

**PIRAEUS BANK - EGYPT S.A.E.**

**SEPARATE FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

**Mostafa Shawki MAZARS  
(Public Accountant and Consultants)**

**Mansour & Co. PricewaterhouseCoopers  
(Public Accountant and Consultants)**

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**Translation of financial statements**  
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## **Independent Auditors' Report**

**To: The Shareholders of Piraeus Bank - Egypt (SAE)**

### **Report on the Separate Financial Statements**

We have audited the accompanying separate financial statements of Piraeus Bank - Egypt (SAE) which comprise the balance sheet as of 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 Separate Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the rules of preparation and presentation of the Bank's financial statements issued by the Central Bank of Egypt on 27 June 2002 and its amendments, including amendments related to financial investments issued on December 16, 2008 and with the requirements of applicable Egyptian 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 misstatement, 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. We conducted our audit in accordance with Egyptian Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

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***Opinion***

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of Piraeus Egypt Bank (SAE) as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with the rules of preparation and presentation of the Bank's financial statements issued by the Central Bank of Egypt on 27 June 2002 and its amendments, including amendments related to financial investments issued on December 16, 2008 and with the requirements of applicable Egyptian laws and regulations.

**Report on Other Legal and Regulatory Requirements**

Nothing has come to our attention that indicated that the Bank violated any of the provisions of Law No. 88 of 2003 during the year ended 31 December 2008.

The Bank keeps proper financial records, which include all that is required by the law and the Bank statute and the accompanying financial statements are in agreement therewith.

The financial information included in the Board of Directors report, prepared according to the provisions of Law No. 159 of 1981 and its executive regulations are in agreement with the Bank's accounting records within the limit that such information is recorded therein.

**Auditors**

**Hazem Said Saleh**  
Mostafa Shawki MAZARS  
Member of Egyptian Society for Accounting  
and Auditing  
Member of Egyptian Society for taxation  
**Public Accountant and Consultants**

**Basma Samra**  
Mansour & Co.PricewaterhouseCoopers  
Member of Egyptian Society for Accounting  
and Auditing  
Member of Egyptian Society for taxation  
**Public Accountant and Consultants**

**5 March 2009**  
**Cairo**

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**Balance Sheet - At 31 December 2008**

(Amounts expressed in Egyptian Pounds)

	<u>Note</u>	<u>2008</u>	<u>2007</u>
<b><u>Assets</u></b>			
Cash and balance with the Central Bank	5	990,081,369	542,915,412
Due from banks	6	1,197,375,120	2,802,815,316
Treasury bills & other Gov. financial paper	7	1,284,685,383	1,303,112,819
Financial assets held for trading	8	2,580,976	140,500,854
Loans to customers and banks (net of provision)	9	5,772,323,543	4,129,780,885
Derivative financial instruments	10	1,072,521	1,535,559
<b><u>Financial Investments:</u></b>			
- Available for sale	11	114,817,200	84,297,117
- Held to maturity	11	144,520,016	16,539,376
Investments in subsidiaries and associates	12	89,631,243	70,550,000
Other assets	13	332,017,105	283,136,323
Property, plant and equipment (Net of Accu. Dep.)	14	159,152,195	157,666,762
<b>Total Assets</b>		<b><u>10,088,256,671</u></b>	<b><u>9,532,850,423</u></b>
<b><u>Liabilities and shareholders' equity</u></b>			
<b><u>Liabilities</u></b>			
Due to banks	15	827,469,545	323,814,213
Customers' deposits	16	8,127,496,008	8,353,457,235
Derivative financial instruments	10	1,159,026	59,147
Other liabilities	17	131,031,357	114,094,770
Other provisions	18	36,816,158	30,823,254
Term loans	19	92,325,600	-
Deferred tax liabilities	20	4,175,715	518,133
<b>Total liabilities</b>		<b><u>9,220,473,409</u></b>	<b><u>8,822,766,752</u></b>
<b><u>Shareholders' Equity</u></b>			
Paid up capital	21	800,000,000	800,000,000
Paid under capital increase		200,000,000	-
Reserves		23,923,618	27,428,027
Accumulated (losses)		(156,140,356)	(117,344,356)
<b>Total Shareholders' equity</b>		<b><u>867,783,262</u></b>	<b><u>710,083,671</u></b>
<b>Total Liabilities and Shareholders' Equity</b>		<b><u>10,088,256,671</u></b>	<b><u>9,532,850,423</u></b>
<b><u>Contingent liabilities and commitments</u></b>			
Liabilities for letters of guarantee, letters of credit and other commitments	23	2,517,641,305	2,023,169,374

The accompanying notes on pages 6 to 41 form an integral part of the financial statements.

**Dimitris Damkalidis**  
Chairman and Deputy CEO

**Ashraf Fouad**  
Finance Director and Chief Financial Officer

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**PIRAEUS BANK - EGYPT (S.A.E.)**

**Income Statement - for the year ended 31 December 2008**

(Amounts expressed in Egyptian Pounds)

	<u>Note</u>	<u>2008</u>	<u>2007</u>
Interest and similar income		829,270,262	547,250,523
Interest expense and similar charges		(629,006,186)	(420,140,067)
<b>Net interest income</b>	24	<b>200 264 076</b>	<b>127 110 456</b>
Fees and commission income		136,965,905	96,782,249
Fees and commission expense		(787,156)	(597,262)
<b>Net fees and commission income</b>	25	<b>136,178,749</b>	<b>96,184,987</b>
Dividend income	26	8,887,137	13,642,874
Net trading income	27	47,930,190	18,079,210
Financial investments (losses)	11	(1,787,211)	(834,777)
Impairment (loss) on loans		(112,528,878)	(94,346,433)
Administrative expenses	28	(259,818,048)	(187,881,953)
Other operating (expenses) income	29	(42,832,523)	25,685,422
<b>(Loss) before income tax</b>		<b>(23,706,508)</b>	<b>(2,360,214)</b>
Income tax expense		(15,089,492)	(84,142)
<b>(Loss) for the year</b>		<b>(38,796,000)</b>	<b>(2,444,356)</b>
<b>(Loss) per share</b>			
- Basic	31	<b>(0.76)</b>	<b>(0.05)</b>

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**PIRAEUS BANK - EGYPT (S.A.E.)**

**Cash Flow Statement - for the year ended 31 December 2008**

(Amounts expressed in Egyptian Pounds)

	<u>2008</u>	<u>2007</u>
<b><u>Cash flows from operating activities</u></b>		
(Loss) for the year	(38,796,000)	(2,444,356)
<b>Adjustments to loss for the year</b>		
Effect of changing the accounting policies	-	3,895,919
Depreciation & Amortization	29,664,145	19,355,802
Impairment loss on loans	9,208,416	3,000,359
Other provisions	116,990,314	106,092,281
Revaluation differences of other provisions in foreign currencies	82,468	(45,538)
(Gain) on sale of property, plant and equipment	(384,613)	(254,328)
Cash flows from operating activities before changes in operating assets and liabilities	<b>116,764,730</b>	<b>129,600,139</b>
<b>Net decrease (increase) in operating assets and liabilities</b>		
Due from banks	1,576,599,705	(1,654,130,009)
Treasury bills & other Gov. financial paper	86,450,000	(922,750,000)
Financial assets held for trading	126,688,191	4,369,865
Loans to customers and banks	(1,758,609,535)	(1,170,515,259)
Derivative financial instruments (net)	1,562,917	(1,476,412)
Other assets	(47,061,836)	(125,323,745)
Due to banks	503,655,332	(277,382,646)
Customers' deposits	(225,961,227)	3,983,258,127
Other liabilities	46,114,023	74,620,598
Deferred tax liabilities	3,657,582	84,142
<b>Net cash flows provided from operating activities</b>	<b>429,859,882</b>	<b>40,354,800</b>
<b><u>Cash flows from investing activities</u></b>		
Payments to purchase of property, plant and equipment branches, installation	(28,866,773)	(90,086,641)
Proceeds from sale of property, plant and equipment	1,269,863	575,850
Purchase of financial investments other than financial assets for trading	(160,334,216)	169,787,589
Purchase of investments in subsidiaries and associates	(18,728,890)	(34,980,000)
<b>Net cash flows (used in) provided from investing activities</b>	<b>(206,660,016)</b>	<b>45,296,798</b>
<b><u>Cash flows from financing activities</u></b>		
Term loans	92,325,600	-
Received under capital increase	200,000,000	300,000,000
<b>Net cash flows provided from financing activities</b>	<b>292,325,600</b>	<b>300,000,000</b>

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Net increase in cash and cash equivalents during the year	515,525,466	385,651,598
Cash and cash equivalents at beginning of the year	<u>869,809,727</u>	<u>484,158,129</u>
<b>Cash and cash equivalents at end of the year</b>	<b><u>1,385,335,193</u></b>	<b><u>869,809,727</u></b>
<b><u>Cash and cash equivalents are represented in (note 22)</u></b>		
Cash and due from Central Bank	990,081,369	542,915,412
Due from banks	1,197,375,120	2,802,815,316
Treasury bills & Other Gov Fin Papers	1,358,650,000	1,347,900,000
Deposits with banks (maturity more than three months from the date of acquisition)	(1,082,721,296)	(2,659,321,001)
Treasury bills & other Gov. financial paper (maturity more than three months from the date of acquisition)	<u>(1,078,050,000)</u>	<u>(1,164,500,000)</u>
<b>Cash and cash equivalents</b>	<b><u>1,385,335,193</u></b>	<b><u>869,809,727</u></b>

The accompanying notes on pages 6 to 41 form an integral part of the financial statements.

