

BANQUE MISR LIBAN S.A.L.

Financial Statements

31 December 2008

(With Independent Auditors' Report Thereon)

BANQUE MISR LIBAN S.A.L.

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Independent Auditors' Report

To the Shareholders' of
Banque Misr Liban S.A.L.

Report on the financial statements

We have audited the accompanying financial statements of Banque Misr Liban S.A.L. (the "Bank"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Lebanese Banking Laws and Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

Independent Auditors' Report (continued)

Basis for qualified opinion

As described in note (11) to the financial statements, available-for-sale investment securities comprise perpetual bonds of an Icelandic bank with a net carrying amount of LBP 2,522 million. In the absence of reliable financial information, the Bank was not able to measure the recoverable amount of that investment. Accordingly, we were not able to determine whether any adjustments might be necessary to the amounts shown in the financial statements for available-for-sale investment securities as at 31 December 2008 and net profits for the year then ended had such information been readily available.

Qualified opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the net realisable value of the investment security described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with Lebanese Banking Laws and Regulations.

Emphasis of a matter

We draw your attention to the fact that the fair market value of investment properties and buildings described in notes (14) and (15) to the financial statements amounted to LBP 811 million and LBP 25,888 million, based on an independent appraiser report dated August 2006 which exceed their related carrying amounts by an amount of LBP 25,942 million.

21 May 2009
Beirut, Lebanon

BANQUE MISR LIBAN S.A.L.

Balance sheet

As at 31 December

In millions of Lebanese Pound

Assets	Note	2008	2007
Cash and Central Bank	7	116,177	122,024
Loans and advances to banks and financial institutions	8	37,391	45,484
Loans and advances to sister banks	9	84	6,510
Loans and advances to customers	10	108,733	83,465
Customers' acceptances		10,991	5,830
Available-for-sale investment securities	11	134,792	65,130
Loans and receivables investment securities	12	91,510	73,814
Held-to-maturity investment securities	13	275,809	281,969
Investment property	14	36	379
Property and equipment	15	7,816	2,045
Intangible assets	16	1,113	102
Other assets	17	2,083	1,752
Total assets		786,535	688,504
Liabilities			
Deposits from banks and financial institutions	18	6,013	364
Deposits from parent and sister banks	19	79,268	72,816
Deposits from customers	20	630,862	552,423
Outstanding acceptances		10,991	5,830
Other liabilities	21	3,406	2,016
Provisions	22	815	1,433
Retirement benefit obligations	23	2,130	1,949
Total liabilities		733,485	636,831
Equity			
Share capital	24	27,000	27,000
Reserves	25	25,987	24,564
Retained earnings		63	109
Total equity		53,050	51,673
Total liabilities and equity		786,535	688,504

The notes on pages 7 to 38 are an integral part of these financial statements.

The financial statements were authorised for issue on 21 May 2009 by the General Manager on behalf of the Board of Directors.

Mr. HADI NAFFI
EXECUTIVE GENERAL MANAGER

BANQUE MISR LIBAN S.A.L.

Income statement

For the year ended 31 December

In millions of Lebanese Pound

	Note	2008	2007
Interest income	26	48,863	43,851
Interest expense	26	(33,108)	(31,848)
		<u>15,755</u>	<u>12,003</u>
Fee and commission income		2,022	1,842
Fee and commission expense		(601)	(251)
		<u>1,421</u>	<u>1,591</u>
Net gain on foreign exchange	27	84	289
Net gain on sale of investment securities		482	–
Other income	28	1,243	1,348
		<u>18,985</u>	<u>15,231</u>
Net impairment loss on financial assets		(2,565)	(3,114)
Personnel and related expenses	29	(9,077)	(7,649)
Depreciation and amortisation	30	(989)	(261)
General operating expenses		(4,897)	(2,866)
		<u>(17,528)</u>	<u>(13,890)</u>
Profit before tax		1,457	1,341
Income tax expense	31	(1,394)	(1,232)
Profit for the year		<u>63</u>	<u>109</u>

The notes on pages 7 to 38 are an integral part of these financial statements.

BANQUE MISR LIBAN S.A.L.

Statement of changes in equity

For the year ended 31 December

In millions of Lebanese Pound

	Share capital	Fair value reserve	General banking risks reserve	Legal reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2007	27,000	676	3,330	3,942	16,490	106	51,544
Net change in fair value of available-for-sale financial assets	–	90	–	–	–	–	90
Board of Directors' remunerations	–	–	–	–	–	(70)	(70)
Total income and expense recognised directly in equity	–	90	–	–	–	(70)	20
Profit for the year	–	–	–	–	–	109	109
Total recognised income and expense	–	90	–	–	–	39	129
Transfer to reserves	–	–	25	11	–	(36)	–
Balance at 31 December 2007	<u>27,000</u>	<u>766</u>	<u>3,355</u>	<u>3,953</u>	<u>16,490</u>	<u>109</u>	<u>51,673</u>
Balance at 1 January 2008	27,000	766	3,355	3,953	16,490	109	51,673
Net change in fair value of available-for-sale financial assets	–	1,314	–	–	–	–	1,314
Total income and expense recognised directly in equity	–	1,314	–	–	–	–	1,314
Profit for the year	–	–	–	–	–	63	63
Total recognised income and expense	–	1,314	–	–	–	63	1,377
Transfer to reserves	–	–	98	11	–	(109)	–
Balance at 31 December 2008	<u>27,000</u>	<u>2,080</u>	<u>3,453</u>	<u>3,964</u>	<u>16,490</u>	<u>63</u>	<u>53,050</u>

The notes on pages 7 to 38 are an integral part of these financial statements.

BANQUE MISR LIBAN S.A.L.

