

FINANCIAL Report



Egyptian Stock Exchange ▲

Financial Report of the Bank for the financial year ended on 31/12/2004

The Board of Directors is pleased to present the results achieved during the financial year ended December 31, 2004 through the financial statements of the financial year ended on the said date.

Total financial position amounted to L.E. 2 425.5 million on 31/12/2004 against L.E. 2 321.6 million on 31/12/2003, with an increase of L.E. 103.9 million that reflects a growth rate of 4.5%.

Total balances of contingent liabilities and other commitments have reached L.E. 556.7 million on 31/12/2004 against L.E. 359.2 million on 31/12/2004 with an increase of L.E. 197.5 million reflecting a growth rate of 55%. Contingent liabilities and other commitments, as of 31/12/2004, include commitments for Swap contracts amounting to L.E. 252.2 million with an increase of L.E. 93.4 million.

The total Banks' activities resulted in net profit of L.E. 14.8 million in 2004 against L.E. 12.7 million in the previous financial year, with an increase of L.E. 2.1 million. The balance of valuation difference of liquid assets and liabilities amounted to L.E. (0.7) million on 31/12/2004 against L.E. 17.8 million on 31/12/2003 with a decrease of L.E. 18.5 million.

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Hereunder are the details of fund sources and their respective achieved application during the financial year ended on 31/12/2004:

Application of funds	(L.E. Million)	Sources of funds	(L.E. Million)
Increase in assets		Increase in liabilities	
- Financial investment	195.3	Due to banks	80.4
- Fixed Assets	1.7	Credit balances and other liabilities	19.7
		Equity capital	11.7
		Net Profit	2.1
Decrease in liabilities		Decrease in assets	
- Customers' deposits	6.4	Loans and advances	15.3
- Other provision	3.6	Cash and balances at banks	72.6
		Debit balances and other assets	5.2
Total applications of funds	207	Total sources of funds	207

The following presentation clarifies the most important developments of the sources of fund and aspects of applications during the financial year 2004:

First: Deposits

Total balances of customers' deposits of all types amounted to L.E. 1 827.8 million on 31/12/2004 against L.E. 1 834.2 million on 31/12/2003 with a decrease of L.E. 6.4 million which was distributed over the sectors of different economic activities in the following manner:

Sector	Year 2004	Year 2003	Change	(L.E. Million)
				Growth Rate %
- Agriculture	61.5	121.9	-60.4	-49.5%
- Industry	33.7	44.7	-11	-24.6%
- Trade	115.4	80.3	35.1	43.7%
- Services	189.9	146.5	43.4	29.6%
- Family	1 417.2	1 427.7	-10.5	-0.7%
- Financial intermediaries	3.7	6	-2.3	-38.3%
- Others	6.4	7.1	-0.7	-9.9%
Total	1 827.8	1 834.2	-6.4	-0.3%

The following table shows the development of deposits' balances according to their types between the end of 2004 and 2003:

(L.E. Million)				
Description	Year 2004	Year 2003	Change	Growth Rate%
Demand deposits	175.6	136.8	38.8	28.4%
Call and time deposits	843.9	870.8	-26.9	-3.1%
Saving certificates	545	725.9	-180.9	-24.9%
Saving deposits	155.5	66.3	89.2	134.5%
Other deposits	107.8	34.4	73.4	213.4%
Total	1 827.8	1 834.2	-6.4	-0.3%

Second: Due to Banks and Correspondent Banks

Total due to banks and correspondent banks domestically and abroad amounted to L.E. 287.7 million on 31/12/2004 against L.E. 207.3 million on 31/12/2003 with an increase of L.E. 80.4 million, reflecting a growth rate of 38.8%.

Third: Cash and Balances with Banks and Correspondent Banks

Total Balances of this item amounted to L.E. 886.1 million on 31/12/2004 against L.E. 958.7 million on 31/12/2003, as shown in the following table:

(L.E. Million)				
Description	Year 2004	Year 2003	Change	Growth Rate%
Cash and balances with the Central Bank	91.9	52.5	39.4	75%
Balances with banks	794.2	906.2	-112	-12.4%
Total	886.1	958.7	-72.6	-7.6%

Fourth: Loans and Advances

The net amount utilized for loans and advances granted to customers amounted to L.E. 1 042.6 million on 31/12/2004 against 1 057.9 million on 31/12/2003 with a decrease of L.E. 15.3 million that stands for a rate of 1.4%.

The following table shows the distribution of the balances of loans and advances according to the economic activity sector as per the outstanding balances on 31/12/2004:

(L.E. Million)				
Sector	Year 2004	Year 2003	Change	Growth Rate %
Agriculture	8.6	8.6	-	-
Industry	254	214.9	39.1	18.2%
Trade	670.1	679.6	-9.5	-1.4
Services	267.9	315.4	-47.5	-15.1%
Family	75.9	90.6	-14.7	-16.2%
Finance	15.2	-	15.2	-
Total	1 291.7	1 309.1	-17.4	-1.3%
Less:				
Provision for loans (performing /non-performing)	223.8	235.2	-11.4	-4.8%
Unearned discount on discounted commercial paper	0.6	0.1	0.5	500%
Interests in suspense	24.7	15.9	8.8	55.3%
Net credit facilities used	1 042.6	1 057.9	-15.3	-1.4%

The above table shows that provisions for loans (performing \ non-performing) amounted to L.E. 223.8 million on 31/12/2004 against L.E. 235.2 million on 31/12/ 2003 with a decrease of 11.4 million that stands for a rate of 4.8%.