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**Statement of changes in shareholders' equity - for the year ended 31 December 2008**

(Amounts expressed in Egyptian Pounds)

	Share capital	Paid under capital increase	Legal reserve	General reserve	Capital reserve	Special reserve	Fair value of Available for sale investment reserve	Accumulated (losses)	(Loss) of the year	Total
<b>Balance as of 1 January 2007 (as previously reported)</b>	<b>500,000,000</b>	-	<b>9,765,063</b>	<b>13,539,645</b>	<b>227,400</b>	-	-	<b>(114,900,000)</b>	-	<b>408,632,108</b>
Effect of change in accounting policies after tax	-	-	-	-	-	-	(3,320,198)	4,280,968	-	<b>960,770</b>
Transfer of surplus of change in accounting policy to special reserve	-	-	-	-	-	4,280,968	-	(4,280,968)	-	-
<b>Balance as of 1 January 2007 as restated</b>	<b>500,000,000</b>	-	<b>9,765,063</b>	<b>13,539,645</b>	<b>227,400</b>	<b>4,280,968</b>	<b>(3,320,198)</b>	<b>(114,900,000)</b>	-	<b>409,592,878</b>
Capital increase	<b>300,000,000</b>	-	-	-	-	-	-	-	-	<b>300,000,000</b>
Net change in fair value available for sale investments after tax	-	-	-	-	-	-	2,935,149	-	-	<b>2,935,149</b>
(Loss) for the year 2007 (as adjusted)	-	-	-	-	-	-	-	-	(2,444,356)	<b>(2,444,356)</b>
<b>Balance at 31 December 2007</b>	<b>800,000,000</b>	-	<b>9,765,063</b>	<b>13,539,645</b>	<b>227,400</b>	<b>4,280,968</b>	<b>(385,049)</b>	<b>(114,900,000)</b>	<b>(2,444,356)</b>	<b>710,083,671</b>
<b>Balance at 1 January 2008</b>	<b>800,000,000</b>	-	<b>9,765,063</b>	<b>13,539,645</b>	<b>227,400</b>	<b>4,280,968</b>	<b>(385,049)</b>	<b>(117,344,356)</b>	-	<b>710,083,671</b>
Paid under capital increase	-	200,000,000	-	-	-	-	-	-	-	<b>200,000,000</b>
Net change in fair value available for sale investments after tax	-	-	-	-	-	-	(3,504,409)	-	-	<b>(3,504,409)</b>
Loss for the year 2008	-	-	-	-	-	-	-	-	(38,796,000)	<b>(38,796,000)</b>
<b>Balance at 31 December 2008</b>	<b>800,000,000</b>	<b>200,000,000</b>	<b>9,765,063</b>	<b>13,539,645</b>	<b>227,400</b>	<b>4,280,968</b>	<b>(3,889,458)</b>	<b>(117,344,356)</b>	<b>(38,796,000)</b>	<b>867,783,262</b>

The accompanying notes on pages 6 to 41 form an integral part of the financial statements.

# PIRAEUS BANK - EGYPT S.A.E

## Notes to the financial statements – for the year ended 31 December 2008

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

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### 1. Activity

The Bank carries out corporate and retail banking and investments activities inside and outside Arab Republic of Egypt through its head office located in Cairo and 58 other branches and sub-branches. The number of employees at the balance sheet date exceeds 1,260 employees.

The Bank was established under the name of Alexandria Kuwait International Bank according to the ministerial decree no.119 of 1978 then the name was modified according to the ministerial decree No.107 of 1997 to be Egyptian Commercial Bank. Piraeus Bank Greece became the owner of 87.97% of the bank's capital after increasing the bank's capital to be EGP 500 million (this share increased to be 95.36% after the latest capital increase to be EGP 800 million), since then according to the ministerial decree No. 209/2 dated 25 January 2006, the bank's name has changed to be Piraeus Bank Egypt.

Piraeus Bank Egypt was incorporated under Law No. 43 of 1974 which replaced by the Investment Guarantees and Incentives Law No. 8 of 1997. The Head office is located at 10, Talaat Harb Street. The bank is listed in Egypt securities exchange,

The issuance of these financial statements was approved by the board of directors on 26 February 2009. The General Assembly of the Bank has the right to modify these statements after its issuance.

### 2. Significant accounting policies

The significant accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the years presented.

#### 2-1 Basis of preparation of the financial statements

The financial statements are prepared in accordance with the rules of preparation and presentation of the Bank's financial statements issued by the Central Bank of Egypt on 27 June 2002 and its amendments, including amendments related to financial investments issued on 16 December, 2008 and with the requirements of related applicable Egyptian laws and regulations.

Those new rules require Egyptian banks to apply the changes related to financial investments on preparation of the financial statements for the year 2008 and restating comparative figures retroactively to comply with the current requirements. Other requirements including those relating to investments in subsidiaries and associates are required to be complied with while preparing financial statements for years starting in or after 1 January, 2010. The management has implemented the Central Bank of Egypt rules and restated comparative figures for 2007 to comply with the new rules requirements.

These separate financial statements have been prepared in accordance with the related local laws. The Bank has also prepared the consolidated financial statements for the Bank and its subsidiaries in accordance with the Egyptian Accounting Standards. All subsidiaries over which the Bank has - directly or indirectly - more than one half of the voting rights or has the power to govern the financial and operating policies, regardless of their operating activities have been consolidated. Consolidated financial statements can be obtained from the Bank management. Investment in subsidiaries and associates are presented in the Bank's separate financial statements and accounted for at cost less impairment.

**Significant accounting policies (continued)**

**Following is a summary of the most important changes on the accounting policies and the financial statements which are applicable for the financial periods starting on or after 1 January, 2008:**

- i. Available for sale financial investments are measured at fair value. Gains and losses arising from changes in their fair values are directly recognized in equity until being derecognized as a result of sale or impairment. Cumulative gain or loss previously recognized in equity are recycled to the income statement. Previously they were measured at lower of cost modified by foreign exchange differences and fair value and the decrease in value charged to the income statement.

All the derivative financial instruments are measured at their fair values and recognized in balance sheet. This resulted in recognizing all previous gains and losses arising from changes in fair value retrospectively in the retained earnings opening balance. Note number (38) shows the effect of this change.

Starting from 1 July, 2008, the Bank is permitted to reclassify certain financial instruments, at fair value as of the reclassification date, out of available for sale or held for trading under certain conditions.

On 1 October, 2008, the bank has reclassified financial assets amounted to EGP 63,485,946 from financial assets held for trading to available for sale investment category.

**ii. Changes that are applicable for the financial periods starting on or after January 1, 2010 include:**

- Disclosure requirements for risk management objectives, policies and procedures and capital adequacy management and other notes to the financial statements.
- Reassessment of residual values of fixed assets to determine the significance of their effect on the depreciable amount, and determining useful lives of the fixed assets additions at the significant components level.
- Determination of related parties in accordance to the amended requirements and adding some new disclosures on related party transactions.
- Changing the method of measurement of impairment loss for loans, facilities, and other debt instruments measured at the amortized cost, and forming collective impairment provisions for groups of assets carrying similar credit risk and characteristic instead of the general provision made for the loans and facilities. Surplus of the outstanding provisions on January 1, 2009 over the collective impairment calculated according to the new method will be transferred to a special reserve in equity.
- When determining the effective interest rate for the purpose of applying the amortized cost to calculate interest income and expenses on debt instruments, fees and commissions directly attributable to the acquisition or issuing debt instruments will be added or deducted from acquisition/issuance amount as part of the transaction cost.