Statement of cash flows

For the year ended 31 December

In millions of Lebanese Pound

	Note	2008	2007
Cash flows from operating activities			
Profit for the year		63	109
Adjustments for:			
Depreciation and amortisation	30	989	261
Impairment loss on available-for-sale investment securities	11	2,931	–
Net impairment on loans and advances to customers	10	(286)	3,142
Provisions	22	–	24
Gain on sale of property and equipment	28	(907)	(950)
Board of Directors remunerations		–	(70)
Net interest income	26	(15,755)	(12,003)
Income tax expense	31	1,394	1,232
		(11,571)	(8,255)
Changes in assets and liabilities:			
Central Bank		12,141	2,831
Loans and advances to banks and financial institutions		(2,836)	(12,350)
Loans and advances to sister banks		4,522	(1)
Loans and advances to customers		(24,598)	1,330
Other assets		(331)	(605)
Deposits from banks and financial institutions		5,591	194
Deposits from parent and sister banks		6,874	10,709
Deposits from customers		75,350	16,111
Other liabilities		1,390	938
Retirement benefit obligations		(91)	(604)
		66,441	10,298
Interest received		45,036	42,476
Interest paid		(30,383)	(30,720)
Provisions paid	22	(346)	(15)
Income tax paid		(1,394)	(1,232)
Net cash from operating activities		79,354	20,807
Cash flows from investing activities			
Net change in investment securities		(79,368)	(11,431)
Purchase of property and equipment	15	(6,303)	(1,600)
Proceeds from sale of property and equipment		914	950
Purchase of intangible assets	16	(1,132)	(105)
Net cash used in investing activities		(85,889)	(12,186)
Net (decrease) increase in cash and cash equivalents		(6,535)	8,621
Cash and cash equivalents at 1 January	32	62,372	53,751
Cash and cash equivalents at 31 December	32	55,837	62,372

The notes on pages 7 to 38 are an integral part of these financial statements.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(1) Reporting entity

Banque Misr Liban S.A.L. (the "Bank") was established in 1929 and domiciled in Lebanon. The Bank is registered under No.104 in the Lebanese Commercial Register and listed under No. 3 at the Central Bank. The Bank is involved in corporate and retail banking services. The Bank's head office is located in Beirut Central District, Bank Misr building. The parent bank is Banque Misr – Cairo which owns 88% of the Bank and is incorporated in Egypt. The address of the parent bank is street no. 151, Mohammad Farid, Cairo, Egypt.

(2) Basis of preparation

(a) Statement of compliance

Ministerial Decree No. 8089 issued in 1996 requires financial statements to be prepared in accordance with International Financial Reporting Standards ("IFRSs"). The Central Bank and the Banking Control Commission (the "Banking Regulators") also issue circulars relating to the measurement, accounting treatment and presentation of financial statements. The Bank prepares financial statements in accordance with IFRSs except when a relevant circular requires otherwise. The most significant departures from IFRSs in the preparation of these financial statements are summarised below:

- Interest is suspended on doubtful and substandard loans.
- Collective impairment provisions on financial assets are not recognised.
- Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are recognised in the income statement as incurred.
- Certificate of deposits issued by local banks and the Central Bank are required to be measured at amortised cost irrespective of the Bank's intention to hold these certificate of deposits.
- Compulsory balances with Central Bank are recorded under cash and Central Bank, although they are not available for immediate use by the Bank.
- Financial guarantee contracts after initial recognition are not reassessed at the higher of the amount determined in accordance with IAS 37; and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the available-for-sale investment securities that are measured at fair value.

(c) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency").

The financial statements are presented in Lebanese Pounds (LBP), which is the Bank's functional and presentation currency. All financial information presented in LBP has been rounded to the nearest million.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(2) Basis of preparation (continued)

(d) *Use of estimates and judgments (continued)*

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 4 and 5.

(3) Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

(a) *Foreign currency*

Transactions in foreign currencies are translated to the functional currency of the Bank at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are retranslated to the functional currency using the spot exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are reported in the income statement.

(b) *Interest*

Interest income and expense are recognised in the income statement using the effective interest method, except for interest on substandard and impaired loans and advances for which interest is suspended until actual realisation of the interest income. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

The calculation of the effective interest rate includes discounts or premiums that are an integral part of the effective interest rate.

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortised cost calculated on an effective interest rate basis.
- Interest on available-for-sale investment securities calculated on an effective interest basis.

(c) *Fee and commission*

Fee and commission income, including mainly commissions on clients' transactions, is recognised as the related services are performed.

Fee and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(d) *Net gain on foreign exchange*

Net gain on foreign exchange comprises foreign exchange differences.

(e) *Dividend income*

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of other operating income.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(3) Summary of significant accounting policies (continued)

(f) *Lease payments made*

Payments made under operating lease are recognised in the income statement on straight-line basis over the term of the lease. Lease payments made are reflected as a component of general operating expenses.

(g) *Income tax expense*

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(h) *Financial assets and liabilities*

(i) Recognition

The Bank initially recognises loans and advances and deposits on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

(ii) Classification

Refer to accounting policies under note 3 (j).

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank writes-off certain loans and investment securities when they are determined to be uncollectible (see note 4(b)).

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(3) Summary of significant accounting policies (continued)

(h) *Financial assets and liabilities (continued)*

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regular occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties, net present value techniques, the discounted cash flow analyses and comparison to similar instruments for which market observable prices exist.

(vii) Identification and measurement of impairment

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at specific asset level only. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the estimated recoverable amount. Losses are recognised in the income statement and reflected in an allowance account against loans and advances. Interest on the impaired assets is suspended.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(3) Summary of significant accounting policies (continued)

(h) *Financial assets and liabilities (continued)*

(vii) Identification and measurement of impairment (continued)

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to the income statement. The cumulative loss that is removed from equity and recognised in the income statement is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value less any impairment loss previously recognised in the income statement.

If in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of reversal recognised in the income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale investment security that is in excess of the impaired loss previously recognised in the income statement is recognised directly in equity.

(i) *Cash and cash equivalents*

Cash and cash equivalents include cash on hand, unrestricted balances held with the Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the balance sheet.

(j) *Investment securities*

Investment securities are initially measured at fair value and subsequently accounted for depending on their classification as either available-for-sale, loans and receivables or held-to-maturity. Management determines the classification of its investments at initial recognition.

(i) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in the income statement using the effective interest method. Dividend income is recognised in the income statement when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale investment securities are recognised in the income statement.

