HSBC Bank Egypt S.A.E.

Annual Report and Accounts 2013

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.

The HSBC Group has an international network of over 6,300 offices in 75 countries and territories in 6 geographical regions: Europe, Hong Kong, the rest of Asia-Pacific, Middle East and North Africa, North America and Latin America.

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 shareholders in 131 countries and territories.

HSBC provides a comprehensive range of financial services to around 54 million customers through its global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

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Report of the Directors

The Board of Directors has the pleasure of presenting the Annual Report of HSBC Bank Egypt (HBEG) SAE for the year ended 31 December 2013.

Economic review and future outlook

Executive summary

Egypt faced a third year of pronounced political and economic turmoil in 2013, which took its toll economically. There was, however, some evidence towards year-end that the installation of a new regime had created an environment within which order might begin to improve, and there were early signs of a pickup in economic activity. The scale of the challenges that Egypt faces and the headwinds that political uncertainty continues to create suggests recovery will be slow.

Overview

Egypt's economic performance over 2013 continued to be driven by the aftershocks of the 2011 revolution and related political unrest. The unstable environment weighed heavily on the economic activity for most of the year. The HSBC Purchasing Managers' Index (PMI) showed private sector output and orders contracting sharply month-on-month for 13 consecutive months from October 2012 to November 2013. Tourism arrivals fell from a much reduced base. Unemployment also continued to rise, adding to the 4% increase it had already seen between 2010 and 2012.

Public finances also remained under acute pressure as revenues were held back by weak economic growth and spending was boosted by higher debt servicing costs and subsidy spending. Unrest also weighed on Egypt's foreign currency position, leading to a deterioration in the current account position and accelerating capital flight. The dynamic forced the Central Bank to impose exceptional foreign exchange controls at the end of 2012 that prevailed throughout the year.

Aid flows in the early part of the year provided some support to order. More substantial disbursements from allies in Kuwait, Saudi Arabia and the United Arab Emirates that followed the overthrow of President Mohamed Morsi in July have been more effective. Indeed, the release of USD10 billion in loans, grants and energy subsidies over the last six months of 2013 pushed reserves back above three months of import cover by the end of the year and offered currency support. It also allowed the Central Bank to cut interest rates sharply, an expansionary move that also cut the cost of debt servicing. Egypt's USD bonds also rallied and credit default swap spreads narrowed, boosted further when Standard & Poor's lifted the country's credit rating to B- from CCC+ in November. The PMI also pointed to a modest pickup in real activity in the last weeks of the year.

Much, however, remains to be done. The stabilisation in economic activity is taking place at a low level, and the losses of the past three years will prove challenging to reverse. Unemployment is likely to remain high for some time to come. Despite the inflow of foreign aid, dollar shortages remain pronounced and foreign exchange controls remain in place, impeding economic performance and discouraging foreign investment. Trade and current accounts remain in deficit, and inflows of foreign direct investment and portfolio capital remain below their pre-revolution levels, suggesting external account pressures will persist.

Egypt's fiscal position shows little improvement: the deficit has already widened to USD34 billion (14% of the gross domestic product [GDP]) over the fiscal year 2012/13 (ending June 2013), pushing total public debt to 94% of the GDP from 80% pre-revolution. As of November 2013, the 12-month rolling deficit ex-grants came in at EGP260 billion (USD37 billion). With the government planning a fiscal stimulus programme for 2014 and the subsidy reform likely to be slow, the government will be looking for robust nominal GDP growth if it is to bring down the deficit to the GDP ratio. As well as posing a direct funding challenge, the scale of the government's borrowing requirement will impede a recovery in lending to the private sector, muting the impact of interest rate cuts on the broader economy.

Economic indicators

Egypt's economic indicators deteriorated universally from December 2012, following the imposition of exchange rate controls and severely restricted supply of hard currency.

The currency depreciated from around EGP6.2/USD to EGP7/USD between January and the end of June, while the parallel exchange rate dropped to a low of EGP7.50/USD. While the currency regained some ground in Q3, it gave most of this back up again in Q4, ending the year at around EGP6.95/USD. The Egyptian pound (EGP) continued to trade at a discount on the parallel market throughout the year.

The PMI survey also showed a substantial deterioration. Having averaged 49.6 over the first 11 months of 2012 – sub-50 readings indicating month-on-month declines – the index rating dropped sharply to 37.1 in December 2012, setting the pace for an even lower average of 46.1 in 2013. Indeed, the PMI continued to show contraction of private sector output until November and December, when it finally rose above the 50 level. The employment sub-index of the survey, meanwhile, remained under 50 throughout the year, suggesting that the improved performance has not yet begun to feed into job creation.

The quarterly rate of real GDP growth dropped from an average of 3.3% year-on-year in 2012 to an average of 1.5% over the first three quarters of 2013. Indeed, the 1% year-on-year increase recorded in Q3 13 was the slowest rate of growth since 2011. HSBC's economists have no breakdown for the third quarter, but investments contracted by 11% on average over the first two quarters, and while private consumption (2.7%) and government spending (2.6%) held up, the headline rate would have been significantly lower had it not been for a 3.5% contraction in import volumes over the first two quarters.

This was also evident in balance of payments numbers for the first half of 2013. Exports were up by 9% year-on-year over the first half of 2013 (to USD12.5 billion), while imports fell by the same amount (to USD27 billion), reducing the trade deficit by USD4 billion or 20%. Other items on the current account did not perform so well: tourism revenues were down by 4% year-on-year, while remittances from abroad were down by 5%.

Higher frequency data suggest little improvement over the remainder of the year: tourist arrivals over the first 9 months of 2013 came in at 7.5 million – down 9% compared with 2012, and 29% compared with 2010. The Suez Canal brought in revenues of USD4.7 billion over the first 11 months of the year, but this was still down by around 1% year-on-year.

Inflation has also ticked higher over 2013, eroding real incomes further. Weak demand conditions over 2012 have led the Consumer Price Index (CPI) to drop to as low as 4% year-on-year in November of that year, but 2013 saw a substantial pickup, following the depreciation of EGP, restrictions of hard currency and ongoing bottlenecks in domestic production as a result of political instability. The CPI came in at 11.7% year-on-year (headline) and 11.9% year-on-year (core) in December 2013.

Due in part to firms' inability to remit profits in hard currency, commercial banks' deposit growth was robust in 2013, standing at 17.1% year-on-year in September, of which the proportion in EGP (around 75%) remains broadly unchanged. The lending environment, however, has changed substantially within the year. Commercial banks' claims on the government were up by 32% year-on-year in September and now account for 67% of their assets (from 61% at the end of 2012 and 44% pre-revolution). Claims on the private sector, meanwhile, were up by 9% year-on-year, which is to say, down in real terms.

The Central Bank of Egypt's (CBE) balance sheet has also changed substantially: claims on the government have risen from USD50 billion at the end of 2012 to a peak of USD76 billion in October, of which USD42 billion was in securities and another USD34 billion was in credit facilities.

There was some evidence that this trend was going into reverse in November, as claims and government deposits with the CBE fell by roughly the same amount. However, claims picked back up in December, leaving them still accounting for USD70 billion or around 25% of the GDP.

Business and operational activities

Despite the continuing political instability and the difficult economic conditions Egypt is experiencing, HBEG ('the Bank') continued to demonstrate a resilient performance through 2013.

Total deposits rose by 4% from the end of 2012 to the end of 2013, and by 17% when comparing average deposits for the two calendar years. Within these figures is a hidden story whereby the Bank saw significant deposit growth during the first four months of 2013, driven largely by the introduction of a currency auction system, leading to a scarcity of foreign currency. A large portion of these incremental deposits ran off during the rest of the year as HBEG maintained a conservative policy regarding the rates paid on customer deposits. Total advances to clients declined by 2% in a difficult investment climate for our customers, albeit increasing by 2% on a full year-average basis.

HBEG reported profit before tax of EGP1,527 million, a decline of 20%. Profit after tax fell by 37% to EGP891 million. A number of unusual one-off items drove the decline in reported profits, whereas the underlying business grew by a double-digit percentage. The key driver for the fall in profits was the decision by the tax authorities to reopen tax files from previous years. Taxes from past years and associated penalties, which are being appealed, related to stamp tax, capital exemption allowances and tax on inter-Group recharges.

Following the payment of an interim dividend of EGP288.8 million in October 2013, the Board of Directors proposed a final second distribution to shareholders, by way of cash dividends, of a sum of EGP416.4 million, representing a second coupon for 2013 of EGP16.83 per share.

The Board of Directors also proposed a 'full year' distribution of EGP139.4 million (15.65% of the profits available for distribution for 2013) to the Bank staff as a performance-linked variable payment, which includes profit sharing. Following the payment of an interim profit share of EGP48.1 million in October 2013, as approved during the Ordinary General Meeting, the balance of EGP91.3 million will be paid, following the approval of the Annual General Meeting in March 2014. The balance of the remaining profits, amounting to EGP46.1 million, will be transferred to support the Bank's reserves, allocating EGP44.5 million for the legal reserve and EGP1.5 million for the general reserve.

Report of the Directors (continued)

During the second half of 2013, the Tier 1 capital of the Bank was increased by EGP717,067,428. In addition, at an Ordinary General Meeting of the shareholders in December 2013, approval was given to the terms of a subordinated 15-year loan of EGP272,000,000 from the major shareholder. The subordinated loan was approved by the Central Bank, qualifying as Tier 2 capital. At year-end, the Bank's capital adequacy ratio on a Basel 2-measured basis was 16.27%.

Global Banking and Markets (GBM)

GBM provides tailored financial solutions to major government, corporate and institutional clients, and private investors worldwide. The business is managed as three principal business lines: banking, capital financing and markets. This structure allows the HSBC Group to focus on relationships and sectors that best fit the Group's footprint and facilitates seamless delivery of HSBC's products and services to clients.

GBM continues to pursue its well-established 'emerging markets-led and financing focused' strategy in Egypt. This strategy has evolved to include a greater emphasis on connectivity, leveraging the Group's extensive distribution network. The business focuses on four strategic imperatives:

— Reinforce client coverage and client-led solutions for major government, corporate and institutional clients
— Continue to invest selectively in the business to support the delivery of an integrated suite of products and services
— Enhance collaboration with other global businesses, particularly Commercial Banking (CMB), to appropriately service the needs of the international client base
— Focus on business re-engineering to optimise operational efficiency and reduce costs

A number of significant transactions and mandates that were awarded in 2013, supported by collaboration with regional teams in Dubai, has reinforced HBEG's position as a leading wholesale bank.

HBEG GBM continues to actively manage risk in an uncertain political and economic environment. Surplus liquidity of EGP, which arose following the introduction of foreign currency restrictions at the end of 2012, was effectively managed through the downward repricing of deposits. We also concluded a comprehensive credit portfolio review of our existing customers with satisfactory results.

In addition, HBEG renewed its primary dealer licence for trading in the government of Egypt's Treasury bills and bonds, ranking as one of the largest primary dealers in the Egyptian market. We also participated in a market working group formed to introduce new settlement mechanisms that will offer greater security of assets to clients and move the market to a uniform settlement process for all investors.

HSBC Securities Egypt (HCES)

HCES' core business is trading cash equities listed on the Egyptian stock exchange on behalf of HSBC's international investors as well as trading on behalf of local asset management firms.

In 2013, political and economic instability continued to drive away investors' appetite to trade/invest in Egyptian equities, which led to a 9% drop in the total value of equities traded. However, we were able to capture a significant share of large merger and acquisition transactions, which increased our market share from 2% in 2012 to 3.1% in 2013 and helped us secure 7th place in the market league tables compared to 10th place in 2012.

Looking ahead in 2014, we expect market activity to pick up, following a gradual improvement in the overall political and economic backdrop.

Commercial Banking (CMB)

Despite the political and socio-economic challenges that have remained throughout 2013 in Egypt, CMB delivered strong top-line revenue growth while maintaining a key market position in our target customer segments.

In 2013, the CMB business undertook several key projects aimed at repositioning our market focus to be the leading international and business bank, de-risking the commercial portfolio in line with the HSBC Group's Global Standards programme, as well as streamlining our branch distribution coverage and customer engagement model. The transformation will ensure that all our customers receive personalised relationship management coverage targeted at building stronger relations with the Bank and ensure that we are able to better support our customers' business growth.

Throughout the year, our commitment to the international small- and medium-sized enterprises (SME) sector continued. In addition to the appointment of international relationship managers for SME customers, an international growth fund of EGP300 million was launched towards the end of the year. The fund aims to support SMEs to enable their plans to expand their existing cross-border business or to help those who are aspiring to grow internationally.

HSBC's portfolio approach has borne fruit in the difficult conditions of 2013. The majority of our corporate banking income is generated from the sectors of construction and property development, tourism and food and beverage. The oil and gas sectors, as well as the textiles sector, are also important parts of the HSBC portfolio, which remains broadly focused.

Repeated portfolio reviews throughout 2013 evidenced the overall quality of the portfolio. Clearly, one area of concern is the tourism sector, which continues to suffer from external perceptions about security in Egypt.

From a product penetration perspective, the working relationship between Global Trade and Receivables Finance (GTRF), GBM and CMB was extremely strong in 2013. Joint efforts resulted in setting objectives by client and implementing a structured approach for client management and portfolio optimisation. The spectrum of GTRF products includes traditional Trade Finance instruments, Receivables Finance, as well as Supplier Finance. Collaboration is critical to GTRF's success, leveraging HSBC's international footprint and maximising GTRF opportunities facilitated by relationship managers and GTRF specialists. As a result, we were able to grow our GTRF wallet share with key targeted customers.

In the area of Payments and Cash Management (PCM), with the imposition of restraints on offshore payments plus the scarcity of foreign exchange, many opportunities to leverage HSBC's global payments capabilities are challenged. That said, HBEG PCM continues to be rated as the top PCM provider in Egypt.

Retail Banking and Wealth Management (RBWM)

Despite the significant challenges faced in 2013, RBWM continued to demonstrate a solid and resilient performance. Revenue growth was hampered by strong headwinds from external regulatory changes, such as new, restrictive foreign exchange regulations and limitations on capital market investment funds. Furthermore, the deterioration in the political and economic environment mandated a change in HBEG's internal strategy with regard to both the assets and the liabilities portfolios. The limited availability of foreign currency resulted in rising local currency deposits, leading to a focus on controlling the growth of HBEG's liabilities portfolio. This was managed by lowering interest rates on deposits, as well as the impact of a limited downsizing of the customer base in line with the global de-risking initiative. Concurrently, exceptional cost charges, such as bonus accruals, the HBEG early retirement plan and higher loan impairment charges had a strong impact on operating efficiency and bottom line profitability. Nevertheless, robust growth in credit cards and personal loans softened the drop in top-line revenue and strengthened the foundation for a more diversified revenue stream.

There are several initiatives that are currently in motion to enhance operational efficiency and boost profitability in 2014. We are currently in the process of relaunching our wealth proposition to cater to the needs of our most valued clients. The revamped wealth platform will provide best-in-class service with full adherence to the international Group wealth risk framework. We have also conducted a comprehensive review of the branch network, and a long-range plan has been mobilised to rationalise the number and nature of our branches. This entailed the closure of some of our remote branches in the Red Sea and Upper Egypt areas and the consolidation of the remaining branches into fewer geographic zones, as well as the change in range of services offered by some of the central branches to better suit our customers' needs. This initiative will provide savings in property charges as well as staff and operating costs. In the meantime, we have invested in our digital, voice and mobile banking proposition and upgraded our ATM fleet to facilitate transactions and enhance customer satisfaction. We have also invested in upgrading our risk and compliance framework and team capabilities to align with the Global Standards initiative.

In 2014, we will be strongly focused on enhancing our customer experience, which has been adversely impacted by changes in the regulatory environment as well as internal shortfalls in call centre service-level and systems stability. We will be placing more focus and emphasis on fulfilling the needs and aspirations of our clients through a more diversified product range, a more engaged staff and a more streamlined platform.

People management and development

In 2013, HBEG continued its focus on employee development and career progression. A significant number of staff members were promoted, many were provided with internal transfer opportunities and a number of employees were given opportunities within the broader HSBC Group through international transfers in addition to short-term assignments, regionally and globally.

With emphasis on streamlining processes, Human Resources (HR) introduced new services for high-quality HR information through a more cost-effective model. Following the implementation of the Organisational Effectiveness programme in 2012, the number of management layers was decreased and management 'spans of control' were increased throughout the organisation. A new policy was introduced in 2013, allowing for an early retirement programme for staff members aged over 50 years, with 41 employees taking advantage of the opportunity. HBEG closed 2013 with 2,203 staff members (2,376 in 2012).

The Learning and Development team delivered 5,790 training days in 2013, compared to 8,450 days in 2012. The decrease was due to the political instability that was witnessed, as well as the demise of some programmes, with the aim of ensuring consistency in delivery across the region. Of this training, 3,162 days were through classroom delivery to HBEG employees. Many overseas learning programmes were delivered in the region (including the United Arab Emirates, Oman and the Kingdom of Saudi Arabia) and 2,628 days were delivered via e-learning. Mandatory e-learning programmes are of increasing importance as they relate to HSBC's Global Standards.

Report of the Directors (continued)

Remuneration strategy

The quality and commitment of our human capital is fundamental to our success. The Board aims to attract, retain and motivate the very best people. As trust and relationships are vital in our business, our goal is to recruit those who are committed to maintaining a long-term career with the organisation. HSBC's reward strategy supports this objective through balancing both short-term and sustainable performance. Our reward strategy aims to reward success, not failure, and to be properly aligned with our risk framework and risk outcomes. In order to ensure alignment between remuneration and our business strategy, individual remuneration is determined through assessment of the performance delivered against both annual and long-term objectives that are summarised in performance scorecards as well as adherence to the HSBC values of being 'open, connected and dependable' and acting with 'courageous integrity'. Altogether, performance is judged not only on what is achieved over the short- and long-term but also on how it is achieved, as the latter contributes to the sustainability of the organisation. The financial and non-financial measures incorporated in the annual and long-term scorecards are carefully considered to ensure alignment with the long-term strategy of the Group.