**Significant accounting policies (continued)**

- Assessing the outstanding compound financial liability instruments on January 1, 2009 and split the liability component and transfer its cost of return to the retained earnings in the owners' equity for the period before January 1, 2009 and charging subsequent cost of return to the income statement, and split the equity component and presented in equity.

**2-2 Foreign currencies translation**

- **Functional and presentation currency**  
The financial statements are presented in Egyptian Pound, which is the bank's functional and presentation currency.

- **Transactions and balances**  
The Bank maintains its accounts in Egyptian Pound. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. All monetary assets and liabilities balances in foreign currencies at balance sheet date are translated at the exchange rates prevailing at that date. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the following items in the income statement:-

- Net trading income or net income from financial instruments designated at inception at fair value through profit or loss for assets and liabilities held for trading or that designated at inception at fair value through profit or loss, as applicable,

Other Operating income (expense) for the rest of items

- Changes in the fair value of monetary instrument denominated in foreign currency classified as available for sale (debt instruments) are analyzed between translation differences resulted from changes in the amortized cost of the instrument and differences resulted from changes in prevailing exchange rates. Translation differences related to changes in the amortization costs are recognized in the income statement as a part of interest income from loans and similar income, differences related to exchange rate are recognized in other operating income (expenses) item. Fair value changes are recognized through equity (fair value reserve / available for sale investments).
- Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are recognized as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available for sale financial assets, are included in the fair value reserve in equity.

**2-3 Treasury bills & other Gov. financial paper**

Treasury bills & other Gov. financial paper are recorded at face value. Treasury bills are presented in the balance sheet net of unearned interest.

**Significant accounting policies (continued)**

**2-4 Financial assets**

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

**2.4.1 Financial assets at fair value through profit or loss**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

- A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.
- Financial assets are designated at fair value through profit or loss at inception when:
  - This significantly reduces measurement mismatch that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for loans and advances to customers or banks and issued debt instruments;
  - Certain investments, such as equity investments, are managed and evaluated by fair value in accordance with a documented risk management or investment strategy and reported to key management on that base, are designated at fair value through profit and loss;
  - Financial instruments, such as debt instrument, containing one or more embedded derivatives which significantly affect the cash flows, are designated at fair value through profit and loss.
- Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value through profit or loss at inception.
- Derivatives may not be reclassified out of the fair value through profit or loss category. Further, financial instruments may not be reclassified out of the fair value through profit or loss category if upon initial recognition it was designated by the entity's as at fair value through profit or loss.

**Starting from 1 July, 2008 and only till 31 December, 2008 the following policy has been followed:**

- The bank had reclassified held for trading assets that are not currently acquired for the purpose of selling or repurchasing in the near term (even if its principle acquisition purpose was for selling or repurchasing in the near term). These financial assets are reclassified to available for sale investments using their fair values on reclassification date. Any profits or losses incurred/generated before the reclassification date are not written off/ back. Any reclassification after this date are done based on respective investment's value on the purchase date.

**Significant accounting policies (continued)**

- The fair value of financial assets on the reclassification date will be its new cost for available for sale investments and its amortized cost for the held to maturity, loans, and advances.
- In all cases the bank can't reclassify any financial instrument to the group valued at fair value through profit or losses or assets held for trading.

**2.4.2 Loans and receivables**

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

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

**2.4.3 Held to maturity investments**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. The bank will not classify any financial assets as held to maturity if the bank has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held to maturity investments before maturity other than in specific situations, such as selling insignificant amount near to maturity. In such a case, any financial assets classified as held to maturity are reclassified into the available for sale investments category, and consequently measured at fair value instead of amortized cost, in addition to, suspending the classification of any investments in this group for two consecutive years. As exception to the above, this category includes owned shares in investments funds which the bank has to hold in accordance with the law when the bank is the founder of the fund.

**2.4.4 Available for sale investments**

Available for sale investments are non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

**The following is followed for the financial assets:**

- Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognized on trade-date, the date on which the Bank commits to purchase or sell the asset.
- Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are recorded in the statement of income in net trading income.

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

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**Significant accounting policies (continued)**

- Financial assets are derecognized when the contractual rights to receive cash flows from the financial assets been expired or when the Bank transfers substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expired.
- Available for sale investment and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost.
- Gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale investments are recognized directly in equity, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity is recycled to the income statement.
- Interest is calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the income statement. Dividends on available for sale equity instruments are recognized in the income statement when the entity’s right to receive payment is established.
- 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, and if the Bank could not assess the value of the equity classified as available for sale, these instruments should be valued at cost after deducting the impairment in value.

**2.4.5 Reclassification**

- The bank may reclassify non-derivative held for trading financial assets out of held for trading category if the purpose of holding the asset in the short term was not to sell it. In rare cases shall the bank reclassify held for trading investments other than loans and facilities out of held for trading group, these cases may arise from unusual events that are not expected to be repeated in the short term. The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the available for sale and trading categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.
- Reclassifications are made at fair value as of the reclassification date, the fair value becomes the cost or the amortized cost on case by case bases. Gains or losses of the fair value that were recognized before the reclassification are not to be reversed after the reclassifications. The effective interest rate for the interest bearing financial assets to be determined on the date of the reclassification. The effective interest rate is then adjusted with any subsequent change in cash flow assessment. Gains and losses previously recognized in the equity will be accounted as follows:

**Significant accounting policies (continued)**

1. If the reclassified financial assets has fixed maturity date, any previous gain or loss on that asset that has been recognized directly in equity should be amortized to profit and loss over the remaining life of the held to maturity investment using the effective interest rate method. If the financial assets are subsequently impaired, any gain or loss that has been recognized directly in equity is recognized in the income statement.
  2. If the reclassified financial asset has no fixed maturity date, any previous gain or loss on that asset remains in the equity until selling or disposing of these assets, on that date it will be recognized in the income statement. If the financial asset is subsequently impaired, any gain or loss that has been recognized directly in equity is recognized in the income statement.
- The Bank is required to adjust the carrying amount of the financial asset (or Group of financial assets) to reflect actual and revised estimated cash flow whenever it revises its cash flow estimates. The Bank recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognized as income or expense in the income statement.
  - In all cases, if the Bank reclassified a financial asset with a floating interest rate and subsequently revised its estimated future cash flow associated with changes of market interest rate, the adjustment will be on the effective interest rate on the date of change in estimate and not on the carrying amount of the asset on the date of change in estimate.

**2-5 Offsetting financial instruments**

Financial assets and liabilities are not offsetted unless there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability in the same time.

An exception for the above, treasury bills sold subject to repurchase agreements ('repos') and purchased under agreements to resell ('reverse repos') are offset in the balance sheet under treasury and other government discounted bills.

**2-6 Derivative financial instruments**

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement under net trading income. However, the gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with financial assets and financial liabilities designated at fair value through profit or loss are included in net income from financial instruments designated as such.

**Significant accounting policies (continued)**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in 'net interest income – net gains/losses on hedging instruments'. Effective changes in fair value of currency futures are reflected in 'net trading income'. Any ineffectiveness in all contracts and related hedged items coming from previous paragraph are recorded in "net trading income".

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement under net trading income. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of currency swaps and options are recorded in 'net trading income. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Hedges of net investments are accounted similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

**2-7 Impairment of financial assets**

**2.7.1 Financial assets carried at amortized costs other than loans to customers and banks**

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is an objective evidence of impairment loss includes:

- Significant financial difficulty of the issuer or obligor;
- Breach of contract delinquency in such as default of payment;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- Deterioration of the borrower's competitive position;
- The bank, for economic or legal reasons relating to the borrower's financial difficulties, granting the borrower a concession that the bank would not otherwise consider in normal occasions;
- Deterioration in the value of collateral; and
- Downgrading the credit status.

**Significant accounting policies (continued)**

The existence of clear data that indicates measurable decrease in estimated future cash flows from a group of financial assets is considered as objective evidence of impairment for that group, irrespective of the ability of identifying that reduction for each individual asset. e.g, the increase in number of repayment defaults for a particular banking product.

The estimated period between a loss occurring and its identification is determined by the bank for each identified portfolio. In general, the periods used vary between three and 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 and determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment according to the historical default rates.

