per cent). Finally, a long outstanding legal case was settled and a provision of EGP 2.3 million was refunded back to the income statement.

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

Acknowledgement

Based on the financial results of 2018, the Board would like to extend their congratulations and thanks to the HSBC staff for their efforts and achievements.

Shareholding

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

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

Equity Investments

HSBC Securities Egypt SAE

HSBC Securities Egypt offers a full brokerage service for major foreign institutional investors and fund management companies. Besides offering brokerage services, HSBC Securities Egypt also provides quality equity research and distribution through dedicated equity analysts and salespersons based in Cairo, the MENA desk in HSBC Bank Middle East in Dubai and the Europe, Middle East and Africa desks in HSBC's operations in London and New York.

HSBC Investment Company (Egypt) SAE

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

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

- Egyptian Mortgage Refinance Company (EMRC)
- I-Score
- Misr Company for Clearing, Settlement and Depository (MCDR)

- Egyptian Banks Company for Technological Advancements (EBC)

In line with regulatory requirements, HSBC Bank Egypt increased its shareholding in MCDR by 21,042 shares in July 2018.

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 Directors
- The 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 2018:

Resignation

- Resignation of Dr. Ziad Bahaa Eldin as Independent, Non-Executive Director effective 23 December 2018

Appointments

- Appointment of Mrs. Lamyaa El Bahy, Chief Financial Officer, as Executive Director effective 6 December 2018[1]

[1] Subject to regulatory approval as at 31 December 2018

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 reorganized 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.

Dr. Ziad Ahmed Bahaa-Eldin

Independent, Non-Executive Director (resigned on 23 December 2018)

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

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

He previously held several public positions including the Deputy Prime Minister for Economic Development and Minister of International Cooperation (2013-2014), Member of Parliament representing South Assiut (2012), Chairman of the Egyptian Financial Supervisory Authority (EFSA) (2009-2011) and the Chairman of the Egyptian General Authority for Investment and Free Zones "GAFI" (2004-2007).

He is also a former non-executive member of the Board of Directors of the Central Bank of Egypt (2004-2011), of the National Bank of Egypt (2005-2010), and a former Senior Legal Advisor to the Central Bank of Egypt (2011). From 2000 to 2004, Dr. Bahaa-Eldin was a practicing lawyer in Egypt, and from 1997 to 2000 the senior legal advisor to the Minister of Economy. Prior to this, he was in private practice in Cairo and Washington, DC. Dr. Bahaa-Eldin was also an adjunct lecturer at the Faculty of Law at the Cairo University (1998-2004).

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

Dr. Bahaa-Eldin received his PhD in Financial Law from the London School of Economics and Political Sciences (1997), an LLM in International Business Law from King's College London (1989), a BA in Economics from the American University in Cairo (1987) and a Bachelor of Law from Cairo University (1986). He is a graduate of the Jesuites High School in Cairo (1982).

Sir Sherard Cowper-Cowles KCMG LVO

Non-Executive Director

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

From 2011 to 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. Georges Elhedery

Non-Executive Director

Georges has led HSBC in MENAT as Chief Executive Officer and Deputy Chairman of HSBC Bank Middle East Limited since July 2016, overseeing a region that is home to three of the Group's 10 most profitable priority 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.

In addition to his role as a director of HSBC Bank Middle East Limited, George sits on the boards of HSBC Bank Egypt SAE, HSBC (Turkey) Bank A.S., the Saudi British Bank, HSBC Saudi Arabia Limited and HSBC Bank Middle East Holdings BV.

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

A keen linguist, Georges is also a dedicated amateur athlete.

Mrs. Neveen El-Shafei

Independent, Non-Executive Director

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. Hisham Mohsen

Non-executive Director, Representative of Misr Insurance Company

Mr. 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

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.

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 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 Dr. Ziad Bahaa Eldin* (Chairman), Mrs. Neveen El-Shafei and Mr. Hisham Mohsen.

Risk Committee

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

Governance and Nomination Committee

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

Salaries and Remuneration Committee

The Salaries and Remuneration Committee considers remuneration matters for the bank in the context of the Group's remuneration policy, proposes the fees for directors for approval by the Board and the shareholders and reviews performance-based remuneration with reference to corporate goals and objectives. The members of the Salaries and Remunerations Committee are Sir Sherard Cowper-Coles (Chairman), Dr. Ziad Bahaa Eldin[1] and Mr. Abdel Halim Assem.

*until the date of his resignation from the Board of Directors

Governance Committees

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

Executive Committee

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

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.

Auditors’ report

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

Report on the separate financial statements

We have audited the accompanying separate financial statements of HSBC Bank, Egypt (SAE), which comprise the separate balance sheet as of December 31, 2018 and the related separate statements of income, changes in equity and cash flows for the financial year then ended and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility for the separate financial statements

These separate financial statements are the responsibility of the Bank’s management. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Central Bank of Egypt’s rules, pertaining to the preparation and presentation of the financial statements, issued on December 16, 2008 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 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’ judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the separate financial statements, referred to above, present fairly, in all material respects, the separate financial position of HSBC Bank, Egypt (SAE) as of December 31, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with the Central Bank of Egypt’s rules, pertaining to the preparation and presentation of the financial statements issued on December 16, 2008 and Egyptian laws and regulations relating to the preparation of these financial statements.

Report on other legal and regulatory requirements

According to the information and explanations given to us during the financial year ended December 31, 2018, no contravention of the central bank, banking and monetary institution Law No. 88 of 2003.

The Bank maintains proper books of accounts, which include all that is required by law and statutes of the Bank, the separate financial statements are in agreement thereto.

The separate financial information included in the Board of Directors' report, prepared in accordance with law no. 159 of 1981 and its executive regulations, is in agreement with the Bank's books of accounts.

Cairo: February 17, 2019

Auditors

Mohamed Ahmed Fouad, CPA

R.A.A. (11595)

F.R.A.R. (235)

Mansour & Co. PricewaterhouseCoopers

Public Accountants and Consultants

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

Farid Samir Farid, CPA

R.A.A. (8739)

F.R.A.R. (210)

Deloitte

Saleh, Barsoum and AbdelAziz
Accountants and Auditors

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

Balance sheet

HSBC Bank Egypt SAE

Separate balance sheet as at 31 December 2018

(All amounts in EGP000)

	Note	2018	2017
Assets			
Cash and balances with Central Bank of Egypt	15	4,456,369	3,418,198
Due from banks	16	27,685,244	28,721,508
Treasury bills	17	30,229,080	23,379,354
Financial assets held for trading	18	9,884	20,294
Loans and advances to banks	19	493,430	1,392,670
Loans and advances to customers	20	33,493,226	26,907,728
Financial derivatives	21	3,418	7,069
Financial investments			
Available for sale	22	2,967,203	3,591,414
Held to maturity	22	9,142	9,142
Investments in subsidiaries	23	35,517	23,000
Intangible assets	24	4,408	5,688
Other assets	25	1,063,563	715,056
Deferred tax assets	32	67,176	57,731
Investment property	27	61,529	78,325
Fixed assets	26	394,808	369,838
Total assets		**100,973,997**	**88,697,015**
Liabilities and shareholders' equity			
Liabilities			
Due to banks	28	3,119,787	4,729,544
Customers' deposits	29	80,231,530	67,828,374
Financial derivatives	21	3 046	8,580
Subordinated loans	40	2,072,000	2,072,000
Other liabilities	30	1 317 945	1,348,371
Other provisions	31	291,585	425,285
Current income tax		960,760	946,915
Defined benefits obligations	33	352,849	299,731
Total liabilities		**88,349,502**	**77,658,800**
Shareholders' equity			
Paid-up capital	34	2,795,567	2,795,567
Reserves	35	3,101,019	2,754,525
Retained earnings	35	6,727,909	5,488,123
Total shareholders' equity		**12,624,495**	**11,038,215**
Total liabilities and shareholders' equity		**100,973,997**	**88,697,015**

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

Income statement

HSBC Bank Egypt SAE

Separate income statement for the year ended 31 December 2018

(All amounts in EGP000)

	Note	2018	2017
Interest income from loans and similar income	6	9,679,043	8,541,776
Interest expense on deposits and similar expense	6	(2,901,120)	(2,301,744)
Net interest income		**6,777,923**	**6,240,032**
Fees and commissions income	7	1,299,738	1,008,981
Fees and commissions expense	7	(212,238)	(164,340)
Net fees and commissions income		**1,087,500**	**844,641**
Dividends income	8	9,136	4,951
Net trading income	9	875,892	1,088,325
Financial investment gain	22	12,951	12,074
Credit impairment (charged)	12	(408,684)	(441,328)
Administrative expenses	10	(2,103,899)	(1,881,219)
Other operating income	11	94,057	52
Profit before income tax		**6,344,876**	**5,867,528**
Income tax expenses	13	(1,530,055)	(1,399,222)
Net profit for the year		**4,814,821**	**4,468,306**
Earnings per share (EGP/share)			
Basic	14	129.87	120.84