Operational developments

Despite a difficult operating environment, 2013 has been a busy year for HBEG's HSBC Technology and Services (HTS) team, with challenges and triumphs across the board. Over the last 12 months, HTS's achievements and deliverables were all in line with the HTS strategic goals and objectives as defined for the whole HSBC Group. There has been a significant shift in the HTS culture, transforming people to focus on streamlining the organisation and increasing efficiency. Several steps were also taken towards the end of the year to restructure the Chief Operating Officer (COO) team.

In 2013, Change Delivery (CD) focused on implementing and embedding the Global CD Transformation programme. The programme was initiated to design and implement the target state, allowing for enhanced capabilities across all markets and operating within standard best practices in order to deliver HSBC's change priorities and make change a source of sustainable competitive advantage for HSBC. CD also supported the delivery of several major change initiatives in different areas across the Bank, including projects related to decision-making, improving the customer journey, credit and risk management processing, replacing obsolete technology and tailoring processes to standardised 'Gold' processes enhancing efficiencies and controls.

The Procurement department is the single channel to support purchases of all goods and services for the Bank and is a business-engaged function that provides leadership of HBEG's relationships with third-party suppliers. Through effective negotiation of commercial and contractual terms and conditions, the Bank benefitted from USD0.7 million in sustainable savings as well as USD2.3 million in one-off negotiated saves enabled by the Procurement department.

Throughout 2013, the HTS Risk and Administration department provided various levels of support to HBEG COO team, specifically managing three core sub-functions: HTS Operational Support and Development, Records and Knowledge Management and HTS Quality. A number of key support and development activities that were undertaken include governance and risk management, financial management, records and information governance, and managing the Quality function to ensure excellence in the delivery of services and high-quality solution deployment.

The political and security situation deteriorated even more during the second half of 2013 – this has posed an increasing challenge to the Security and Fraud Risk (SFR) department. The establishment and maturity of SFR's different functions has safeguarded the smooth operations of the Bank, provided continuity of services and helped in the mitigation of various risks facing the banking industry as a whole. A specialised resource was dedicated to handle fraud investigations, and a new fraud management and reporting system was rolled out. A plan was also introduced to enhance the physical security of HBEG's buildings. Work is in progress, in coordination with the local and regional stakeholders, to ensure follow-up and full implementation of the security plan. A full review was conducted on security companies, where a reputable and efficient company was appointed. On the Information Security Risk level, several reviews, training and awareness campaigns were conducted across HBEG, which resulted in an overall decrease in the number of reported breaches as compared to 2012. A third-party review team has completed and finalised all backlogs relating to the Middle East and North Africa (MENA) region and successfully launched a database for the housekeeping of records. The Business Continuity function established an enhanced incident management plan and successfully completed a full failure exercise of the primary location.

On the Corporate Real Estate (CRE) side, three new branches were opened in 2013: El Rehab branch, Sun City Mall branch near Cairo Airport and the Mall of Arabia branch in 6th of October City. Fit-out work started in the Cairo Festival City Mall branch, where the expected opening is in early 2014. HBEG's former flagship branch in Zamalek was fully renovated. On a property portfolio optimisation level, 15 business closures were undertaken, resulting in sustainable savings reaching USD240,000 for 2013 and USD103,000 for 2014. The implementation of the Branches Security Upgrade Project recommended by the CBE and the Global Security and Fraud team started in 2013 and is still a work in progress. The project's objective is to increase both security and safety measures to protect our employees, customers and premises.

Several key achievements were implemented by Information Technology Operations during 2013, including:

- High availability system migration: An iSeries high availability system solution, including the evergreening of hardware, has been implemented for Egypt's system hosted in the UK Data Centre to ensure high system availability with minimal/no outage and services disruption
- Disaster recovery invocation exercise: A complete failure testing exercise for the main location in the Maadi head office has been invoked, and the alternate site setup at Smart Village and alternate sites have been fully activated to ensure business continuity in all departments, as well as their hosted services and applications in the IT data centres
- ATMs evergreening: Successful upgrade of 103 ATMs across Egypt, providing a new self-service functionality for customers, a certification and support model from NCR and alignment with the Group standard security processes

Software Delivery (SWD) Egypt team, acting as a nearshore extension to the regional SWD team in Dubai, has positively contributed to various successful new system implementations for Egypt (the launch of the new call centre platform, the new and enhanced internet banking platform and the FATCA implementation). In addition to their contribution to the regional projects delivered for Egypt, the team continued to provide support to local systems and in the delivery of local projects to support business needs when needed. The team has also provided region-wide support and delivery of all document management and workflow automation systems.

Service Delivery (SD) was also able to identify several initiatives throughout 2013 to meet the financial plan, streamline processes and deliver operational efficiency (outsourcing of the HBEG offsite ATM fleet, optimising the courier services provided to HBEG and partnering with the business to reduce the Know Your Customer account opening error rate by around 50%). In line with the Target Operating Model, a new Supplied Services function was established under SD, mainly focusing on cash management, vendor risk management, courier and logistics and document management. Throughout the year, the SD staff worked under difficult circumstances to ensure that customer payments, transactions and requests were processed in a timely manner to meet our internal and external customers' expectations.

Corporate sustainability

In HSBC, we take our wider responsibility seriously to contribute not just money, but also time and resources to the community where we operate. In 2013, HBEG spent 52% of its Corporate Sustainability budget on education. Partnering with Alwan & Awtar, HBEG established a fully equipped Montessori school, benefiting a total of 150 students aged from 3 to 12 years old. Through its public schools scholarship fund, the Bank also supported two visually impaired students at the American University in Cairo. Furthermore, HBEG helped in the establishment of a community school in Luxor through its partnership with the Misr El Kheir non-governmental organisation (NGO), with the aim of helping students who missed the chance to enrol in the public schools. In addition, HBEG Assuit and Luxor staff volunteers are in the process of selecting 100 students who the Bank will sponsor for education in the academic year 2013-14, with the help of the Association of Upper Egypt. Through the INJAZ Adopt A Start-up competition, the Bank adopted two start-up companies – Windependent, which has manufactured a small-scale wind turbine suitable for residential applications, and Filtreez, which provides products that aid water purification, cooling and thermal insulation.

In partnership with Wataneya Society for the Development of Orphanges, the Bank continued its exclusive sponsorship of the Forsa programme, which is a youth development programme benefiting a total of 112 youth orphans.

Moreover, HBEG worked with the Heliopolis University for Sustainable Development and helped them treat the university's sewage system biologically to help the university become the first green university in the Middle East.

To assist the Move Foundation in its expansion, the Bank upgraded both the physiotherapy and the Montessori units available at the foundation's premises, benefiting a total of 75 children suffering from cerebral palsy.

HBEG contributed to the empowerment of 200 women and girls from Upper Egypt aged from 16 to 35 years by providing access to education and intensive training to gain literacy certificates and the required skills to start their own businesses – all these with the help of the Association of Upper Egypt.

As a key local requirement, HBEG, with the assistance of the Dar El Orman NGO, helped to provide access to fresh water to a total of 150 houses in Menya governorate, covering 7 villages. In addition, the Bank continued its partnership with Dar El Orman and donated a total of 10,000 blankets through the 'One Million Blankets' campaign.

Report of the Directors (continued)

Supportive of HBEG employees' desire to volunteer, the Bank had a successful blood donation drive, where a large number of blood bags were collected. Through the commitment of more than 200 staff volunteers, the Bank has managed to pack and distribute a total of 2,000 food boxes to the most needy during the holy month of Ramadan.

On a regional level, HBEG partnered with the British Council to support the Kids Read programme in Egypt, impacting more than 1,000 students with the help of 29 Bank staff volunteers. As part of HSBC's global financial literacy education programme JA More Than Money, more than 50 HBEG volunteers spent a day in public schools, teaching students about earning, spending and saving money.

Last but not least, HBEG managed to win three HSBC Group funding opportunities. The first submission was for the Future First funding, and the winning charity was Face for Children in Need (street children). The project targeted the reintegration of children and youth to the society through education. The second was the Local Water Project Group funding opportunity, where HBEG partnered with the American University in Cairo – Desert Development Center to implement a Sustainable Water Management Project in the oasis of Egypt's western desert, benefiting a total of 8,000 inhabitants. The third and final HSBC Group funding opportunity was for the Christmas card donation, which was given to ADVANCE for Children with Autism to help them in their expansion phase. Following the HSBC Group funding, HBEG complemented the project by fully equipping their new computer laboratory, benefiting a total of 200 children with special needs.

Housing for the poor – the informal settlements

In 2009, HBEG participated in a five-year EGP100 million project, aiming to develop new and upgrade existing commonly used public-owned infrastructure and service projects, in participation with local communities and the Cairo governorate.

The first phase was completed in 2013 and addressed the Dar El Salam informal area located in the district behind the HBEG head office. This phase featured the renovation of schools, a polyclinic and a public market, as well as the establishment of street pavements, street lighting and a youth centre.

The second phase was located in the Ezbet El Nasr informal area. In this phase, the Bank established a sports/youth centre, a social solidarity centre, premises for the fire brigade, a public bus terminal, a plantation, roads and public utilities and a secondary school for girls, benefiting a total of 1,000 students.

The third phase, also in the Dar El Salam area, involves the establishment of a school complex, benefiting 9,000 students. The project is expected to be completed by the end of 2014.

The fourth phase addresses some miscellaneous projects, covering the refurbishment of 10 schools, the establishment of a public market, the upgrading of an asphalt plant and the establishment and full equipment of Osman Ibn Affan Kindergarden.

The fifth phase covers the reconstruction of the outpatient area of Mayo Hospital, which is currently out of operation. The scope will also include equipping the hospital with necessary medical equipment. The hospital is expected to serve a total of 15,000 patients a month. We are still awaiting land acquisition by the governorate before implementing this project.

Shareholding

HSBC Bank Egypt SAE is a 94.5%-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 (subsidiary)

HSBC Securities Egypt (HCES) offers a full brokerage service for major foreign institutional investors and fund management companies. It is capable of executing large-sized deals using its access to a solid funding base that is backed by the broader HSBC Group capacity. Besides offering brokerage services, HCES also provides quality equity research and distribution through dedicated equity analysts and salespersons who are based in Cairo; the MENA desk in HSBC Bank Middle East in Dubai; and the Europe, the Middle East and Africa desks in HSBC's operations in London and New York.

HSBC Investment Company Egypt SAE (subsidiary)

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

Alex Fish Company and Alex Food Company

Sharing a combined capital, Alex Fish Company and Alex Food Company specialise in the production of food products. Following a debt restructuring, HBEG acquired shareholdings in both companies, along with a number of other banks. HBEG holds 20% of the shares in each of the companies.

HBEG also holds minority interests in the following companies:

- Egyptian Mortgage Refinance Company (EMRC)
- Fawry for Electronic Payment (Egypt Pay Company)
- I-Score
- Misr Company for Clearing, Settlement and Depository (MCDR)
- Egyptian Banks Company for Technological Advancements
- Integrated Banking Solutions

Corporate governance

HBEG is committed to applying the highest level of corporate governance to all aspects of the Bank, with regard to the relationships and responsibilities of the management, the Board and the shareholders, in line with local regulatory requirements and the global requirements of the HSBC Group. HBEG's governance policies and practices cover all aspects of the Bank's daily operations, including the creation and execution of strategies, the definition and application of risk appetite parameters and setting the balance between shareholders' obligations and depositors' interests. HBEG management ensures that the daily activities of the Bank's operations are executed in a secure manner and in compliance with prevailing laws and regulations.

HBEG's commitment to organisational governance is evidenced by:

- The composition, involvement and independence of the HBEG Board of Directors
- Defined duties of Board members on the Board and on the Board's sub-committees, including the Audit and Risk Committee, the Governance and Nominations Committee, and the Salaries and Remuneration Committee
- The frequency of meetings of the Board and of the Board sub-committees in line with local regulatory requirements
- Perfecting control over the structure and operations of the Bank within the framework of governance applications
- Adoption and implementation of internal policies and manuals that cover all business aspects
- Transparency of and responses to operational and risk reviews carried out by Internal Control and Internal Audit
- Adoption of transparent communication channels and a commitment to the professional development of all staff

The Board of Directors (continued)

The following changes took place in the Board of Directors during 2013:

Resignations

Resignation of Mr Simon N Cooper as Chairman, representing HSBC Holdings, effective 30 June 2013

Resignation of Dr Ziad Bahaa Eldin, Independent Non-Executive Director, effective 15 July 2013

Resignation of Ms Halla S Sakr, Deputy Chief Executive Officer, Director, representing HSBC Holdings, effective 31 December 2013

Appointments

Appointment of Mr Mohammad Al Tuwaijri as the Non-Executive Chairman of the Board of HBEG SAE, replacing Mr Simon N Cooper, representing HSBC Holdings, effective 1 July 2013

Appointment of Mr Robert Martin as the Non-Executive Director representing HSBC Holdings, effective 22 May 2013

Appointment of Dr Maged Gobran as the Independent Non-Executive Director, replacing Dr Ziad Bahaa Eldin, Independent Non-Executive Director, effective 19 September 2013

* **Mr Mohammad Al Tuwaijri**

Non-Executive Chairman (since 1 July 2013)

Mohammad Al Tuwaijri was appointed as the Deputy Chairman and Chief Executive Officer of HSBC Bank Middle East Limited on 1 October 2013. Prior to this, he was the Regional Head of Global Banking and Markets, HSBC Group, MENA effective 1 June 2010.

Mohammad has 20 years of senior banking experience in the region, including 12 years with Saudi British Bank (SABB), HSBC's joint venture partner in Saudi Arabia. Most recently, he was J P Morgan's Managing Director and Head of Saudi Arabia.

* **Mr Simon N Cooper**

Non-Executive Chairman (until 30 June 2013)

Mr Cooper is the Deputy Chairman and Chief Executive Officer – HSBC MENA, assuming his current position in May 2009. He was appointed as the Group General Manager of HSBC in May 2008 and is responsible for HSBC Group's business in the MENA region.

He is a Board Member of HSBC Bank Middle East Limited (Deputy Chairman), HBEG SAE (Chairman), HSBC Bank Oman (Chairman) and SAAB (Board Director).

Prior to this, he was the President and CEO, HSBC Korea. From 2004-06, Mr Cooper was the Managing Director and Head of Corporate and Investment Banking in Singapore. He was previously the Deputy Chief Executive and Head of Corporate and Investment Banking in HSBC Thailand from 2001 to 2003. Prior to his role in Thailand, Mr Cooper had 12 years of experience as a Director in Corporate Finance with the HSBC Group in London, Hong Kong and Singapore.

He is a graduate of the University of Cambridge and holds an MA in Law. He is also an alumnus of Columbia Business School.

Mr Cooper is married with two children. His interests include golf and rugby.

* **Mr Andrew P Long**

Deputy Chairman and Chief Executive Officer

Mr Long was appointed as the Group General Manager of HSBC in May 2008. He was appointed as the Executive Director and Chief Executive Officer of HBEG SAE effective 1 March 2011, and in September 2012, he was designated as the Deputy Chairman and Chief Executive Officer of HBEG SAE.

Prior to assuming his current position, Mr Long was the Head of Global Transaction Banking (GTB) from December 2006. GTB is one of HSBC's global product groups with business oversight for Payments and Cash Management, Trade and Supply Chain, and HSBC Securities Services (including Fund Administration, Custody and Clearing, and Corporate Trust and Loan Agency).

Mr Long joined HSBC in 1977 in London before transferring in 1978 to the Imports department in Hong Kong. He worked in a number of positions throughout Asia, including Corporate Banking, IT, Training and Finance, and then in Australia – firstly in Operations and then leading Personal Banking. He assumed roles in Operations in New York, became the Regional Head of Trade Services Europe and then the Regional Head of Payments and Cash Management in Asia before becoming the Head of Operations and Processing for the Asia-Pacific region in 2001, after which he was appointed as the COO for HSBC in the Asia-Pacific region in 2004.

Mr Long is a graduate of the University of Bristol, England with a degree in Economics and Accounting. He also holds a Financial Studies diploma from the Chartered Institute of Bankers of England and Wales.

Mr Long's interests include sports (rugby and golf in particular), travel and church. Mr Long is married with three children, two daughters and one son.

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* **Ms Halla S Sakr**

Deputy Chief Executive Officer, Head of Commercial Banking and Head of Strategy (until 31 December 2013)

Ms Sakr has been an Executive Director of HBEG since January 2007.

Ms Sakr was appointed as Deputy Chief Executive Officer in November 2011, with overall responsibility for Commercial Banking Business, including Corporate Banking, Business Banking, Trade and Supply Chain and Payment and Cash Management aside from her responsibility for the Bank's Strategy and Planning process.

Prior to that, upon her return from HSBC Middle East in the United Arab Emirates, where she had joined the HSBC MENA regional team in January 2010, Ms Sakr has assumed the role of Managing Director, with overall responsibility for RBWM, Marketing, Communication and Strategy and Planning. In her role as Chief Executive Officer – Regional Head of Personal Financial Services, she was responsible for setting the regional strategic direction and business models for driving the activities of the Personal Financial Services (PFS) businesses within the MENA region.

As of November 2002 and until her appointment as the MENA Regional Head for PFS, Ms Sakr held the position of Senior General Manager/Deputy Managing Director and Head of PFS and Branches in HBEG. By virtue of her position, she was mainly responsible for the strategic planning, managing and directing of PFS activities in Egypt, including branch network, direct distribution channels, card centre, financial planning and retail business development.

Ms Sakr joined HBEG in December 1991 as the Deputy Manager and Head of Credit Control. Since then, she was promoted to several positions until she held the position of General Manager Credit Control and Risk Management, with overall responsibility for the risk management of the Bank's corporate and retail credit portfolios. She was also responsible for the Bank's credit training for which she conducted five executive training programmes for HSBC Egypt's credit officers.