**2.7.2 Provisions for loans to customers and banks**

In accordance with the Central Bank of Egypt credit quality rules and regulations issued on 6 September 2005, provisions are made for loans to customer and banks on an individual basis in addition to general provision percentage calculated on the total loans and other contingent liabilities.

Loans are written off against related provisions; when the Bank realizes that it is not feasible to collect such loans. Cash recoveries from previously written off bad debts are added to the provision.

**2.7.3 Available for sale investments**

The Bank assesses at each balance sheet date whether there is an objective evidence that a financial asset or a group of financial assets classified as available for sale is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

Starting from 1 July 2008 and only till 31 December 2008 considering the international and local financial crises the decrease in the market value is not considered as impairment.

During the periods, that begin from or after 1 January 2009. 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 a period of more than 9 months. If any such evidence exists for available for sale financial assets, the cumulative loss is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement; instead it is reversed through equity. If, in subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

**Significant accounting policies (continued)**

**2-8 Investments in subsidiaries and associates**

Investments in associate and subsidiaries are measured at cost. If fair values of an individual investment is declined below it's related book value, the book value is reduced to reflect the impairment and such decrease is charged to the income statement under "other investments valuation differences". Subsequent increase in the fair value is credited to the same item in the income statement within the limits of amounts previously charged.

**2-9 Property, plant and equipment**

Property, plant and equipment comprise mainly the premises of the head office, branches and offices. All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, when applicable, and 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.

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 and constructions	4%
Improvements of rented real estate	20%
Office equipment and vaults	20%
Typewriters ,calculators and air conditions	20%
Vehicles	16.67%
Computers and software	25%
Furniture and fixtures	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each balance sheet date and adjusted when necessary. Assets that are subject to depreciation 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.

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

**2-10 Other provisions**

Provision for contingent liabilities are built up individually in addition to a general provision calculated as a percentage from total other contingent liabilities after deducting the balances covered by deposits or bank guarantees issued from credible foreign banks. These provisions are formed in light of the management experience as well as the detailed periodic contingent liabilities training courses.

**Significant accounting policies (continued)**

Provisions for restructuring costs and legal claims are recognized 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 will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Reversals of the provisions no longer required are recorded in other operating income and (expense) items.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. If the settlement is within one year or less, provisions will be measured by the contractual value if there is no material variance otherwise, it will be measured by present value.

**2-11 Taxes**

The income tax on the Bank's profits includes both the current tax, and deferred tax. The due income tax is directly recognized in the statement of income, and the income taxes related to shareholder equity items are directly recognized in shareholder equity. Income tax is calculated according to the prevailing rates, using the tax rates as of balance sheet date in addition to the tax settlements relating to previous periods.

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

Deferred tax is recognized as Bank's assets to the extent it is probable to use this asset to reduce the Bank's due tax during the future years. Deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered through the following years. And in case of increasing the probable taxable profits the deferred asset to be increased to the extent that was previously reduced.

**2-12 Employees' benefits**

Defined contribution plan

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Bank pays contributions to Social Insurance Authority and the Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

**Significant accounting policies (continued)**

**Employee profit share**

The Bank pays a percentage of the profit cash dividends as employee profit share; the employee profit share is recognized as part of dividends in the equity and as a liability when it is approved by the general assembly of the Bank, and no obligation is recognized for the employees share in the undistributed profits retained earnings.

**2-13 Share capital**

**2.13.1 Capital Cost**

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

**2.13.2 Dividends**

Dividends are recognized as a deduction from equity in the period in which they are approved by the Bank's general assembly. These dividends include the employee share and board of director's incentives as stated by the article of incorporation and law.

**2-14 Fiduciary activities**

The Bank acts as a trustee and in other fiduciary capacities that results in the holding or managing of assets on behalf of individuals, trusts, and retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

**2-15 Revenue recognition**

**2.15.1 Interest income and expense**

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss at inception, are recognized within 'interest and similar income' and 'interest and similar changes' in the income statement using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, early payment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on loans and receivables is recognized on accrual basis except for the interest income on non performing loans, which ceases to be recognized as revenue when the recovery of interest or principle is in doubt.

**Significant accounting policies (continued)**

**2.15.2 Dividends income**

Dividends are recognized in the income statement when the Bank's right to receive payment is established.

**2.15.3 Fees and commission income**

Fees and commissions are generally recognized on an accrual basis when the service has been provided unless it is related to more than one financial period then; it is recognized on time proportion basis.

**2-16 Lease**

Finance lease are accounted for according to Law No. 95 of 1995, if the lessee based on contractual agreement gives the lessee purchase option on the leased asset at a specified price and specific date and has a lease term of not less than 75% of the leased asset economic life, or the present value of the minimum lease payment is 90% or more of the fair market value of the asset. Other lease agreements are considered operating leases.

**2.16.1 The Bank is the lessee**

For finance lease contracts, lease expenses including leased asset maintenance expense are recognized as an expense when incurred. If the Bank decides to use the purchase option, cost of the option is capitalized and depreciated over the remaining useful life of the asset using methods applied for similar assets.

Lease payments made under operating lease should be recognized as an expense on the straight-line basis over the lease term.

**2.16.2 The Bank is the lessor**

For finance leased assets, the assets are included in fixed assets in the balance sheet and depreciated over the expected useful life using methods applied for similar assets. Lease revenue credited to the income statement comprises, the yield on the lease plus an amount equivalent to the leased asset depreciation for the period. The difference between lease revenue recognized in the income statement and total receivables from finance lease customers is deferred in the balance sheet until the finance lease agreement is completed; then it is used to offset the net asset value of leased asset. Maintenance and insurance expenses, not charged to the lessee, are charged to the income statement.

Where there is objective evidence that the Bank will not be able to collect the entire balance of lease receivables, they are written down to their recoverable amount.

Assets leased under operating lease agreements are included in fixed assets in the balance sheet and depreciated over the expected useful life using methods applied for similar assets. Lease income from operating leases net of any discounts granted to the lessee is recognized in the income on a straight basis over the lease term.

**Significant accounting policies (continued)**

**2-17 Cash and cash equivalents**

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

**2-18 Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year, Note number (38) shows the figures that have been reclassified.

**3. Financial instruments and related risk management**

**3-1 Financial instruments**

**A.** The Bank's financial instruments are represented in the financial assets and financial liabilities. Financial assets include cash balances, current accounts and deposits with banks, investments and loans to customers and banks. Financial liabilities include customers' deposits and due to banks. Financial instruments also include derivative financial instruments and obligations recorded as contingent liabilities and commitments.

Note (2) to the financial statements includes the accounting policies for recognition and measurement of significant financial instruments and the related revenues and expenses.

**B.** Fair value financial instruments

According to the applied valuation basis of the Bank's assets and liabilities included in the notes to the financial statements, the financial instruments' fair value do not substantially differ from their book value at the balance sheet date. Note (11) to the financial statements disclose the fair values of financial investments other than those held for trading at the balance sheet date.

**C.** Forward contracts

According to the Central Bank of Egypt' regulations, the Bank does not carry out forward contracts except to the limit to cover its needs of foreign currencies or customers' needs to meet their foreign currencies obligations that may result from their transaction through the Bank. All forward contracts are short-term transactions.

**3.2 Risk management related to financial instruments**

**A. Interest rate risk**

The value of some financial instruments fluctuates due to the fluctuation of related interest rates. The Bank adopts some procedures to minimize that risk such as:

- Correlating the interest rate on borrowing and lending.
- Determining interest rates in consideration with the prevailing discount rates on various currencies.

Note (33) to the financial statements discloses the average interest rates applied by the Bank during the year on these financial assets and liabilities.

**Financial instruments and related risk management (continued)**

**B. Credit risk**

Loans to customers and banks, investments in bonds, current accounts and deposits with banks, derivatives and rights and obligations of third parties are financial assets exposed to the credit risk which is represented in these parties inability to partially or fully settle their debts, when due.

The Bank adopts certain procedures to minimize credit risk such as:

- Preparing credit studies on customers and Banks before dealing with them and determining related credit risk;
- Obtaining adequate guarantees to reduce the risks resulting from insolvency of customers or banks;
- Monitoring and preparing regular studies on customers and banks in order to evaluate their financial and credit position and estimate the required provisions for non-performing balances; and
- Diversification of loan portfolio and balances due from banks over various business sectors to avoid concentration of risk.

Note (9) to the financial statements discloses the distribution of the loans portfolio over the various business sectors.