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

Cash flow statement

HSBC Bank Egypt SAE

Separate cash flows statement for the year ended 31 December 2018

(All amounts in EGP000)

	Note	2018	2017
Cash Flows from operating activities			
Net profit before income tax		6,344,876	5,867,528
Adjustments to reconcile net profit to net cash flows from operating activities			
Depreciation and amortisation		64,705	57,733
Impairment of assets		408,684	441,328
Other provisions formed		88,779	207,397
Provisions no longer required		(36,455)	-
Revaluation differences for provisions other than loans provision		57	5,994
(Gain) from sale of property and equipment		(12,216)	(2,445)
(Gain) from sale of investments		(322)	(10,624)
Cost (reversal) of impairment of subsidiaries		(12,517)	(1,200)
Other available-for-sale investments Changes		(7,666)	(10,462)
Dividends received		(9,136)	(4,951)
Net Profit to net cash flows from operating activities		**6,828,789**	**6,550,298**
Net decrease (increase) in assets and liabilities			
Due from banks		(981,422)	1,107,975
Treasury bills		(7,312,978)	(9,236,651)
Financial investments held for trading		10,410	(11,521)
Loans and advances to customers		(6,994,182)	983,172
Loans and advances to banks		899,240	(106,865)
Financial derivatives (net)		(1,883)	1,511
Other assets		(348,507)	(217,210)
Due to banks		(1,609,757)	(1,042,705)
Customers' deposits		12,403,156	(927,816)
Other liabilities		(30,426)	258,773
End of service compensation benefits		53,118	35,554
Utilized from other provisions		(186,081)	(17,255)
Income tax paid		(1,525,655)	(1,015,305)

Net cash flows provided from (used in) operating activities		**1,203,822**	**(3,638,045)**
Cash flows from investing activities			
Payments to purchase fixed assets and branches preparation		(79,911)	(77,793)
Proceeds from sale of fixed assets		21,671	10,571
Payments to purchase intangible assets		(1,143)	(1,087)
Payments for purchase of available-for-sale investments		(560,612)	(2,507,557)
Proceeds from sale (recovery) of available-for-sale investments		1,090,274	1,487,077
Dividends received		9,136	4,951
Proceeds from sale of held-to-maturity financial investments		-	22,774
Net cash flows (used in) provided from investing activities		**479,415**	**(1,061,064)**
Cash flows from financing activities			
Dividends paid		(3,126,004)	(2,419,022)
Net cash flows (used in) financing activities		**(3,126,004)**	**(2,419,022)**
Net change in cash and cash equivalents during the year		(1,442,767)	(7,118,131)
Cash and cash equivalents at the beginning of the year		26,515,166	33,633,297
Cash and cash equivalents at the end of the year		**25,072,399**	**26,515,166**
Cash and cash equivalents are represented in:			
Cash and balances with Central Bank of Egypt		4,456,369	3,418,198
Due from banks		27,685,244	28,721,508
Treasury bills		30,229,080	23,379,354
Balance with Central Bank of Egypt within the limit of statutory reserve EGP		(3,182,896)	(2,387,586)
Balance with Central Bank of Egypt out of the limit of statutory reserve USD		(3,902,352)	(3,716,240)
Treasury bills of maturity more than 3 months from date of acquisition		(30,213,046)	(22,900,068)
Cash and cash equivalents	**37**	**25,072,399**	**26,515,166**

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

Changes in the shareholders' equity statement

HSBC Bank Egypt SAE

Separate statement of changes in shareholders' equity for the year ended 31 December 2018

(All amounts in EGP 000)

	Note	Paid-up capital	Reserves	Retained earnings	Total
Balances as at 31 December 2016		**2,795,567**	**1,859,949**	**4,238,030**	**8,893,546**
Dividends paid for year 2016	36	-	-	(2,419,022)	**(2,419,022)**
Transferred to legal reserve	35	-	173,343	(173,343)	**-**
Transferred to general reserve	35	-	181,129	(181,129)	**-**
Transferred to capital reserve	35	-	11,336	(11,336)	**-**
Net change in available-for-sale investments	35	-	95,385	-	**95,385**
Net profit for the year ended 31 December 2017		-	-	4,468,306	**4,468,306**
Transferred to IFRS 9 reserve		-	433,383	(433,383)	**-**
Balances as at 31 December 2017		**2,795,567**	**2,754,525**	**5,488,123**	**11,038,215**
Balances as at 31 December 2017		**2,795,567**	**2,754,525**	**5,488,123**	**11,038,215**
Dividends paid for year 2017	36	-	-	(3,126,004)	**(3,126,004)**
Transferred to legal reserve	35	-	223,293	(223,293)	**-**
Transferred to general reserve	35	-	223,293	(223,293)	**-**
Transferred to capital reserve	35	-	2,445	(2,445)	**-**
Net change in available-for-sale investments	35	-	(102,537)	-	**(102,537)**
Net profit for the year ended 31 December 2018		-	-	4,814,821	**4,814,821**
Balances as at 31 December 2018		**2,795,567**	**3,101,019**	**6,727,909**	**12,624,495**

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

Appropriation account

HSBC Bank Egypt SAE

Separate proposed profit of appropriation statement for the year ended 31 December 2018

(All amounts in EGP 000)

	Note	2018	2017
Net profit for the year (as per income statement)		4,814,821	4,468,306
Less:			
Gain from sale of fixed assets transferred to capital reserve according to law		(12,216)	(2,445)
IFRS 9 reserve	35	-	(433,383)
Net profit for the year available for appropriation		**4,802,605**	**4,032,478**
Retained earnings at the beginning of the year	35	1,913,088	1,453,200
Total		**6,715,693**	**5,485,678**
Appropriation:			
Legal reserve	35	240,130	223,293
General reserve	35	240,130	223,293
Shareholders' dividends	36	2,881,431	2,679,418
Employees' profit share	36	480,261	446,586
Retained earnings at the end of the year		2,873,741	1,913,088
		6,715,693	**5,485,678**

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

Notes on the accounts

HSBC Bank Egypt SAE
Notes to the separate financial statements for the year ended 31 December 2018
(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 55 branches and 7 small units served by more than 1,685 employees at the date of the balance sheet.

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

The financial statements for the year ended 31 December 2018 have been approved for issuance by the Board of Directors on 13 February 2019.

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.

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

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

The separate financial statements of the Bank should be read with its consolidated financial statements, for the year ended on 31 December 2018 to get complete information on the Bank’s financial position, results of operations, cash flows and changes in ownership rights.

B. Subsidiaries

- Subsidiaries are all companies (including special purpose entities) over which the Bank has owned directly or indirectly the power to govern the financial and operational policies. Generally, the bank own more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank has the ability to control the entity
- The purchase method is used to account for the acquisition of subsidiaries by the Bank. The cost of an acquisition is measured as the fair value of the assets, or/and asset given or/and equity instruments issued

and loans assumed at the date of exchange, plus costs directly attributable to the acquisition. Net assets, including contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date, irrespective of the minority interest. The excess of acquisition cost over the Bank's share fair value in the net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the net assets, the difference is recognised directly in the income statement under the item 'Other operating income/(expenses)'

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

C. Segment reporting

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

D. Foreign currency transactions and balances

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

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

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

Valuation differences resulting from non-monetary items include profits and losses resulting from changes in fair value, such as equity instruments held at fair value through profits and losses, while valuation differences resulting from equity instruments classified as financial investments available for sale are recognised as 'Fair value reserve – available-for-sale investments' under the equity caption.

E. Financial assets

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

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

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

- Financial assets are classified as held for trading if they are acquired or incurred principally for the purpose of selling in the near-term or if they are part of the financial instruments portfolio that is managed together and there is evidence resulting from recent actual transactions that profit can be recognised. Derivatives can be classified as held for trading unless they are identified as hedging instruments
- Financial assets designated at fair value through profit or loss are recognised when:

- doing so significantly reduces measurement inconstancies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and issued debt securities;
- equity investments that are managed and evaluated at a fair-value basis, in accordance with risk management or investment strategy and preparing reports to top management on that basis, are classified as fair value through profit and loss; and
- financial instruments, such as debt instrument which contain one or more embedded derivatives that may significantly affect the cash flows, are classified at fair value through profit and loss.