Prior to joining HBEG, Ms Sakr has held the position of Assistant Manager, Corporate Banking in Commercial International Bank Egypt (successor to Chase National Bank of Egypt) after graduating from the Chase Manhattan Credit Training Programme in 1988.

Ms Sakr graduated from the American University in Cairo in February 1984, where she received her BA in Business Administration with high honours.

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* **Mr Robert B Gray**

Non-Executive Director

Mr Robert B Gray is Chairman, Debt Finance and Advisory, HSBC Bank plc. Mr Gray joined HSBC in May 1994 as Chairman of HSBC Markets Limited, with a particular responsibility to develop HSBC's capital market capabilities worldwide. He was appointed Vice Chairman, Client Development of HSBC Investment Bank plc in September 1999, and was appointed to his current position in March 2001.

Prior to joining HSBC, he was the head of J P Morgan's capital market activities in Europe. Previously, he was President and Tokyo Branch Manager of J P Morgan Securities Asia Ltd. Robert also headed J P Morgan's worldwide loan syndication group and was later responsible for their Eurobond underwriting business.

He is the Chairman of the International Capital Market Association's Regulatory Policy Committee, having previously served as the Chairman of the predecessor entity, namely the International Primary Market Association, and its Market Practices Committee. He is also the Chairman of the Institute of International Finance's Working Group on Crisis Prevention and Resolution. In addition, he serves as the Chairman of HSBC Saudi Arabia Ltd and as a Director of HBEG SAE and HSBC Bank Middle East Limited.

The Board of Directors (continued)

He was appointed as the Chairman of TheCityUK Overseas Promotion Committee in December 2009, having previously served as the Deputy Chairman of UK Trade & Investment's Financial Services Sector Advisory Board.

Robert graduated from St John's College, University of Cambridge with an Honours degree in history.

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* Mr Mahmoud M Abdallah

Independent Non-Executive Director

Mr Abdallah is the Managing Partner of MMA Global Investments LLC USA. From 2006-12, Mr Abdallah was the Chairman and Chief Executive Officer of Misr Insurance Holding Company (MIHC).

He is a recognised adviser to the global insurance industry. In October 2003, he retired from American Re Corporation, one of the top providers of property and casualty reinsurance in the USA, where he served as the Executive Vice President, as well as the President of its international operations, and was instrumental in building Am Re Global Operations. He played a major role in the MBO of the company with KKR and the subsequence merger with Munich Re. For many years, he served in the Board of the International Insurance Council in the USA, where he was elected chairman twice.

Mr Abdallah is a regular participant of major global insurance forums. He played an active role in many reform and privatisation initiatives in the insurance sector in several parts of the world. In November 2005, he became a Senior Adviser to the Minister of Investment in Egypt to play a leading role in the restructuring and privatisation of the insurance sector, and in September 2006, he was appointed as the Chairman of MIHC, one of the largest insurance, real estate and investment group in the Middle East.

Mr Abdallah currently sits on the National Council for Arts and Sciences for the Columbian School at George Washington University. He was a member of the Board of the USA – Middle East Project for the Council on Foreign Relations in the USA. He serves on the boards of HBEG, Validus Holdings Ltd and Egypt Air Holding. Mr Abdallah is also on the Board of the Metropolitan Opera in New York.

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* Dr Ibrahim Fawzy

Independent Non-Executive Director

Dr Fawzy is a Professor of Mechanical Engineering at Cairo University in Egypt. He is also the President of Fawzy Consultancy, which he founded in 1999 and which operates in the field of industry and investment in Egypt and the Arab world. Throughout his academic career, Dr Fawzy has taught many courses in mechanical engineering at Cairo University and at the University College of London, where he spent two years as a visiting professor. His research papers have been published in leading specialised periodicals, including Proceedings and Philosophical Transactions of the Royal Society in London.

Between 1979 and 1983, he served as a Cultural Counselor and Director of the Egyptian Education Bureau at the Egyptian Embassy in London. He was then responsible for all the Egyptian post-graduate students in the British universities.

Dr Fawzy also served as the Cabinet Minister of Industry and Mineral Wealth in the Egyptian government from 1993-96. In this post, he had the top responsibility for all projects and plans of the Egyptian government in industry and mineral wealth. From 1996-99, he was appointed as the Chairman and Chief Executive Officer of the General Authority for Investment and Free Zones, where he oversaw all private sector companies in Egypt, including Egyptian and foreign companies.

Dr Fawzy received his BSc degree in Mechanical Engineering in 1962 from Cairo University and his PhD in 1968 from University College of London in England.

At present, Dr Fawzy is a director of several closed and public companies in Egypt. He was also a Director for Quality Systems International, which is an American public company, for three years from 2005-08.

Dr Fawzy lives in Egypt and is married with a son and a daughter. He has travelled widely, attended many conferences and been active in many committees – Egyptian and international – related to industry, investments and economy.

* **Dr Ziad Bahaa Eldin**

Independent Non-Executive Director (until 15 July 2013)

Dr Ziad Ahmed Bahaa Eldin is an Egyptian attorney-at-law and expert on financial law, governance, compliance and economic legislation. He is the founder and manager of Thebes Consultancy, an advisory firm specialising in regulatory advisory and compliance services in the area of commercial, financial and business law and practice in Egypt.

Dr Bahaa Eldin is currently a non-executive member of the Board of Directors of HBEG and of the National Bank of Egypt (UK), the non-executive Chairman of the Upper Egypt Investment Company and the Director of the Egyptian Initiative for the Prevention of Corruption, a civil society group that advocates legal change to prevent corruption and increase transparency in public office transactions. He writes a weekly political commentary in the Al Shorouk daily newspaper and is also a Deputy Chairman of the Egyptian Social Democratic Party.

Dr Bahaa Eldin was the founder and first Executive Chairman of the Egyptian Financial Supervisory Authority, the regulatory authority responsible for the supervision of all non-bank financial markets and institutions (2009/11). He was also the former Executive Chairman of the Egyptian General Authority for Investment and Free Zones (2004-07), a government organisation responsible for the promotion of investment and business climate policy advocacy. Moreover, he is also a former non-executive member of the Board of Directors of the CBE (2004/11) and of the National Bank of Egypt (2003/11), and a former Senior Legal Adviser to the CBE (2011).

From 2000 to 2004, Dr Bahaa Eldin was a practicing lawyer in Egypt and was the senior legal adviser to the minister of Economy from 1997 to 2000. Prior to this, he was a private sector lawyer in Cairo and Washington DC. He has led efforts to draft Egypt's Central Securities Depository Law, Mortgage Finance Law, Financial Leasing Law, Banking Law, Anti-Money Laundering Law, Conflict of Interest Law (not yet issued), Microfinance Law (not yet issued) and Freedom of Information (not yet issued). He has also previously advised the governments of the United Arab Emirates, Libya, Yemen and Syria on economic legislation and institution building in the financial sector.

He is a former member of the Parliament, representing Assiut (2012); the founder and member of the Board of Directors of the Ahmed Bahaa Eldin Cultural Foundation, a charity promoting education, training and creative thinking among Egyptian youth in Upper Egypt; and a member of the Board of Trustees of the American University in Cairo.

Dr Bahaa Eldin received a PhD in Financial Law from the London School of Economics (1996), 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 degree from Cairo University (1986). Dr Bahaa Eldin was a part-time lecturer at the law faculty of Cairo University from 1998-2004. He lives with his wife and two sons in Cairo.

* **Mr Basel El-Hini**

Non-Executive Director

Mr El-Hini is the Vice Chairman of Misr Insurance Holding Company (MIHC). He possesses more than 30 years of experience in commercial and investment banking and finance-related areas, with in-depth knowledge of investment, corporate and retail banking, structured finance and syndication, international project finance, financial advisory and macroeconomic policy and reform. He has held managerial positions for the last 20 years.

Mr El-Hini started his career in Egypt as a banker in Misr Iran Development Bank. In the mid-80s, he then moved to the Arab Petroleum Investments Corporation in Saudi Arabia, where he progressed to become the MENA Business Group Head. In early 2000, he relocated to Egypt and joined ABN AMRO Bank (the global financial institution) as the Regional Head of Integrated Energy and Power. In 2002, he moved to Misr Exterior Bank as General Manager and member of the Board. In 2004, he joined Banque Misr, Egypt's second-largest bank, as General Manager. A year later (2005), he was chosen by Egypt's minister of finance as his adviser, with the responsibility of financial restructuring and reform of public ownership. At the beginning of 2008, Mr El-Hini joined Naeem Group as Chairman and Managing Director of Naeem Financial Investments. From September 2008 to September 2011, he was appointed as the Managing Director of Banque du Caire, Egypt's third-largest government-owned bank, responsible for credit, corporate and retail banking.

Mr El-Hini is the Non-Executive Chairman of the Financial Sector Investment Fund Company and a Board Member of HBEG SAE, the Tourism Development Authority and the Holding Company for Maritime and Land Transport. Mr El-Hini is also a certified instructor at the CBE's Egyptian Banking Institute and at the Institute of Banking and Finance of the American University in Cairo. He holds an MA in Economics from the American University in Cairo (1985) and a BSc in Economics from the Faculty of Economics and Political Science, Cairo University (1980).

The Board of Directors (continued)

* Mr Robert (Bob) Martin

Non-Executive Director (since 22 May 2013)

Mr Martin is Chief Risk Officer, MENA. His role covers Regional Risk responsibilities, as well as oversight of the Compliance function. He has been with the HSBC Group since 1984. Prior to his arrival in Dubai in November 2009, he was the Chief Auditor of HSBC North America based in Chicago, USA. He has also held various risk and business roles in Singapore, Argentina, Hong Kong and other countries in Asia. He graduated from Heriot-Watt University, Edinburgh with a BA in Accounting and Finance and is a member of the Institute of Chartered Accountants of Scotland.

* Dr Maged Gobran

Independent Non-Executive Director (since 19 September 2013)*

Dr Gobran is currently advising private equity firms on acquisition opportunities in MENA. He has more than 30 years of experience in the pharmaceutical industry that he gained in four continents.

He was appointed as the Area Vice President for MENA for AstraZeneca in 2006-2012. He joined AstraZeneca in Paris in September 2004 as Area Vice President for North Africa.

Dr Gobran started his career in 1980. In his early career, he spent three years as a sales representative in Egypt and in New York City and three years as a Product Manager for Middle East and Africa at Merrell Dow Pharmaceuticals based in Geneva, Switzerland. He then spent five years working in healthcare advertising with Bozell in New York, a leading global healthcare advertising agency, where he led the agency team that launched two major products in the US market with Glaxo and Abbott Laboratories as clients. He spearheaded various advertising campaigns, including over-the-counter (OTC) and direct-to-consumer campaigns.

Dr Gobran came back to the Middle East as the Director of Operations Planning for Bristol Myers Squibb, where he was responsible for marketing and business development in the area. He then joined GlaxoWellcome as the Managing Director for Saudi Arabia, where he led the team that launched the first multinational manufacturing facility in the kingdom. He was then appointed as the Chairman and Managing Director of GlaxoSmithKline in Egypt, where he led the largest company in the country with a diverse portfolio of branded products, branded generics and OTC products.

Dr Gobran has a BS in Pharmacy from Cairo University and an MBA from Fordham University in New York. When he is not working, Dr Gobran enjoys spending time with his family, reading and indulging in the arts. He has recently contributed to curating and writing an art book that was published in Egypt in 2013.

He is a member of the Board of the British Egyptian Business Association and the Egyptian-British Business Council.

*As at 31 December 2013, this appointment was still subject to regulatory approval.

Board Committees

The purpose of HBEG's management structures, headed by the Board of Directors and led by the chairman, is to deliver sustainable value to our shareholders. The Board sets the strategy for the Bank and approves the risk appetite and capital and operating plans presented by the management for the achievement of its strategic objectives. This ensures the efficient application of our resources for the achievement of these objectives. Implementation of the strategy set by the Board is delegated to the Executive Committee (EXCO) led by the Chief Executive Officer. To achieve its strategic objectives, the Board has appointed a number of committees consisting of certain directors and/or executive management to which the related responsibilities are distributed.

The Audit and Risk Committee (AURCOM)

The AURCOM is responsible for advising the Board on the effectiveness of HBEG's systems of internal controls and compliance in relation to financial matters and on meeting financial obligations. The AURCOM also has responsibilities in relation to risk governance and oversight and internal controls.

In 2013, the members of the combined AURCOM were Mr Robert Gray (Chairman), Mr Mahmoud Abdallah, Dr Ibrahim Fawzy and Mr Basel El-Hini. All of the members are non-executive directors, with the majority being independent.

In 2014, to conform with corporate governance requirements, the committee will be divided into separate audit and risk committees. The members of the Audit Committee will be Dr Ibrahim Fawzy (Chairman), Mr Basel El-Hini and Mr Robert Martin. The members of the Risk Committee will be Mr Robert Gray (Chairman), Mr Mahmoud Abdallah, Mr Basel El-Hini, Mr Robert Martin and the Chief Executive Officer.

The Governance and Nomination Committee (GNC)

The GNC is responsible for leading the process of Board appointments and of identifying and nominating (for the approval of the Board) candidates for appointment to the Board. The committee exercises succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the Bank and the skills and expertise which are needed for senior executives and on the Board. The committee also makes a periodic evaluation of the Bank's governance system and procedures. It also addresses the results of the annual Board evaluation and the CBE's audit recommendations about the governance process. The members of the Governance and Nominations Committee are Mr Robert Gray (Chairman), Mr Mahmoud Abdallah, Dr Ibrahim Fawzy and Mr Basel El-Hini. All of the members are non-executive directors, with the majority being independent.

The Salaries and Remuneration Committee (REMCO)

The REMCO considers remuneration matters for the Company in the context of the Group's remuneration policy and provides advice to the Board on the remuneration policy and structure relevant to the Company, based on the regulatory context and market conditions. The committee also reviews performance-based remuneration by reference to corporate goals and objectives and ensures that risk appetite is aligned with the performance objectives set in the context of incentive packages. The members of the Salaries and Remunerations Committee are Mr Robert Gray (Chairman), Mr Mahmoud Abdallah and Mr Robert Martin. All of the members are non-executive directors and one member is an independent director.

The Executive Committee (EXCO)

The EXCO is an executive management committee that meets monthly and operates as a general management committee under the direct authority of the Board. The purpose of the EXCO is to maintain a reporting and control structure where all lines of operations are accountable to the individual members of the EXCO who report to the Chief Executive Officer, who chairs the EXCO. The Board sets objectives and measures for the EXCO, which align senior executive objectives and measures with strategy and operating plans throughout the Bank.

Auditors' report

To the shareholders of HSBC Bank Egypt SAE:

Report on the Financial Statements

We have audited the accompanying separate financial statements of HSBC Bank Egypt SAE, which is composed of the separate balance sheet as at 31 December 2013 and the 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 Responsibilities for the Financial Statements

These separate financial statements are the responsibility of the Bank's management. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the CBE's rules pertaining to the preparation and presentation of the financial statements and its measurement and recognition basis approved by its Board of Directors issued on 16 December 2008. In light of the prevailing Egyptian laws, management responsibilities include 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 responsibilities also include selecting and appropriating 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 have conducted our audit in accordance with the Egyptian Standards on Auditing and in the light of the prevailing Egyptian laws. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion 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 31 December 2013, its separate financial performance and its separate cash flows for the year then ended, in accordance with the CBE's rules pertaining to the preparation and presentation of the financial statements, its measurement and recognition basis approved by its Board of Directors issued on 16 December 2008 and the Egyptian laws and regulations relating to the preparation of these separate financial statements.

Report on Legal and Other Regulatory Requirements

According to the information and explanations given to us during the financial year ended 31 December 2013, there is no contravention of the Central Bank, Banking and Monetary Institution Law No.88 of 2003.

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

The financial information included in the Board of Directors' report is in agreement with the books of the bank insofar as such information is recorded therein.

Auditors

Hisham Gamal Alafandy

Egyptian Financial Supervisory
Authority no.100
KPMG Hazem Hassan
Public accountants and consultants

Hossam Zaki Nasr

Egyptian Financial Supervisory
Authority no.82
Allied for Accounting and Auditing E&Y
Public accountants and consultants

Date: 10 February 2014

Separate Balance Sheet as at 31 December 2013

	Note No.	**31 December 2013 EGP (000)**	31 December 2012 EGP (000)
Assets			
— Cash and balances with the CBE	(15)	**12 497 670**	4 190 716
— Due from banks	(16)	**9 042 928**	9 899 658
— Treasury bills	(17)	**10 611 499**	11 305 434
— Financial assets held for trading	(18)	**5**	44 573
— Loans and advances	(19)	**18 932 443**	19 592 792
— Financial derivatives	(20)	**17 626**	15 863
— **Financial investments**			
— Available for sale	(21)	**6 265 256**	7 584 874
— Held to maturity	(21)	**74 839**	89 674
— Investments in subsidiaries	(22)	**35 517**	35 517
— Intangible assets	(23)	**3 149**	3 668
— Other assets	(24)	**504 594**	578 364
— Deferred tax assets	(31)	**49 909**	49 441
— Investment property	(26)	**110 215**	112 204
— Fixed assets	(25)	**436 348**	441 673
Total assets		**58 581 998**	53 944 451
Liabilities and shareholders' equity			
Liabilities			
— Due to banks	(27)	**2 612 115**	969 686
— Customers' deposits	(28)	**49 317 549**	47 237 707
— Financial derivatives	(20)	**17 926**	16 837
— End of service compensation benefits	(32)	**216 737**	211 283
— Other loans	(39)	**272 000**	—
— Other liabilities	(29)	**634 446**	681 903
— Other provisions	(30)	**350 963**	167 972
— Income tax		**219 606**	259 172
Total liabilities		**53 641 342**	49 544 560
Shareholders' equity			
— Paid-up capital	(33)	**2 078 500**	2 078 500
— Additional paid-in capital	(33)	**717 067**	—
— Reserves	(34)	**1 615 297**	**1 428 469**
— Retained earnings	(34)	**529 792**	892 922
Total shareholders' equity		**4 940 656**	4 399 891
Total liabilities and shareholders' equity		**58 581 998**	53 944 451

The accompanying notes from 1 to 41 form an integral part of these financial statements and are to be read therewith.
***Andrew P Long** (Deputy Chairman and Chief Executive Officer)*

Separate Income Statement for the year ended 31 December 2013

	Note No.	**31 December 2013 EGP (000)**	31 December 2012 EGP (000)
Interest from loans and similar income	(6)	**3 904 499**	3 671 213
Interest on deposits and similar expense	(6)	**(1 471 122)**	(1 475 899)
Net interest income		**2 433 377**	2 195 314
Fees and commissions income	(7)	**649 810**	574 273
Fees and commissions expense	(7)	**(57 953)**	(45 388)
Net fees and commissions income		**591 857**	528 885
Dividends income	(8)	**1 700**	5 776
Net trading income	(9)	**182 860**	295 536
Financial investment (loss)		**(148 709)**	(69)
Impairment (loss)	(12)	**(248 335)**	(211 405)
Administrative expenses	(10)	**(1 131 572)**	(942 099)
Other operating expense/income	(11)	**(154 521)**	29 296
Profit before income tax		**1 526 657**	1 901 234
Income tax expenses	(13)	**(635 831)**	(482 395)
Net profit for the year		**890 826**	1 418 839
Earnings per share (EGP/share)			
Basic	(14)	**30.36**	51.30

The accompanying notes from 1 to 41 form an integral part of these financial statements and are to be read therewith.