**C. Foreign exchange risk**

The nature of the Bank's activity requires dealing in many foreign currencies which expose the Bank to the risk of fluctuation in exchange rates. To minimize this risk, the Bank monitors balancing of foreign currencies positions according to Central Bank of Egypt instructions in that respect.

Note (35) to the financial statements discloses significant foreign currency positions at the balance sheet date.

**4. Critical accounting estimates and judgments**

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**A. Impairment of available for sale equity investments**

The Bank determines that available for sale equity investments 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 share price. In addition, impairment may be appropriate when there is an evidence of deterioration in the financial status of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

**Critical accounting estimates and judgments (continued)**

**B. The fair value of derivatives**

Fair value of financial instruments not quoted in an active market is determined using valuation techniques. When valuation techniques (such as models) are used to determine the fair value they are tested and reviewed periodically using qualified independent persons. All the models were approved before using them, to guarantee that their results reflect actual data and prices can be compared with the market. To the extent practical, these models only use observable data, however, some areas such as credit risk related to the Bank and counter parties, volatility and correlations requires management's assessments. Changes in assumptions about these factors can affect the disclosed fair value of the financial instrument disclosed.

**C. Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. The Bank assesses its intention and ability to hold these investments to maturity. If the Bank failed to hold these investments to maturity except for special cases as to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale. So these investments will be valued using the fair value instead of using the amortized cost in addition to cease investments categorization in this item.

**D. Income taxes**

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognizes the liabilities for anticipated outcome tax inspections based on estimates of incurring additional taxes. When the final tax assessment differs from the amount recognized, such difference affects the income tax and deferred tax provisions in the period in which such assessment is made.

**5. Cash and balance with Central Bank**

	<u>2008</u>	<u>2007</u>
Cash on hand	141,503,101	155,551,523
Reserve balances with Central Bank of Egypt	848,578,268	387,363,889
<b>Total</b>	<b><u>990,081,369</u></b>	<b><u>542,915,412</u></b>

**6. Due from banks**

	<u>2008</u>	<u>2007</u>
Deposits	1,082,721,296	2,659,321,001
Current accounts	114,653,824	143,494,315
	<b><u>1,197,375,120</u></b>	<b><u>2,802,815,316</u></b>
Foreign Banks	972,821,895	1,103,125,105
Central Bank	203,940,736	1,665,332,996
Local Banks	20,612,489	34,357,215
	<b><u>1,197,375,120</u></b>	<b><u>2,802,815,316</u></b>

## PIRAEUS BANK - EGYPT S.A.E

### Notes to the financial statements – for the year ended 31 December 2008

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

#### 7. Treasury bills & other Gov. financial paper

	<u>2008</u>	<u>2007</u>
<u>Egyptian treasury bills, net</u>	<u>1,284,685,383</u>	<u>1,303,112,819</u>
<b>Treasury bills represented as follows:</b>		
Treasury Bills, maturity 91 days	280,600,000	183,400,000
Treasury Bills, maturity 182 days	264,750,000	813,350,000
Treasury Bills, maturity 364 days	813,300,000	351,150,000
Unearned income	(73,964,617)	(44,787,181)
<b>Net Treasury Bills</b>	<u><b>1,284,685,383</b></u>	<u><b>1,303,112,819</b></u>

#### 8. Financial assets held for trading

	<u>2008</u>	<u>2007</u>
<b>Equity instruments quoted on the stock exchange:</b>		
Local corporate shares	200,268	108,600,385
Bank's shares	-	917,700
Mutual funds investment certificates	2,380,708	30,982,769
<b>Total Held for trading investments</b>	<u><b>2,580,976</b></u>	<u><b>140,500,854</b></u>

According to the amendments related to financial statements issued by the Central Bank on 16 December 2008, investments amounted to EGP 63,485,946 were reclassified out of held for trading to available for sale investment which resulted in transferring an amount of EGP 4,139,127 out of investments revaluation differences in the statement of income to the available for sale reserve in the statement of the share holders' equity.

#### 9. Loans to customers and Banks

	<u>2008</u>	<u>2007</u>
Loans to customers	6,337,131,827	4,394,441,237
Loans to banks	500,016	166,007,306
	<u><b>6,337,631,843</b></u>	<u><b>4,560,448,543</b></u>
Allowance for impairment losses on loans and advance to customer	(440,513,846)	(329,369,326)
Interest in suspense	(124,794,454)	(101,298,332)
<b>Net Loans</b>	<u><b>5,772,323,543</b></u>	<u><b>4,129,780,885</b></u>

## PIRAEUS BANK - EGYPT S.A.E

### Notes to the financial statements – for the year ended 31 December 2008

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

#### Loans to customers and Banks (continued)

Movement of allowance for impairment losses for the year is represented as follow:

	31 December 2008		
	Specific LE	General LE	Total LE
<b>Balance at the beginning of the year</b>	<b>252,680,386</b>	<b>76,688,940</b>	<b>329,369,326</b>
Charged during the year	80,780,079	31,748,798	112,528,877
Recoveries of loans previously written off	-	3,055,369	3,055,369
Foreign currency revaluation differences	(18,788)	(29,981)	(48,769)
Transfers between provisions	(691,000)	(758,000)	(1,449,000)
Used during the year	(2,941,957)	-	(2,941,957)
<b>Balance at the end of the year</b>	<b>329,808,720</b>	<b>110,705,126</b>	<b>440,513,846</b>

  

	31 December 2007		
	Specific LE	General LE	Total LE
<b>Balance at the beginning of the year</b>	<b>298,461,558</b>	-	<b>298,461,558</b>
Addition during the year	17,657,493	76,688,940	94,346,433
Recoveries of loans previously written off	6,147,702	-	6,147,702
Difference in valuation of provision on foreign currencies	(7,097)	-	(7,097)
Used during the year	(69,579,270)	-	(69,579,270)
<b>Balance at the end of the year</b>	<b>252,680,386</b>	<b>76,688,940</b>	<b>329,369,326</b>

#### 10. Derivatives

The Bank uses the following derivative instruments for both hedging and non-hedging purposes:

- Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organized financial market.

Forward rate agreements are individually negotiated and require cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a nominal value agreed on.

- Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps.

## PIRAEUS BANK - EGYPT S.A.E

### Notes to the financial statements – for the year ended 31 December 2008

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

#### Derivatives (continued)

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 with reference to the current fair value, and a proportion of the notional amount of the contracts. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

- The nominal value of certain types of financial instrument provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks.

The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

The fair values of held for trading derivative instruments are set out below:

	2008			2007		
	Contractual / national amount	Fair Value		Contractual / national amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
<b>Foreign exchange derivatives</b>						
Currency forward	-	-	-	17,760,160	62,182	(59,147)
Currency swap	165,411,000	-	(1,041,333)	27,572,500	147,306	-
<b>Total foreign exchange derivatives</b>		-	<b>(1,041,333)</b>		<b>209,488</b>	<b>(59,147)</b>
<b>Interest rate derivation</b>						
Interest rate scrap	325,573,500	1,072,521	(117,693)	71,688,500	1,326,071	-
<b>Total interest rate derivative</b>		<b>1,072,521</b>	<b>(117,693)</b>		<b>1,326,071</b>	<b>-</b>
<b>Total held for trading derivative assets / (liabilities)</b>		<b>1,072,521</b>	<b>(1,159,026)</b>		<b>1,535,559</b>	<b>(59,147)</b>

**PIRAEUS BANK - EGYPT S.A.E**

**Notes to the financial statements – for the year ended 31 December 2008**

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

**11. Financial investments**

	<u>2008</u>	<u>2007</u>
<b>Available for sale investments</b>		
<u>Debt instruments – at fair value</u>		
- Listed	6,083,574	6,345,823
<u>Equity instruments – at fair value</u>		
- Listed	53,955,023	35,647,243
- Unlisted	54,778,603	42,304,051
<b>Total Available-for-sale investments (1)</b>	<b><u>114,817,200</u></b>	<b><u>84,297,117</u></b>
<b>Held to Maturity investments</b>		
<u>Debt instruments – at amortized cost</u>		
- Listed	124,409,375	-
- Unlisted	16,540,641	16,539,376
Mutual fund's certificate	5,000,000	-
Less Impairment (Losses)	(1,430,000)	-
<b>Total Held to maturity investments (2)</b>	<b><u>144,520,016</u></b>	<b><u>16,539,376</u></b>
<b>Total financial investments (1+2)</b>	<b><u>259,337,216</u></b>	<b><u>100,836,493</u></b>
Current	16,540,641	-
Non-current	127,979,375	16,539,376
	<b><u>144,520,016</u></b>	<b><u>16,539,376</u></b>
Debt instruments with fixed interest rate	124,409,375	-
Debt instruments with floating interest rate	16,540,641	16,539,376
	<b><u>140,950,016</u></b>	<b><u>16,539,376</u></b>

Investments amounted to EGP 63 485 946 was transferred to Available for sale account as disclosed in note (8) to the financial statement.