- Gains and losses arising from changes in the fair value of derivatives managed in conjunction with designated financial assets or financial liabilities are recorded in the ‘Net income from financial instruments classified at fair value through profit and loss’
- It is not permitted to reclassify any derivative out of the financial instrument valued at fair value through profit or loss category during its holding period. Also, it is not permitted to reclassify any financial instrument valued at fair value through profit or loss category if it is initially recorded by the Bank at fair value through profit or loss

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

E.2. Loans and receivables

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

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

E.3. Financial investments held to maturity

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

E.4. Financial investments available for sale

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

The following applies to financial assets:

- Purchases or sales of financial assets at fair value through profit and loss, held-to-maturity financial investments and available-for-sale financial investments are recognised at the trade date, which is the date the Bank is committed to purchase or sell the financial assets
- Financial assets that are not classified at fair value through profit and loss at initial recognition are recognised at fair value plus transaction cost, while the financial assets classified as at fair value through profit and loss are initially recognised at fair value only, and the transaction cost is recognised in the income statement under ‘Net trading income’
- Financial assets are derecognised when the rights to receive cash flows have expired or when the Bank transfers all asset risks and rewards to another party, while a financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired

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

F. Netting between financial instruments

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

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

G. Derivative financial instruments

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

- Derivatives that do not qualify for hedge accounting

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

H. Interest income and expense

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

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

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

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

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

I. Fees and commission income

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

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

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

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

J. Dividends income

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

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

Financial instruments sold under repurchase agreements are shown in the assets side as an addition to the 'Treasury bills and other governmental notes' line item in the balance sheet. On the other hand, the Bank's obligation arising from financial instruments acquired under purchase and resale agreements is shown as a deduction from the 'Treasury bills and other governmental notes' line item in the balance sheet. Differences between the sale and repurchase price or between the purchase and resale price are recognised as interest expense or income throughout the period of agreements using the effective interest rate method.

L. Impairment of financial assets

Financial assets at amortised cost:

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

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

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

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

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

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

- In case there is no objective evidence that an impairment loss has been incurred on a financial instrument considered individually, whether being significant or not, the Bank includes that financial asset in a group of financial assets having similar characteristics in terms of credit risk and tests the whole group for impairment according to the historical default rates
- An individually impairment test is made for a financial asset if there is objective evidence that this asset is impaired. If the impairment occurred, this asset will be separated from group of financial assets that are collectively evaluated for impairment
- If the result of the previous test did not recognise impairment loss, this asset will be added to the group of financial assets that are collectively evaluated for impairment. Impairment loss is calculated by the difference between the carrying amount and the present value of estimated future recoverable cash flows,

excluding future expected credit loss not charged yet, discounted at the financial assets' original effective interest rate. This impairment is booked in the income statement as 'Impairment loss', and the book value of the financial asset is reduced by the impairment amount using the 'impairment loss provision'

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

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

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

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

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

Available-for-sale investments:

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

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

M. Investment property

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

N. Intangible assets

Software (computer programmes)

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

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

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

O. Fixed assets

They represent land and buildings related to head office, branches and offices, and all fixed assets are reported at historical cost minus depreciation and impairment losses. The historical cost includes the charges directly related to acquisition of fixed asset items.

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

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

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

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

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

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

P. Impairment of non-financial assets

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

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

Q. Leases

The accounting treatment for the finance lease is in accordance with law 95 of year 1995. If the contract entitles the lessee to purchase the asset at a specified date and amount, and the contract term is more than 75 per cent of the asset's expected useful life, or the current value of the total lease payments represents at least 90 per cent of the value of the asset, then this lease is considered finance lease. Other than that, the lease has to be considered operating lease.

Q.1. Leasing

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

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

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

Q.2. Leasing out

Operating lease assets are accounted for at the fixed assets caption in the balance sheet and depreciated over the asset expected useful life using the same method applicable to similar assets. The lease rent income less any discount granted to the lessee will be recognised in the income statement using the straight line method over the contract term.

R. Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents include balances due within three months from the date of acquisition, cash and balances due from the CBE other than the mandatory reserve, and current accounts with banks and Treasury bills.

S. Other provisions

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

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

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

T. Financial guarantees contracts

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

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

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

U. Employees’ benefits

End of service benefits

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

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

Share-based payments

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

V. Income tax

The income tax on the Bank’s income or loss at the end of year includes both the current and deferred taxes. Income tax is recognised in the income statement, except income taxes related to shareholders’ equity items that are recognised directly in the shareholders’ equity.

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

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

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

W. Capital

W.1. Capital cost

Issuance cost directly related to issuing new shares or issuing shares related to acquisition or share options is charged to shareholders' equity of total proceeds net of tax.

W.2. Dividends

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

X. Custody activities

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

Y. Corresponding figures

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

3. Financial risk management

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

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

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

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

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

A. Credit risk

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

A.1. Credit risk measurement

Loans and advances to banks and customers

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

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

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

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

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

Bank’s internal ratings scale

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

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

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

Debt instruments and Treasury bills

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

A.2. Limiting and preventing risks policies

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

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

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

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

Collaterals

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

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

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

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

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

Derivatives

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

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

Master netting arrangements

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

Credit-related commitment

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

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

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

A.3. Impairment and provisioning policies

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

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

	2018		2017	
Bank's rating	**Loans and advances**	**Impairment provision**	**Loans and advances**	**Impairment provision**
Performing loans	83.43%	33%	73.52%	40%
Regular watching	3.69%	2%	5.71%	4%
Watch list	4.92%	4%	13.12%	13%
Non-performing loans	7.96%	61%	7.65%	43%
	100%	**100%**	**100%**	**100%**

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

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

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

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

A.4. Measurement module banking general risk

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

The Bank calculates the provisions required for impairment of assets exposed to credit risk, including commitments relating to credit on the basis of rates determined by CBE. In case, the provision for impairment losses according to credit worthiness rules issued by CBE exceeds the provision required according to discounted cash flow and historical default rates methods, this increase shall be debited from the retained earnings and credited to the 'general banking risk reserve' under the equity caption. This reserve is regularly adjusted with this increase and decrease, to equal the amount of increase and decrease in the two provisions. This reserve is not distributable. Note 35 shows the 'general banking risk reserve' movement during the year.

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:

	Categorization	CBE Rating	Internal Classification	CBE
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

A.5. Maximum limits for credit risk before collaterals

	2018	2017
Balance sheet items exposed to credit risks		
Due from banks	27,685,244	28,721,508
Treasury bills	30,229,080	23,379,354
Financial asset held for trading:		
Debt instrument	9,884	20,294
Loans to banks	493,430	1,392,670
Loans and advances to customers:		
Retail loans:		
Overdrafts	67,340	65,614
Credit cards	1,267,213	1,104,584
Personal loans	4,198,725	3,861,706
Mortgage loans	3,553	4,440
Corporate loans:		
Overdrafts	2,649,571	2,866,081
Direct loans	17,170,050	13,449,454
Syndicated loans	11,074,926	7,874,195
Financial derivative instruments	3,418	7,069
Financial investments:		
Debt instruments	2,941,932	3,568,569
Other assets	774,484	495,820
Total	**98,568,850**	**86,811,358**
Off-balance sheet items exposed to credit risk		
Loan commitments and other irrevocable commitments related to credit	4,160,226	3,710,681
Letters of credit	1,568,423	790,293
Letters of guarantee	24,419,706	19,561,015
Total	**30,148,355**	**24,061,989**

The above table represents the maximum limit for credit risk as of 31 December 2018 and 31 December 2017, without taking into consideration any collateral. For on-balance-sheet items, amounts stated depend on net carrying amounts shown in the balance sheet.

As shown in the preceding table, 36.96 per cent of the total maximum limit exposed to credit risk resulted from loans and advances to customers against 33.67 per cent as at 31 December 2017 while 3 per cent represents investments in debt instruments against 4.32 per cent as at 31 December 2017.