Fifth: Financial Investments

Net balances of this item amounted to L.E. 378 million on 31/12/2004 with an increase of L.E. 195.3 million against the outstanding balances on 31/12/2003, the following table shows the changes in the balances of this item during the financial year 2004:

(L.E. Million)			
Description	Year 2004	Year 2003	Change
Treasury Bills	349.7	173.7	176
Treasury Bonds	0	0.9	-0.9
Contribution to projects	6.8	8	-1.2
Investments in marketable securities	21.5	0.1	21.4
Net financial investments	378	182.7	195.3

The previous table indicates that the increase in the net balances of the financial investments between end of December 2004 and 2003 amounted to L.E. 195.3 million is mainly attributed to the Treasury Bills whose outstanding balances show an increase of L.E. 176 million.

Sixth: Shareholders' Equity

The balances of shareholders' equity amounted to L.E. 193.8 million on 31/12/2004 against L.E. 182.1 million on 31/12/2003 with an increase of L.E. 11.7 million.

The following table shows the changes in shareholders' equity during the financial year 2004:

(L.E. Million)			
Description	Year 2004	Year 2003	Change
Capital	157.6	100	57.6
Reserves	20.3	66.4	-46.1
Carried forward profit	15.9	15.7	0.2
Total	193.8	182.1	11.7

The previous table indicates that shareholders' equity increased by L.E. 11.7 million that represents the value of distributions of the 2003 approved by the General Assembly meeting and the utilization of amount of L.E. 57.6 million from the reserves to increase the capital.

Seventh: Contingent Liabilities and Other Commitments

Total customers' liabilities against opened documentary credits, issued letters of guarantee and other commitments amounted to L.E. 556.7 million on 31/12/2004 against L.E. 359.2 million on 13/12/2003 with an increase of L.E. 197.5 million as shown in the following table:

(L.E. Million)				
Description	Year 2004	Year 2003	Change	Growth Rate%
Uncovered value for opened documentary credits	49.1	52.9	-3.8	-7.2%
Uncovered value for issued letters of guarantee	255.4	147.5	107.9	73.2%
Other commitments (forward exchange contracts)	252.2	158.8	93.4	58.8%
Total	556.7	359.2	197.5	55%

Eighth: Activity Results

The outcome of the Banks' activity for the financial year 2004 resulted in realizing distributable net earning of L.E. 14.2 million (after forming provisions amounted to L.E. 7.2 million and deducting L.E. 0.6 million profits of fixed assets sale transferred to capital reserve) and by adding the earning carried forward from the previous year amounted to L.E. 15.9 million, the distributable amount becomes L.E. 30.1 million against L.E. 28.1 million for 2003.

The following table shows appropriation suggested by the Board of Directors for 2004 compared to the actual appropriation for 2003:

	(L.E. Million)	
	Suggested appropriation 2004	Actual appropriation 2003
Reserve support	1.4	11.2
Staff profit share	0.5	0.6
Board of Directors remuneration	0.2	0.4
Retained earning at the end of the year	28	15.9
Total	30.1	28.1

Ninth: Branches

The Bank operates through eleven branches: eight in Cairo, one in Alexandria, one in 10th of Ramadan City, and one in Sharm El Sheikh. Our new branches in El Haram and Massakin Sheraton are being prepared for opening during the financial year 2005.

Tenth: Employment

At the end of the financial year 2004, the number of employees was 345 against 363 at the end of the previous year, besides 51 supporting staff. Due to the importance of the human element, the Bank's management is keen on improving the banking skills of the employees and elevating their experiences at all administrative and functional levels through sending them to training courses, to enable them to render the optimal possible level of banking services.

AUDITORS' Report & FINANCIAL Statements



Central Bank of Egypt ▲

Dr. Abdel Aziz Hegazy & Co.
"Horwath"
Public Accountants &
Consultants

KPMG Hazem Hassan
Public Accountants &
Consultants

Auditors' Report to the shareholders of ARAB BANKING CORPORATION - EGYPT

We have audited the accompanying Balance Sheet of Arab Banking Corporation - Egypt (an Egyptian Joint Stock Company) as of December 31, 2004, and the related statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Egyptian standards on auditing and in the light of provisions of applicable Egyptian laws and regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statements presentation. Accordingly our audit includes the verification of the existence and valuation of the assets and ascertaining that the valuation of the liabilities is in accordance with Egyptian Accounting Standards. We have obtained the information and explanations which we deemed necessary for our audit. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above together with the notes attached thereto present fairly in all material respects, the financial position of the Bank - as of December 31, 2004, and the results of its operations and its cash flows for the financial year then ended in accordance with Egyptian Accounting Standards and in compliance with related applicable Egyptian laws and regulations. The Bank keeps proper accounting records, which include all that is required by law and by the statutes of the Bank, and the accompanying financial statements are in agreement therewith.

Nothing came to our attention, which indicates that the Bank violated any of the provisions of the CBE regulations, Banking & Monetary law No. 88/2003 and we have not noted during the said year any violation of the provisions of the Bank's Articles of Association.