**PIRAEUS BANK - EGYPT S.A.E**

**Notes to the financial statements – for the year ended 31 December 2008**

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

**Financial investments (continued)**

The movement in the financial investments during the year are as follows:

	<b>Available for sale investments</b>	<b>Held to maturity investment</b>	<b>Total</b>
<b>Balance as at 1 January 2007 before adjustment</b>	254,861,267	17,115,938	<b>271,977,205</b>
The effect of changing the accounting policies	349,570	-	<b>349,570</b>
<b>Balance as at 1 January 2007 after adjustment</b>	<b>255,210,837</b>	<b>17,115,938</b>	<b>272,326,775</b>
Disposal (sale / redemption)	(172,495,747)	-	<b>(172,495,747)</b>
Exchange difference in foreign currency	(1,191,642)	(576,562)	<b>(1,768,204)</b>
Gain from changes in fair value	2,935,149	-	<b>2,935,149</b>
Impairment losses	(161,480)	-	<b>(161,480)</b>
<b>Balance as at 31 December 2007</b>	<b>84,297,117</b>	<b>16,539,376</b>	<b>100,836,493</b>
<b>Balance as at 1 January 2008</b>	<b>84,297,117</b>	<b>16,539,376</b>	<b>100,836,493</b>
Transfers	63,485,946	124,409,375	<b>187,895,321</b>
Additions	6,170,857	5,000,000	<b>11,170,857</b>
Disposal (sale / redemption)	(34,513,469)	-	<b>(34,513,469)</b>
Exchange difference on foreign currency	193,956	1,265	<b>195,221</b>
Gain from changes in fair value	(3,528,756)	-	<b>(3,528,756)</b>
Impairment losses	(1,288,451)	(1,430,000)	<b>(2,718,451)</b>
<b>Balance as at 31 December 2008</b>	<b>114,817,200</b>	<b>144,520,016</b>	<b>259,337,216</b>

Financial investments losses presented as follows:

	<b>2008</b>	<b>2007</b>
Gain (Loss) on sale of available for sale financial assets	931,240	(673,297)
(Loss) impairment of available for sale equity instruments	(1,288,451)	(161,480)
(Loss) impairment of held to maturity mutual fund's certificate	(1,430,000)	-
	<b>(1,787,211)</b>	<b>(834,777)</b>

## PIRAEUS BANK - EGYPT S.A.E

### Notes to the financial statements – for the year ended 31 December 2008

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

#### 12. Investments in subsidiaries and associates

	31 December 2008		31 December 2007	
	Value LE	Share %	Value LE	Share %
<b>A. Capital share in subsidiaries</b>				
Piraeus Company – Egypt for financial leasing	49,966,000	99.93%	29,980,000	99.93%
Piraeus Company – Egypt for investment	9,980,000	99.8%	9,980,000	99.8%
Piraeus Company – Egypt for brokerage	4,980,000	99.6%	4,980,000	99.6%
Phoenix Kato Company for mutual funds management	3,595,000	89.88%	3,595,000	89.88%
<b>B. Capital share in associates</b>				
Nile Company for Shoes	3,540,000	39.33%	3,540,000	39.33%
Alexandria Company for Investment and Development	4,400,000	22%	4,400,000	22%
Integrated Storage systems Company	400,000	40%	400,000	40%
Piraeus Company for Insurance Investments – Egypt	800,000	40%	100,000	40%
Borg El Arab company for Industry	11,970,243	27.47%	13,575,000	27.47%
	<b>89,631,243</b>		<b>70,550,000</b>	

- Investments in subsidiaries and associates are not Listed in the stock exchange.

#### 13. Other assets

	2008	2007
Accrued revenue	53,134,009	45,167,870
Prepaid expenses	217,701,979	92,570,381
Advance payment for purchase of fixed assets	1,231,786	4,341,825
Assets reverted to bank in settlement of debts (after deducting impairment)	36,093,771	31,106,771
Security Deposits & working funds	3,377,071	2,753,808
Other	20,478,489	107,195,668
<b>Total</b>	<b>332,017,105</b>	<b>283,136,323</b>

**PIRAEUS BANK - EGYPT S.A.E**

**Notes to the financial statements – for the period ended 31 December 2008**

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

**14. Property, plant and equipment (net of accumulated depreciation)**

	<b>Land and building</b>	<b>Real estate tenant improvement</b>	<b>Machines and equipment</b>	<b>Computer integrated system</b>	<b>Vehicles</b>	<b>Others</b>	<b>Total</b>
<b>Balance as of 1 January 2007</b>							
Cost	47,881,516	43,809,373	17,616,948	20,937,726	6,605,625	8,848,585	<b>145,699,773</b>
Accumulated depreciation at 1 January 2007	(12,210,259)	(17,239,135)	(9,645,161)	(10,365,489)	(2,475,506)	(3,128,185)	<b>(55,063,735)</b>
<b>Net book value as of 1 January 2007</b>	<b>35,671,257</b>	<b>26,570,238</b>	<b>7,971,787</b>	<b>10,572,237</b>	<b>4,130,119</b>	<b>5,720,400</b>	<b>90,636,038</b>
Additions	40,313,375	25,226,240	2,897,436	11,967,927	1,325,595	4,977,475	<b>86,708,048</b>
Disposals	-	-	(126,131)	(19,082)	(706,750)	-	<b>(851,963)</b>
Depreciation	(1,552,441)	(7,447,821)	(2,438,827)	(4,992,684)	(1,102,269)	(1,821,760)	<b>(19,355,802)</b>
Disposals depreciation	-	-	42,123	3,094	485,224	-	<b>530,441</b>
<b>Net book value as of 31 December 2007</b>	<b>74,432,191</b>	<b>44,348,657</b>	<b>8,346,388</b>	<b>17,531,492</b>	<b>4,131,919</b>	<b>8,876,115</b>	<b>157,666,762</b>
<b>Balance as of 1 January 2008</b>							
Cost	88,194,891	69,035,613	20,388,253	32,886,571	7,224,470	13,826,060	<b>231,555,858</b>
Accumulated depreciation at 1 January 2008	(13,762,700)	(24,686,956)	(12,041,865)	(15,355,079)	(3,092,551)	(4,949,945)	<b>(73,889,096)</b>
<b>Net book value as of 1 January 2008</b>	<b>74,432,191</b>	<b>44,348,657</b>	<b>8,346,388</b>	<b>17,531,492</b>	<b>4,131,919</b>	<b>8,876,115</b>	<b>157,666,762</b>
Additions	-	11,556,932	1,649,963	14,071,451	-	4,663,719	<b>31,942,065</b>
Disposals	-	(193,334)	-	(1,100)	(1,818,141)	-	<b>(2,012,575)</b>
Depreciation	(2,832,012)	(12,651,971)	(2,712,852)	(7,443,156)	(1,105,674)	(2,918,480)	<b>(29,664,145)</b>
Disposals depreciation	-	193,334	-	367	1,026,387	-	<b>1,220,088</b>
<b>Net book value as of 31 December 2008</b>	<b>71,600,179</b>	<b>43,253,618</b>	<b>7,283,499</b>	<b>24,159,054</b>	<b>2,234,491</b>	<b>10,621,354</b>	<b>159,152,195</b>
<b>Balance as of 31 December 2008</b>							
Cost	88,194,891	80,399,211	22,038,216	46,956,922	5,406,329	18,489,779	<b>261,485,348</b>
Accumulated depreciation	(16,594,712)	(37,145,593)	(14,754,717)	(22,797,868)	(3,171,838)	(7,868,425)	<b>(102,333,153)</b>
<b>Net book value as of 31 December 2008</b>	<b>71,600,179</b>	<b>43,253,618</b>	<b>7,283,499</b>	<b>24,159,054</b>	<b>2,234,491</b>	<b>10,621,354</b>	<b>159,152,195</b>