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:

- 87.12 per cent of the loans and advances portfolio is classified at the highest two ratings in the internal rating against 79.23 per cent as at 31 December 2017

- 88.29 per cent of the loans and advances portfolio having no past due or impairment indicators against 89.78 per cent as at 31 December 2017
- Loans and advances that have been evaluated on an individual basis of total amount EGP2,911,032 thousand against EGP2,252,183 thousand as at 31 December 2017
- Investments in debt instruments and Treasury bills reached 100 per cent against 100 per cent as at 31 December 2017 due from the Egyptian government

A.6. Loans and advances

Loans and advances are summarised as follows:

	Loans and Advances to Customers 2018	Loans and Advances to Banks 2018	Loans and Advances to Customers 2017	Loans and Advances to Banks 2017
Neither having past dues nor impaired	32,163,761	493,430	26,031,287	1,392,670
Having past due but not impaired	1,356,585	-	942,604	-
Subject to impairment	2,911,032	-	2,252,183	-
Total	**36,431,378**	**493,430**	**29,226,074**	**1,392,670**
Less:				
Interest in suspense	(557,589)	-	(256,960)	-
Loan loss impairment	(2,380,563)	-	(2,061,386)	-
Net	**33,493,226**	**493,430**	**26,907,728**	**1,392,670**

The Bank's total impairment loss for loans and advances amounted to EGP2,380,563 thousand against EGP2,061,386 thousand as at 31 December 2017, of which EGP1,444,705 thousand against EGP833,503 thousand as at 31 December 2017 represent impairment of specific loans and the remainder amounting to EGP935,858 thousand against EGP1,227,883 thousand as at 31 December 2017 represent impairment loss for the credit portfolio as a group.

The Bank reviewed – periodically - the risks surrounding the loan portfolio and carried out stress testing to determine the impact of political and economic risks and prepare a plan to address these risks, which lead to the collective provision amounting to EGP594,284 thousand as at 31 December 2018 against EGP978,611 thousand as at 31 December 2017.

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

The Bank's portfolio increased by 24.65 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.

2018

Rating	Retail: Overdrafts	Retail: Credit cards	Retail: Personal loans	Retail: Mortgage loans	Corporate: Overdrafts	Corporate: Direct loans	Corporate: 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**

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

2017

Rating	Retail: Overdrafts	Retail: Credit cards	Retail: Personal loans	Retail: Mortgage loans	Corporate: Overdrafts	Corporate: Direct loans	Corporate: Syndicated loans	Total loans and advances to customers	Total loans and advances to banks
Performing loans	63,059	1,060,485	3,629,468	3,181	2,190,349	6,692,962	6,993,084	**20,632,588**	**1,392,670**
Regular follow-up	-	-	-	-	135,752	1,262,765	181,334	**1,579,851**	**-**
Special follow-up	-	-	-	-	317,289	2,959,900	541,659	**3,818,848**	**-**
Total	**63,059**	**1,060,485**	**3,629,468**	**3,181**	**2,643,390**	**10,915,627**	**7,716,077**	**26,031,287**	**1,392,670**

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**:**

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**

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.

2017

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

2017

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

Loans and advances subject to individual impairment

Loans and advances to customers

Loans and advances are subject to individual impairment before taking into consideration cash flows from guarantees amounting to EGP2,911,032 thousand against EGP2,252,183 thousand as at 31 December 2017.

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

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**

2017

	Retail				Corporate			
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Overdrafts	Direct loans	Syndicated loans	Total
Individual loans subject to impairment	737	6,575	18,408	-	222,691	1,845,654	158,118	**2,252,183**
Fair value of collateral (Real estate mortgage and pledge over shares)	-	-	-	-	-	503,240	-	**503,240**
Fair value of collateral (Commercial mortgage)	-	-	-	-	-	480,815	-	**480,815**

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.

	2018	2017
Loans and advances to customers		
Corporate		
Direct loans	675,638	1,329,949
Retail		
Personal loans	591	582
Total	**676,229**	**1,330,531**

A.7. Debt instruments and Treasury bills

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

	Treasury bills	Investments in securities	Total
Less than A-	30,229,080	2,951,816	33,180,896
Total	**30,229,080**	**2,951,816**	**33,180,896**

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	8,439,610	-	-	19,245,634	**27,685,244**
Treasury bills	30,229,080	-	-	-	**30,229,080**
Financial assets held for trading					
Debt instruments	9,884	-	-	-	**9,884**
Loans and advances to banks	415,271	-	-	78,159	**493,430**
Loans and advances to customers					
Retail:					
Overdrafts	58,484	6,513	2,343	-	**67,340**
Credit cards	1,267,213	-	-	-	**1,267,213**
Personal loans	3,676,173	390,829	131,723	-	**4,198,725**
Mortgage loans	3,335	-	218	-	**3,553**
Corporate:					
Overdrafts	2,417,554	226,647	5,370	-	**2,649,571**
Direct loans	15,110,499	2,036,160	23,391	-	**17,170,050**
Syndicated loans	10,677,835	135,983	261,108	-	**11,074,926**
Derivative financial instruments	3,418	-	-	-	**3,418**
Financial investment:					
Debt instruments	2,941,932	-	-	-	**2,941,932**
Other assets	738,871	32,388	3,225	-	**774,484**
Total as at 31 December 2018	**75,989,159**	**2,828,520**	**427,378**	**19,323,793**	**98,568,850**
Total as at 31 December 2017	**66,373,120**	**2,679,713**	**455,010**	**17,303,515**	**86,811,358**

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	-	-	-	27,685,244	-	-	**27,685,244**
Treasury bills	-	-	-	30,229,080	-	-	**30,229,080**
Financial assets held for trading							
Debt instruments	-	-	-	9,884	-	-	**9,884**
Loans and advances to banks	-	-	-	-	493,430	-	**493,430**
Loans and advances to customers							
Retail:							
Overdrafts	-	-	-	-	-	67,340	**67,340**
Credit cards	-	-	-	-	-	1,267,213	**1,267,213**
Personal loans	-	-	-	-	-	4,198,725	**4,198,725**
Mortgage loans	-	-	-	-	-	3,553	**3,553**
Corporate:							
Overdrafts	1,428,282	225,344	622,767	48,099	325,079	-	**2,649,571**
Direct loans	11,918,685	611,378	4,552,655	-	87,332	-	**17,170,050**
Syndicated loans	1,064,162	788,198	1,277,440	5,449,738	2,495,388	-	**11,074,926**
Derivative financial instruments	-	-	3,418	-	-	-	**3,418**
Financial investment:							
Debt instruments	-	-	-	2,941,932	-	-	**2,941,932**
Other assets	-	-	-	-	774,484	-	**774,484**
Total as at 31 December 2018	**14,411,129**	**1,624,920**	**6,456,280**	**66,363,977**	**4,175,713**	**5,536,831**	**98,568,850**
Total as at 31 December 2017	**12,525,849**	**792,081**	**6,152,719**	**60,432,167**	**1,872,198**	**5,036,344**	**86,811,358**

B. Market risk

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

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

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

B.1. Market risk measurement techniques

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

Value at risk

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

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

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

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

The average daily VAR for the Bank during the current year was EGP60,495 thousand, against EGP37,979 thousand for 2017.

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

Stress testing

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

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

B.2. VAR summary

According to risk type

	2018			2017		
	Average	**High**	**Low**	**Average**	**High**	**Low**
Foreign exchange risk	59,219	238,635	6,475	36,392	116,157	4,835
Interest rate risk	1,276	1,629	752	1,587	1,988	1,145
Total VAR	**60,495**	**240,264**	**7,227**	**37,979**	**118,145**	**5,980**

Trading portfolio VAR by risk type

	2018			2017		
	Average	High	Low	Average	High	Low
Foreign exchange risk	59,219	238,635	6,475	35,740	116,157	4,835
Interest rate risk	122	193	26	41	146	6
Total VAR	**59,341**	**238,828**	**6,501**	**35,781**	**116,303**	**4,841**

Non-trading portfolio VAR by risk type

	2018			2017		
	Average	High	Low	Average	High	Low
Interest rate risk	1,260	1,609	844	1,660	2,004	1,321
Total VAR	**1,260**	**1,609**	**844**	**1,660**	**2,004**	**1,321**

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:

2018	EGP	USD	EUR	GBP	Other	Total
Financial assets:						
Cash and balances with Central bank	(4,162,344)	(201,304)	(54,824)	(24,391)	(13,506)	**(4,456,369)**
Due from banks	(4,503,022)	(21,419,197)	(71,686)	(1,482,843)	(208,496)	**(27,685,244)**
Treasury bills	(25,806,145)	(4,422,935)	-	-	-	**(30,229,080)**
Financial assets held for trading	(9,884)	-	-	-	-	**(9,884)**
Loans and advances to banks	(415,271)	(78,159)	-	-	-	**(493,430)**
Loans and advances to customers	(16,915,866)	(10,920,748)	(5,584,606)	(58,132)	(13,874)	**(33,493,226)**
Derivative financial instruments	(3,418)	-	-	-	-	**(3,418)**
Financial investments:						
Available-for-sale	(2,837,290)	(129,913)	-	-	-	**(2,967,203)**
Held-to-maturity	(9,142)	-	-	-	-	**(9,142)**
Other financial assets	(491,976)	(213,435)	(6,913)	(62,104)	(56)	**(774,484)**
Total financial assets	**(55,154,358)**	**(37,385,691)**	**(5,718,029)**	**(1,627,470)**	**(235,932)**	**(100,121,480)**
Financial liabilities						
Due to banks	1,957,947	1,095,109	28,197	38,534	-	**3,119,787**
Customer deposits	37,065,620	37,173,433	4,262,045	1,565,139	165,293	**80,231,530**