Other fair value changes are recognised directly in equity until the investment is sold or impaired, whereupon cumulative gains and losses previously recognised in equity are recognised in the income statement.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(3) Summary of significant accounting policies (continued)

(j) Investment securities (continued)

(ii) 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: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables include loans and advances to customers, loans and advances to banks and financial institutions, certificate of deposits issued by banks and financial institutions, and certificate of deposits issued by the Central Bank.

Loans and receivables are initially measured at fair value and subsequently measured at their amortised cost using the effective interest method.

Non-performing loans and advances to customers are stated net of suspended interest and impairment losses.

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Investment property is measured at cost less accumulated depreciation and impairment losses. Investment properties are depreciated over a twenty year-period.

(l) Property and equipment

Items of property and equipment are measured at historical cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. 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. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the income statement.

Gains and losses from the disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other operating income in the income statement.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(3) Summary of significant accounting policies (continued)

(l) *Property and equipment (continued)*

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each item of property and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

• Buildings	20 years
• Improvements	4 years
• Computer and office equipment	5 years
• Furniture and fixtures	4 years
• Vehicles	4 years

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

(m) *Intangible assets*

Computer software acquired by the Bank is stated cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefit embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of the software, from the date that is available for use. The estimated useful life of the software is five years.

(n) *Impairment of non-financial assets*

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell. Impairment losses are recognised in the income statement.

Impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) *Deposits*

Customers' deposits and deposits from parent and sister banks are the Bank's main sources of debt funding. Deposits are initially measured at fair value, and subsequently measured at their amortised cost using the effective interest method.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(3) Summary of significant accounting policies (continued)

(p) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by using management's best estimates to the risk specific to the liability.

(q) Retirement benefit obligations

The Bank provides for End-of-Service Indemnity (EoSI) to its employees, which varies according to each employee's final salary and length of service, subject to the completion of a minimum service period. The provision is calculated based on the difference between total indemnities due and total EoSI contributions paid to National Social Security Fund (NSSF). End-of-Service Indemnity contributions paid to NSSF represents 8.5 percent of employee benefits. The Bank does not use the Projected Unit Credit method since the End-of-Service Indemnity is provided for adequately, consequently no interest and actuarial gains or losses are recognised.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

- IFRS 8 *operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Bank's 2009 financial statements, is not expected to have any impact on the financial statements.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Bank's 2009 financial statements and will constitute a change in accounting policy for the Bank. In accordance with the transitional provisions, the Bank will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Bank's 2009 financial statements.
- IFRIC 13 *Customer loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Bank's 2009 financial statements are not expected to have any impact on the financial statements.
- Revised IAS 1 *Presentation of Financial Statements (2007)* introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Bank's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements. The Bank plans to provide total comprehensive income in an income statement and a separate statement of comprehensive income for its 2009 financial statements.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(3) Summary of significant accounting policies (continued)

(r) New standards and interpretations not yet adopted (continued)

- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements- Puttable Financial instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Bank's 2009 financial statements, with retrospective application required, are not expected to have any impact on the financial statements.
- Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Bank's operations:
 - The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
 - Contingent consideration will be measured at fair value, with subsequent changes recognised in the income statement.
 - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
 - Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in the income statement.
 - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.Revised IFRS 3, which becomes mandatory for the Bank's 2010 financial statements, is not expected to have any impact on the Bank's 2010 financial statements.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Bank in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the income statement. The amendments to IAS 27, which become mandatory for the Bank's 2010 financial statements, are not expected to have any impact on the financial statements.
- Amendment to IFRS 2 *Share-based-Payment – Vesting Conditions and Cancellation* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2, which become mandatory for the Bank's 2009 financial statements, with retrospective application, are not expected to have any impact on the financial statements.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(4) Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability committee (ALCO) and the Credit Committee, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All committees report regularly to the Bank's management on their activities.

The Bank's risk management policies are in the process of being established to enable management identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Bank aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in this function by the Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews, the results of which reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

(i) Management of credit risk

The Board has delegated responsibility for the management of credit risk to the Credit Committee. A separate Credit department, reporting to the Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Credit Committee and is subject to regular reviews.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(4) Financial risk management (continued)

(b) Credit risk (continued)

(i) Management of credit risk (continued)

- Reviewing compliance with agreed exposure limits. Regular reports are provided to the Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to promote best practice throughout the Bank in the management of credit risk.

Each branch is required to implement Bank credit policies and procedures, with credit approval authorities delegated from the Bank's Credit Committee. The Credit Risk department reports on all credit related matters to local management and the Bank Credit Committee. The Credit department is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Frequent audits of Bank's credit processes are undertaken by Internal Audit.

(ii) Exposure to credit risk

In millions of Lebanese Pound

	Loans and advances to customers		Loans and advances to banks, financial institutions, and sister banks		Investment securities	
	2008	2007	2008	2007	2008	2007
Carrying amount	108,733	83,465	37,475	51,994	502,111	420,913
Individually impaired:						
Grade 3: Substandard	29,665	19,674	–	–	–	–
Grade 4: Impaired (Doubtful)	55,762	80,505	–	–	5,658	–
Grade 5: Impaired (Bad)	1,124	869	–	–	–	–
Gross amount	86,551	101,048	–	–	5,658	–
Allowance for impairment	(43,712)	(52,956)	–	–	(2,931)	–
Carrying amount	42,839	48,092	–	–	2,727	–
Not impaired:						
Grade 1- 2: Low-fair risk	65,894	35,373	37,475	51,994	499,384	420,913
Carrying amount	65,894	35,373	37,475	51,994	499,384	420,913
Total carrying amount	108,733	83,465	37,475	51,994	502,111	420,913

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. These loans are graded 4 and 5 in the Bank's internal credit risk grading system. Interest on the impaired loans is suspended and a provision for impairment loss is recognised in the income statement according to management best estimates taking into consideration any collateral.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(4) Financial risk management (continued)

(b) Credit risk (continued)

(ii) Exposure to credit risk (continued)

Substandard loans

Loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security (collateral available) and / or the stage of collection of amounts owed to the Bank. Interest on substandard loans is suspended. A provision is recognised when the loan is transferred to impaired loans.