**PIRAEUS BANK - EGYPT S.A.E****Notes to the financial statements – for the period ended 31 December 2008**

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

**15. Due to banks**

	<u>2008</u>	<u>2007</u>
Current accounts	11,731,022	27,704,497
Deposits	815,738,523	296,109,716
	<b>827,469,545</b>	<b>323,814,213</b>
Local banks	802,615,654	276,460,865
Foreign banks	24,853,891	47,353,348
<b>Total</b>	<b>827,469,545</b>	<b>323,814,213</b>

**16. Customers' deposits**

	<u>2008</u>	<u>2007</u>
Demand deposits	1,400,514,462	2,325,721,470
Time and call deposits	4,076,654,621	2,990,401,244
Certificates of deposits	1,929,078,537	2,284,049,308
Saving accounts	523,458,219	553,051,059
Other deposits	197,790,169	200,234,154
<b>Total</b>	<b>8,127,496,008</b>	<b>8,353,457,235</b>
Corporate deposits	6,011,329,000	6,473,274,000
Individual's deposits	2,116,167,008	1,880,183,235
	<b>8,127,496,008</b>	<b>8,353,457,235</b>

**17. Other liabilities**

	<u>2008</u>	<u>2007</u>
Accrued interest	54,589,172	38,100,883
Unearned revenue	29,097,839	28,379,055
Accrued expenses	5,156,115	6,582,336
Dividend Payable	1,423,179	1,423,179
Other credit balances	40,765,052	39,609,317
<b>Total</b>	<b>131,031,357</b>	<b>114,094,770</b>

## PIRAEUS BANK - EGYPT S.A.E

### Notes to the financial statements – for the period ended 31 December 2008

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

#### 18. Other provisions

Movement of other provisions presented as follows:

	<u>2008</u>	<u>2007</u>
Balance at 1 January	30,823,254	19,122,944
Foreign currency revaluation differences	82,468	(45,538)
Charged to statement of income	7,504,584	14,483,410
Transfers between provisions	1,449,000	-
Used during the year	<u>(3,043,148)</u>	<u>(2,737,562)</u>
<b>Balance at 31 December</b>	<b><u>36,816,158</u></b>	<b><u>30,823,254</u></b>

#### 19. Term loans

The bank obtained subordinated loan from Piraeus Bank - Greece during 2008 amounted to EUR 12 million (equivalent to EGP 92,326 thousands as at 31 December 2008) the loan duration is 6 years with floating interest rate (EURIBOR + 2%).

#### 20. Deferred income tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20% for the years 2007, 2008.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The Bank has deferred tax liability resulted from the accelerated tax depreciation.

**Deferred tax liability is shown below:**

	<u>Deferred tax liability</u>	
	<u>2008</u>	<u>2007</u>
Balance at beginning of the year	518,133	433,991
Addition	<u>3,657,582</u>	<u>84,142</u>
<b>Balance at end of the year</b>	<b><u>4,175,715</u></b>	<b><u>518,133</u></b>

## PIRAEUS BANK - EGYPT S.A.E

### Notes to the financial statements – for the period ended 31 December 2008

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

#### Deferred income tax (continued)

##### Unrecognized deferred tax asset

The deferred tax asset for the following items was not recognized:

	<u>2008</u>	<u>2007</u>
Tax Losses	217,919,944	278,397,583

#### 21. Share capital

	<u>No. of shares (millions)</u>	<u>Common Stock EGP</u>
Balance at 1 January 2007	32	500,000,000
Received from the issuance of shares	19	300,000,000
<b>Balance at 31 December 2007</b>	<b>51</b>	<b>800,000,000</b>

  

	<u>No. of shares (millions)</u>	<u>Common Stock EGP</u>
Balance at 1 January 2008	51	800,000,000
<b>Balance at 31 December 2008</b>	<b>51</b>	<b>800,000,000</b>

##### A. Authorized capital

The authorized capital of the Bank reached EGP 1500 million.

##### B. Issued and paid up capital

The issued and paid up capital reached EGP 800 million, distributed over 51,339,315 shares with par value EGP 15,5826 per each.

- According to the Board of directors' approval dated May 18, 2008 issued according due to the authorization of the extraordinary General Assembly meeting which was held on July 14, 2005, the initial share holders were invited to subscribe in the authorized capital increase to be EGP 1000 million with an increase amounted EGP 200 million for a number of 12,834,829 share with a par value EGP 15,5826 each without incurring any premium or issuing expenses.
- The subscription is now completed and the procedures to register this capital increase are in process.

## PIRAEUS BANK - EGYPT S.A.E

### Notes to the financial statements – for the period ended 31 December 2008

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

#### 22. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

	<u>2008</u>	<u>2007</u>
Cash and central banks balances (Note 5)	990,081,369	542,915,412
Due to Banks balances (included in Note 6)	114,653,824	143,494,315
Treasury bills & other Gov. financial paper (Note 7)	280,600,000	183,400,000
	<u><b>1,385,335,193</b></u>	<u><b>869,809,727</b></u>

#### 23. Contingent liabilities and commitments

##### A. Juridical claims

On 31 December 2008 there is number of legal cases exists against the bank for which there are no provisions built up they are not expected to yield losses.

##### B. Loan commitment, guarantees and other facilities

The bank commitments of guarantee and other financial facilities presented as follows:

	<u>2008</u>	<u>2007</u>
Acceptance papers	103,143,453	120,492,954
Letters of guarantee	2,056,068,843	1,640,109,086
Letters of credit (export)	347,026,569	239,366,520
Letters of credit (import)	11,402,440	23,200,814
<b>Total</b>	<u><b>2,517,641,305</b></u>	<u><b>2,023,169,374</b></u>

##### C. Commitments of Financial lease contracts

The total of the minimum lease payment of uncancellable operating lease contracts amounted to the following:

	<u>2008</u>	<u>2007</u>
Not more than 1 year	2,515,620	2,445,120
More than 1 year and less than 5 years	6,783,605	9,299,225
	<u><b>9,299,225</b></u>	<u><b>11,744,345</b></u>

**PIRAEUS BANK - EGYPT S.A.E**

**Notes to the financial statements – for the period ended 31 December 2008**

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

**24. Net interest income**

	<u>2008</u>	<u>2007</u>
<b>Interest and similar income</b>		
Loans and advances		
- Banks	197,701,811	100,160,248
- Customers	527,312,830	377,956,354
	<u>725,014,641</u>	<u>478,116,602</u>
Treasury bills and CBE certificates of deposits	94,060,664	58,129,758
Investments in debt instruments held to maturity and available for sale	10,194,957	11,004,163
	<u>104,255,621</u>	<u>69,133,921</u>
	<u>829,270,262</u>	<u>547,250,523</u>
<b>Interest and similar charges</b>		
Deposits and current accounts		
- Banks	(24,982,689)	(43,992,684)
- Customers	(599,853,318)	(376,147,383)
	<u>(624,836,007)</u>	<u>(420,140,067)</u>
Other loans	(4,170,179)	-
	<u>(629,006,186)</u>	<u>(420,140,067)</u>
<b>Net</b>	<u>200,264,076</u>	<u>127,110,456</u>

**25. Net fees and commission income**

	<u>2008</u>	<u>2007</u>
<b>Fees and commissions income</b>		
Credit related fees and commissions	51,241,644	29,297,321
Custodian fees	9,104,807	3,809,553
Other fees	76,619,454	63,675,375
	<u>136,965,905</u>	<u>96,782,249</u>
<b>Fees and commissions expenses</b>		
Other fees paid	(787,156)	(597,262)
<b>Net</b>	<u>(787,156)</u>	<u>(597,262)</u>
	<u>136,178,749</u>	<u>96,184,987</u>

**26. Dividends**

	<u>2008</u>	<u>2007</u>
Trading securities	197,448	813,235
Available for sale securities	8,608,422	12,794,289
subsidiaries and associates	81,267	35,350
	<u>8,887,137</u>	<u>13,642,874</u>

**PIRAEUS BANK - EGYPT S.A.E****Notes to the financial statements – for the period ended 31 December 2008**

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

**27. Net trading income**

	<u>2008</u>	<u>2007</u>
Foreign exchange transactions:		
- Gain resulted from revaluation of trading assets and liabilities dominated in Foreign currency and dealing in foreign currency	12,300,996	13,860,638
- (Losses) / gains of currency forward revaluation	(3,035)	3,035
- (Losses) / gains of currency swap revaluation	(702,333)	57,306
- (Losses) / gains of interest rate swap revaluation	(554,450)	293,664
Gain on sale of treasury bills	3,206,024	2,283,030
Equity instruments held for trading	33,682,988	1,581,537
<b>Total</b>	<b><u>47,930,190</u></b>	<b><u>18,079,210</u></b>