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


Dr. Khaled Abdel Aziz Hegazy
Dr. Abdel Aziz Hegazy & Co. "Horwath"

Auditors


Tamer Ragheb
KPMG Hazem Hassan

Cairo, March 2, 2005

ABC Bank - Egypt

www.arabbanking.com.eg

ARAB BANKING CORPORATION - EGYPT

(An Egyptian Joint Stock Company)

Balance sheet

as of December 31, 2004

	Note No.	31/12/2004 L.E.'000	31/12/2003 L.E.'000
Assets			
Cash and due from Central Bank of Egypt	(4)	91 895	52 530
Due from banks	(5)	794 185	906 177
Treasury bills	(6)	349 660	173 643
Investment held for trading	(7)	9 353	131
Investment available for sale	(8)	19 037	8 919
Loans & advances (Net)	(9-10)	1 042 630	1 057 944
Debit balances & other assets	(12)	61 622	66 780
Fixed assets (Net)	(13)	57 130	55 457
Total assets		2 425 512	2 321 581
Liabilities & Shareholders' equity			
Liabilities			
Due to banks	(14)	287 772	207 332
Clients' deposits	(15)	1 827 818	1 834 190
Credit balances & other liabilities	(16)	61 343	41 656
Appropriation credit account		-	1 020
Other provisions	(17)	40 076	43 628
Total Liabilities		2 217 009	2 127 826
Shareholders' equity			
Paid in capital		157 577	100 000
Reserves		20 275	77 852
Retained earnings		15 903	15 903
Total shareholders' equity	(18)	193 755	193 755
Net income		14 748	-
Total shareholders' equity & net income		208 503	193 755
Total Liabilities & shareholders' equity		2 425 512	2 321 581
Contingent liabilities & commitments			
Letters of credit, letters of guarantee and other contingencies	(19)	556 721	359 213

The accompanying notes are an integrated part of these financial statements.


Ghazi Abdul Jawad
Chairman


Tamer Ragheb
KPMG Hazem Hassan

Auditors


Tarek Helmy
Chief Executive Officer


Dr. Khaled Abdel Aziz Hegazy
Dr. Abdel Aziz Hegazy & Co.
" Horwath "

ARAB BANKING CORPORATION - EGYPT

(An Egyptian Joint Stock Company)

Income Statement

for the year ended December 31, 2004

	Note No.	31/12/2004 L.E.'000	31/12/2003 L.E.'000
Interest income from clients and banks		133 849	150 220
Return on treasury bills and bonds		21 528	18 840
Less:			
Interest expenses		(101 330)	(126 454)
Net interest income		54 047	42 606
Fees and commissions' income		22 170	21 504
Dividends income		519	631
Gains on exchange	(21)	5 362	20 999
Gains from selling of investments		579	3 746
Valuation differences of trading investments		(55)	446
Other revenue		10 668	225
Net operating income		93 290	90 157
Less:			
Fees and commissions expenses		(1 004)	(961)
Provisions		(7 219)	(13 294)
Other investments valuation differences	(20)	(84)	(133)
General & administrative expenses, depreciation & amortization		(70 238)	(63 362)
Other operating expenses		(613)	-
Operating profit		14 132	12 407
Income from non - operating activities		616	264
Net income for the year before taxes		14 748	12 671
Less:			
Income Tax		-	-
Net income for the year		14 748	12 671
Earning per share	(22)	0.89	0.74

The accompanying notes are an integrated part of these financial statements.

ARAB BANKING CORPORATION - EGYPT

(An Egyptian Joint Stock Company)

Statement of Change in Shareholders' Equity

for the financial year ended December 31, 2004

	Capital	Legal	General	Special	Other	Retained	Net	Total
	reserve	reserve	reserve	reserves	earnings	Income		
	L.E.'000	L.E.'000	L.E.'000	L.E.'000	L.E.'000	L.E.'000	L.E.'000	L.E.'000
2003								
Balance at 1/1/2003	100 000	21 967	33 828	9 295	1 273	15 741	-	182 104
Net profit for the year	-	-	-	-	-	-	12 425	12 425
Transfer to capital reserve	-	-	-	-	246	-	-	246
Transfer to reserve	-	1 243	10 000	-	-	162	(11 405)	-
Dividend paid	-	-	-	-	-	-	(1 020)	(1 020)
Balance at 31/12/2003	100 000	23 210	43 828	9 295	1 519	15 903	-	193 755
2004								
Balance at 1/1/2004	100 000	23 210	43 828	9 295	1 519	15 903	-	193 755
Transfer to increase in paid in capital	57 577	(13 181)	(33 828)	(9 295)	(1 273)	-	-	-
Net profit for the year	-	-	-	-	-	-	14 748	14 748
Balance at 31/12/2004	157 577	10 029	10 000	-	246	15 903	14 748	208 503

ARAB BANKING CORPORATION - EGYPT

(An Egyptian Joint Stock Company)