Separate Cash Flow Statement for the year ended 31 December 2013

	31 December 2013	31 December 2012
	EGP (000)	EGP (000)
Cash flows from operating activities	**1 526 657**	1 901 234
— Net profit before income tax		
Adjustments to reconcile net profit to net cash flows from operating activities		
— Depreciation and amortisation	**60 757**	66 454
— Impairment of assets	**454 262**	230 323
— Other provisions	**245 254**	45 946
— Increase in end of service compensation provision	**46 863**	77 430
— Provisions no longer required	**(211 893)**	(15 018)
— Revaluation differences for provisions other than loans provision	**729**	45
— Gain (losses) from derivative revaluation	**(220)**	1 887
— Gain from sale of fixed asset	**(73)**	—
— Gain from sale of assets reverted to the bank	**—**	(69)
— Dividends	**—**	(5 776)
— Bonds' unearned discount amortisation	**(5 112)**	(5 570)
— Bonds' premium amortisation	**32 509**	46 807
Operating income before changes in assets and liabilities from operating activities	**2 149 733**	2 343 693
Net decrease (increase) in assets and liabilities		
— Due from banks	**(8 244 061)**	682 214
— Treasury bills	**3 006 697**	(259 119)
— Available-for-sale investments	**1 358 858**	(1 979 250)
— Financial investments held for trading	**44 568**	(28 900)
— Loans and advances to customers	**412 014**	(348 103)
— Financial derivatives (net)	**(454)**	(468)
— Other assets	**65 614**	(127 602)
— Due to banks	**1 642 429**	98 606
— Customers' deposits	**2 079 332**	5 041 762
— Other liabilities	**485**	149 616
— End of service compensation benefits	**(41 409)**	(50 617)
— Other provisions used	**(59 802)**	(10 316)
— Income tax paid	**(721 031)**	(413 645)
Net cash flows provided from (used in) operating activities	**1 692 973**	5 097 871

	31 December 2013	31 December 2012
	EGP (000)	EGP (000)
Cash flows from investing activities		
— Payments to purchase fixed assets and branches preparation	**(45 713)**	(20 544)
— Proceeds from sale of fixed assets	**73**	851
— Proceeds from sale of assets reverted to the bank	**—**	500
— Dividends received	**1 700**	5 776
— Payments to purchase intangible assets	**(755)**	(3 020)
— Purchasing financial investments held to maturity	**—**	(39 999)
— Proceeds (payments) to purchase financial investments held to maturity	**14 835**	—
Net cash flows (used in) investing activities	**(29 860)**	(56 436)
Cash flows from financing activities		
— Dividends paid	**(416 188)**	(1 535 092)
— Proceeds from issuance debt instrument and other loans	**272 000**	—
Net cash flows (used in) financing activities	**(144 188)**	(1 535 092)
— Net change in cash and cash equivalents during the year	**1 518 925**	3 506 343
— Cash and cash equivalents at the beginning of the year	**11 298 165**	7 791 822
Cash and cash equivalents at the end of the year	**12 817 090**	11 298 165
Cash and cash equivalents are represented in:		
— Cash and balances with the CBE	**12 497 670**	4 190 716
— Due from banks	**9 042 928**	9 899 658
— Treasury bills	**10 611 499**	11 305 434
— Balance with the CBE within the limit of statutory reserve	**(11 895 620)**	(3 651 559)
— Balance due to banks with maturity of more than three months from the date of acquisition	**(7 439 387)**	(10 446 084)
Cash and cash equivalents	**12 817 090**	11 298 165

The accompanying notes from 1 to 41 form an integral part of these financial statements and are to be read therewith.

Separate Statement of Changes in Shareholders' Equity for the year ended 31 December 2013

	Note	Paid-up capital	Payment under capital increase	Reserves	Retained earnings	Total
	No.	EGP (000)	EGP (000)	EGP (000)	EGP (000)	EGP (000)
Balances as at 31 December 2011		2 078 500	—	976 673	1 158 206	4 213 379
Dividends paid for year 2011	(35)	—	—	—	(1 044 296)	(1 044 296)
Dividends paid for the first half of year 2012	(35)	—	—	—	(490 796)	(490 796)
Transferred to legal reserve	(34)	—	—	91 072	(91 072)	—
Transferred to general reserve	(34)	—	—	57 912	(57 912)	—
Net change in financial investments available for sale	(34)	—	—	302 765	—	302 765
Net profit for the year ended 31 December 2012		—	—	—	1 418 839	1 418 839
Transferred from general banking risk reserve	(34)	—	—	47	(47)	—
Balances as at 31 December 2012		2 078 500	—	1 428 469	892 922	4 399 891
Balances as at 31 December 2012		2 078 500	—	1 428 469	892 922	4 399 891
Additional paid-in capital		—	717 067	—	—	717 067
Dividends paid for year 2012	(35)	—	—	—	(796 852)	(796 852)
Dividends paid for the first half of year 2013	(35)	—	—	—	(336 913)	(336 913)
Transferred to legal reserve	(34)	—	—	59 942	(59 942)	—
Transferred to general reserve	(34)	—	—	60 202	(60 202)	—
Net change in financial investments available for sale	(34)	—	—	66 637	—	66 637
Net profit for the year ended 31 December 2013		—	—	—	890 826	890 826
Transferred from general banking risk reserve	(34)	—	—	47	(47)	—
Balances as at 31 December 2013		**2 078 500**	**717 067**	**1 615 297**	**529 792**	**4 940 656**

The accompanying notes from 1 to 41 form an integral part of these financial statements and are to be read therewith.

Separate Proposed Profit of Appropriation Statement for the year ended 31 December 2013

	Note No.	**31 December 2013 EGP (000)**	31 December 2012 EGP (000)
Net profit for the year		**890 826**	1 418 839
Less:			
Gain from sale of fixed assets		**(73)**	—
General banking risk reserve	(34)	**(47)**	(47)
Net profit for the year available for appropriation		**890 706**	1 418 792
Appropriation			
Dividends paid during the year		**360 987**	525 870
Legal reserve	(34)	**44 538**	70 942
Less:			
Transferred to legal reserve		**(24 075)**	(35 074)
General reserve	(34)	**1 529**	60 202
Shareholders' dividends		**705 205**	1 138 226
Less:			
Dividends paid to the shareholders during the year		**(288 763)**	(420 649)
Employees' profit share		**139 434**	149 422
Less:			
Employees’ profit share paid during the year		**(48 149)**	(70 147)
		890 706	1 418 792

The accompanying notes from 1 to 41 form an integral part of these financial statements and are to be read therewith.

Notes to the Separate Financial Statements

To the shareholders of HSBC Bank Egypt S.A.E.

1 Background

HSBC Bank Egypt SAE provides retail, corporate and investment banking services in the Arab Republic of Egypt through 74 branches and 10 mini units served by more than 2,209 employees at the date of the balance sheet.

HSBC Bank Egypt SAE 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 the El Waqaa El Masria newspaper on 17 May 1982 in the Arab Republic of Egypt. The head office is located in Cairo. The Bank's shares have been delisted from the Egyptian stock exchange market on 31 December 2009. The Bank started its operation on 15 December 1982.

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

- The financial statements are prepared in accordance with the CBE's instructions approved by its Board of Directors on 16 December 2008.

b. Subsidiaries

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

— Owner's equity of the financial derivatives in the form of eligible coverage for cash flows or net investments

— Other operating income (expenses) for the other items

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

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

e. Financial assets:

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. 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

— Financials 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
  • Financial instruments, such as debt instruments that contain one or more embedded derivatives, which 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 though 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 year. 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

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

2 Summary of significant accounting policies *(continued)*

e. Financial assets: *(continued)*

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:

- The Bank intends to sell immediately or in the short-term, which is 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
- 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 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 share 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 and 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 profit and loss 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 loans and advances and 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 profit and loss. The foreign currency revaluation differences related to available-for-sale investments are recognised in the profit and loss. Dividends related to available-for-sale equity instruments are recognised in the profit and loss 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, 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 and 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 the 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:

2 Summary of significant accounting policies *(continued)*

e.4 Financial investments available for sale *(continued)*

i. Financial assets with fixed or determinable payments and fixed maturity valued at amortised cost using the effective interest method. The difference between the amortised cost using the effective interest method and the repayment value is amortised using the effective interest rate method.
ii. In case of a financial asset's impairment, any profits or losses previously recognised in equity is recognised in profit and loss.
iii. Profits and losses related to the financial assets without fixed or determinable 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 profit and loss.

— 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 profit and loss

— In all cases, if the Bank reclassified financial assets in accordance with what is referred to above, and the Bank subsequently increases its future cash proceeds estimates resulting 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 repo 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.

g.1 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 profit and loss 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 the 'Net income from financial instruments at fair value through profit or loss'.

h. Interest income and expense

Interest income and expense related to financial instruments, except for held trading investments or recorded at fair value through profit and loss, are recognised 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 relevant year. 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, personal loans, small and medium business loans, mortgage loans for personal housing and small loans for businesses

— For loans granted to corporate, interest income is recognised on a cash basis after the Bank collects 25% 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 the client is considered to be performing

2 Summary of significant accounting policies *(continued)*

i. Fees and commission income

Fees and commissions related to loan and advances are recognised as income when the service is rendered. Fees and commission 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 recognised as revenue 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 year passed without issuing the loan, commitment fees are recognised as income at the end of the commitment year.

Fees and commissions related to equity debts measured by fair value are recognised as income at initial recognition. Fees and commissions related to the 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. Asset management fees are recognised over the year in which the service is provided.

j. Dividends income

Dividends are recognised in the profit and loss 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 not derecognised from the books. These 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

l.1 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:

- Great financial troubles facing the borrower or debtor
- 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 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

2 Summary of significant accounting policies *(continued)*

l. Impairment of financial assets *(continued)*

1.1 Financial assets at amortized cost: *(continued)*

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, though such decline is not identifiable for each individual asset.

The Bank estimates the year between identifying the loss event, and its occurrence ranges from three 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, be it significant or not, the Bank includes the financial asset in a group of financial assets having similar characteristics in terms of credit risk and tests the whole group for impairment
- An individual 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 the 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 futures cash flow 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 is 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 consistent with the 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.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

2 Summary of significant accounting policies *(continued)*

l. Impairment of financial assets *(continued)*

l.2 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 or held-to-maturity occurred. For listed equity instruments classified as available-for-sale investments, impairment is recognised if it is significant and a prolonged decline on its price below its acquisition cost is observed.

The decline in value is considered significant for the equity instruments if it reaches 10% of the financial instrument's cost, and it is considered prolonged if it extends for more than nine 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 Bank recognises that the total accumulated loss previously recognised equity will be recognised in profit and loss. 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 profit and loss 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

n.1 Software (computer programmes)

The expenses related to upgrading or maintenance of computer programs 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 employee 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 year 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 years or over the year of the lease 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 fittings	3 years

2 Summary of significant accounting policies *(continued)*

o. Fixed assets *(continued)*

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 proceeds with asset carrying amount. These gain and losses are included in other operating income (expenses) in the profit and loss.

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 realisable 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 profit and loss.

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% of the asset's expected useful life, or the current value of the total lease payments represents at least 90% 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 profit and loss, 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 the lessee are recognised as expenses in the profit and loss using the straight line method over the contract term.

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 profit and loss using the straight line method over the contract term.

r. Cash and cash equivalents

For the purposes of the cash flow 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 expected required expenditures to settle 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.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

2 Summary of significant accounting policies *(continued)*

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 profit and loss 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. Employee benefits

u.1 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'.

u.2 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 profit and loss 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 acquisitions 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.

2 Summary of significant accounting policies *(continued)*

x. Amanah activities

The Bank practices the Amanah 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. Comparative figures

The comparative figures shall be reclassified, when necessary, to be in conformity with the changes to the 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. The 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 the market, products and services, and the best updated applications.

Those risks are managed by Risk department in the light of policies approved by the 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 investment 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 Credit Risk department, which prepares reports for the Board of Directors and head 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 it
- 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 a.8 shows the sector diversification of the loans and advances portfolio.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management *(continued)*

a. Credit risk *(continued)*

a.1 Credit risk measurement *(continued)*

The Bank evaluates the customer risk using internal policies for the different customers' 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 is divided into four ratings.

The following table shows the rating scale that reflects the range of expected defaults or payment delays by which the credit centres may transfer from one rating to another 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 & Poor's rating, MERIS Modes rating and Fitch ratings to manage their 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 a quarterly basis the sartorial 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

— Financial instruments mortgage, such as debt and equity instruments

3 Financial Risk Management *(continued)*

a. Credit risk *(continued)*

a.2 Limiting and preventing risks policies *(continued)*

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 types 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 (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 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 year of time as it is affected by each transaction occurring in the arrangement.

Credit-related commitments

The primary purpose of these commitments is to ensure that funds are available to customers 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 high 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 are 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 in-balance sheet items relating to loans and advances and the related impairment provision for each rating:

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management *(continued)*

a. Credit risk *(continued)*

a.3 Impairment and provisioning policies *(continued)*

Bank's rating	**31 December 2013**		31 December 2012	
	Loans and advances	Impairment provision	Loans and advances	Impairment provision
Performing loans	**84.78%**	**54%**	87.36%	48%
Regular watching	**8.00%**	**6%**	10.45%	7%
Watch list	**0.08%**	**2%**	0.06%	1%
Non-performing loans	**7.14%**	**38%**	2.13%	44%
	100%	**100%**	100%	100%

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

- Payment delinquency of principal or interest
- Breach of loan conditions
- 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
- Deterioration 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 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 General module to measure 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 the CBE. In case the provision for impairment losses as per CBE regulations exceeds the provision required for financial statements preparation purposes according to the Egyptian Accounting Standards, this increase shall be debited from the retained earnings and credited to the 'general banking risk reserve' under the equity caption. This reserve is regularly adjusted with this increase and decrease, to equal the amount of increase and decrease in the two provisions. This reserve is not distributable. Note 34 shows the 'general banking risk reserve' movement during the year.

3 Financial Risk Management *(continued)*

a. Credit risk *(continued)*

a.5 Maximum limits for credit risk before collateral

	31 December 2013	31 December 2012
	EGP (000)	EGP (000)
Balance sheet items exposed to credit risk:		
Treasury bills	**10 611 499**	11 305 434
Financial asset held for trading:		
Debt instrument	**5**	44 573
Loans and advances to customers:		
Retail loans:		
Overdrafts	**249 829**	323 479
Credit cards	**793 637**	603 501
Personal loans	**2 282 649**	2 087 375
Mortgage loans	**7 686**	8 122
Corporate loans:		
Overdrafts	**2 465 636**	2 729 650
Direct loans	**9 249 950**	8 579 736
Syndicated loans	**4 873 524**	5 974 855
Financial derivative instruments	**17 626**	15 863
Financial investments:		
Debt instruments	**6 242 102**	7 561 548
Total	**36 794 143**	39 234 136
Off-balance sheet items exposed to credit risk:		
Loan commitments and other irrevocable commitments related to credit	**1 567 393**	1 930 573
Letters of credit	**1 300 031**	2 184 642
Letters of guarantee	**9 053 108**	7 771 069
Cash covers	**(571 766)**	(591 833)
Total	**11 348 766**	11 294 451

The above table represents the maximum limit for credit risk as of 31 December 2013 and 31 December 2012, 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, 54.15% of the total maximum limit exposed to credit risk resulted from loans and advances to customers against 51.76% as at 31 December 2012 while 16.96% represents investments in debt instruments against 19.39% as at 31 December 2012.

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

- 92.78% of the loans and advances portfolio is classified at the highest two ratings in the internal rating against 97.81% as at 31 December 2012
- 89.92% of the loans and advances portfolio having no past due or impairment indicators against 96.36% as at 31 December 2012

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management *(continued)*

a. Credit risk *(continued)*

a.5 Maximum limits for credit risk before collateral *(continued)*

- Mortgage loans, which represent a significant part of the portfolio, are covered by guarantees of total amount EGP26,544 thousand
- Loans and advances that have been evaluated on an individual basis of total amount EGP1,438,079 thousand against EGP443,269 thousand as at 31 December 2012
- Investments in debt instruments and Treasury bills contain more than 86.74% against 82.65% as at 31 December 2012 due from the Egyptian government

a.6 Loans and advances

Loans and advances are summarised as follows:

	31 December 2013	31 December 2012
	EGP (000)	EGP (000)
	Loans and advances to customers	Loans and advances to customers
Neither having past dues nor subject to impairment	**17 915 408**	19 567 605
Having past due but not subject to impairment	**569 423**	295 844
Subject to impairment	**1 438 079**	443 269
Total	**19 922 910**	20 306 718
Less:		
Unearned discount of discounted commercial papers	**(460)**	(1 242)
Interest in suspense	**(51 829)**	(29 349)
Impairment loss provision	**(938 178)**	(683 335)
Net	**18 932 443**	19 592 792

The Bank's total impairment loss for loans and advances amounted to EGP938,178 thousand against to EGP683,335 thousand as at 31 December 2012, of which EGP318,240 thousand against EGP289,364 thousand as at 31 December 2012 representing impairment of individual loans and the reminder amounting to EGP619,938 thousand against to EGP393,971 thousand as at 31 December 2012 representing impairment loss for the credit portfolio as a group.