**28. Administrative expenses**

	<u>2008</u>	<u>2007</u>
Staff costs		
- Wages and salaries	(109,595,045)	(76,875,091)
- Social insurance	(4,577,020)	(3,374,045)
Other administrative expense	(145,645,983)	(107,632,817)
	<b><u>(259,818,048)</u></b>	<b><u>(187,881,953)</u></b>

**29. Other operating (expenses) income**

	<u>2008</u>	<u>2007</u>
(Loss) / gain resulted from revaluation of monetary assets and liabilities balances in foreign currencies excluding those for trading	(32,495,407)	16,882,354
Gain on sale of property and equipment	384,613	254,328
Software costs	(4,432,773)	(2,900,262)
Operating lease	(2,362,035)	(509,240)
Other provisions	(7,504,584)	(14,483,410)
Others	3,577,663	26,441,652
<b>Total</b>	<b><u>(42,832,523)</u></b>	<b><u>25,685,422</u></b>

## PIRAEUS BANK - EGYPT S.A.E

### Notes to the financial statements – for the period ended 31 December 2008

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

#### 30. Tax expenses in the Income Statement represent the deferred taxes only

Additional information about deferred income tax are disclosed in note number 34. The tax that has been charged on the income statement differs from the value that will result from applying the tax rate applied on the Bank's net income according to the income statement as follow:

	<u>2008</u>	<u>2007</u> <b>(modified)</b>
Accounting (loss) before tax	(23,706,508)	(2,360,214)
Tax rate	20%	20%
Tax loss calculated based on accounting (loss)	(4,741,302)	(472,043)
Not deductible for tax purposes	10,030,104	7,475,352
Income not subject to tax	-	(17,474,805)
Income tax on Treasury bills	11,431,910	-
Utilization of deferred tax assets not previously recognized	(673,554)	(1,241,496)
Deferred tax assets not recognized	7,663,290	4,393,580
Prior years adjustments	2,777,499	-
Utilization of deferred tax losses not previously recognized	(11,398,455)	-
Tax losses not recognized	-	7,403,554
<b>Net tax loss</b>	<b><u>15,089,492</u></b>	<b><u>84,142</u></b>

#### 31. Earnings per share (basic)

	<u>2008</u>	<u>2007</u>
Net (loss)	(38,796,000)	(2,444,356)
Weighted average number of ordinary share	51,339,315	51,339,315
<b>Basic earnings per share (Egyptian Pounds)</b>	<b><u>(0.76)</u></b>	<b><u>(0.05)</u></b>

## PIRAEUS BANK - EGYPT S.A.E

### Notes to the financial statements – for the period ended 31 December 2008

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

#### 32. Maturities of assets and liabilities

	<b>Due within one year EGP</b>	<b>Due within more than one year EGP</b>
<b>A. Assets</b>		
Cash and balance with the central bank	990,081,369	-
Due from banks	1,197,375,120	-
Treasury and other government discounted bills (net)	1,284,685,383	-
Financial assets held for trading	2,580,976	-
Available-for-sale investments	96,440,897	18,376,303
Loans to customers (net of interest in suspense)	3,055,628,583	3,156,708,790
Loans to banks	500,016	-
Held to maturity investments	16,540,641	127,979,375
Investments in and subsidiaries associates	-	89,631,243
Other debit balances	286,672,742	45,344,363
Deferred tax asset	-	-
<b>Total</b>	<b>6,930,505,727</b>	<b>3,438,040,074</b>
<b>B. Liabilities</b>		
Due to banks	827,469,545	-
Customers' deposits	6,198,418,008	1,929,078,000
Credit balances and other liabilities	131,031,357	-
Long term loans	-	92,325,600
<b>Total</b>	<b>7,156,918,910</b>	<b>2,021,403,600</b>

#### 33. Effective average interest rates during the year

Average interest rates applied for assets and liabilities during the year are 12.22% and 9.77% respectively at 31 December 2008.

#### 34. Tax position

##### **First: Tax on Juridical corporate tax**

The tax exemption of the bank has been terminated on 31 December 1985, the Bank's books, documents and tax return has been examined till 1998, the years from 1999 until 2002 had already examined and still in the internal committee. Preparation for the examining of the years 2003, 2004 is in process.

In accordance to tax law No. 91 of 2005 and its executive regulations, did not result in income tax for the years 2005, 2006, & 2007.

##### **Second: Salary tax**

The periods since the bank's incorporation till the end of 2006 were inspected and the final settlement for all taxes due were paid although there were some claims for year 1994/1995 that are expected to be in favor of bank.

## PIRAEUS BANK - EGYPT S.A.E

### Notes to the financial statements – for the period ended 31 December 2008

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

#### Tax position (continued)

Starting the year 2007, the Bank deducted tax due on employees' and submit it to the Tax Authority in time.

#### Third: Stamp tax

The Bank deducts the stamp duty tax and pays it to Tax Authority. The Bank continuously examines all its branches.

#### 35. Significant currencies positions

At balance sheet date, the significant currencies positions for bank can be presented as follows:

	31 December 2008		31 December 2007	
	Equivalent to local currency Surplus (deficit)		Equivalent to local currency Surplus (deficit)	
	Thousands	%	Thousands	%
Egyptian Pound	(15,384)	(1.4%)	(650,430)	(78.89%)
U.S. Dollar	11,352	1.03%	273,740	33.20%
Sterling Pound	700	0.06%	1,274	0.15%
Euro	3,055	0.28%	376,367	45.65%
Japanese yen	29	0.00%	13	0.00%
Saudi Riyal	(75)	0.00%	56	0.01%
Swiss Franc	197	0.02%	44	0.01%
Other currencies	126	0.01%	(1,064)	(0.13%)

#### 36. Related party transactions

The Bank's parent company is Piraeus (Greece) which holds 95.36% of the common stock and the remaining portion of (4.64%) is held by other holder.

The Bank has transactions with its related parties in normal cause of business, which includes loans, deposits, and foreign currency swaps. There are no transactions with the parent company except for the following:

	2008	2007
Due from banks	62,685,000	83,694,133
Held to maturity investments	16,540,641	16,539,376
Due to banks	5,222,066	5,178,967
Long-term loans	92,325,600	-

The other transaction balances with other related parties at the end of the financial year are as follows:

	2008	2007
Customers' deposits	41,941,523	10,132,511
Loans to customers'	163,596,722	88,121,999

## PIRAEUS BANK - EGYPT S.A.E

### Notes to the financial statements – for the period ended 31 December 2008

(In the notes all amounts are shown in Egyptian Pounds unless otherwise stated)

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#### 37. Piraeus Bank Egypt mutual fund

One of the licensed activities of the bank in accordance with the Capital Market Authority No.95 for the year 1992 and its executive regulations, the fund is managed by Phoenix Kato Company for mutual funds management, the number of fund certificates has reached 1 million certificates amounting to EGP 100 million, 50 thousands certificates was allocated to Piraeus Bank-Egypt(with face value amount to EGP 5 million) for following up with the fund's activity.

the bank had purchased 50 thousands certificates amounted to EGP 5 million , redeemable value for the certificate amounted to EGP 71.4 per certificate on the balance sheet date also the number of outstanding certificate on that date amounted 50 thousands certificates.

According to the fund article of incorporation there are fees and commissions to Piraeus Bank-Egypt for the fund supervision and other managerial services provided by the bank which amounted to EGP 205,152 for the year ended 31 December 2008 recorded at fees and commissions item in the statement of income.

#### 38. Comparative figures

The Bank has adjusted the comparative figures retroactively as a result of changing investments policies and the following is the significant accounting items that have been restated and the effect of the change there on:

	<b>31 December 2007 before adjustment</b>	<b>31 December 2007 after adjustment</b>
<b><u>Income statement items</u></b>		
Net (loss)	-	(2,444,356)
Revaluation of investments other than trading	(3,705,480)	(1,353,122)
<b><u>Balance Sheet items</u></b>		
Available for sale financial investments	84,174,660	84,297,117
Derivative financial assets	-	1,535,559
Other assets	283,283,629	283,136,323
Derivative financial liabilities	-	59,147
<b><u>Equity items</u></b>		
Available for sale investments revaluation reserve	-	(385,049)
Special reserve	-	4,280,968
Accumulated losses	(114,900,000)	(117,344,356)

#### 39. Translation

These financial statements were translated into English from the original Arabic statements. The original Arabic statements are the official financial statements.