Financial derivative	3,046	-	-	-	-	**3,046**
Other financial liabilities	2,422,603	207,662	2,980	95,696	185,921	**2,914,862**
Total financial liabilities	**41,449,216**	**38,476,204**	**4,293,222**	**1,699,369**	**351,214**	**86,269,225**
Net financial position	**(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**
2017						
Total financial assets	**(47,627,953)**	**(34,480,203)**	**(4,927,446)**	**(674,339)**	**(233,256)**	**(87,943,197)**
Total financial liabilities	**34,656,087**	**34,171,585**	**4,177,276**	**1,804,656**	**363,927**	**75,173,531**
Net financial position – balance sheet	**(12,971,866)**	**(308,618)**	**(750,170)**	**1,130,317**	**130,671**	**(12,769,666)**
Commitments related to credit and contingent liabilities	7,216,629	13,850,560	2,055,460	26,774	912,566	**24,061,989**

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:

2018	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	-	-	-	-	-	(4,456,369)	**(4,456,369)**
Due from banks	(21,015,267)	(3,902,352)	-	-	-	(2,767,625)	**(27,685,244)**
Treasury bills		(16,034)	(30,213,046)	-	-	-	**(30,229,080)**
Financial assets held for trading					(9,884)		**(9,884)**
Loans and advances to banks				(493,430)	-	-	**(493,430)**
Loans and advances to customers	(9,327,468)	(3,784,552)	(1,961,905)	(18,419,301)	-	-	**(33,493,226)**
Financial derivatives	(3,418)	-	-	-	-	-	**(3,418)**
Financial investments:							
Available-for-sale	-	(129,913)	-	(2,812,019)	-	(25,271)	**(2,967,203)**
Held-to-maturity	-	-	-	-	-	(9,142)	**(9,142)**
Other financial assets	-	-	-	-	-	(774,484)	**(774,484)**
Total financial assets	**(30,346,153)**	**(7,832,851)**	**(32,174,951)**	**(21,724,750)**	**(9,884)**	**(8,032,891)**	**(100,121,480)**

Financial liabilities							
Due to banks	-	-	-	-	-	3,119,787	**3,119,787**
Customer deposits	27,219,040	3,063,530	9,005,941	9,572,994	4,016	31,366,009	**80,231,530**
Financial derivatives	3,046	-	-	-	-	-	**3,046**
Other financial liabilities	-	-	-	-	2,072,000	842,862	**2,914,862**
Total financial liabilities	**27,222,086**	**3,063,530**	**9,005,941**	**9,572,994**	**2,076,016**	**35,328,658**	**86,269,225**
Interest repricing gap	**(3,124,067)**	**(4,769,321)**	**(23,169,010)**	**(12,151,756)**	**2,066,132**	**27,295,767**	**(13,852,255)**
2017							
Total financial assets	**(30,819,796)**	**(8,901,636)**	**(26,332,983)**	**(16,951,223)**	**-**	**(4,937,559)**	**(87,943,197)**
Total financial liabilities	**21,663,542**	**1,762,709**	**5,083,829**	**9,647,062**	**2,075,443**	**34,940,946**	**75,173,531**
Interest repricing gap	**(9,156,254)**	**(7,138,927)**	**(21,249,154)**	**(7,304,161)**	**2,075,443**	**30,003,387**	**(12,769,666)**

C. Liquidity risk

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

Liquidity risk management process

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

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

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

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

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

Non-derivative cash flows

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

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**

2017

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

Funding approach

Sources of liquidity are regularly reviewed by managing the Bank Treasury to maintain a wide diversification by currency, geography region, source, products and terms.

Off-balance sheet items

According to the table below and note 38

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**

2017

	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total
Loan commitments and other irrevocable commitments related to credit	3,710,681	-	-	3,710,681
Letters of credit	790,293	-	-	790,293
Letters of guarantee	19,561,015	-	-	19,561,015
Operating lease commitments	11,414	20,135	9,167	40,716
Total	**24,073,403**	**20,135**	**9,167**	**24,102,705**

D. Fair value of financial assets and liabilities

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

The change in estimated fair value of available for sale debt instruments using valuation methods for the year amounted to EGP102,537 thousand against EGP95,385 thousand as at 31 December 2017.

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	27,685,244	27,685,244
Loans and advances to banks	493,430	Undetermined
Loans and advances to customers		
Retail	5,536,831	Undetermined
Corporate	30,894,547	Undetermined
Financial investments		
Equity instruments available for sale	25,271	Undetermined
Held to maturity	9,142	20,326
Financial liabilities		
Due to banks	3,119,787	Undetermined
Customer deposits		
Retail	46,768,405	Undetermined

Corporate	33,463,125	Undetermined
Subordinated loans	2,072,000	Undetermined

Due from banks

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

Loans and advances to customers

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

Financial investments

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

Due to banks and customers

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

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

E. Capital management

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

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

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

CBE requires the following from the Bank:

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

The numerator in capital adequacy comprises the following two tiers:

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

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

The denominator of the capital adequacy comprises:

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

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

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

	2018	**2017**
Capital		
Tier 1 after disposals (going concern capital)		
Share capital	2,795,568	2,795,568
Reserves	2,751,016	2,301,985
IFRS 9 Reserve	433,383	-
Retained earnings	1,917,714	1,459,211
Additional going concern capital	1,445,265	447,178
Total disposals from going concern capital	(615,394)	(363,247)
Total going concern capital after disposals (common equity)	**8,727,552**	**6,640,695**
Tier 2 (gone concern capital)		
45 per cent of fair value of held-to-maturity investments	5,033	3,845
Subordinated (deposits) loans	2,072,000	2,072,000
Performing impairment losses provision for loans and advances contingent liabilities	618,815	541,663
Total tier 2 after disposals (gone concern capital)	**2,695,848**	**2,617,508**
Total capital adequacy after disposals (1+2)	**11,423,400**	**9,258,203**
Risk (credit, market and operational)		
Credit risk including the excess of top 50 customers' exposures	63,215,975	54,490,950
Capital requirements for market risk	17,600	46,630
Capital requirements for operational risk	11,497,020	9,373,280
Total credit, market and operational risks	**74,730,595**	**63,910,860**
Capital adequacy ratio (%)	**15.29%**	**14.49%**

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:

	2018	2017
Tier 1 after disposals (going concern capital)	**8,727,552**	**6,640,695**
Total on-balance sheet exposures, derivatives contracts and financial papers operations	101,788,629	89,845,450
Total off- balance sheet exposures	19,303,307	15,664,132
Total on-balance sheet and off-balance sheet exposures	**121,091,936**	**105,509,582**
Leverage financial ratio (%)	**7.21%**	**6.29%**

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 EGP3,418 thousand in assets against EGP3,046 thousand in liabilities that represent its fair value as shown in note 21.

D. Held-to-maturity investments

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

If classification of investments as held-to-maturity is suspended, the carrying amount shall increase by EGP11,184 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

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	Corporate	Medium and small enterprises	Global Markets	RBWM	Other activities	Total
Income and expenses according to activity segment						
Income activity segment	4,956,107	320,311	744,256	1,889,663	907,449	8,817,786
Expenses activity segment	(938,966)	(13,675)	(33,659)	(1,086,984)	(26,709)	(2,099,993)
Provisions	(530,508)	52,161	-	29,720	75,710	(372,917)
Profit before tax	**3,486,633**	**358,797**	**710,597**	**832,399**	**956,450**	**6,344,876**
Tax	(1,083,254)	(122,744)	(207,982)	(116,075)	-	(1,530,055)
Profit for the year	**2,403,379**	**236,053**	**502,615**	**716,324**	**956,450**	**4,814,821**
Assets and liabilities according to activity segment						
Assets activity segment	88,978,467	1,601,266	2,019,041	4,269,650	4,105,573	100,973,997
Total assets	**88,978,467**	**1,601,266**	**2,019,041**	**4,269,650**	**4,105,573**	**100,973,997**
Liabilities activity segment	36,443,079	3,023,006	410,928	46,852,140	1,620,349	88,349,502
Total liabilities	**36,443,079**	**3,023,006**	**410,928**	**46,852,140**	**1,620,349**	**88,349,502**