Allowance for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised cost or classified as available-for-sale that represents its estimate of incurred losses in its loans and advances and investment security portfolio. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Write-off policy

The Bank writes off a loan or an investment security balance, and any related allowances for impairment losses and suspended interest, when the Bank's Credit Committee determines that the loan or security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade:

In millions of Lebanese Pound

	Loans and advances to customers		Loans and advances to banks, financial institutions, and sister banks		Investment securities	
	Gross	Net	Gross	Net	Gross	Net
31 December 2008						
Grade 3: Substandard	29,665	21,077	–	–	–	–
Grade 4: Impaired (Doubtful)	55,762	21,762	–	–	5,658	2,727
Grade 5: Impaired (Bad)	1,124	–	–	–	–	–
Total	86,551	42,839	–	–	5,658	2,727
31 December 2007						
Grade 3: Substandard	19,674	13,788	–	–	–	–
Grade 4: Impaired (Doubtful)	80,505	34,304	–	–	–	–
Grade 5: Impaired (Bad)	869	–	–	–	–	–
Total	101,048	48,092	–	–	–	–

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(4) Financial risk management (continued)

(b) Credit risk (continued)

(ii) Exposure to credit risk (continued)

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, and investment securities, and no such collateral was held at 31 December 2008 or 2007.

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

<i>In millions of Lebanese Pound</i>	Loans and advances to customers		Loans and advances to banks, financial institutions, and to sister banks		Investment securities	
	2008	2007	2008	2007	2008	2007
Carrying amount	108,733	83,465	37,475	51,994	502,111	420,913
Concentration by sector:						
Corporate	96,589	79,298	–	–	–	–
Government	–	–	–	–	498,446	413,909
Bank	–	–	37,475	51,994	2,727	5,887
Retail	12,144	4,167	–	–	–	–
Equity	–	–	–	–	938	1,117
	108,733	83,465	37,475	51,994	502,111	420,913
Concentration by location:						
Europe	–	–	1,804	8,692	2,727	5,887
Middle East and North Africa	108,733	83,465	25,753	41,596	499,384	415,026
North America	–	–	9,872	1,655	–	–
Other	–	–	46	51	–	–
	108,733	83,465	37,475	51,994	502,111	420,913

Concentration by location for loans and advances to banks, financial institutions and sister banks is measured based on the location of the bank or financial institution. Concentration by location for investment securities is measured based on the location of the issuer of the security.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(4) Financial risk management (continued)

(b) Credit risk (continued)

(ii) Exposure to credit risk (continued)

The Bank also monitors concentrations of credit risk related to loans and advances to customers by segment and by type of collateral obtained. An analysis of this concentration of credit risk at the reporting date is shown below:

In millions of Lebanese Pound

	Loans and advances to customers	
	2008	2007
Concentration by segment:		
Real estate construction	38,705	25,706
Commercial	64,833	62,250
Industrial	26,170	16,179
Agriculture	3,749	6,812
Personal and other loans	18,988	25,474
	<hr/>	<hr/>
	152,445	136,421
Allowance for impairment	(43,712)	(52,956)
	<hr/>	<hr/>
	108,733	83,465
Concentration by type of collateral:		
Clean overdrafts	14,419	10,861
Personal guarantees	34,063	31,071
Real estate mortgage	80,224	85,255
Cash collateral	6,337	7,167
Others	17,402	2,067
	<hr/>	<hr/>
	152,445	136,421
Allowance for impairment	(43,712)	(52,956)
	<hr/>	<hr/>
	108,733	83,465

As at year end, 56 % (2007: 64%) of total loans and advances to customers were extended to 18 customers (2007: 15 customers). The increase in the percentage of concentration is the result of recording suspended interest as most of these loans are impaired.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates the risk by conducting settlements through a settlement/ clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(4) Financial risk management (continued)

(c) *Liquidity risk*

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities.

(i) Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Bank's management receives information regarding the liquidity profile of financial assets and liabilities. Bank's management then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other facilities, to ensure that sufficient liquidity is maintained within the Bank. Bank's management monitors the daily liquidity position.

(ii) Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Central Bank and the Banking Control Commission. The reported Bank ratio of net liquid assets to customers' deposits at the reporting date was as follows: 63.11% (2007: 72.11%)

(d) *Market risks*

Market risk is the risk that changes in market prices, such as interest rate, equity prices, and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Management of market risks

Overall authority for market risk management is vested in ALCO and Bank management which are headed by the General Manager. Bank management is responsible for the development of risk management policies and for the day-to-day review of their implementation.

(ii) Exposure to interest rate risks

The principal risk to which Bank's portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits. A summary of the Bank's interest rate gap position is as follows:

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(4) Financial risk management (continued)

(d) Market risks (continued)

<i>In millions of Lebanese Pound</i>	Carrying amount	Less than 3 months	3 -12 months	1-5 years	More than 5 years	Non interest bearing
31 December 2008						
Cash and Central Bank	116,177	11,979	14,721	33,986	–	55,491
Loans and advances to banks and FI*	37,391	21,228	–	–	13,892	2,271
Loans and advances to sister banks	84	–	–	–	–	84
Loans and advances to customers	108,733	27,272	32,857	4,621	579	43,404
Investment securities	502,111	31,375	103,825	333,991	31,962	958
	764,496	91,854	151,403	372,598	46,433	102,208
Deposits from banks and FI*	(6,013)	(5,892)	–	–	–	(121)
Deposits from parent and sister banks	(79,268)	(64,178)	(15,075)	–	–	(15)
Deposits from customers	(630,862)	(525,668)	(39,636)	(4,336)	–	(61,222)
	(716,143)	(595,738)	(54,711)	(4,336)	–	(61,358)
	48,353	(503,884)	96,692	368,262	46,433	40,850
31 December 2007						
Cash and Central Bank	122,024	14,877	7,218	15,884	30,261	53,784
Loans and advances to banks and FI*	45,484	32,982	7,658	553	4,291	–
Loans and advances to sister banks	6,510	1,882	–	4,628	–	–
Loans and advances to customers	83,465	7,640	8,898	18,803	32	48,092
Investment securities	420,913	83,549	65,804	229,162	41,282	1,116
	678,396	140,930	89,578	269,030	75,866	102,992
Deposits from banks and FI*	(364)	(63)	–	–	–	(301)
Deposits from parent and sister banks	(72,816)	(26,837)	–	(45,979)	–	–
Deposits from customers	(552,423)	(458,720)	(25,765)	(39,775)	–	(28,163)
	(625,603)	(485,620)	(25,765)	(85,754)	–	(28,464)
	52,793	(344,690)	63,813	183,276	75,866	74,528