Cash Flows Statement

for the year ended 31/12/2004

	31/12/2004	31/12/2003
	L.E.'000	L.E.'000
Cash flow from operating activities		
Net income for the year before taxes	14 748	12 671
Adjustment to reconcile net income to net cash from operating activities		
Depreciation and amortization	11 705	9 170
Provisions	7 979	13 261
Differences from valuation of trading investments	55	(15)
Differences from valuation of other investments	84	133
Provisions used excluding loan loss provisions	(10 707)	(138)
Reinstated provision	(11 428)	-
Foreign currencies revaluation differences of provisions excluding loan loss provision	(64)	2 386
Loss (gains) on sales of fixed assets	(575)	(246)
Differences from valuation of assets reverted to the Bank	613	(192)
Net operating profit before changes in assets and liabilities generated from operating activities	12 410	37 030
Net (increase) decrease in assets		
Due from banks	(76 318)	(8 604)
Treasury bills	(301 142)	131 445
Investments held for trading	(9 277)	3 833
Investments available for sale	(10 202)	5 133
Loans to clients and banks	12 871	82 851
Debit balances and other assets	10 174	(14 855)
Net increase (decrease) in liabilities		
Due to banks	80 440	(135 166)
Clients' deposits	(6 372)	54 226
Credit balances and other liabilities	19 687	14 385
Net cash provided from operating activities (1)	(267 729)	170 278
Cash flow from investment activities		
Purchase of fixed assets and branches leasehold improvements	(5 896)	(12 422)
Proceeds from sale of fixed assets	575	256
Net cash provided in investing activities (2)	(5 321)	(12 166)
Cash flow from financing activities		
Dividends paid	(1 020)	-
Net cash (used in) financing activities (3)	(1 020)	-
Net increase (decrease) in cash and cash equivalent during the year (1+2+3)	(274 070)	158 112
Cash & cash equivalent at the beginning of the year	881 836	723 724
Cash & cash equivalent at the end of the year	607 766	881 836
Cash & cash equivalent represented in:		
Cash and due from CBE	91 895	52 530
Due from banks	794 185	906 177
Treasury bills	349 660	173 643
Deposits with banks	(326 832)	(250 514)
Treasury bills payable more than 3 months	(301 142)	-
Cash & cash equivalent	607 766	881 836

The accompanying notes are an integrated part of these financial statements.

ARAB BANKING CORPORATION - EGYPT
(An Egyptian Joint Stock Company)
Statement Appropriation Account
for the year ended December 31, 2004

	31/12/2004 L.E.'000	31/12/2003 L.E.'000
Net income for the year (As per income statement)	14 748	12 671
Less:		
Profit from sales of fixed assets - transferred to capital reserve according to provisions of law	(575)	(246)
Net income for the year - available for appropriation	14 173	12 425
Retained earning at the beginning of the fiscal year	15 903	15 741
Total	30 076	28 166
Appropriation		
Legal reserve	1 417	1 243
General reserve	-	10 000
Shareholders' dividends	-	-
Staff profit share	500	620
Board of Directors' remuneration	210	400
Retained earning at the end of the year	27 949	15 903
Total	30 076	28 166

The Statement of appropriation account for the year ended December 31, 2004 was prepared under the approval of the General Assembly.

ARAB BANKING CORPORATION - EGYPT
(An Egyptian Joint Stock Company)
Notes to the Financial Statements
for the year ended December 31, 2004

1- Activity

- The Bank has been established on 21/8/1982 according to provisions of Investment Law and its amendments, as an investment and business bank under the name of Egypt Arab African Bank (S.A.E.). The name of the Bank has been amended to become Arab Banking Corporation - Egypt (S.A.E.) in the course of the amendments introduced to the articles of association of the Bank promulgated by the ministerial decree No. 788 for year 2000 and published in the Investment Gazette, edition No. 3261 issued on 18/4/2000. The Bank provides all banking services related to its activity through its head office in Cairo and its eleven branches.

2- Significant accounting policies

a) Basis of preparation of Financial Statements

- The financial statements were prepared in accordance with the Egyptian Accounting Standards, as well as with the relevant local laws and regulations.

b) Foreign currency transactions

The bank maintains its accounts in Egyptian Pounds. Foreign currency transactions are translated into Egyptian Pounds at exchange rates prevailing during the financial year. Monetary assets and liabilities in foreign currency are translated into Egyptian Pounds at the rates of exchange prevailing at balance sheet date, the difference is recorded in the income statement under the item of gains (losses) on exchange.

- The balances of forward exchange contracts that are outstanding at the end of financial year are valued at the fair value, gains/losses resulting from the valuation of forward exchange contracts balances outstanding at the end of financial year are recorded in the income statement under the item of gains (losses) on exchange by using forward exchange rates for the remaining periods until maturity dates of such contracts.
- Foreign currencies Swap contracts are recorded at the date of the contract under the item of contingent liabilities and commitments. The difference between the two foreign currencies Swap contracts is to be recorded under the item of debit balances and other assets and the item of credit balances and other liabilities considering that such difference is unrealized profit / loss on the date of Swap contract. The said balances shall be amortized over the term of the foreign currencies Swap contract either by debiting or crediting the item of return on loans and due from banks in the income statement while the profit (losses) resulting from the execution of the foreign currencies Swap contract is to be recorded in the income statement under the item of gains (losses) on exchange.
- The value of the premium paid for foreign exchange option contract is to be recorded under the item of debit balances and other assets provided that the balance of the premium is to be reconciled to the income statement in the light of the evaluation of option contracts at their fair value under the item of gains (losses) on exchange.
- Regarding the option contracts purchased to cover the option contracts sold to customers as hedge against the risks related to their activities, the difference between the premium paid on call option and the premium collected from the put option is stated on the date of the contracts under the item of credit balances and other liabilities, this difference is to be adjusted in the income statement under the item of "Profit (loss) of foreign Exchange operations" on accrual basis.