31 December 2017

	Corporate	Medium and small enterprises	Global Markets	RBWM	Other activities	Total
Income and expenses according to activity segment						
Income activity segment	4,287,427	350,959	800,823	1,732,059	940,648	8,111,916
Expenses activity segment	(812,065)	(11,554)	(39,059)	(987,473)	(6,831)	(1,856,982)
Provisions	(289,619)	(21,018)	-	(77,352)	583	(387,406)
Profit before tax	**3,185,743**	**318,387**	**761,764**	**667,234**	**934,400**	**5,867,528**
Tax	(867,101)	(117,462)	(268,035)	(146,622)	(2)	(1,399,222)
Profit for the year	**2,318,642**	**200,925**	**493,729**	**520,612**	**934,398**	**4,468,306**
Assets and liabilities according to activity segment						
Assets activity segment	79,184,221	1,583,173	1,773,555	3,931,794	2,224,272	88,697,015
Total assets	**79,184,221**	**1,583,173**	**1,773,555**	**3,931,794**	**2,224,272**	**88,697,015**
Liabilities activity segment	28,038,399	3,504,925	361,204	40,262,025	5,492,247	77,658,800
Total liabilities	**28,038,399**	**3,504,925**	**361,204**	**40,262,025**	**5,492,247**	**77,658,800**

B. Analysis according to the geographical segment

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	97,332,438	3,171,478	470,081	100,973,997
Total assets	**97,332,438**	**3,171,478**	**470,081**	**100,973,997**
Liabilities geographical segment	80,234,695	6,778,974	1,335,833	88,349,502
Total liabilities	**80,234,695**	**6,778,974**	**1,335,833**	**88,349,502**

31 December 2017

	Arab Republic of Egypt			
	Cairo	**Alexandria and Delta**	**Upper Egypt, Sinai and Red sea**	**Total**
Income and expenses according to geographical segment				
Income geographical segment	7,677,285	368,220	66,411	8,111,916
Expenses geographical segment	(1,817,673)	(28,836)	(10,472)	(1,856,981)
Provisions	(423,829)	3,304	33,118	(387,407)
Profit before tax	**5,435,783**	**342,688**	**89,057**	**5,867,528**
Tax	(1,399,222)	-	-	(1,399,222)
Profit for the year	**4,036,561**	**342,688**	**89,057**	**4,468,306**
Assets and liabilities according to geographical segment				
Assets geographical segment	85,251,285	2,954,147	491,583	88,697,015
Total assets	**85,251,285**	**2,954,147**	**491,583**	**88,697,015**
Liabilities geographical segment	70,000,667	6,448,385	1,209,748	77,658,800
Total liabilities	**70,000,667**	**6,448,385**	**1,209,748**	**77,658,800**

6. Net interest income

	2018	2017
Interest from loans and similar income:		
Loans and advances to customers	3,976,995	3,688,016
Loans and advances to banks	29,273	46,451
Treasury bills and Treasury bonds	3,937,346	3,177,588
Deposits and current accounts	1,204,638	1,235,340
Investments in available-for-sale debt instruments	530,791	394,381
	9,679,043	**8,541,776**
Interest on deposits and similar expenses:		
Deposits and current accounts:		
Banks	(1,179)	(1,594)
Customers	(2,475,865)	(1,975,052)
Other loans	(424,076)	(325,098)
	(2,901,120)	**(2,301,744)**
Net	**6,777,923**	**6,240,032**

7. Net fees and commissions income

	2018	2017
Fees and commissions income:		
Fees and commissions related to credit	1,188,694	912,911
Custody fees	107,408	91,292
Other fees	3,636	4,778
	1,299,738	**1,008,981**
Fees and commissions expenses:		
Brokerage fees paid	(4,536)	(4,351)
Other fees paid	(207,702)	(159,989)
	(212,238)	**(164,340)**
Net	**1,087,500**	**844,641**

8. Dividends

	2018	2017
Available-for-sale financial investments	9,136	4,951
Net	**9,136**	**4,951**

9. Net trading income

	2018	2017
Foreign exchange operations:		
Gain from foreign currency transactions	793,131	1,051,313
Gain from debt instruments held for trading	57,402	37,124
Gain/(Loss) from forward deals revaluation and currency swap	25,359	(112)
Net	**875,892**	**1,088,325**

10. Administrative expenses

	2018	2017
Staff costs		
Wages, salaries and benefits	455,011	392,324
Social insurance	22,118	18,901
End of Service Compensation	86,347	77,280
	563,476	**488,505**
Other administrative expenses	1,540,423	1,392,714
	2,103,899	**1,881,219**

11. Other operating income (expense)

	2018	2017
Profit/(Loss) 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	257	(84,795)
Gain from sale of property and equipment	12,216	2,445
Operating lease	59,886	89,108
Investment property depreciation	(5,848)	(5,525)
Accruals no longer required	44,137	179,904
Other provision (loss)	(52,324)	(207,397)
Gain from services provided to operation lease user	2,155	785
Head office services revenue	28,430	25,139
Other	5,148	388
Net	**94,057**	**52**

12. Credit impairment recovered (charged)

	2018	2017
Loans and advances to customers		
Impairment losses	(872,066)	(519,386)
Impairment recovery	463,382	78,058
Net	**(408,684)**	**(441,328)**

13. Income tax expenses

	2018	2017
Current taxes	(1,553,500)	(1,404,299)
Prior year adjustments	14,000	-
Deferred tax (note 32)	9,445	5,077
Net	**(1,530,055)**	**(1,399,222)**

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

	2018	2017
Profit before tax		
Accounting profit before tax	6,344,876	5,867,528
Tax rate	22.50%	22.50%
Income tax calculated on accounting profit	**1,427,597**	**1,320,194**
Add (less)		
Unrecognized tax expenses	116,458	79,028
Prior year adjustments	(14,000)	-
Net income tax	**1,530,055**	**1,399,222**
Effective tax rate	**24.11%**	**23.85%**

Taxation position

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

A. Corporate tax

Years since inception until 2004

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

From 2005 to 2011

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

From 2012 to 2016

These years were inspected and disputes were settled with the tax authority and all tax Liabilities has been paid.

Year 2017

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

B. Salary tax

Years from 1982 to 2016

These years were inspected and were settled.

C. Stamp duty tax

From 1982 to 2017

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.

	2018	2017
Net profit distributable for the year	4,802,605	4,468,306
Employees' profit share (estimated)	(480,261)	(446,586)
Net Profit available for appropriation to shareholders	**4,322,344**	**4,021,720**
Common shares issued - weighted average (1,000 shares)	33,281	33,281
Earnings per share/EGP	**129.87**	**120.84**

15. Cash and balances with the Central Bank of Egypt

	2018	2017
Cash	1,273,473	1,030,612
Due from Central Bank (within the statutory reserve)	3,182,896	2,387,586
	4,456,369	**3,418,198**
Non-interest-bearing balances	**4,456,369**	**3,418,198**

16. Due from banks

	2018	2017
Current accounts	2,767,625	991,554
Deposits	24,917,619	27,729,954
	27,685,244	**28,721,508**
Due from Central Bank (other than the statutory reserve)	8,391,551	10,048,240
Local banks	326,022	227,103
Foreign banks	18,967,671	18,446,165
	27,685,244	**28,721,508**
Non-interest-bearing balances	2,767,625	991,554
Interest-bearing balances	24,917,619	27,729,954
	27,685,244	**28,721,508**
Current balances	**27,685,244**	**28,721,508**

17. Treasury bills

	2018	2017
Treasury bills – Egyptian	30,229,080	23,379,354
Total	**30,229,080**	**23,379,354**
Treasury bills represent the following:		
91 days maturity	16,150	500,000
182 days maturity	113,600	6,250,000
273 days maturity	2,747,125	4,877,050
364 days maturity	29,758,314	13,278,817
Unearned interest	(2,406,109)	(1,526,513)
Total	**30,229,080**	**23,379,354**

18. Financial assets held for trading

	2018	2017
Debt instruments		
Governmental bonds	9,884	20,294
Total debt instruments	**9,884**	**20,294**
Total finance assets held for trading	**9,884**	**20,294**

19. Loans and advances to banks

	2018	2017
Term loans	493,430	1,392,670
Total	**493,430**	**1,392,670**
Less		
Provision for impairment losses	-	-
Net	**493,430**	**1,392,670**
Current balances	415,271	1,312,895
Non-current balances	78,159	79,775
	493,430	**1,392,670**