*FI: Financial Institutions

(iii) Foreign exchange risk

The Bank's exchange exposure arises from foreign exchange dealing by treasury and currency exposures originated by commercial banking businesses. The Bank manages foreign exchange exposure within risk limits imposed by the Central Bank. The Balance sheet in currencies and the foreign exchange position are summarized as follows:

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(4) Financial risk management (continued)

(d) Market risks (continued)

(iii) Foreign exchange risk (continued)

Balance sheet in currencies

<i>In millions of Lebanese Pound</i>	31 December 2008			31 December 2007		
	LBP	C/V LBP	Total	LBP	C/V LBP	Total
ASSETS						
Cash and Central Bank	50,229	65,948	116,177	52,497	69,527	122,024
Loans and advances to banks and financial institutions	16,165	21,226	37,391	5,362	40,122	45,484
Loans and advances to sister banks	–	84	84	–	6,510	6,510
Loans and advances to customers	22,413	86,320	108,733	34,504	48,961	83,465
Customers' acceptances	–	10,991	10,991	–	5,830	5,830
Available-for-sale investment securities	120,149	14,643	134,792	47,346	17,784	65,130
Loans and receivables investment securities	4,215	87,295	91,510	5,377	68,437	73,814
Held-to-maturity investment securities	166,810	108,999	275,809	172,401	109,568	281,969
Investment property	36	–	36	379	–	379
Property and equipment	7,816	–	7,816	2,045	–	2,045
Intangible assets	1,113	–	1,113	102	–	102
Other assets	1,631	452	2,083	721	1,031	1,752
Total assets	390,577	395,958	786,535	320,734	367,770	688,504
LIABILITIES AND EQUITY						
Deposits from banks and financial institutions	3,616	2,397	6,013	12	352	364
Deposits from parent and sister banks	–	79,268	79,268	–	72,816	72,816
Deposits from customers	327,944	302,918	630,862	266,507	285,916	552,423
Outstanding acceptances	–	10,991	10,991	–	5,830	5,830
Other liabilities	1,616	1,790	3,406	1,107	909	2,016
Provisions	815	–	815	820	613	1,433
Retirement benefit obligations	2,130	–	2,130	1,949	–	1,949
Share capital	27,000	–	27,000	27,000	–	27,000
Reserves	24,673	1,314	25,987	23,193	1,371	24,564
Retained earnings	63	–	63	109	–	109
Total liabilities and equity	387,857	398,678	786,535	320,697	367,807	688,504

C/V LBP: counter value of foreign currencies in Lebanese Pound using the exchange rates ruling at 31 December 2008 and 2007.

	2008	2007
USD rate as at 31 December	1,507.5	1,507.5
EUR rate as at 31 December	2,136.9	2,212.6

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Due to limited activities of the Bank's operations, mainly traditional banking operations, the Bank has developed and implemented limited controls to address operational risks.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(4) Financial risk management (continued)

(e) Operational risks (continued)

The Bank manages operational risk in the following areas:

- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Training and professional development.

Compliance with Bank's internal policies and procedures is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the board of directors and senior management of the Bank.

(f) Capital management

Regulatory capital

The Banking Regulators set and monitor capital requirements for the Bank, and require maintaining a prescribed ratio (minimum of 12 %) of total capital to total risk-weighted assets and off-balance sheet commitments (Capital adequacy ratio). The Bank's regulatory capital adequacy ratio at 31 December was as follows:

	2008	2007
Capital adequacy ratio	37.84%	41.60%

To monitor the adequacy of its capital the Bank uses ratios established by the Bank for International Settlements (BIS). These ratios measure capital adequacy (minimum 8% as required by BIS) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 30%, 50%, 100%) are applied; for example cash and placements with the Central Bank have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 12% of the carrying amount.

Off-balance sheet credit instruments are taken into account by applying different categories of conversion factors, designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance sheet assets.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, retained earnings, regulatory and other reserves.
- Tier 2 capital, which includes the element of the fair value reserve relating to unrealised gains on investment securities classified as available-for-sale.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(4) Financial risk management (continued)

(f) Capital management (continued)

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Bank has complied with all externally imposed capital requirements throughout the year.

There have been no material changes in the Bank's management of capital during the year.

The Bank's regulatory capital at 31 December was as follows:

In millions of Lebanese Pound

	2008	2007
Tier 1 capital		
Ordinary share capital	27,000	27,000
Retained earnings	63	109
Legal and other reserves	23,907	23,798
Total	<u>50,970</u>	<u>50,907</u>
Tier 2 capital		
Fair value reserve for AFS investment securities	2,080	766
Total	<u>2,080</u>	<u>766</u>
Total regulatory capital	<u><u>53,050</u></u>	<u><u>51,673</u></u>

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(5) Use of estimates and critical judgments

Management discussed with the Board the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 4).

(a) *Key sources of estimation uncertainty*

Allowance for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(h)(vii).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the recoverable amounts that are expected to be received. In estimating these amounts, management makes judgments about counterparty's financial situation and the net realisable value of any underlying collateral. An evaluation of counterparty's financial situation is often limited by the unavailability of recent reliable financial information. Each impaired asset is assessed on its merits, and the workout strategy and estimate of amounts considered recoverable are independently approved by the Credit Risk function.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(h)(vi). The valuation of the underlying collateral is rendered more difficult for judgment because of the absence of an active real estate market. Even when observable market prices are available, these are often based on illiquid markets.