c) Income recognition

Income is recognized on accrual basis. Interest income due on non-performing loans is not recognized when there are doubts concerning the collectibility of interest or principal. Dividends income from securities and investment certificates are recognized when such dividends are declared.

d) Treasury Bills

Treasury Bills are stated at its nominal value, and the related discount is included under the caption "Credit balances and other liabilities". Treasury bills appear on the balance sheet at its nominal value net of discount.

e) Selling / purchasing Treasury Bills with repurchasing / reselling / clause

Operations of selling / purchasing Treasury Bills with repurchasing / reselling clause are recorded in the balance sheet and the expense / return of such operations are included in the income statement either under the item of interest expenses or the item of return on loans and due from banks (as is the case).

f) Valuation of investments held for trading

- Trading investments including investment portfolios managed by others and trading mutual fund certificates not issued by banks or insurance companies are to be valued at year end using the fair value which represents the market price. The valuation differences are to be charged to the income statement.
- Trading investments that lost any of its classification terms are to be valued at its book value and then reduced by any decline according to a comprehensive study on to last financial statement of the company. The valuation differences are to be charged to the income statement.
- Mutual fund certificates issued by banks and insurance companies are to be valued at fair value, which represents the realizable value on the valuation date. The valuation differences are to be charged to the income statement.

g) Valuation of investments available for sale

- Financial investments available for sale are valued at the lower of cost or fair value (taking into consideration foreign exchange differences). Resulting differences are taken to the income statement under "other investments valuation differences".

h) Investments held to maturity

- Bonds purchased through public underwriting are to be valued using the amended cost which represents the nominal value plus the issuing premium or less the issuing discount as the case may be. Issuing premium/discount is to be amortized using the straight line method, the amortization is charged to the income statement in the return on Treasury Bills and Bonds income item.
- Bonds purchased from the stock exchange with a price more or less than the nominal value are to be valued using the same basis, the cost is to be reduced with any interest accrued during the period preceding the purchase date.
- The book value is to be amended with any impairment in the fair value compared with the book value of every bond and the impairment is to be charged to the income statement in the other investments valuation differences item. Any recovery of such impairment is permitted and is to be recognized in the income statement within the limit of valuation differences recognized in income statements of previous years.
- The book value of bonds with foreign currencies is to be amended with the valuation result according to the exchange rates prevailing at the valuation date. The valuation differences are to be charged to the income statement in gains (losses) on exchange item.
- Mutual Fund Certificates that should be kept by the Bank till the end of the mutual fund as the Bank is considered the establisher of the mutual fund to be valued at cost, any decline in the realizable value compared with cost is to be charged to income statement in other investments' valuation differences item. Any recovery of such decline is permitted and is to be recognized in the income statement within the limit of valuation differences recognized in income statement of previous years.

i) Valuation of assets reverted to the bank in settlement of some clients' debts

Assets reverted to bank are stated under "debit balances and other assets" on the basis of their assigned value. In case the assets fair value falls below the value at which such assets have been reverted to the Bank in the balance sheet date. The resulting differences are charged to the income statement under the item of other operating expenses, in case of the increase of the fair value, such increase shall be added to the income statement within the limit of amounts charged to the income statement in previous financial periods.

j) Loan loss provision and contingent liabilities

- The Bank established a provision for specific loans' losses and contingent liabilities, in addition to a general provision to meet the general risks at certain percentage of all other debts and contingent liabilities excluding cash covers, and counter guarantees by correspondent banks. These provisions are established and periodically reviewed by the management in the light of prior experience and detailed periodic studies of loans and contingent liabilities.
- Non-performing loans, which are deemed uncollectable, are written off against the provision. Collections from loans previously written off are added back to the provision.

k) Contingent liabilities and commitments

Contingent liabilities, foreign currencies swap contracts, forward interest rate contracts and similar items are reported as off-balance sheet accounts under the caption "Contra accounts", as they are not considered actual assets and liabilities at balance sheet date.

l) Cash and cash equivalents

For the purpose of preparing the cash flows statement, cash and cash equivalents include cash balances, due from Central Bank of Egypt, current accounts with other banks, as well as the treasury bills maturing within 3 months from the date of acquisition.

m) Depreciation and amortization

- Fixed assets are depreciated on a straight-line method. Additions during the year are depreciated for an entire year using relevant depreciation rates determined based on the estimated useful life of these assets as follows:

Machinery and equipment	12.5%
Computer system	20%
Furniture	10%
Vehicles	20%
Buildings	2%
Premises renovations	20%

- Fixed assets are stated in the balance sheet net of depreciation.
- Leasehold improvements and renovations on leased premises are depreciated over the estimated useful life of the assets or the lease contract period whichever is shorter.
- Intangible assets are amortized over (10) year.

n) Staff funds (Pensions and end of services compensation)

The bank contributes to the social security system of the social security authority in favour of its employees in accordance with the Social Security Law No. 79 for year 1979 and its amendments. Such contributions are charged to the income statement in accordance with the accrual basis.

The Bank has a special fund to cover pension and end-of service bonuses for permanent employees. The bank and the employees contribute to the fund by a given percentage of the employees' salaries, in addition to forming necessary provision to meet the Bank's probable liabilities towards the fund.

o) Taxes

- Corporate taxes are computed according to the laws and regulations applicable in Egypt.
- Tax claims provision is established based on studies of the tax claims.
- Due to the nature of the Egyptian tax laws and legislations, applying the principles of the deferred taxes, according to the International Accounting Standard "Taxes income" will not usually result in a deferred tax assets, in such case where such assets arise they will be recognized in the financial statements whenever there is a sufficient comfort that these assets will be realized in the foreseeable future.