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

The Bank's portfolio decreased by 1.89% during the year. The Bank concentrates on dealing with large institutions or banks or individual of creditworthiness.

Loans and advances neither having past due nor subject to impairment

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

3 Financial Risk Management *(continued)*

a. Credit risk *(continued)*

a.6 Loans and advances *(continued)*

Loans and advances neither having past due nor subject to impairment

31 December 2013								EGP (000)
				Retail		Corporate		
Rating	Overdrafts	Credit cards	Personal loans	Mortgage	Overdrafts	Direct loans	Syndicated loans	Total loans and advances to customers
Performing loans	**210 902**	**746 332**	**2 144 761**	**7 686**	**2 409 640**	**6 288 900**	**4 574 263**	**16 382 484**
Regular follow-up	**—**	**—**	**—**	**—**	**1 442**	**1 531 482**	**—**	**1 532 924**
Total	**210 902**	**746 332**	**2 144 761**	**7 686**	**2 411 082**	**7 820 382**	**4 574 263**	**17 915 408**

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

31 December 2012								EGP (000)
				Retail		Corporate		
Rating	Overdrafts	Credit cards	Personal loans	Mortgage	Overdrafts	Direct loans	Syndicated loans	Total loans and advances to customers
Performing loans	268 199	571 085	1 994 964	8 122	2 500 027	6 447 555	5 703 599	17 493 551
Regular follow-up	—	—	—	—	180 518	1 893 535	—	2 074 053
Total	268 199	571 085	1 994 964	8 122	2 680 545	8 341 090	5 703 599	19 567 604

Loans and advances having past due and not subject to impairment

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

31 December 2013					EGP (000)
					Retail
	Overdrafts	Credit cards	Personal loans	Mortgage	Total
Past due up to 30 days	**34 052**	**21 709**	**76 259**	**-**	**132 020**
Past due 30-60 days	**2 657**	**11 443**	**27 812**	**-**	**41 912**
Past due 60-90 days	**151**	**5 353**	**14 430**	**-**	**19 934**
Total	**36 860**	**38 505**	**118 501**	**-**	**193 866**
Fair value of collateral				**26 544**	**26 544**

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management *(continued)*

a. Credit risk *(continued)*

a.6 Loans and advances *(continued)*

31 December 2013				EGP (000)
				Corporate
	Overdrafts	Direct loans	Syndicated loans	Total
Past due up to 30 days	—	**293 500**	—	**293 500**
Past due 30-60 days	—	**82 057**	—	**82 057**
Past due 60-90 days	—	—	—	—
Total	—	**375 557**	—	**375 557**
Fair value of collateral		—		—

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

31 December 2012					EGP (000)
					Retail
	Overdrafts	Credit cards	Personal loans	Mortgage	Total
Past due up to 30 days	46 814	18 054	43 854	—	108 722
Past due 30-60 days	5 250	6 405	18 974	—	30 629
Past due 60-90 days	1 413	3 571	12 936	—	17 920
Total	53 477	28 030	75 764	—	157 271
Fair value of collateral				26 544	26 544

31 December 2012				EGP (000)
				Corporate
	Overdrafts	Direct loans	Syndicated loans	Total
Past due up to 30 days	—	107 436	—	107 436
Past due 30-60 days	—	29 568	—	29 568
Past due 60-90 days	—	1 569	—	1 569
Total	—	138 573	—	138 573
Fair value of collateral		—		—

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 EGP1,438,079 thousand against EGP443,269 thousand as at 31 December 2012.

3 Financial Risk Management *(continued)*

a. Credit risk *(continued)*

a.6 Loans and advances *(continued)*

31 December 2013								EGP (000)
				Retail			Corporate	
Valuation	Overdrafts	Credit cards	Personal loans	Property loans	Overdrafts	Direct loans	Syndicated loans	Total
Individual loans subject to impairment	**2 067**	**8 798**	**19 387**	**—**	**54 554**	**1 054 012**	**299 261**	**1 438 079**
Fair value of collateral						**611 157**		**611 157**

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

31 December 2012								EGP (000)
				Retail			Corporate	
Valuation	Overdrafts	Credit cards	Personal loans	Property loans	Overdrafts	Direct loans	Syndicated loans	Total
Individual loans subject to impairment	1 803	4 385	16 645	—	49 105	100 074	271 257	443 269
Fair value of collateral					393	45 252		45 645

Restructured loans and advances

Restructuring activities include renegotiating in terms of payment terms extension, restructure of mandatory management policies and adjusting/postponing repayment terms. Renegotiating policies depend on indicators or standards in addition to the management's personal judgement to show that regular payments are of high probability. These policies are subject to regular review. Long-term loans, especially loans to customers, are usually subject to renegotiation.

	31 December 2013	31 December 2012
	EGP (000)	EGP (000)
Loans and advances to customers		
Corporate		
Direct loans	**71 056**	26 457
Syndicated loans	**573 007**	497 380
Retail		
Personal loans	**2 469**	2 367
Total	**646 532**	526 204

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management *(continued)*

a. Credit risk *(continued)*

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 (Mereis-rioters).

	Treasury bills	Investments in securities	Total
	EGP (000)	EGP (000)	EGP (000)
AAA	—	82 959	82 959
AA- to AA+	—	5 537	5 537
Less than A-	10 611 499	6 153 611*	16 765 110
Total	**10 611 499**	**6 242 107**	**16 853 606**

**Include Egyptian government bonds amounting to EGP6,124,030 thousand*

3 **Financial Risk Management** *(continued)*

a. Credit risk *(continued)*

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 mounts distributed by the geographical sector. The Bank breaks down these risks according to the Bank customer's geographical area.

	Arab Republic of Egypt			Total EGP (000)
	Cairo	Alexandria and Delta	Upper Egypt, Sinai and Red Sea	
Treasury bills	10 611 499	—	—	10 611 499
Financial assets held for trading:				
Debt instruments	5	—	—	5
Loans and advances to customers:				
Retail:				
Overdrafts	201 733	37 612	10 484	249 829
Credit cards	793 637	—	—	793 637
Personal loans	1 966 177	165 126	151 346	2 282 649
Mortgage loans	7 082	205	399	7 686
Corporate:				
Overdrafts	2 172 917	289 893	2 826	2 465 636
Direct loans	8 245 574	708 341	296 035	9 249 950
Syndicated loans	4 569 601	164 994	138 929	4 873 524
Derivative financial instruments	17 626	—	—	17 626
Financial investment:				
Debt instruments	6 242 102	—	—	6 242 102
Other assets	368 555	7 938	2 820	379 313
Total as at 31 December 2013	**35 196 508**	**1 374 109**	**602 839**	**37 173 456**
Total as at 31 December 2012	37 280 001	1 546 816	887 042	39 713 859

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management *(continued)*

a. Credit risk *(continued)*

a.8 Concentration of risks of financial assets exposed to credit risk *(continued)*

Business sectors

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

EGP (000)

	Industrial sector	Commercial sector	Service sector	Governmental sector	Other activities	Individuals	Total
Treasury bills	—	—	—	10 611 499	—	—	10 611 499
Financial assets held for trading							
Debt instruments	—	—	—	5	—	—	5
Loans and advances to customers							
Retail:							
Overdrafts	—	—	—	—	—	249 829	249 829
Credit cards	—	—	—	—	—	793 637	793 637
Personal loans	—	—	—	—	—	2 282 649	2 282 649
Mortgage loans	—	—	—	—	—	7 686	7 686
Corporate:							
Overdrafts	609 083	779 368	807 388	5 798	263 999	—	2 465 636
Direct loans	3 890 974	2 438 141	2 471 328	20 833	428 674	—	9 249 950
Syndicated loans	1 631 944	500 817	1 270 075	64 587	1 406 101	—	4 873 524
Derivative financial instruments	—	—	17 626	—	—	—	17 626
Financial investment:							
Debit instruments	—	—	—	6 242 102	—	—	6 242 102
Other assets	—	—	—	—	379 313	—	379 313
Total as at 31 December 2013	**6 132 001**	**3 718 326**	**4 566 417**	**16 944 824**	**2 478 087**	**3 333 801**	**37 173 456**
Total as at 31 December 2012	6 492 636	3 332 709	4 647 290	18 964 838	3 253 909	3 022 477	39 713 859

b. Market risk

The Bank is exposed to market risks, which is the risk that the fair value or future cash flow fluctuation results from changes in market prices. 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 of which 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 investment 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' (VAR) methodology for trading and non-trading portfolios to estimate the market risk of positions held and the maximum expected losses based on a number of 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 expect to lose using confidence level 98%. Therefore, there is statistical probability of 2% that actual losses could be greater than the VAR estimation. The VAR module assumes that the holding year is 10 days before closing the opening position. It also assumes that market movements during the holding year will be the same as 10 days before. The Bank's assessment of past movements is based on data for the past 500 days. 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 are allocated to business units. Actual values exposed to market risk are compared to the limits established by the Bank and reviewed by the ALCO committee.

The average daily VAR for the Bank during the current period was EGP19,190 thousand against EGP116,711 thousand as at 31 December 2012.

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

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management *(continued)*

b. Market risk *(continued)*

b.2 VAR summary

According to risk type

		EGP (000)			EGP (000)	
		31 December 2013			31 December 2012	
	Average	**High**	**Low**	Average	High	Low
Foreign exchange risk	**18 134**	**141 082**	**7 168**	116 074	230 517	6 995
Interest rate risk	**1 056**	**1 665**	**529**	637	952	358
Total VAR	**19 190**	**142 747**	**7 697**	116 711	231 469	7 353

Trading portfolio VAR by risk type

		EGP (000)			EGP (000)	
		31 December 2013			31 December 2012	
	Average	**High**	**Low**	Average	High	Low
Foreign exchange risk	**18 134**	**141 082**	**7 168**	116 074	230 517	6 995
Interest rate risk	**4**	**11**	**1**	40	157	8
Total VAR	**18 138**	**141 093**	**7 169**	116 114	230 674	7 003

Non-trading portfolio VAR by risk type

		EGP (000)			EGP (000)	
		31 December 2012			31 December 2011	
	Average	**High**	**Low**	Average	High	Low
Interest rate risk	**1 094**	**1 669**	**524**	681	992	358
Total VAR	**1094**	**1 669**	**524**	681	992	358

The increase in VAR especially the interest rate risk mainly proportion to the increase in market interest rates volatility in the global financial markets.

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 effects. (The above three VAR results are before stress testing.)

3 **Financial Risk Management** *(continued)*

b. Market risk *(continued)*

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 financial year. The following table includes the carrying amounts of the financial instruments in their currencies:

31 December 2013						Equivalent in EGP (000)
	EGP	USD	Euro	GBP	Other	Total
Financial assets:						
Cash and balances with the Central Bank	**(10 090 118)**	**(2 358 723)**	**(29 815)**	**(18 213)**	**(801)**	**(12 497 670)**
Due from banks	**(18 433)**	**(6 133 694)**	**(1 768 606)**	**(1 019 860)**	**(102 335)**	**(9 042 928)**
Treasury bills	**(8 374 323)**	**(2 237 176)**	—	—	—	**(10 611 499)**
Financial assets held for trading	**(5)**	—	—	—	—	**(5)**
Loans and advances to customers	**(11 116 818)**	**(6 978 302)**	**(653 602)**	**(127 602)**	**(56 119)**	**(18 932 443)**
Derivative financial instruments	—	**(17 626)**	—	—	—	**(17 626)**
Financial investments:						
Available for sale	**(5 910 235)**	**(355 021)**	—	—	—	**(6 265 256)**
Held to maturity	**(74 839)**	—	—	—	—	**(74 839)**
Other financial assets	**(1 071 370)**	**(65 047)**	**(1 518)**	**(882)**	**(915)**	**(1 139 732)**
Total financial assets	**(36 656 141)**	**(18 145 589)**	**(2 453 541)**	**(1 166 557)**	**(160 170)**	**(58 581 998)**
Financial liabilities:						
Due to banks	**2 178 732**	**409 897**	**19 733**	**3 753**	—	**2 612 115**
Customer deposits	**27 948 755**	**17 678 321**	**2 471 229**	**1 113 422**	**105 822**	**49 317 549**
Financial derivative	—	**17 926**	—	—	—	**17 926**
Other financial liabilities	**1 501 657**	**108 286**	**1 693**	**29 666**	**52 450**	**1 693 752**
Total financial liabilities	**31 629 144**	**18 214 430**	**2 492 655**	**1 146 841**	**158 272**	**53 641 342**
Net financial position	**(5 026 997)**	**68 841**	**39 114**	**(19 716)**	**(1 898)**	**(4 940 656)**
Commitments related to credit						
	3 413 546	**5 771 812**	**731 137**	**103 252**	**1 329 019**	**11 348 766**

31 December 2012						
Total financial assets	(30 566 931)	(19 035 583)	(3 030 145)	(1 102 810)	(208 982)	(53 944 451)
Total financial liabilities	25 985 037	19 295 184	3 021 002	1 102 107	141 230	49 544 560
Net financial position - balance sheet	(4 581 894)	259 601	(9 143)	(703)	(67 752)	(4 399 891)
Commitments related to credit	3 402 563	5 591 958	941 160	75 238	1 283 532	11 294 451

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management *(continued)*

b. Market risk *(continued)*

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 the market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in the 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 may profit decrease in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate reprising that may be undertaken, which is 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 of reprising or maturity dates:

31 December 2013						EGP (000)
	Up to one month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Total
Financial assets:						
Cash and balances with the Central Bank	**(10 240 245)**	**(2 257 425)**	—	—	—	**(12 497 670)**
Due from banks	**(9 042 898)**	**(30)**	—	—	—	**(9 042 928)**
Treasury bills	**(49 676)**	**(3 122 436)**	**(7 439 387)**	—	—	**(10 611 499)**
Financial assets held for trading	—	—	—	**(5)**	—	**(5)**
Loans and advances to customers	**(6 694 945)**	**(1 173 143)**	**(2 338 725)**	**(8 725 630)**	—	**(18 932 443)**
Derivative financial instruments	—	—	**(10 433)**	**(7 193)**	—	**(17 626)**
Financial investments:						
Available for sale	**(85 079)**	**(53 785)**	**(1 104 402)**	**(4 662 312)**	**(359 678)**	**(6 265 256)**
Held to maturity	—	—	—	—	**(74 839)**	**(74 839)**
Other financial assets	—	**(379 911)**	**(379 911)**	**(379 910)**	—	**(1 139 732)**
Total financial assets	**(26 112 843)**	**(6 986 730)**	**(11 272 858)**	**(13 775 050)**	**(434 517)**	**(58 581 998)**
Financial liabilities:						
Due to banks	**2 612 115**	—	—	—	—	**2 612 115**
Customer deposits	**39 537 542**	**1 760 123**	**1 813 875**	**6 206 009**	—	**49 317 549**
Derivative financial instruments	—	—	**10 626**	**7 300**	—	**17 926**
Other financial liabilities	—	—	—	**1 693 752**	—	**1 693 752**
Total financial liabilities	**42 149 657**	**1 760 123**	**1 824 501**	**7 907 061**	—	**53 641 342**
Interest repricing gap	**16 036 814**	**(5 226 607)**	**(9 448 357)**	**(5 867 989)**	**(434 517)**	**(4 940 656)**

31 December 2012						
Total financial assets	(19 240 036)	(4 837 466)	(13 797 599)	(15 454 783)	(614 567)	(53 944 451)
Total financial liabilities	35 243 240	2 521 968	3 453 723	8 325 629	—	49 544 560
Interest repricing gap	16 003 204	(2 315 498)	(10 343 876)	(7 129 154)	(614 567)	(4 399 891)

c. Liquidity risk

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

Liquidity risk management process

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

- 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 from customers. To ensure that the Bank reaches its objective, it maintains an active presence in the global money markets
- Maintaining a portfolio of highly marketable and diverse assets that 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

The main year for liquidity management is the next day, week and month. The Bank calculates the expected cash flow for those years for monitoring and reporting purposes.

The starting point to calculate 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

31 December 2013						EGP (000)
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
Due to banks	**2 612 115**	**—**	**—**	**—**	**—**	**2 612 115**
Customers' deposits	**39 639 632**	**1 788 405**	**1 987 018**	**6 176 968**	**76 909**	**49 668 932**
Total of financial liabilities according to maturity date	**42 251 747**	**1 788 405**	**1 987 018**	**6 176 968**	**76 909**	**52 281 047**

31 December 2012						EGP (000)
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
Due to banks	969 686	—	—	—	—	969 686
Customers' deposits	34 758 233	2 502 064	3 386 011	6 820 109	125 758	47 592 175
Total of financial liabilities according to maturity date	35 727 919	2 502 064	3 386 011	6 820 109	125 758	48 561 861

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management *(continued)*

c. Liquidity risk *(continued)*

Funding approach

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

Off-balance sheet items

According to the table below and note 37

31 December 2013				EGP (000)
	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total
Letter of credit commitments	**1 300 031**	**—**	**—**	**1 300 031**
Loans commitments	**1 313 136**	**—**	**—**	**1 313 136**
Long commitments, bills on discount and other financial assets	**7 451 425**	**1 284 174**	**—**	**8 735 599**
Operating lease commitments	**13 195**	**2 167**	**135**	**15 497**
Total	**10 077 787**	**1 286 341**	**135**	**11 364 263**

31 December 2012				EGP (000)
	Up to 1 year	Over 1 year and less than 5 years	More than 5 years	Total
Letter of credit commitments	2 184 642	—	—	2 184 642
Loans commitments	1 586 355	—	—	1 586 355
Long commitments, bills on discount and other financial assets	6 694 867	828 587	—	7 523 454
Operating lease commitments	15 163	2 921	812	18 896
Total	10 481 027	831 508	812	11 313 347

d. Fair value of financial assets and liabilities

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

The total amount of the change in estimated fair value using a valuation method during the current period amounted to EGP22,204 thousand against EGP15,941 thousand as at 31 December 2012.