20. Loans and advances to customers

	2018	2017
Retail:		
Overdrafts	67,340	65,614
Credit cards	1,267,213	1,104,584
Personal loans	4,198,725	3,861,706
Mortgage loans	3,553	4,440
Total	**5,536,831**	**5,036,344**
Corporate loans including small loans for economic activities:		
Overdrafts	2,649,571	2,866,081
Direct loans	17,170,050	13,449,454
Syndicated loans	11,074,926	7,874,195
Total	**30,894,547**	**24,189,730**
Total loans and advance to customers	**36,431,378**	**29,226,074**
Less: provision for impairment losses	(2,380,563)	(2,061,386)
Less: interest in suspense	(557,589)	(256,960)
Net	**33,493,226**	**26,907,728**
Distributed as follows:		
Current balances	15,073,925	13,853,889
Non-current balances	18,419,301	13,053,839
Total	**33,493,226**	**26,907,728**

During the year ended 31 December 2018, the Bank has accepted trading financial securities with a fair value amounting to EGP509,717 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 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**

31 December 2017

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

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

21. Financial derivatives and coverage activities

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

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

31 December 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)**

31 December 2017

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

22. Financial investments

	2018	2017
A) Available-for-sale		
Equity instruments unlisted (at cost)	25,271	22,845
Debt instruments listed (at FMV)[1]	2,941,932	3,568,569
Total available-for-sale investments (1)	**2,967,203**	**3,591,414**
B) Held-to-maturity		
Debt instruments unlisted (mutual fund)[2]	9,142	9,142
Total held-to-maturity investments (2)	**9,142**	**9,142**
Total financial investments (1+2)	**2,976,345**	**3,600,556**
Current balances	129,913	1,063,855
Non-current balances	2,846,432	2,536,701
	2,976,345	**3,600,556**
Fixed interest debt instruments	2,941,932	3,568,569
	2,941,932	**3,568,569**

31 December 2018

	Available-for-sale	Held-to-maturity	Total
Balance at beginning of the year	3,591,414	9,142	3,600,556
Additions	560,612	-	560,612
Disposals (sale/redemption)	(1,089,952)	-	(1,089,952)
Other changes	7,666	-	7,666
Loss from change in FMV	(102,537)	-	(102,537)
Balance at the end of the year	**2,967,203**	**9,142**	**2,976,345**

1 Debt instruments at listed fair market value include local bonds amounting to EGP2,941,932 thousand (EGP3,568,569 thousand as at 31 December 2017) secured by the Egyptian Ministry of Finance.

2 The redeemable value of the mutual funds certificates as at 31 December 2018 amounted to EGP20,326 thousand against EGP17,686 thousand as at 31 December 2017.

31 December 2017

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

Gain/(loss) from financial investments

	2018	2017
Gain on redemption of debt instruments held to maturity	-	10,624
Gain on sale of available-for-sale equity instruments	322	-
Recovery of investment in subsidiaries' impairment	12,517	1,450
Gain on sale of financial investments	112	-
	12,951	**12,074**

23. Investment in subsidiaries

The Bank's net investment in subsidiaries amounted to EGP35,517 thousand (EGP23,000 thousand as at 31 December 2017). The Bank's ownership percentage is as follows (based on the last financial position for the company as at 31 December 2018):

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**	

31 December 2017

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

24. Intangible assets

	Computer software	
	2018	**2017**
Balance at the beginning of the current year		
Cost	17,263	17,841
Accumulated amortisation	(11,575)	(10,826)
Net book value at the beginning of the current year	**5,688**	**7,015**
Additions	1,143	1,087
Disposals (cost)	-	(1,665)
Disposals (accumulated amortization)	-	1,665
Amortisation	(2,423)	(2,414)
Net book value as at end of year	**4,408**	**5,688**
Cost	18,406	17,263
Amortisation	(13,998)	(11,575)
Net book value as at end of year	**4,408**	**5,688**

25. Other assets

	2018	**2017**
Accrued revenues	774,484	495,820
Prepaid expenses	39,520	41,863
Costs of branches under construction	18,590	3,118
Others	230,969	174,255
Total	**1,063,563**	**715,056**

26. Fixed assets

	Land and buildings	**Leasehold improvement**	**Machines and equipment**	**Others**	**Total**
Balance as at the beginning of the current year					
Cost	406,651	142,140	98,577	190,081	837,449
Accumulated depreciation	(175,092)	(114,667)	(71,061)	(106,791)	(467,611)
Net book value at the beginning of the current year	**231,559**	**27,473**	**27,516**	**83,290**	**369,838**
Additions	-	43,081	11,723	25,107	79,911
Transfer from investment property	20,417	-	-	-	20,417
Transfer from accumulated depreciation of investment property	(9,469)	-	-	-	(9,469)
Disposals (codt)	(10,134)	(19,303)	(4,728)	(10,186)	(44,351)
Disposals (accumulated depreciation)	2,984	19,173	2,553	10,186	34,896
Depreciation for the year	(17,643)	(7,292)	(7,237)	(24,262)	(56,434)
Net book value at the end of the year	**217,714**	**63,132**	**29,827**	**84,135**	**394,808**
Balance as at the end of the current year					
Cost	416,934	165,918	105,572	205,002	893,426

Accumulated depreciation	(199,220)	(102,786)	(75,745)	(120,867)	(498,618)
Net book value at the end of the year	**217,714**	**63,132**	**29,827**	**84,135**	**394,808**

27. Investment property

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

	2018	2017
Balance at the beginning of the year		
Cost	132,274	132,274
Accumulated depreciation	(53,949)	(48,424)
Net book value at the beginning of the year	**78,325**	**83,850**
Transferred to fixed assets	(20,417)	-
Transferred to accumulated depreciation	9,469	-
Depreciation	(5,848)	(5,525)
Net book value as at the end of year	**61,529**	**78,325**
Balance at the end of the year		
Cost	111,857	132,274
Accumulated depreciation	(50,328)	(53,949)
Net book value as at the end of year	**61,529**	**78,325**

28. Due to banks

	2018	2017
Current accounts	3,119,787	4,729,544
	3,119,787	**4,729,544**
Foreign banks	3,119,787	4,729,544
	3,119,787	**4,729,544**
Non-interest-bearing balances	3,119,787	4,729,544
	3,119,787	**4,729,544**
Current Balances	**3,119,787**	**4,729,544**

29. Customers' deposits

	2018	2017
Demand deposits	31,059,196	28,244,224
Time and call deposits	19,671,503	9,369,077
Certificates of deposits	9,669,838	10,119,352
Saving deposits	18,531,892	17,773,090
Other deposits	1,299,101	2,322,631
	80,231,530	**67,828,374**
Corporate deposits	33,463,125	27,310,642
Retail deposits	46,768,405	40,517,732
	80,231,530	**67,828,374**
Non-interest bearing balances	31,366,009	29,675,869
Fixed interest bearing balances	48,865,521	38,152,505
	80,231,530	**67,828,374**
Current balances	70,654,520	58,177,869
Non-current bearing balances	9,577,010	9,650,505
	80,231,530	**67,828,374**

Customers' deposits include deposits of EGP955,345 thousand as at 31 December 2018 against EGP1,465,563 thousand as at 31 December 2017, which represent collateral for irrecoverable commitments. There is no major difference between its carrying value and fair value.

30. Other liabilities

	2018	2017
Accrued interest	402,114	312,884
Deferred income	121,510	91,934
Accrued expenses	440,748	222,149
Creditors	192,070	514,181
Other credit balances	161,503	207,223
Total	**1,317,945**	**1,348,371**

31. Other provisions

	Provision for claims		Provision for contingent liabilities		Total	
	2018	2017	2018	2017	2018	2017
Balance at the beginning of the year	203,497	22,599	221,788	206,550	425,285	229,149
Formed during the year	88,779	204,690	-	49,855	88,779	254,545
Provisions valuation differences	57	(153)	-	6,147	57	5,994
	292,333	**227,136**	**221,788**	**262,552**	**514,121**	**489,688**
Used during the year	(186,081)	(17,255)	-	-	(186,081)	(17,255)
No longer required	(1,904)	(6,384)	(34,551)	(40,764)	(36,455)	(47,148)
Balance at the end of the year	**104,348**	**203,497**	**187,237**	**221,788**	**291,585**	**425,285**

32. Deferred tax

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

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

Deferred tax assets and liabilities

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

Deferred tax assets and liabilities balances

	Deferred tax assets		Deferred tax liabilities	
	2018	**2017**	**2018**	**2017**
Fixed assets	-	-	(12,223)	(9,708)
End of service liability	79,399	67,439	-	-
Total tax assets (liabilities)	**79,399**	**67,439**	**(12,223)**	**(9,708)**
Net tax assets	**67,176**	**57,731**		

Deferred tax assets and liabilities movements

	Deferred tax assets		Deferred tax liabilities	
	2018	**2017**	**2018**	**2017**
Balance at the beginning of the year	67,439	59,408	(9,708)	(6,754)
Additions	11,960	8,031	(2,515)	(2,954)
Balance at the end of the year	**79,399**	**67,439**	**(12,223)**	**(9,708)**

33. Defined benefits obligations

The end of service compensation benefits amounted to EGP352,849 thousand (EGP299,731 thousand as at 31 December 2017).