3- Financial instruments and relevant risk management

3.1 Financial instruments

a) The Bank's financial instruments are represented in the financial assets and liabilities. The financial assets include cash, due from banks, financial investments, loans to clients and banks, the financial liabilities include clients deposits, due to banks, and rights and obligations to others stated in the contingent liabilities.

The note No. (2) to the financial statements includes the accounting policies applied to measuring and recognizing significant financial instruments and the revenue and expenses related thereto.

b) Financial instruments fair value

The financial instruments fair values do not substantially deviate from their book value at the financial position date according to the valuation basis applied in accounting policies to the assets and liabilities, which are included in the notes to the financial position.

Note No. (8) to financial statement discloses the fair values of investment other than trading investment.

c) Forward exchange contracts

According to instructions of the Central Bank of Egypt, the bank does not execute forward contracts except to cover its required needs of foreign currencies or customers needs to meet their foreign currencies obligations that are resulting from dealing through the Bank, all the forward contracts are short-term transactions.

3.2 Management of risks relating to the financial instruments

a) Interest rate risk

The value of some financial instruments will fluctuate due to the changes in interest rates related thereto. The Bank follows some procedures to minimize the risk such as:

- Correlating between the interest on borrowing and lending.
- Determining the applied interest rates in consideration with the prevailing discounted rates on various currencies.

Note No. (24) to the financial statements represents the average interest rates applied by the Bank during the year on financial assets and liabilities.

b) Credit risk

Loans to customers and banks, bonds investments, due from banks and rights and other obligations are of the financial assets that are exposed to the credit risk represented in the clients' inability to repay a part or full amount of the loans granted to him at maturity date.

The Bank follows the following procedures to minimize the credit risk:

- Preparing the credit review for the clients and banks before dealing with them and determining the credit risk rates related thereto.
- Obtaining the adequate guarantees in order to reduce the risks that might be created in case of the failing of clients or banks.
- Following up and continuous review of clients and banks in order to evaluate their financial and credit positions and estimate the required provisions for non-performing loans.
- Distribution of loans portfolio and other assets over various sectors to avoid risk concentration.

Note No. 26 discloses the distribution of loans portfolio and other assets on various sectors.

c) Foreign currency fluctuation risk

The Bank's nature of activity requires dealing in many foreign currencies which exposes the Bank to risk of fluctuation in the amounts of assets and liabilities as a result of the fluctuation of exchange rates. To minimize this risk, the Bank considers the matching of foreign currencies positions according to the instructions of Central Bank of Egypt in that respect. Note No. 27 to the financial statements discloses the significant foreign currencies position on the balance sheet.

4- Cash and due from Central Bank of Egypt

Cash on hand
Due from Central Bank of Egypt (mandatory reserve).

2004 L.E.000's	2003 L.E.000's
29 912	16 972
61 983	35 558
91 895	52 530

5- Due from banks

a) Central Bank of Egypt

Current accounts
Deposits

2004 L.E.000's	2003 L.E.000's
2 746	-
403 597	629 560
406 343	629 560

b) Local banks

Current accounts
Call deposits

1 620	3 252
221 659	203 762
223 279	207 014

c) Correspondent banks

Current accounts
Call deposits

59 390	22 851
105 173	46 752
164 563	69 603
794 185	906 177

Total (A+B+C)

6- Treasury bills (Net)

Treasury bills – 91 days maturity
Treasury bills – 182 days maturity
Treasury bills – 364 days maturity

2004 L.E.000's	2003 L.E.000's
400	125 000
48 675	50 000
329 200	-
378 275	175 000
(28 615)	(1 357)
349 660	173 643

Unearned income

Treasury bills (Net)

7- Investments held for trading

Shares
Bonds
Total

2004 L.E.000's	2003 L.E.000's
1 218	131
8 135	-
9 353	131

All investments are quoted on the stock exchange.

8- Investments available for sale

	2004 L.E.000's	2003 L.E.000's
Companies equity securities	6 826	8 057
Governmental and corporate bonds	12 211	862
Total	19 037	8 919
Investments available for sale are represented as follows:		
Investments quoted on the stock exchange	13 209	3 002
Investments not quoted on the stock exchange	5 828	5 917
Total	19 037	8 919

The market value of the financial investments available for sale quoted on the stock exchange amounted to L.E. 15 764 M on December 31, 2004 compared to L.E. 5 127 M on December 31, 2003.

9- Loans & advances to clients & banks

	2004 L.E.000's	2003 L.E.000's
Discounted bills	50 193	19 694
Loans to clients	1 241 545	1 289 395
Total	1 291 738	1 309 089
Unearned discount for commercial discounted bills	(634)	(106)
Loan loss provision	(223 790)	(235 151)
Suspense interest	(24 684)	(15 888)
Total	1 042 630	1 057 944

10- Loan loss provision (Performing / Non-Performing)

	2004		2003		Total L.E.000's
	Specific L.E.000's	General L.E.000's	Specific L.E.000's	General L.E.000's	
Balance of provision at the beginning of the year	230 763	4 388	197 554	9 619	207 173
Transferred from other provisions	-	-	1 120	-	1 120
Transferred from contingent liabilities provisions	-	-	571	-	571
Transferred from specific to general	(143)	143	5 845	(5 845)	-
Formed during the year	-	-	11 405	-	11 405
Foreign currencies revaluation	(560)	(31)	15 643	614	16 257
Total	230 060	4 500	232 138	4 388	236 526
Reinstated provision	(10 668)	-	-	-	-
Used during the year	(102)	-	(1 375)	-	(1 375)
Balance at the end of the year	219 290	4 500	230 763	4 388	235 151

11- Capital expenditures commitments

Value of commitments related to purchasing of fixed assets and computer software not executed until the balance sheet date amounted to L.E. 2 062 000.