3 Financial Risk Management *(continued)*

d. Fair value of financial assets and liabilities *(continued)*

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.

		EGP (000)
	Carrying value	Fair value
	Current year	Current year
Financial assets		
Due from banks	9 042 928	9 042 928
Loans and advances to customers		
Retail	3 333 801	3 247 552
Corporate	16 589 110	15 485 731
Financial investments		
Equity instruments available for sale	23 154	23 154
Held to maturity	74 839	97 043
Financial liabilities		
Due to banks	2 612 115	2 612 115
Customer deposits		
Retail	29 803 129	29 803 129
Corporate	19 514 420	19 514 420

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 include only held-to-maturity asset 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.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

3 Financial Risk Management *(continued)*

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 the CBE on quarterly basis.

The CBE requires the following from the Bank:

— Maintaining EGP500 million 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% 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 going concern capital comprising of:

— 45% 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% of the special reserves

— 45% of positive foreign currency reserves

— Embedded derivatives

— Loans (deposits) subordinated

Provision for impairment losses for loans and contingent liabilities (not exceeding 1.25% 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 dominator of the capital adequacy comprise of:

1. Credit risk
2. Market risk
3. Operation risk

Assets are weighted by risk in a range of 0% to 100%. Classification is made according to the debit party for each asset to reflect the related credit risk, taking into consideration cash guarantees. 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.

3 **Financial Risk Management** *(continued)*

e. Capital management *(continued)*

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

	31 December 2013	31 December 2012
	EGP (000)	EGP (000)
Capital		
Tier 1 after disposals (going concern capital)		
Share capital	**2 795 568**	**2 078 500**
Reserves	**1 503 672**	**1 361 535**
Retained earnings	**—**	**271 674**
Total disposals from going concern capital	**(3 125)**	**(3 125)**
Total going concern capital after disposals (common equity)	**4 296 115**	**3 708 584**
Tier 2 (gone - concern capital)		
45% of fair value of available-for-sale investments	**31 483**	**—**
45% of fair value of investments held to maturity	**9 992**	**8 670**
Subordinated (deposits) loans	**272 000**	**—**
Performing impairment losses provision for loans and advances contingent liabilities	**323 595**	**354 609**
Total tier 2 after disposals (gone - concern capital)	**637 070**	**363 279**
Total capital adequacy after disposals (1+2)	**4 933 185**	**4 071 863**
Risk (credit, market and operation)		
Credit risk	**26 230 134**	**28 189 502**
Operation risk	**440 774**	**395 205**
Total risk (credit, market and operation)	**30 637 874**	**32 141 554**
Capital adequacy ratio (%)	**16.10%**	12.67%

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

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 an 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 the 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 an 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 independent 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 that 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 EGP17,626 thousand in assets against EGP17,926 thousand in liabilities that represent its fair value as shown in note 20.

d. Held-to-maturity investments

Non-derivatives financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity. This classification requires 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 EGP18,568 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 a number of complicated processes and calculations to determine the final income tax. The Bank records a liability related to the tax inspection estimated results. When there is a difference between the final result of the actual tax inspection and the amounts previously recorded by the Bank, such differences will be recorded in the year where differences are noted. Income tax and deferred tax will be recorded in that year.

5 Segment analysis

a. By activity segment

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

a.1 Large enterprises medium and small

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

a.2 Investment

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

a.3 Individuals

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

a.4 Other activities

Include other banking activities such as fund management.

Inter-segment transactions occur at the normal course of the Bank's business. Assets and liabilities at the balance sheet include operating assets and liabilities.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

5 Segment analysis *(continued)*

a. By activity segment *(continued)*

31 December 2013						EGP (000)
	Corporate	Medium and small enterprises	Global markets	PFS	Other activities	Total
Income and expenses according to the activity segment						
Income activity segment	**1 505 136**	**241 168**	**364 912**	**960 894**	**69 637**	**3 141 783**
Expenses activity segment	**(613 675)**	**(89 774)**	**(15 347)**	**(667 993)**	**(228 337)**	**(1 615 126)**
Profit before tax	**891 461**	**151 394**	**349 565**	**292 901**	**(158 664)**	**1 526 657**
Tax	**(294 498)**	**(60 975)**	**(161 128)**	**(119 230)**	**—**	**(635 831)**
Profit for the year	**596 963**	**90 419**	**188 437**	**173 671**	**(158 664)**	**890 826**
Assets and liabilities according to activity segment						
Assets activity segment	**(22 382 070)**	**(51 465)**	**(10 734 274)**	**2 540 559**	**(27 954 748)**	**(58 581 998)**
Total assets	**(22 382 070)**	**(51 465)**	**(10 734 274)**	**2 540 559**	**(27 954 748)**	**(58 581 998)**
Liabilities activity segment	**14 872 424**	**1 486 474**	**669 150**	**29 371 496**	**12 182 454**	**58 581 998**
Total liabilities	**14 872 424**	**1 486 474**	**669 150**	**29 371 496**	**12 182 454**	**58 581 998**

31 December 2012						EGP (000)
	Corporate	Medium and small enterprises	Global markets	PFS	Other activities	Total
Income and expenses according to activity segment						
Income activity segment	1 134 034	259 597	624 492	1 016 434	65 529	3 100 086
Expenses activity segment	(542 324)	(54 465)	(16 295)	(546 851)	(38 917)	(1 198 852)
Profit before tax	591 710	205 132	608 197	469 583	26 612	1 901 234
Tax	(156 728)	(62 533)	(151 964)	(111 170)	-	(482 395)
Profit for the period	434 982	142 599	456 233	358 413	26 612	1 418 839
Assets and liabilities according to activity segment						
Assets activity segment	(34 455 859)	(89 487)	(12 192 605)	(2 418 435)	(4 788 065)	(53 944 451)
Total assets	(34 455 859)	(89 487)	(12 192 605)	(2 418 435)	(4 788 065)	(53 944 451)
Liabilities activity segment	20 555 949	2 213 120	652 980	27 948 023	2 574 379	53 944 451
Total liabilities	20 555 949	2 213 120	652 980	27 948 023	2 574 379	53 944 451

5 Segment analysis *(continued)*

b. Analysis according to the geographical segment

31 December 2013		Arab Republic of Egypt		EGP (000)
	Cairo	Alexandria and Delta	Upper Egypt, Sinai and Red Sea	Total
Income and expenses according to the geographical segment				
Income geographical segment	**2 889 751**	**179 957**	**72 076**	**3 141 784**
Expenses geographical segment	**(1 508 822)**	**(40 686)**	**(65 619)**	**(1 615 127)**
Profit before tax	**1 380 929**	**139 271**	**6 457**	**1 526 657**
Tax	**(635 831)**	**—**	**—**	**(635 831)**
Profit for the year	**745 098**	**139 271**	**6 457**	**890 826**
Assets and liabilities according to the geographical segment				
Assets geographical segment	**(56 385 042)**	**(1 543 267)**	**(653 689)**	**(58 581 998)**
Total assets	**(56 385 042)**	**(1 543 267)**	**(653 689)**	**(58 581 998)**
Liabilities geographical segment	**52 476 588**	**4 486 479**	**1 618 931**	**58 581 998**
Total liabilities	**52 476 588**	**4 486 479**	**1 618 931**	**58 581 998**

31 December 2012		Arab Republic of Egypt		EGP (000)
	Cairo	Alexandria and Delta	Upper Egypt, Sinai and Red Sea	Total
Income and expenses according to the geographical segment				
Income geographical segment	2 856 033	165 819	78 233	3 100 085
Expenses geographical segment	(1 111 977)	(37 763)	(49 111)	(1 198 851)
Profit before tax	1 744 056	128 056	29 122	1 901 234
Tax	(482 395)	—	—	(482 395)
Profit for the period	1 261 661	128 056	29 122	1 418 839
Assets and liabilities according to the geographical segment				
Assets geographical segment	(51 339 875)	(1 660 969)	(943 607)	(53 944 451)
Total assets	(51 339 875)	(1 660 969)	(943 607)	(53 944 451)
Liabilities geographical segment	47 825 953	4 212 335	1 906 163	53 944 451
Total liabilities	47 825 953	4 212 335	1 906 163	53 944 451

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

6 Net interest income

	EGP (000)	
		The year ended
	31 December 2013	31 December 2012
Interest from loans and similar income:		
Loans and advances to customers	**1 836 229**	1 760 816
Treasury bills and Treasury bonds	**1 070 328**	961 666
Deposits and current accounts	**256 382**	147 038
Investments in debt instruments available for sale	**741 560**	801 693
	3 904 499	3 671 213
Interest on deposits and similar expenses:		
Deposits and current accounts:		
Banks	**283**	2 247
Customers	**1 470 839**	1 473 013
	1 471 122	1 475 260
Issued debt instruments:		
Selling financial instruments with repurchase	**—**	639
	—	639
	1 471 122	1 475 899
Net	**2 433 377**	2 195 314

7 Net fees and commissions income

	EGP (000)	
		The year ended
	31 December 2013	31 December 2012
Fees and commissions income:		
Fees and commissions related to credit	**592 255**	523 293
Custody fees	**39 668**	34 691
Other fees	**17 887**	16 289
	649 810	574 273
Fees and commissions expenses:		
Brokerage fees paid	**3 137**	2 881
Other fees paid	**54 816**	42 507
	57 953	45 388
Net	**591 857**	528 885

8 Dividends income

	EGP (000)	
		The year ended
	31 December 2013	31 December 2012
Financial investment available for sale	1 700	1 751
Subsidiaries	—	4 025
	1 700	5 776

9 Net trading income

	EGP (000)	
		The year ended
	31 December 2013	31 December 2012
Foreign exchange operations:		
Forex profit	**178 520**	278 128
Gain from debt instruments held for trading	**4 120**	19 295
Gain/(loss) from forward deals revaluation	**220**	(1 887)
	182 860	295 536

10 Administrative expenses

	EGP (000)	
		The year ended
	31 December 2013	31 December 2012
Staff costs		
Wages and salaries	**379 890**	400 157
Social insurance	**15 209**	14 281
	395 099	414 438
Other administrative expenses	**736 473**	527 661
	1 131 572	942 099

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

11 Other operating income (expenses)

	EGP (000)	
		The year ended
	31 December 2013	31 December 2012
Profit from revaluation of monetary assets and liabilities determined in foreign currency other than those classified for trading or originally classified at fair value through profit and loss	**13 688**	5 173
Gain from sale of property and equipment	**73**	—
Operating lease	**45 378**	46 384
Other provision	**(239 288)**	(45 946)
Gain from the services provided to operation lease user	**15 146**	9 988
Head office services revenue	**9 054**	14 410
Other	**1 428**	(713)
	(154 521)	29 296

12 Impairment (loss)/recovery

	EGP (000)	
		The year ended
	31 December 2013	31 December 2012
Loans and advances to customers		
Impairment losses	**(454 262)**	(226 423)
Impairment recovery	**205 927**	15 018
	(248 335)	(211 405)

13 Income tax expenses

	EGP (000)	
		The year ended
	31 December 2013	31 December 2012
Current taxes	**(498 300)**	(491 245)
Prior year adjustments	**(138 000)**	—
Deferred tax (note 31)	**469**	8 850
	(635 831)	(482 395)

13 Income tax expenses (continued)

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

	EGP (000)	
	The year ended	
	31 December 2013	31 December 2012
Profit before tax	**1 526 657**	1 901 234
Tax rate	**25%**	25%
Income tax calculated on accounting profit	**381 664**	474 809
Add (less)		
— Non-deductible expenses	**31 393**	759
— Tax exemptions	**(10 978)**	(14 235)
— Provisions	**89 679**	16 283
— Prior year adjustments	**138 000**	—
— Interest in suspense	**6 073**	4 779
— Total differences	**254 167**	7 586
— Tier 1	**—**	2 000
— Tier 2	**635 831**	480 395
— Income tax according to the tax return	**635 831**	482 395
Effective tax rate	**41.65%**	25.37%

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

13 Income tax expenses (continued)

Taxation position

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

a. Corporate Tax

— **From 1991 to 2004**

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

— **From 2005 to 2011**

These years were inspected, and disputes were discussed in the Internal Committee.

— **Year 2012**

The Bank delivered the tax declarations for this period according to tax law No.91 for year 2005.

b. Salary Tax

— **From 1982 to 2011**

These years were inspected, and tax was fully settled.

— **Year 2012**

The final settlement for this period is being prepared.

c. Stamp Duty Tax

— **From 1982 to 31 July 2006**

These years were inspected, and tax was fully settled.

— **From 1 August 2006 to 31 December 2008**

This year was inspected, and disputes are currently being discussed with the internal tax committee.

— **From 2009 to 2012**

The inspection date will be determined.

14 Earnings per share

a. Derivatives

Earnings per share are calculated by dividing profits 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.

	EGP (000)	
	The year ended	
	31 December 2013	31 December 2012
Net profit applicable to be distributed on the shareholders	**890 706**	1 418 792
Employees' profit share	**(139 434)**	(149 422)
	751 272	1 269 370
Common shares issued - weighted average (1,000 shares)	**24 744**	24 744
Earnings per share/EGP	**30.36**	51.30

15 Cash and balances with the CBE

	EGP (000)	
	31 December 2013	31 December 2012
Cash	**602 050**	539 157
Due from Central Bank (within the statutory reserve)	**11 895 620**	3 651 559
	12 497 670	4 190 716
Interest-free balances	**10 240 245**	2 079 690
Fixed interest rate balances	**2 257 425**	2 111 026
	12 497 670	4 190 716

16 Due from banks

	EGP (000)	
	31 December 2013	31 December 2012
Current accounts	**583 681**	199 566
Deposits	**8 459 247**	9 700 092
	9 042 928	9 899 658
Due from Central Bank (other than the statutory reserve)	**30**	1 203 190
Local banks	**121 939**	49 946
Foreign banks	**8 920 959**	8 646 522
	9 042 928	9 899 658
Interest-free balances	**583 711**	199 596
Fixed interest rate balances	**8 459 217**	9 700 062
	9 042 928	9 899 658
Current balances	**9 042 928**	9 899 658

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

17 Treasury bills

		EGP (000)
	31 December 2013	31 December 2012
Treasury bills - Egyptian	**8 376 772**	8 146 790
Treasury bills - American	**2 234 727**	3 158 644
Total	**10 611 499**	11 305 434
Treasury bills represent the following:		
91 days maturity	**3 222 875**	867 350
182 days maturity	**621 700**	1 645 375
273 days maturity	**1 725 000**	2 442 275
364 days maturity	**5 380 202**	6 773 487
Unearned interest	**(338 278)**	(423 053)
Total	**10 611 499**	11 305 434

18 Financial assets held for trading

		EGP (000)
	31 December 2013	31 December 2012
Debt instruments		
Governmental bonds	**5**	44 573
Total debt instruments	**5**	44 573
Total finance asset held for trading	**5**	44 573

19 Loans and advances

	31 December 2013	31 December 2012
		EGP (000)
Retail:		
Overdrafts	**249 829**	323 479
Credit cards	**793 637**	603 501
Personal loans	**2 282 649**	2 087 375
Mortgage loans	**7 686**	8 122
Total	**3 333 801**	3 022 477
Corporate loans including small loans:		
Overdrafts	**2 465 636**	2 729 650
Direct loans	**9 249 950**	8 579 736
Syndicated loans	**4 873 524**	5 974 855
Total	**16 589 110**	17 284 241
Total loans and advance to customers	**19 922 911**	20 306 718
Less: unearned discount for discounted bills	**(460)**	(1 242)
Less: provision for impairment losses	**(938 179)**	(683 335)
Less: interest in suspense	**(51 829)**	(29 349)
Net	**18 932 443**	19 592 792
Distributed as follows:		
Current balances	**10 206 813**	9 564 501
Non-current balances	**8 725 630**	10 028 291
Total	**18 932 443**	19 592 792

On 31 December 2013, the Bank accepted trading financial papers of fair value amounting to EGP365,502 thousand as a commercial loan guarantee.