Impairment of available-for-sale investment securities

The Bank determines that available-for-sale investment securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(b) *Critical accounting judgments in applying the Bank's accounting policies*

Financial asset classification

The Bank's accounting policies provide scope for assets to be designated on inception into different accounting categories in certain circumstances.

In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3(j)(iii).

Valuation of financial instruments

The Bank measures fair values using the following hierarchy of methods:

- Quoted market prices in an active market
- Valuation techniques

Fair values of financial assets that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair value using valuation techniques.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(6) Financial assets and liabilities

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values:

In millions of Lebanese Pound

	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
31 December 2008						
Cash and Central Bank	–	116,177	–	–	116,177	116,177
Loans and advances to banks and financial institutions	–	37,391	–	–	37,391	37,391
Loans and advances to sister banks	–	84	–	–	84	84
Loans and advances to customers	–	108,733	–	–	108,733	108,733
Investment securities	275,809	91,510	134,792	–	502,111	505,514
	275,809	353,895	134,792	–	764,496	767,899
Deposits from banks and financial institutions	–	–	–	6,013	6,013	6,013
Deposits from parent and sister banks	–	–	–	79,268	79,268	79,268
Deposits from customers	–	–	–	630,862	630,862	630,862
	–	–	–	716,143	716,143	716,143
31 December 2007						
Cash and Central Bank	–	122,024	–	–	122,024	122,024
Loans and advances to banks and financial institutions	–	45,484	–	–	45,484	45,484
Loans and advances to sister banks	–	6,510	–	–	6,510	6,510
Loans and advances to customers	–	83,465	–	–	83,465	83,465
Investment securities	281,969	73,814	65,130	–	420,913	420,945
	281,969	331,297	65,130	–	678,396	678,428
Deposits from banks and financial institutions	–	–	–	364	364	364
Deposits from parent and sister banks	–	–	–	72,816	72,816	72,816
Deposits from customers	–	–	–	552,423	552,423	552,423
	–	–	–	625,603	625,603	625,603

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(7) Cash and Central Bank

In millions of Lebanese Pound

	2008	2007
Cash on hand	7,165	7,900
Restricted balances with Central Bank	82,130	94,271
Unrestricted balances with Central Bank	26,612	19,608
Interest receivable	270	245
	<u>116,177</u>	<u>122,024</u>

In application of the Central Bank of Lebanon regulations, banks are required to deposit a non-interest earning compulsory reserve in local currency representing 15% of term deposits and 25% of current and call deposits in Lebanese Pounds, and an interest earning compulsory reserve in foreign currency representing 15% of their deposits in foreign currencies.

Restricted deposits with the Central Bank of Lebanon are not available for use in the Bank's day-to-day operations.

(8) Loans and advances to banks and financial institutions

In millions of Lebanese Pound

	2008	2007
Money market placements	22,114	41,176
Current accounts	15,048	4,156
Interest receivable	229	152
	<u>37,391</u>	<u>45,484</u>

At 31 December 2008 LBP 13,892 million (2007: LBP 4,844 million) of loans and advances to banks and financial institutions are expected to be recovered more than twelve months after the balance sheet date.

(9) Loans and advances to sister banks

In millions of Lebanese Pound

	2008	2007
Current accounts	84	373
Money market placements	–	6,031
Interest receivable	–	106
	<u>84</u>	<u>6,510</u>

(10) Loans and advances to customers

In millions of Lebanese Pound

	2008	2007
Loans and advances to customers at amortised cost	<u>108,733</u>	<u>83,465</u>

At 31 December 2008 LBP 5,200 million (2007: LBP 18,835 million) of loans and advances to customers are expected to be recovered more than twelve months after the balance sheet date.

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Notes to the financial statements

(10) Loans and advances to customers (continued)

Loans and advances to customers at amortised cost

<i>In millions of Lebanese Pound</i>	2008			2007		
	Gross amount	Impairment	Carrying amount	Gross amount	Impairment	Carrying amount
Clean overdrafts	14,419	(695)	13,724	10,861	(3,428)	7,433
Mortgage lending	80,224	(35,236)	44,988	85,255	(38,147)	47,108
Others	57,802	(7,781)	50,021	40,305	(11,381)	28,924
	152,445	(43,712)	108,733	136,421	(52,956)	83,465

Allowance for impairment

<i>In millions of Lebanese Pound</i>	2008	2007
Balance at 1 January	52,956	60,362
Impairment loss for the year:		
Charge for the year	2,341	3,324
Recoveries	(2,464)	(182)
Suspended interest recognised	(163)	(28)
	(286)	3,114
Write-offs of provisions and suspended interest	(23,332)	(21,256)
Suspended interest not recognised	14,374	10,736
Balance at 31 December	43,712	52,956

(11) Available-for-sale investment securities

<i>In millions of Lebanese Pound</i>	2008	2007
Lebanese Government treasury bills	116,351	45,354
Lebanese Government eurobonds	11,416	11,652
Perpetual bonds	5,453	5,795
Equity securities with readily determinable fair values	743	922
Unquoted equity securities at cost	195	195
Interest receivable	3,565	1,212
Less: allowance for impairment	(2,931)	–
	134,792	65,130

At 31 December 2008 LBP 122,687 million (2007: LBP 60,309 million) of available-for-sale securities are expected to be recovered more than twelve months after the balance sheet date.

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Notes to the financial statements

(11) Available-for-sale investment securities (continued)

Specific allowances for impairment against available-for-sale investment securities

In millions of Lebanese Pound

	2008	2007
Balance at 1 January	–	–
Impairment loss for the year:		
Charge for the year	2,851	–
Suspended interest not recognised	80	–
Balance at 31 December	<u>2,931</u>	<u>–</u>

As a result of the International market crisis, perpetual bonds issued by an Icelandic bank with a carrying amount before impairment of LBP 5,453 million defaulted during the year. Subsequently the bonds were de-listed from the stock exchange. During 2008, the Bank recognised an impairment loss in the amount of LBP 2,851 million. In the absence of further reliable financial information, the Bank was not able to measure the recoverable amount of that investment as at 31 December 2008.