12- Debit balance and other assets

	2004 L.E.000's	2003 L.E.000's
Accrued income	8 565	8 601
Prepaid expenses	1 287	1 998
Advance payment for fixed assets & intangible assets	5 007	11 342
Assets acquired by the bank in settlement of clients' debts*	25 136	12 281
Refundable deposits	707	837
Intangible assets-computer software**	17 134	16 290
Miscellaneous debit balance	3 786	15 431
Total	61 622	66 780

* After deducting the valuation differences amounting to L.E 2 847 M on December 31, 2004 against L.E 2 234 M on December 31, 2003.

** After deducting the amortization of intangible assets with an amount of L.E 2 500 M on December 31, 2004 against L.E 1 810 M on December 31, 2003.

13- Fixed Assets

Description	Land L.E.000's	Buildings & Construction L.E.000's	Automated System L.E.000's	Transportation Equipment L.E.000's	Fittings & Fixture L.E.000's	Appliances & Equipment L.E.000's	Furniture L.E.000's	Total L.E.000's
Cost on 1/1/2004	364	36 522	15 382	4 125	11 076	6 093	5 895	79 457
Additions during the year	444	-	2 917	738	5 173	1 294	669	11 235
Disposals during the year	-	-	(56)	(1 520)	(524)	(200)	(83)	(2 383)
Total cost on 31/12/2004 (1)	808	36 522	18 243	3 343	15 725	7 187	6 481	88 309
Accumulated depreciation on 1/1/2004	-	3 788	8 604	2 908	2 748	4 159	1 793	24 000
Depreciation for the year	-	731	2 908	426	4 010	533	597	9 205
Accumulated depreciation of disposals	-	-	(56)	(1 163)	(524)	(200)	(83)	(2 026)
Accumulated depreciation on 31/12/2004 (2)	-	4 519	11 456	2 171	6 234	4 492	2 307	31 179
Net assets as of 31/12/2004 (1-2)	808	32 003	6 787	1 172	9 491	2 695	4 174	57 130
Net assets as of 31/12/2003	364	32 734	6 778	1 217	8 328	1 934	4 102	55 457

The fixed assets (net of depreciation) include at the balance sheet date, an amount of L.E 550 000, which represents assets not registered yet in the name of the Bank and are currently under legal procedures to notarize these assets.

14- Due to banks

	2004 L.E.000's	2003 L.E.000's
a) Local banks		
Current accounts	111	123
Deposits	84 304	92 579
Total	84 415	92 702
b) Foreign banks		
Current accounts	22 778	13 706
Deposits	180 579	100 924
Total	203 357	114 630
Total	287 772	207 332

15- Clients' deposits

	2004 L.E.000's	2003 L.E.000's
Demand deposits	175 589	136 829
Call and time deposits	843 911	870 814
Certificates of deposit	544 977	725 895
Saving deposits	155 543	66 251
Other deposits	107 798	34 401
Total	1 827 818	1 834 190

16- Credit balance & other liabilities

	2004 L.E.000's	2003 L.E.000's
Accrued interest payable	10 800	6 921
Unearned revenues	1 126	864
Accrued expenses	3 046	2 100
Creditors	35 264	29 959
Sundry credit balance	11 107	1 812
Total	61 343	41 656

17- Other Provisions

	2004				
	Balance at the beginning of the year L.E.000's	Formed during the year (P/L) L.E.000's	Foreign currencies revaluation differences L.E.000's	Used during the year L.E.000's	Balance at the end of the year L.E.000's
Provision for claims	37 709	7 979	(44)	(10 707)	34 937
Provision for contingencies	2 832	(760)	(2)	-	2 070
Other provisions	3 087	-	(18)	-	3 069
Total	43 628	7 219	(64)	(10 707)	40 076

	2003					
	Balance at the beginning of the financial year L.E.000's	Formed during the year (P/L) L.E.000's	Transferred provision L.E.000's	Foreign currencies revaluation differences L.E.000's	Used during the year L.E.000's	Balance at the end of the year L.E.000's
Provision for claims	28 457	1 856	5 876	1 658	(138)	37 709
Provision for contingencies	3 151	-	(571)	252	-	2 832
Other provisions	9 574	33	(6 996)	476	-	3 087
Total	41 182	1 889	(1 691)	2 386	(138)	43 628

18- Capital and reserves

a) Authorized capital

Authorized capital amounted to L.E. 200 million.

b) Issued and paid in capital

- Issued and subscribed in capital amounted to L.E. 100 million represented in 10 million common shares with nominal value of L.E. 10 each, of which 8 920 000 shares were paid in Egyptian Pounds, and 1 080 000 shares were paid in foreign currency. The value of shares paid in foreign currency has been paid according to the exchange rates prevailing on the payment date.
- The General assembly of the Bank has approved in its extraordinary meeting dated 25/3/2004 the utilization of an amount of L.E. 57 576 500 from the reserves to finance the increase in the issued and paid in capital to amount to L.E. 157 576 500, such an increase has been registered in the Central Bank of Egypt on 28/4/2004, all necessary procedures are currently being carried out to incorporate such an increase.

c) Reserves

In accordance with the Banks articles of association, 10% of net income of the year is held to meet the legal reserve requirements, which ends when such a reserve reaches 100% of the issuing capital.