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

19 Loans and advances *(continued)*

Provision for impairment losses

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

31 December 2013					EGP (000)
					Retail
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Total
Balance at the beginning of the year	**842**	**6 106**	**14 594**	**28**	**21 570**
Impairment losses	**760**	**18 222**	**32 247**	**(28)**	**51 201**
Amounts written off during the year	**(164)**	**(10 643)**	**(25 582)**	**—**	**(36 389)**
Balance at the end of the period	**1 438**	**13 685**	**21 259**	**—**	**36 382**

31 December 2013				EGP (000)
				Corporate
	Overdrafts	Direct loans	Syndicated loans	Total
Balance at the beginning of the year	**94 846**	**242 181**	**324 738**	**661 765**
Impairment losses	**5 127**	**19 234**	**172 774**	**197 135**
Amounts written off during the year	**—**	**(1 313)**	**—**	**(1 313)**
Foreign revaluation difference related to provision	**—**	**44 208**	**—**	**44 208**
Balance at the end of the year	**99 973**	**304 310**	**497 512**	**901 795**

31 December 2012					EGP (000)
					Retail
	Overdrafts	Credit cards	Personal loans	Mortgage loans	Total
Balance at the beginning of the year	1 738	5 150	69 755	153	76 796
Impairment losses	(251)	11 784	26 756	(125)	38 164
Amounts written off during the year	(427)	(4 866)	(78 463)	—	(83 756)
Recoveries during the year	(218)	(5 962)	(3 454)	—	(9 634)
Balance at the end of the year	842	6 106	14 594	28	21 570

31 December 2012				EGP (000)
				Corporate
	Overdrafts	Direct loans	Syndicated loans	Total
Balance at the beginning of the year	61 224	194 617	251 144	506 985
Impairment losses	33 622	81 043	73 594	188 259
Amounts written off during the year	—	(34 157)	—	(34 157)
Recoveries during the year	—	(5 384)	—	(5 384)
Transfer to other provisions	—	(16 047)	—	(16 047)
Provision forex revaluation difference	—	22 109	—	22 109
Balance at the end of the year	94 846	242 181	324 738	661 765

20 Financial derivatives

20.1 Derivatives

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 uncompleted portion of the immediate transactions
- Credit risk is considered minimal at the Bank. Currency forward contracts represent future rate at future dates that are individually negotiable. Cash settlement in future date is required. This settlement represents the difference between the contract rate and the actual current rate at the market. The settlement depends on the nominal value
- Currency and/or interest swap contracts represent the commitments to swap a group of cash flows to another. These contracts' result is the exchange of currencies or interest rates (for example, 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 it to its current fair value and to a percentage of the contract notional 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 year of time by certain amount denominated in foreign currency or a financial instrument with prior agreed price. The buyer receives in return a commission against the burden of risk he took on option contracts that are either traded in the market or negotiable between the Bank and one of its customers. The Bank is exposed to credit risk for the purchased options contracts only and to the extent of its book value which represent its fair value
- The notional amounts of certain types of financial instrument are used as a basis for comparison purpose, with financial instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows or the current fair value of the instruments, and therefore, does not indicate the Bank's exposure to credit or price risks
- The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in the market interest rates or foreign exchange rates related to them. The aggregate contractual or notional amount of the existing financial derivative instruments, the duration to which instruments are favourable or unfavourable, and the aggregate fair value of financial assets and liabilities derivatives can fluctuate significantly from time to time
- The table below represents the fair value of financial derivatives existing at the balance sheet date

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

20 Financial derivatives *(continued)*

20.1 Derivatives *(continued)*

31 December 2013				EGP (000)
	Contract amount Assets	Contract amount Liabilities	Assets	Liabilities
Derivatives held for trading				
Foreign currency derivatives				
Currency swap contracts	**315 160**	**(315 160)**	**10 338**	**(10 338)**
Currency forward contracts	**176 487**	**(176 487)**	**95**	**(288)**
Currency exchange contacts	**107 251**	**(107 251)**	**—**	**—**
Interest rate derivatives				
Interest rate swap contracts	**1 541 820**	**(1 541 820)**	**7 193**	**(7 300)**
Total assets (liabilities) of derivatives held for trading			**17 626**	**(17 926)**

31 December 2012				EGP (000)
	Contract amount Assets	Contract amount Liabilities	Assets	Liabilities
Derivatives held for trading				
Foreign currency derivatives				
Currency swap contracts	245 941	(245 941)	4 672	(4 672)
Currency forward contracts	313 067	(149 315)	11	(985)
Currency exchange contacts	434 782	(380 266)	13	(13)
Interest rate derivatives				
Interest rate swap contracts	1 835 537	(1 835 537)	11 167	(11 167)
Total assets (liabilities) of derivatives held for trading			**15 863**	**(16 837)**

21 Financial investments

	31 December 2013	31 December 2012
		EGP (000)
a. Available for sale		
Equity instruments unlisted (at cost)	**23 154**	23 326
Debt instruments listed (at FMV)**	**6 242 102**	7 561 548
Total available-for-sale investments (1)	**6 265 256**	7 584 874
b. Held to maturity		
Debt instruments unlisted* (mutual fund)	**74 839**	89 674
Total held-to-maturity investments (2)	**74 839**	89 674
Total financial investments (1+2)	**6 340 095**	7 674 548
Current balances	**6 242 102**	7 561 548
Non-current balances	**97 993**	113 000
	6 340 095	7 674 548
Fixed interest debt instruments	**6 124 030**	7 402 290
Variable interest debt instruments	**192 911**	248 932
	6 316 941	7 651 222

31 December 2013			EGP (000)
	Available for sale	Held to maturity	Total
Balance at beginning of the year	**7 584 874**	**89 674**	**7 674 548**
Additions	**2 933 380**	**—**	**2 933 380**
Disposals (sale/redemption)	**(4 705 818)**	**(14 835)**	**(4 720 653)**
Monetary assets forex differences	**386 183**	**—**	**386 183**
Gain/Loss from change in FMV	**66 637**	**—**	**66 637**
Balance at end of the year	**6 265 256****	**74 839***	**6 340 095**

31 December 2012			
Balance at beginning of the year	5 344 096	49 675	5 393 771
Additions	2 575 485	39 999	2 615 484
Disposals (sale/redemption)	(891 654)	—	(891 654)
Monetary assets forex differences	254 182	—	254 182
Gain from change in FMV	302 765	—	302 765
Balance at end of the year	7 584 874	89 674	7 674 548

**The redemption amount of the mutual funds certificates as at 31 December 2013 amounted to EGP97,043 thousands against EGP105,615 thousand as at 31 December 2012.*
***Debt instruments at listed fair market value include local bonds amounting to EGP6,124,030 thousands secured by the Egyptian Ministry of Finance.*

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

22 Investment in subsidiaries

The Bank's total investment in subsidiaries amounted to EGP35,517 thousand. The Bank's ownership percentage is as follows **(based on the last financial position for the company as at 30 September 2013)**:

						EGP (000)
	Company's country	Company's assets	Company's liabilities (without equity)	Company's revenues	Company's losses	Percentage
HSBC Securities Egypt Company SAE	Egypt	35 147	8 946	9 764	(2 826)	98%
Total		**35 147**	**8 946**	**9 764**	**(2 826)**	

23 Intangible assets

		EGP (000)
		Computer software
	31 December 2013	31 December 2012
Balance at the beginning of the current year		
Cost	**6 565**	3 546
Amortisation	**(2 897)**	(1 745)
Net book value at the beginning of the current year	**3 668**	1 801
Additions	**755**	3 020
Amortisation cost	**(1 274)**	(1 153)
Net book value as at end of year	**3 149**	3 668
Cost	**7 320**	6 566
Amortisation	**(4 171)**	(2 898)
Net book value as at end of year	**3 149**	3 668

24 Other assets

		EGP (000)
	31 December 2013	31 December 2012
Accrued revenues	**328 395**	439 141
Prepaid expenses	**31 975**	26 967
Advances to purchase fixed assets	**18 943**	13 615
Assets reverted to the Bank (after deducting the impairment)	**470**	470
Costs of establishing branches under construction	**7 477**	19 334
Others	**117 334**	78 837
Total	**504 594**	578 364

25 Fixed assets

EGP (000)

	Land and buildings	Leasehold improvement	Machines and equipment	Others	Total
Balance as at the beginning of the current year					
Cost	436 790	105 651	97 958	139 410	**779 809**
Accumulated depreciation	(94 617)	(89 853)	(42 788)	(110 878)	**(338 136)**
Net book value at the beginning of the current year	**342 173**	**15 798**	**55 170**	**28 532**	**441 673**
Additions	—	17 327	4 811	30 149	**52 287**
Transfer to investment property	(4 592)	—	—	—	**(4 592)**
Disposals (net)	—	—	—	(118)	**(118)**
Depreciation for the year	(19 445)	(11 910)	(8 891)	(12 656)	**(52 902)**
Net book value at the end of the year	**318 136**	**21 215**	**51 090**	**45 907**	**436 348**
Balance as at the end of the current year					
Cost	432 198	122 978	102 769	169 441	**827 386**
Accumulated depreciation	(114 062)	(101 763)	(51 679)	(123 534)	**(391 038)**
Net book value at the end of the year	**318 136**	**21 215**	**51 090**	**45 907**	**436 348**

26 Investment property

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

EGP (000)

	31 December 2013	31 December 2012
Balance at the beginning of the year		
Cost	**135 834**	136 671
Accumulated depreciation	**(23 630)**	(16 605)
Net book value at the beginning of the year	**112 204**	120 066
Transferred from investment property	**4 592**	(837)
Depreciation	**(6 581)**	(7 025)
Net book value as at the end of year	**110 215**	112 204
Balance at the end of the year		
Cost	**140 426**	135 834
Accumulated depreciation	**(30 211)**	(23 630)
Net book value as at the end of year	**110 215**	112 204

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

27 Due to banks

		EGP (000)
	31 December 2013	31 December 2012
Current accounts	2 612 115	967 709
Deposits	—	1 977
	2 612 115	969 686
Central Bank	—	—
Local banks	4 914	71 770
Foreign banks	2 607 201	897 916
	2 612 115	969 686
Interest-free balances	2 612 115	967 709
Fixed interest balances	—	1 977
	2 612 115	969 686
Current balances	**2 612 115**	969 686

28 Customers' deposits

		EGP (000)
	31 December 2013	31 December 2012
Demand deposits	**19 702 379**	15 852 235
Time and call deposits	**5 150 601**	7 975 678
Certificates of deposits	**7 561 332**	9 186 564
Saving deposits	**15 808 784**	13 347 443
Other deposits	**1 094 453**	875 787
	49 317 549	47 237 707
Corporate deposits	**19 514 420**	18 790 738
Retail deposits	**29 803 129**	28 446 969
	49 317 549	47 237 707
Interest-free balances	**20 796 832**	16 728 022
Fixed interest balances	**28 520 717**	30 509 685
	49 317 549	47 237 707
Current balances	**43 111 540**	40 243 575
Non-current balances	**6 206 009**	6 994 132
	49 317 549	47 237 707

Customer deposits include deposits of EGP571,766 thousand as at 31 December 2013 against EGP591,833 thousand as at 31 December 2012, which represent collateral for irrecoverable export letter of credit. There is no major difference between its carrying value and fair value.

29 Other liabilities

	31 December 2013	31 December 2012
		EGP (000)
Accrued interest	**160 351**	191 158
Unearned revenue	**66 903**	78 879
Accrued expenses	**243 842**	189 161
Creditors	**83 568**	52 232
Other credit balances	**79 782**	170 473
Total	**634 446**	681 903

30 Other provisions

EGP (000)

	Provision for claims		Provision for contingent liabilities		Total	
	31 December 2013	31 December 2012	**31 December 2013**	31 December 2012	**31 December 2013**	31 December 2012
Balance at the beginning of the year	**123 404**	90 265	**44 568**	24 641	**167 972**	114 906
Formed during the year	**245 254**	42 066	—	3 880	**245 254**	45 946
Transferred from other credit balance	**2 776**	1 344	—	—	**2 776**	1 344
Transferred from loan provision	—	—	—	16 047	—	16 047
Provisions valuation differences	**(29)**	45	**758**	—	**729**	45
	371 405	133 720	**45 326**	44 568	**416 731**	178 288
Used during the year	**(59 802)**	(10 316)	—	—	**(59 802)**	(10 316)
No longer required	—	—	**(5 966)**	—	**(5 966)**	—
Balance at the end of the year	**311 603**	123 404	**39 360**	44 568	**350 963**	167 972

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

31 Deferred tax

Deferred income taxes are calculated entirely on the differences of deferred tax in accordance with liabilities method using effective tax rate of 25% for the current financial period.

Offset between deferred tax assets and deferred tax liabilities if there is legal reason to set off current tax assets against current tax liabilities and also when the deferred income taxes belong to the same department of taxation.

Deferred tax assets and liabilities

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

Deferred tax assets and liabilities balances

EGP (000)

	Deferred tax assets		Deferred tax liabilities	
	31 December 2013	31 December 2012	**31 December 2013**	31 December 2012
Fixed assets	**—**	—	**(5 799)**	(3 905)
Provisions (other than loans provision)	**55 708**	53 346	**—**	—
Total tax assets (liabilities)	**55 708**	53 346	**(5 799)**	(3 905)
Net tax assets (liabilities)	**49 909**	**49 441**		

Deferred tax assets and liabilities movements

EGP (000)

	Deferred tax assets		Deferred tax liabilities	
	31 December 2013	31 December 2012	**31 December 2013**	31 December 2012
Balance at the beginning of the year	**53 346**	46 812	**(3 905)**	(6 221)
Additions	**2 362**	6 534	**(1 894)**	2 316
Balance at the end of the year	**55 708**	53 346	**(5 799)**	(3 905)

32 End of service compensation benefit

EGP (000)

	31 December 2013	31 December 2012
Liability stated in balance sheet for:		
End of service benefits	**216 737**	211 283
Amounts recognised in income statement:		
End of service benefits	**46 863**	77 430

The principal actuarial assumptions used are as follows:

— Rates of death/disability of the British table A49-52ULT

— Rate of salary increase Sx = S20 *(1.05) ^ (X-20)

33 Capital

				EGP (000)
	Number of shares (in millions)	Common shares	Total	Issuance premium included in other reserve-issuance premium
Balance at the beginning of the year	24.744049	2 078 500	2 078 500	6 728
Payment under capital account increase	8.536517	717 066	717 066	—
Balance at the end of the year	**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 amounted to EGP1,508,500,056 represented in 17,958,334 fully paid shares at par value of EGP84 each. The foreign shareholders own 94.53% of the capital which was paid in US dollars at the prevailing rates on the subscription dates
- According to the extraordinary general assembly's 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
- Accordingly the issued and fully paid-up capital is EGP2,078,500,116 represented in 24,744,049 fully paid shares at par value of EGP84 each
- 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 still under registration as at the balance sheet date

34 Reserves and retained earnings

		EGP (000)
	31 December 2013	31 December 2012
Reserves		
General reserve	**1 022 238**	962 036
Legal reserve	**452 714**	392 772
Special reserve	**63 466**	63 466
General banking risk reserve	**188**	141
Other reserves - issuance premium	**6 728**	6 728
Fair value reserve - investments available for sale	**69 963**	3 326
Total reserves at the end of the period/year	**1 615 297**	1 428 469

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

34 Reserves and retained earnings *(continued)*

Reserve movements during the year are as follows:

a. General reserve

		EGP (000)
	31 December 2013	31 December 2012
Balance at the beginning of the year	**962 036**	904 124
Transferred from prior year profits	**60 202**	57 912
Balance at the end of the year	**1 022 238**	962 036

b. Legal reserve

		EGP (000)
	31 December 2013	31 December 2012
Balance at the beginning of the year	**392 772**	301 700
Transferred from prior's year profits	**35 868**	55 998
Transferred from retained earnings of the first half of the year	**24 074**	35 074
Balance at the end of the year	**452 714**	392 772

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

c. General banking risk reserve

		EGP (000)
	31 December 2013	31 December 2012
Balance at the beginning of the year	**141**	94
Transferred to general banking reserve	**47**	47
Balance at the end of the year	**188**	141

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

d. Special reserve

		EGP (000)
	31 December 2013	31 December 2012
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.

34 Reserves and retained earnings *(continued)*

Reserves movements during the year are as follows *(continued)*:

e. Reserve for excess than par value - issuance premium

	EGP (000)	
	31 December 2013	31 December 2012
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 the sale of Treasury shares in year 2000 after deducting the capital increase that occurred in year 2002.

f. Fair value reserve available-for-sale investments

	EGP (000)	
	31 December 2013	31 December 2012
Balance at the beginning of the period/year	**3 326**	(299 439)
Net change in investments available for sale	**66 637**	302 765
Balance at the end of the period/year	**69 963**	3 326

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

g. Retained earning

	EGP (000)	
	31 December 2013	31 December 2012
Movement on retained earnings		
Balance at the beginning of the year	**892 922**	1 158 206
Net profit for year	**890 826**	1 418 839
Dividends for year	**(1 133 764)**	(1 535 092)
Transferred to legal reserve	**(59 943)**	(91 072)
Transferred to general banking risk reserve	**(47)**	(47)
Transferred to general reserve	**(60 202)**	(57 912)
Balance at the end of the year	**529 792**	892 922

35 Dividends

Payment of dividends is not registered unless being approved by the general assembly. The Board of Directors proposed to the general assembly that was held on 10 March 2014 for a payment of EGP28.5 per share as cash dividends for the year 2013 with a total amount of EGP705,205,397 (payment of EGP46 per share as cash dividends for the year 2012 with a total amount of EGP1,138,226,254). In addition to cash dividends of the Board of Directors, the Board of Directors proposed in the general assembly meeting to distribute EGP139,434,226 as employee's distribution related to the profit in the year 2013. (The actual employees dividends distributed in 2012 amount to EGP149,422,537.).

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

36 Cash and cash equivalents

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

		EGP (000)
	31 December 2013	31 December 2012
Cash and due from the CBE (note 15)	**602 050**	539 157
Due from banks (note 16)	**1 603 541**	9 899 658
Treasury bills (note 17)	**10 611 499**	859 350
	12 817 090	11 298 165

37 Commitment and contingent liabilities

a. Legal claims

There are lawsuits filed against the Bank as at 31 December 2013 and the charged provision amounting to EGP4,004 thousand and used provision amounting to EGP103 thousand during the period.

b. Commitments for loans, guarantees and facilities

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

		EGP (000)
	31 December 2013	31 December 2012
Acceptances	**205 361**	263 162
Letters of guarantee*	**9 053 108**	7 771 069
Letters of credit (import and export)	**1 300 031**	2 184 642
Other contingent liabilities	**48 896**	81 056
Commitments for loans	**1 313 136**	1 586 355
Cash margin	**(571 766)**	(591 833)
Total	**11 348 766**	11 294 451

**The letters of guarantee outstanding balance as at 31 December 2012 include an amount of EGP1,409,171 thousand, which represents the value of issued letter of guarantee backed by counter guarantees from other HSBC Group members.*

c. Commitments for operating lease contracts

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

		EGP (000)
	31 December 2013	31 December 2012
Less than one year	**13 195**	15 163
More than one year and less than five years	**2 167**	2 921
More than five years	**135**	812
	15 497	18 896

38 Related-party transactions

The Bank is a subsidiary of parent HSBC Holdings London, which owns 94.53% of ordinary shares. The remaining percentage (5.47%) is owned by other shareholders.