(12) Loans and receivables investment securities

In millions of Lebanese Pound

	2008	2007
Certificates of deposit issued by Central Bank of Lebanon	88,300	71,617
Interest receivable	3,210	2,197
	<u>91,510</u>	<u>73,814</u>

At 31 December 2008 LBP 88,300 million (2007: LBP 15,357 million) of loans and receivables investment securities are expected to be recovered more than twelve months after the balance sheet date.

(13) Held-to-maturity investment securities

In millions of Lebanese Pound

	2008	2007
Lebanese Government treasury bills	162,665	168,975
Lebanese Government eurobonds	107,455	107,386
Interest receivable	5,689	5,608
	<u>275,809</u>	<u>281,969</u>

At 31 December 2008 LBP 154,966 million (2007: LBP 194,778 million) of held to maturity securities are expected to be recovered more than twelve months after the balance sheet date.

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Notes to the financial statements

(14) Investment property

In millions of Lebanese Pound

Cost

Balance at 1 January	571	571
Transfer to owner occupied property	(513)	–
Balance at 31 December	58	571

Depreciation

Balance at 1 January	(192)	(163)
Depreciation for the year (note 30)	(29)	(29)
Transfer to owner occupied property	199	–
Balance at 31 December	(22)	(192)

Carrying amount

Balance at 1 January	379	408
Balance at 31 December	36	379

	2008	2007
Cost		
Balance at 1 January	571	571
Transfer to owner occupied property	(513)	–
Balance at 31 December	58	571
Depreciation		
Balance at 1 January	(192)	(163)
Depreciation for the year (note 30)	(29)	(29)
Transfer to owner occupied property	199	–
Balance at 31 December	(22)	(192)
Carrying amount		
Balance at 1 January	379	408
Balance at 31 December	36	379

The fair value of investment property amounted to LBP 811 million based on an independent appraiser report dated August 2006.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(15) Property and equipment

In millions of Lebanese Pound

	Buildings	Improv- ements	Computer and office equipment	Furniture and fixtures	Vehicles	Total
Cost						
Balance at 1 January 2007	685	664	1,693	142	145	3,329
Additions	–	642	946	12	–	1,600
Disposals	–	–	–	–	(83)	(83)
Balance at 31 December 2007	685	1,306	2,639	154	62	4,846
Balance at 1 January 2008	685	1,306	2,639	154	62	4,846
Additions	–	5,069	931	303	–	6,303
Disposals	(15)	–	–	–	–	(15)
Transfer from investment property	513	–	–	–	–	513
Reclassifications	–	–	(14)	14	–	–
Balance at 31 December 2008	1,183	6,375	3,556	471	62	11,647
Depreciation						
Balance at 1 January 2007	(204)	(590)	(1,663)	(95)	(103)	(2,655)
Depreciation for the year (note 30)	(35)	(67)	(75)	(36)	(16)	(229)
Disposals	–	–	–	–	83	83
Balance at 31 December 2007	(239)	(657)	(1,738)	(131)	(36)	(2,801)
Balance at 1 January 2008	(239)	(657)	(1,738)	(131)	(36)	(2,801)
Depreciation for the year (note 30)	(32)	(500)	(269)	(22)	(16)	(839)
Transfer from investment property	(199)	–	–	–	–	(199)
Disposals	8	–	–	–	–	8
Balance at 31 December 2008	(462)	(1,157)	(2,007)	(153)	(52)	(3,831)
Carrying amounts						
At 1 January 2007	481	74	30	47	42	674
At 31 December 2007	446	649	901	23	26	2,045
At 31 December 2008	721	5,218	1,549	318	10	7,816

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Notes to the financial statements

(16) Intangible assets

<i>In millions of Lebanese Pound</i>	2008	2007
Cost		
Balance at 1 January	197	92
Additions	1,132	105
Balance at 31 December	<u>1,329</u>	<u>197</u>
Amortisation		
Balance at 1 January	95	92
Amortisation charge for the year (note 30)	121	3
Balance at 31 December	<u>216</u>	<u>95</u>
Carrying amount		
Balance at 1 January	102	–
Balance at 31 December	<u><u>1,113</u></u>	<u><u>102</u></u>

Intangible assets consist mainly of computer software and licenses.

(17) Other assets

<i>In millions of Lebanese Pound</i>	2008	2007
Other receivables	1,862	1,475
Prepayments	447	503
Less: specific allowance for impairment	(226)	(226)
	<u>2,083</u>	<u>1,752</u>

(18) Deposits from banks and financial institutions

<i>In millions of Lebanese Pound</i>	2008	2007
Money market deposits	5,834	–
Current accounts	121	364
Interest payable	58	–
	<u>6,013</u>	<u>364</u>

(19) Deposits from parent and sister banks

<i>In millions of Lebanese Pound</i>	2008	2007
Money market deposits	78,622	71,763
Current accounts	15	–
Interest payable	631	1,053
	<u>79,268</u>	<u>72,816</u>

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Notes to the financial statements

(20) Deposits from customers

<i>In millions of Lebanese Pound</i>	2008	2007
Savings deposits	487,226	481,300
Term deposits	62,261	27,962
Current deposits	61,222	27,404
Blocked and margin accounts	20,153	15,757
	<u>630,862</u>	<u>552,423</u>

Customers' deposits above LBP 750 million threshold amounted to LBP 174,462 million representing 28% of total deposits and are held by 96 customers (2007: 67 customers representing 19% of total deposits).

Customers' deposits include coded accounts amounting to LBP 399 million as at 31 December 2008 (2007: LBP 301 million) which are subject to the provisions of the Article 3 of the Banking Secrecy Law dated 3 September 1956. Under the provisions of this Article, the Bank cannot reveal the identity of these depositors to third parties including auditors.

At 31 December 2008 LBP 4,336 million (2007: LBP 39,775 million) of deposits from customers are expected to be settled more than twelve months after the balance sheet date. However, deposits from customers are expected to maintain stable or increasing balance and are not all expected to be drawn down immediately.