	2018	**2017**
Liability recorded on balance sheet		
End of service compensation	352,849	299,731
Amounts recognised in income statement:		
End of service compensation	86,347	77,280

The principal actuarial assumptions used are as follows:

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

34. Capital

	Number of shares (in millions)	Common Shares EGP(000)	Total EGP(000)	Issuance premium included in other reserve-issuance premium EGP(000)
Balance at the beginning of the year	33.280566	2,795,567	2,795,567	6,728
Balance at 31 December 2018	**33.280566**	**2,795,567**	**2,795,567**	**6,728**
Balance at the beginning of the year	33.280566	2,795,567	2,795,567	6,728
Balance at 31 December 2017	**33.280566**	**2,795,567**	**2,795,567**	**6,728**

A. Authorised capital

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

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

B. Issued and paid-up capital

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

35. Reserves and retained earnings

	2018	2017
Reserves		
General reserve	1,643,043	1,419,750
Legal reserve	1,084,668	861,375
Special reserve	63,466	63,466
Capital reserve	16,575	14,130
Other reserves – issuance premium	6,728	6,728
Fair value reserve – available-for-sale investments	(146,844)	(44,307)
IFRS 9 reserve	433,383	433,383
Total reserves at the end of the year	**3,101,019**	**2,754,525**

Reserves movements during the year are as follows:

A. General reserve

	2018	2017
Balance at the beginning of the year	1,419,750	1,238,621
Transferred from prior year profits	223,293	181,129
Balance at the end of the year	**1,643,043**	**1,419,750**

B. Legal reserve

	2018	2017
Balance at the beginning of the year	861,375	688,032
Transferred from prior year profits	223,293	173,343
Balance at the end of the year	**1,084,668**	**861,375**

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

	2018	2017
Balance at the beginning of the year	63,466	63,466
Balance at the end of the year	**63,466**	**63,466**

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

D. Reserve for excess over par value – issuance premium

	2018	2017
Balance at the beginning of the year	6,728	6,728
Balance at the end of the year	**6,728**	**6,728**

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

E. Fair value reserve available-for-sale investments

	2018	2017
Balance at the beginning of the year	(44,307)	(139,692)
Net change in available-for-sale investments	(102,537)	95,385
Balance at the end of the year	**(146,844)**	**(44,307)**

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

F. Capital reserve

	2018	2017
Balance at the beginning of the year	14,130	2,794
Transferred from prior year profits	2,445	11,336
Balance at the end of the year	**16,575**	**14,130**

G. IFRS 9 reserve

	2018	2017
Balance at the beginning of the year	433,383	-
Transferred from prior year profits	-	433,383
Balance at the end of the year	**433,383**	**433,383**

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

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

H. Retained earnings

	2018	2017
Movement on retained earnings		
Balance at the beginning of the year	5,488,123	4,238,030
Net profit for year	4,814,821	4,468,306
Dividends for previous year	(3,126,004)	(2,419,022)
Transferred to legal reserve	(223,293)	(173,343)
Transferred to capital reserve	(2,445)	(11,336)
Transferred to general reserve	(223,293)	(181,129)
Transferred to IFRS 9 reserve	-	(433,383)
Balance at the end of the year	**6,727,909**	**5,488,123**

36. Dividends

Payment of dividends is not registered unless being approved by the general assembly. The Board of Directors proposed to the general assembly that was held on 13 March 2019 a payment of EGP86.58 per share as cash dividends for the year 2018 with a total amount of EGP2,881,431 (payment of EGP81.51 per share as cash dividends for year 2017 with a total amount of EGP2,679,418,369). In addition to cash dividends to shareholders, the Board of Directors proposed in the general assembly meeting to distribute 480,260,456 as employees' distribution related to the profit in year 2018. (The actual employees' dividends distributed in 2017 amount to EGP446,586,137).

37. Cash and cash equivalents

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

	2018	2017
Cash and due from the CBE (note 15)	1,273,473	1,030,612
Due from banks (note 16)	23,782,892	25,005,268
Treasury bills (note 17)	16,034	479,286
	25,072,399	**26,515,166**

38. Commitment and contingent liabilities

A. Legal claims

There are lawsuits filed against the Bank as at 31 December 2018. The charged provision amounting to EGP530 thousand, provision of EGP1,904 thousand has been refunded during the year. Legal provision amounted to EGP1,331 thousand has been used during the financial year.

B. Commitments for loans, guarantees and facilities

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

	2018	2017
Acceptances	742,287	367,742
Letters of guarantee	25,020,460	20,208,657
Letter of credit (import and export)	1,923,014	1,608,114
Other contingent liabilities	164,637	221,480
Commitments for loans	3,253,302	3,121,459
Cash margin	(955,345)	(1,465,463)
Total	**30,148,355**	**24,061,989**

C. Commitments for operating lease contracts

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

	2018	2017
Less than one year	12,385	11,414
More than one year and less than five years	25,319	20,135
More than five years	-	9,167
Total	**37,704**	**40,716**

39. Related party transactions

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

Number of banking transactions with related parties has been conducted in the normal course of the business, including loans, deposits and foreign currency swaps.

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

A. Other loans

	HSBC group	
	2018	**2017**
Subordinated loans (40)	2,072,000	2,072,000
	2,072,000	**2,072,000**
Interest from loans	424,076	325,098

B. Loans and advances to related parties

	Subsidiaries	
	2018	2017
Loans and advances to customers		
Existing loans at the beginning of the year	-	-
Loans issued during the year	-	5,107
Loans collected during the year	-	(5,107)
Existing loans at the end of the year	**-**	**-**
Interest from loans	-	219

C. Deposits from related parties

	Subsidiaries	
	2018	2017
Due to customers		
Deposits at the beginning of the financial year	47,497	41,967
Deposits received during the financial year	10,098	16,584
Deposits redeemed during the financial year	(1,443)	(11,054)
Deposits at the end of the financial year	**56,152**	**47,497**
The cost of deposits and similar costs	1,227	1,125

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

D. Other related party transactions

	HSBC group		Subsidiaries	
	2018	2017	2018	2017
Operating lease	46,039	43,688		1,163
Administrative costs - IT	-	-		600
Fees and communication income	-	-		274

The cost of services by HSBC Group as at 31 December 2018 amounted to EGP863,370 thousand against EGP792,212 thousand as at 31 December 2017.

	HSBC group		Subsidiaries	
	2018	2017	2018	2017
Due from banks	223,817	203,889		-
Loans and advances to banks	78,159	79,775		-
Held-to-maturity investments	9,142	9,142		-
Due to banks	1,431,380	951,662		-
Investments in subsidiaries	-	-		35,517
Other liabilities – rent insurance	-	-		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 2018, amounted to USD7,101 thousand equivalent to EGP137,958 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 2018 amounted to EGP8,710 thousand (EGP7,424 thousand average net monthly salary paid to the top 20 employees for the year 2017).

40. Subordinated loans

	Current interest rate	2018	2017
Subordinated loan, variable interest rate (1)	21.25%	272,000	272,000
Subordinated loan, variable interest rate (2)	19.50%	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 June 2017 and ending in June 2027.

41. Mutual funds

HSBC first mutual fund (kol youm)

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

The Bank held as at 31 December 2018, a number of 78,559 certificates amounting to EGP9,141,998 with a redeemable value amounting to EGP20,325,703 against 78,559 certificates amounting to EGP9,141,998 with redeemable value amounting to EGP17,685,585 as at 31 December 2017.

The redeemable value of the certificate amounted to EGP258.73 as at 31 December 2018 against EGP225.12 as at 31 December 2017. The outstanding certificates as at 31 December 2018 reached 2,691,527 certificates against 3,549,768 certificates as at 31 December 2017.

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 EGP3,636 thousand for the year ended 31 December 2018 against EGP4,453 thousand for the year ended 31 December 2017 under the item of fees and commission income caption in the income statement.

42. Application of IFRS9 'Financial Instruments' requirements

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

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

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

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