The number of banking transactions with related parties has been conducted in the normal course of the business, including loans deposits and foreign currency swaps. There is no related party transaction with the parent company other than the payment of dividends on ordinary shares.

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

a. Loans and advances to related parties

	EGP (000)	
	Subsidiaries	
	31 December 2013	31 December 2012
Loans and advances to customers		
Existing loans at the beginning of the year	—	—
Loans issued during the year	—	—
Existing loans at the end of the year	—	—
Interest on loans	**470**	**391**

No provisions are formed for loans given to related parties.

b. Deposits from related parties

	EGP (000)	
	Subsidiaries	
	31 December 2013	31 December 2012
Due to customers		
Deposits at the beginning of the financial year	**46 643**	40 205
Deposits received during the financial year	**1 093**	8 440
Deposits redeemed during the financial year	**(10 490)**	(2 002)
Deposits at the end of the financial year	37 246	46 643
The cost of deposits and similar costs	661	912

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

Notes to the Separate Financial Statements (continued)

To the shareholders of HSBC Bank Egypt S.A.E.

38 Related party transactions *(continued)*

c. Other related-party transactions

	EGP (000)	
	Subsidiaries	
	31 December 2013	30 September 2012
Fees and commission income	**1 400**	1 418

				EGP (000)
	31 December 2013	31 December 2012	**31 December 2013**	31 December 2012
	HSBC Group and top management members		Subsidiaries	
Due from banks	**39 606**	53 683	**—**	—
Investments held to maturity	**74 839**	89 674	**—**	—
Due to banks	**447 006**	612 524	**—**	—
Investments in subsidiaries	**—**	—	**35 517**	35 517

The cost of services by HSBC Group as at 31 December 2013 amounted to EGP326,272 thousand against EGP207,653 thousand as at 31 December 2012.

On 17 September 2007, HSBC Middle East agreed with HSBC Egypt, HSBC Bahrain (dated 2 November 2007) and HSBC Hong Kong (21 September 2011) to sell to HSBC Egypt part of the loans portfolio. HSBC Egypt purchased these loans based on nominal value with no recourse. According to the above-mentioned agreement, interest will be split among parties based on the percentage of loans bought by HSBC Egypt to the total loan portfolio granted by HSBC Middle East. These loans are subject to loans classification and provisioning rules as set out by the CBE. The balance as at 31 December 2013 amounted to USD72,875 thousand equivalent to EGP505,647 thousand and has been added to customers' loans.

d. Board of Directors' benefits

The average net monthly salary paid to the top 20 employees in the Bank for the first nine months of year of 2013 amounted to EGP2,314 thousand.

39 Other loans

			EGP (000)
		Interest rate	
		31 December 2013	31 December 2012
Other loans	15.50%	**272 000**	—
		272 000	—

Other loans are represented in a loan obtained from HSBC Holdings BV by EGP272 million, according to agreement extension of 15 years (starting from December 2013 and ending in December 2028).

40 Mutual funds

40.1 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 holds as at 31 December 2013 a number of 643,108 certificates amounting to EGP74,839,186, with a redeemable value amounting to EGP97,043,267 against 770,588 certificates amounting to EGP89,674,174, with a redeemable value amounting to EGP105,615,266 as at 31 December 2012
- The redeemable value of the certificate amounted to EGP150.9 as at 31 December 2013 against EGP137.06 as at 31 December 2012. The outstanding certificates as at 31 December 2013 reached 23,798,587 certificates against 34,439,298 certificates as at 31 December 2012

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 EGP16,407 thousand for the period ended 31 December 2013 against EGP15,948 thousand for the year ended 31 December 2012 under the item of fees and commission income caption in the income statement.

41 Important events

Some substantial events took place in the Arab Republic of Egypt during the first quarter of year 2011 that impacted generally its economic sectors, leading to a tangible decline in the economic activities. The effect of these events depends on the prospective period of the ending of these events and the results. In order to mitigate the impact of deteriorating political and economic conditions on business sectors and hence the HBEG portfolio, stress testing analysis was conducted to determine the needed provisions; accordingly, an increase in provisions over norms took place, which amounted to EGP502.4 million as at 31 December 2013.

It is to be noted that total provisions in December 2013 stands at EGP938,178 thousand relative to EGP683,335 thousand in December 2012.

The total provisions encompass both specific and collective impairment. The specific provisions stands at EGP318,240 thousand in December 2013 relative to EGP289,364 thousand in December 2012, while the total collective impairment stands at EGP619,938 thousand in December 2013 relative to EGP393,971 thousand as at December 2012.

HSBC Bank Egypt Head Office and Branches (continued)

Head office
306 Corniche El Nil, Maadi
Cairo, Egypt
Telephone: +20(2) 2529 8000
Fax: +20(2) 2529 8080
SWIFT: EBBK EGCX

Cairo
Abou Dawoud El Zahiry branch
62 Abou Dawoud El Zahiry Street, Nasr City
Cairo, Egypt
Telephone: +20(2) 2672 0522
Fax: +20(2) 2672 0526

Azhar branch
160 Gohar El Kaed Street, Darrasah
Cairo, Egypt
Telephone: +20(2) 2589 0724
Fax: +20(2) 2589 0857

Baghdad Premier Centre
10 Baghdad Street, El Korba
Cairo, Egypt
Telephone: +20(2) 2418 9948
Fax: +20(2) 2418 9953

Cairo branch
3 Aboul Feda Street, Zamalek
Cairo, Egypt
Telephone: +20(2) 2739 6001
Fax: +20(2) 2736 4010

City Lights branch
1 Makram Ebeid, City Lights Building, Nasr City
Cairo, Egypt
Telephone: +20(2) 2671 8883
Fax: +20(2) 2273 7554

City Stars branch
Tower A2 City Stars, Omar Ibn El Khattab Street, Heliopolis
Cairo, Egypt
Telephone: +20(2) 2480 2356
Fax: +20(2) 2480 2358

Corniche El Maadi branch
306 Corniche El Nil, Maadi
Cairo, Egypt
Telephone: +20(2) 2529 8750
Fax: +20(2) 2529 8080

Down Town branch
13 Kasr El Nil Street, Down Town
Cairo, Egypt
Telephone: +20(2) 2578 8819
Fax: +20(2) 2578 8455

Gezira Sporting Club branch
Gezira Sporting Club, Saraya El Gezira Street, Zamalek
Cairo, Egypt
Telephone: +20(2) 2736 0863
Fax: +20(2) 2736 0879

Hegaz branch
70 El Hegaz Street, Heliopolis
Cairo, Egypt
Telephone: +20(2) 2241 7372
Fax: +20(2) 2241 7232

Heliopolis branch
I Roxy Square, Heliopolis
Cairo, Egypt
Telephone: +20(2) 2451 1480
Fax: +20(2) 2258 3152

Kasr El Nil branch
41 Kasr El Nil Street, Mostafa Kamel Square, Down Town
Cairo, Egypt
Telephone: +20(2) 2393 0571
Fax: +20(2) 2393 0872

Korba branch
4 Ibrahim Street, El Korba Square, Heliopolis
Cairo, Egypt
Telephone: +20(2) 2291 1609
Fax: +20(2) 2291 1618

Maadi branch
1B Road 256, Maadi
Cairo, Egypt
Telephone: +20(2) 2519 5459
Fax: +20(2) 2519 5458

Maadi Club branch
Maadi Club, Maadi,
Cairo, Egypt
Telephone: +20(2) 2380 4729
Fax: +20(2) 2380 4775

Manial branch
67Abdel Aziz Al Seoud Street, Manial
Cairo, Egypt
Telephone: +20(2) 2361 1151
Fax: +20(2) 2361 1158

Masaken Sheraton branch
3 Khaled Ibn ElWalid Street, Masaken Sheraton, Heliopolis
Cairo, Egypt
Telephone: +20(2) 2266 6426
Fax: +20(2) 2266 6430

Mokattam branch
3 El Nafoura Square, Mokattam
Cairo, Egypt
Telephone: +20(2) 2667 9890
Fax: +20(2) 2667 9894

Nasr City branch
29 El Batrawy Street, Nasr City
Cairo, Egypt
Telephone: +20(2) 2401 7147
Fax: +20(2) 2461 9703

New Maadi branch
10/2 El Nasr Road, New Maadi
Cairo, Egypt
Telephone: +20(2) 2754 4816
Fax: +20(2) 2754 5521

Nile City branch
Nile City Tower, Corniche El Nil, Ramlet Beaulac
Cairo, Egypt
Telephone: +20(2) 2461 9701
Fax: +20(2) 2461 9703

El Obbour Buildings branch
13 El Obbour Buildings,
Salah Salem Street
Cairo, Egypt
Telephone: +20(2) 2403 1379
Fax: +20(2) 2403 1408

El Orouba branch
90 Beirut Street, Heliopolis
Cairo, Egypt
Telephone: +20(2) 2415 3371
Fax: +20(2) 2415 3378

Safir branch
1 El Sheikh Hassouna El Nawawi Street, Heliopolis
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Telephone: +20(2) 2418 9938
Fax: +20(2) 2418 9943

El Shams Club branch
15 Abdel Hamid Badawy Street, Heliopolis
Cairo, Egypt
Telephone: +20(2) 2622 0828
Fax: +20(2) 2620 4982

Shoubra branch
71 Shoubra Street, Shoubra
Cairo, Egypt
Telephone: +20(2) 2431 5271
Fax: +20(2) 2431 6026

Sun City branch
Sun City Mall, Square 1258F, Autostrad Road, Sheraton Buildings, Heliopolis
Cairo, Egypt
Telephone: +20(2) 2268 9641
Fax: +20(2) 2268 9642

El Thawra branch
109 El Thawra Street, Ard El Golf, Nasr City
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Telephone: +20(2) 2414 2157
Fax: +20(2) 2417 4428

Zomor branch
64 Ahmed El Zomor Street, Nasr City
Cairo, Egypt
Telephone: +20(2) 2271 3063
Fax: +20(2) 2401 3562

New Cairo

Katameya Heights branch
Katameya Heights, Fifth District
New Cairo, Egypt
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Fax: +20 (2) 2759 3887

El Tagamoo branch
106 Town Centre Mall, Tagamoo 5
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Telephone: +20(2) 2920 1716
Fax: +20(2) 2920 0123

Rehab branch
Shop No.411 New Souk Al Rehab, Ground floor, El Rehab City
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El Sherouk City and Obbour City

Obbour City branch
3 City Club Fence
Obbour City, Egypt
Telephone: +20(2) 4610 4196
Fax: +20(2) 4610 4362

El Sherouk branch
El Sherouk Academy, Suez/Ismailia Road
El Sherouk City, Egypt
Telephone: +20(2) 2688 0210
Fax: +20(2) 2688 0220

Giza

Agouza branch
128 Nile Street, Agouza
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El Batal branch
6 Wezaret Elzeraa , Agouza
Giza, Egypt
Telephone: +20(2) 3762 0131
Fax: +20(2) 3762 0174

Dokki branch
80 Mosadak Street, Dokki
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Fax: +20(2) 3762 0568

Gameat El Doual branch
54 Gameet El Doual Street, Mohandessin
Giza, Egypt
Telephone: +20(2) 3748 6879
Fax: +20(2) 3748 6878

Giza Residence branch
44/46 Giza Street
Giza, Egypt
Telephone: +20(2) 3748 6092
Fax: +20(2) 3748 6072

Haram branch
179 Haram Street, Haram
Giza, Egypt
Telephone: +20(2) 3981 6875
Fax: +20(2) 3743 1514

Lebanon branch
25 Lebanon Street, Mohandessin
Giza, Egypt
Telephone: +20(2) 3346 7090
Fax: +20(2) 3346 7092

Mohandessin branch
8 Geziret El Arab Street, Mohandessin
Giza, Egypt
Telephone: +20(2) 3337 0756
Fax: +20(2) 3337 0813

Shooting Club branch
40 Kambiz Street
Giza, Egypt
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Fax: +20(2) 3760 8298

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Vinni branch
8 El Sad El Aaly Street, Dokki
Giza, Egypt
Telephone: +20(2) 3749 6336
Fax: +20(2) 3749 6329

Sheikh Zayed City and 6th of October City

Arkan branch
El Sheikh Zayed City, Entrance No2
Giza, Egypt
Telephone: +20(2) 3850 4010
Fax: +20(2) 3850 7993

Dandy Mall branch
28th Kilometre, Cairo/Alexandria Desert Road, Dandy Mall
Giza, Egypt
Telephone: +20(2) 3539 0174
Fax: +20(2) 3539 0173

Hyper One branch
Hyper One Market
El Sheikh Zayed City, Egypt
Telephone: +20(2) 3850 7990
Fax: +20(2) 3850 799

Mall of Arabia branch
Mall of Arabia, Juhayna Square, 6th of October City
Giza, Egypt
Telephone: +20(2) 3826 0179

Raya branch
Raya Building
6th of October City, Egypt
Telephone: +20(2) 3835 3968
Fax: +20(2) 3835 3969

Sixth of October City branch
Block No.43A, Industrial Area
6th of October City, Egypt
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Fax: +20(2) 3834 6900

Smart Village branch
Building 122B, Smart Village
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Egypt
Telephone: +20(2) 3537 0602
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Alexandria

Alexandria branch
47 Sultan Hussein Street, Azarita
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Glym branch
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38 Ahmed Abdel Aziz Street-Abdel Kader Ragab Street intersection
Kafr Abdou, Roushdy
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Fax: +20(3) 541 4139

Loran branch
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Fax: +20(2) 2529 7938

Mirage Mall branch
International Garden, Alexandria/Cairo Desert Road entrance
Alexandria, Egypt
Telephone: +20(3) 381 5232
Fax: +20(3) 380 2575

Saraya branch
Borg El Delta, Corniche El Saraya, Sidi Beshr
Alexandria, Egypt
Telephone: +20(3) 358 2202
Fax: +20(3) 358 2339

Semouha branch
Azhar El Saraya Buildings, Semouha
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Telephone: +20(3) 421 0002
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Sidi Gaber branch
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Delta Region

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Fax: +20(3) 459 5473

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Dakahleya, Egypt
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Fax: +20(50) 230 8122

Port Said branch
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Port Said, Egypt
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Fax: +20(66) 324 4694

Tanta branch
32 Saeed Street
Tanta, Egypt
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Fax: +20(40) 3291 396

Sinai and Red Sea

Banking District branch
3 Banking District, El Kawthar District
Hurghada, Egypt
Telephone: +20(65) 345 3062
Fax: +20(65) 345 3065

El Gouna branch
Abu Tig Marina, El Gouna
Hurghada, Egypt
Telephone: +20(65) 3580 571
Fax: +20(65) 358 0570

Makadi branch
Makadi Bay Km32, Safaga Road
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Fax: +20(65) 359 0551

Marsa Alam branch
65 Kilo South El Qusier
Marsa Alam, Egypt
Telephone: +20(65) 375 0181
Fax: +20(65) 375 0186

Nabq branch
Oriental Resort Main Gate, Nabq Bay
Sharm El Sheikh, Egypt
Telephone: +20(69) 371 0072
Fax: +20(69) 371 0390

Sharm Azur branch
Villa Chris Village, Peace Road
Sharm El Sheikh, Egypt
Telephone: +20(69) 360 3790
Fax: +20(69) 360 3793

Sheraton Road branch
Sheraton Road
Hurghada, Egypt
Telephone: +20(65) 345 0106
Fax: +20(65) 345 0110

Touristic Road branch
Touristic Road (in front of Duty Free Shop)
Hurghada, Egypt
Telephone: +20(65) 346 3400
Fax: +20(65) 346 3404

Upper Egypt

Assiut branch
Assiut University
Assiut, Egypt
Telephone: +20(88) 2373 681
Fax: +20(88) 2373 686

Luxor branch
Khaled Ibn El Walid Street, Iberotel Hotel Luxor
Quenna, Egypt
Telephone: +20(95) 235 7853
Fax: +20(95) 235 7786

HSBC International Network

(at 31 December 2013)

Services are provided by over 6,300 offices in 75 countries and territories:

Europe	*Offices*		*Offices*
Armenia	10	Luxembourg	8
Austria	1	Malta	38
Belgium	2	Monaco	3
Channel Islands	27	Netherlands	1
Czech Republic	2	Poland	5
France	406	Russia	3
Germany	14	Spain	3
Greece	17	Sweden	2
Ireland	4	Switzerland	15
Isle of Man	2	Turkey	317
Italy	3	United Kingdom	1,155
Kazakhstan	6		

Asia-Pacific	*Offices*		*Offices*
Australia	37	Macau Special Administrative Region	7
Bangladesh	14	Malaysia	75
Brunei Darussalam	11	Maldives	1
China	243	New Zealand	10
Cook Islands	1	Philippines	17
Hong Kong Special Administrative Region	254	Singapore	19
India	83	Sri Lanka	18
Indonesia	144	Taiwan	53
Japan	4	Thailand	1
Korea, Republic of	13	Vietnam	19

Americas	*Offices*		*Offices*
Argentina	161	Chile	3
Bahamas	3	Colombia	22
Bermuda	10	Mexico	992
Brazil	1,353	Peru	1
British Virgin Islands	2	United States of America	257
Canada	161	Uruguay	10
Cayman Islands	6		

Middle East and Africa	*Offices*		*Offices*
Algeria	3	Mauritius	12
Angola	1	Nigeria	1
Bahrain	5	Oman	84
Egypt	75	Pakistan	11
Israel	1	Palestinian Autonomous Area	1
Jordan	4	Qatar	3
Kenya	1	Saudi Arabia	102
Kuwait	1	South Africa	4
Lebanon	5	United Arab Emirates	16
Libya	1		

Associated companies are included in the network of offices.

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