(21) Other liabilities

<i>In millions of Lebanese Pound</i>	2008	2007
Creditors and accruals	2,334	1,410
Operational taxes and social security payables	1,072	606
	<u>3,406</u>	<u>2,016</u>

(22) Provisions

<i>In millions of Lebanese Pound</i>	Fluctuations in foreign exchange	General risks	Total
Balances at 1 January 2007	17	1,407	1,424
Provision raised during the year	–	24	24
Provision used during the year	(15)	–	(15)
Balances at 31 December 2007	<u>2</u>	<u>1,431</u>	<u>1,433</u>
Balances at 1 January 2008	2	1,431	1,433
Provision used during the year	(1)	(345)	(346)
Provision transferred to retirement benefit obligations (see note 23)	–	(272)	(272)
Balances at 31 December 2008	<u>1</u>	<u>814</u>	<u>815</u>

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements

(22) Provisions (continued)

Provisions for fluctuations in foreign exchange rates

As per local regulatory requirements the Bank provides for an amount equivalent to 5 percent of its year-end net trading position.

Provisions for general risks

During 2006, the Bank recognised provisions for general risks in the amount of LBP 680 million to cover the allegation of the defalcation of customers' deposits in 2004 and 2005.

(23) Retirement benefit obligations

In millions of Lebanese Pound

	2008	2007
Balance at 1 January	1,949	2,720
Provision raised during year	104	208
Provision transferred from general risks (see note 22)	272	–
Provision used during year	(195)	(979)
Balance at 31 December	<u>2,130</u>	<u>1,949</u>

(24) Share capital

The authorised and issued share capital comprised 21,600,000 nominal shares with a par value of LBP 1,250 each. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

(25) Reserves

In millions of Lebanese Pound

	2008	2007
Fair value reserve	2,080	766
General banking risks reserve	3,453	3,355
Legal reserve	3,964	3,953
Other reserves	16,490	16,490
	<u>25,987</u>	<u>24,564</u>

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investment securities until the investment is derecognised or impaired.

General banking risks reserve

The Bank is required, according to the Central Bank regulations and commencing at 1996, to set-up a reserve for general banking risks at a minimum of 0.2% and a maximum rate of 0.3% of the risk weighted assets and off-balance sheet financial instruments in local and foreign currencies. This reserve should not be less than 1.25% and 2% by the end of the 10th and the 20th years, respectively. This reserve is not available for distribution.

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Notes to the financial statements

(25) Reserves (continued)

Legal reserve

The Lebanese Commercial Law and the Bank's Articles of Association stipulate that 10% of the net annual profits be transferred to legal reserve until this reserve reaches one third of capital. This reserve is not available for distribution.

Other reserves

These reserves are available for distribution.

(26) Net interest income

In millions of Lebanese Pound

	2008	2007
Interest income		
Investment securities	40,157	35,212
Loans and advances to customers	4,369	3,597
Central Bank	2,667	3,045
Loans and advances to banks and financial institutions	881	605
Loans and advances to sister banks (note 33)	318	1,014
Other	471	378
Total interest income	48,863	43,851
Interest expense		
Deposits from customers	(30,243)	(29,674)
Deposits from parent and sister banks (note 33)	(2,127)	(2,173)
Deposits from banks and financial institutions	(738)	(1)
Total interest expense	(33,108)	(31,848)
Net interest income	15,755	12,003

(27) Net gain on foreign exchange

In millions of Lebanese Pound

	2008	2007
Profit on foreign exchange operations	125	340
Loss on foreign exchange operations	(41)	(51)
	84	289

(28) Other income

In millions of Lebanese Pound

	2008	2007
Gain on sale of property and equipment	907	950
Rental income	139	151
Dividends on available-for-sale equity securities	86	75
Other	111	172
	1,243	1,348

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Notes to the financial statements

(29) Personnel and related expenses

In millions of Lebanese Pound

	2008	2007
Wages and salaries	6,034	5,198
Compulsory social security contributions	977	819
Current service cost for employee benefit obligations	104	208
Board of Directors remunerations (note 33)	285	273
Other benefits	1,677	1,151
	<u>9,077</u>	<u>7,649</u>

(30) Depreciation and amortisation

In millions of Lebanese Pound

	2008	2007
Property and equipment (note 15)	839	229
Intangible assets (note 16)	121	3
Investment property (note 14)	29	29
	<u>989</u>	<u>261</u>

(31) Income tax expense

In millions of Lebanese Pound

	2008	2007
Profit before income tax	1,457	1,341
Corporate income tax at 15%	219	201
Effect of non-taxable income	(22)	(47)
Effect of non-deductible expenses	19	332
Corporate income tax expense	216	486
Withholding tax on interest not reimbursable	1,178	746
Current income tax expense	<u>1,394</u>	<u>1,232</u>

The Bank is subject to a withholding tax of 5% on certain interest income which is considered as a prepayment on corporate income tax due. In case this withholding tax exceeds the calculated corporate income tax expense, the excess is not reimbursable and is considered as a final income tax expense.

(32) Cash and cash equivalents

In millions of Lebanese Pound

	2008	2007
Cash and Central Bank	33,777	27,508
Loans and advances to banks and financial institutions	21,976	32,982
Loans and advances to sister banks	84	1,882
	<u>55,837</u>	<u>62,372</u>

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Notes to the financial statements

(33) Related parties

(a) Balances with parent and sister banks

In millions of Lebanese Pound

Loans and advances to sister banks (note 9)
Deposits from parent and sister banks (note 19)

2008	2007
84	6,510
(79,268)	(72,816)
<u>(79,184)</u>	<u>(66,306)</u>

(b) Transactions with parent and sister banks

In millions of Lebanese Pound

Interest income from sister banks (note 26)
Interest expense to parent and sister banks (note 26)

2008	2007
318	1,014
(2,127)	(2,173)
<u>(1,809)</u>	<u>(1,159)</u>

(c) Management personnel compensation

In millions of Lebanese Pound

Key management remunerations
Board of Directors remunerations (note 29)

2008	2007
1,016	853
285	273
<u>1,301</u>	<u>1,126</u>