In accordance with Central Bank of Egypt instructions, the special reserve cannot be utilized without prior approval from the Central Bank of Egypt.

19- Contingent liabilities and commitments

	2004 L.E.000's	2003 L.E.000's
Letters of guarantee	255 441	147 447
Letters of credit (import & export)	49 050	52 921
Forward exchange & currency swap contracts	252 230	158 845
Total	556 721	359 213

20- Other investments revaluation differences

	2004 L.E.000's	2003 L.E.000's
Financial investments available for sale	84	133
Total	84	133

21- Gains from foreign exchange

	2004 L.E.000's	2003 L.E.000's
Gains from foreign currency exchange	6 013	3 234
Credit revaluation differences from monetary assets and liabilities	(651)	17 765
Total	5 362	20 999

22- Earnings per share

	2004 L.E.000's	2003 L.E.000's
Net profit of the year	14 748	12 671
Board of Directors and employees remuneration (from net profit)	(710)	(1 020)
Shareholders' share from the net profit	14 038	11 651
Weighted average number of shares	15 757	15 757
Earnings per share	0.89	0.74

23- Maturity of assets and liabilities

a) Assets

Due from banks	775 881	18 304
Treasury bills	378 275	-
Financial investments held for trading	9 353	-
Financial investments available for sale	19 037	-
Loans to clients	1 016 087	275 651
Other debit balances & assets	43 859	17 763
Total	2 242 492	311 718

b) Liabilities

Due to banks	287 772	-
Clients' deposits	1 286 943	540 875
Other credit balance & liabilities	61 343	-
Total	1 636 058	540 875

	Maturity within one year L.E.000's	Maturity over one year L.E.000's
Due from banks	775 881	18 304
Treasury bills	378 275	-
Financial investments held for trading	9 353	-
Financial investments available for sale	19 037	-
Loans to clients	1 016 087	275 651
Other debit balances & assets	43 859	17 763
Total	2 242 492	311 718

	Maturity within one year L.E.000's	Maturity over one year L.E.000's
Due to banks	287 772	-
Clients' deposits	1 286 943	540 875
Other credit balance & liabilities	61 343	-
Total	1 636 058	540 875

24- Interest rates implemented during the year

The average interest rates on assets and liabilities were as follows:-

The average interest rates on fund uses (assets)	11.44%	2.5%
The average interest rates on fund resources (liabilities)	7.88%	1.52%

	Egyptian pound	Foreign currencies
The average interest rates on fund uses (assets)	11.44%	2.5%
The average interest rates on fund resources (liabilities)	7.88%	1.52%

25- Tax position

- The Bank has settled the tax until the end of the fiscal year 1989 in respect of corporate income tax and the movable values tax.
- Corporate income tax and movable property tax have been inspected for the years 1990/1995 and Tax Authority has notified the Bank of the Appeal Committee Resolution No. 29 dated 8/10/2003. The Bank has objected to the Appeal Committee resolution.
- The Tax Authority has carried out tax review concerning both corporate income tax and movable value tax for the years 1996 to 1999. A report is currently being drafted for submission to the Internal Committee and is expected to be concluded during 2005 with the realization of tax losses that could be used during the inspections for future years.
- The Bank has submitted its tax return for the years 2000 to 2003 and tax due according to these reports which were paid but are not yet inspected by the Tax Authority.

26- Distribution of assets, liabilities, contingent liabilities and obligations according to the activity

The average interest rates on assets and liabilities are as follows: -

	Assets (loans and advances)	Liabilities (Clients' deposits)	L.E. Million Contingent liabilities and obligations
Agricultural	8.6	61.5	44.8
Industrial	254	33.7	136.7
Commercial	670.1	115.4	58.8
Services	267.9	189.9	31.3
Family	75.9	1 417.2	0.7
Financial	15.2	3.7	284.4
Others	-	6.4	-
Total	1 291.7	1 827.8	556.7

27- Position of major currencies

Egyptian Pound	(20 610)	(4 730)
US Dollar	19 324	4 694
Sterling Pound	59	8
Euro	1 182	18
Other currencies	45	10

	31/12/2004 Surplus (Deficit) in L.E.000's	31/12/2003 Surplus (Deficit) in L.E.000's
Egyptian Pound	(20 610)	(4 730)
US Dollar	19 324	4 694
Sterling Pound	59	8
Euro	1 182	18
Other currencies	45	10

28- Trust Activities

Assets held on account or on behalf of other parties

Shares	19 215	2 838
Saving certificates	482 510	10 929
Investment certificates	22 330	12 576
Total	524 055	26 343

	Total Value L.E.000's	Related Liabilities L.E.000's
Shares	19 215	2 838
Saving certificates	482 510	10 929
Investment certificates	22 330	12 576
Total	524 055	26 343

29- Related parties transactions

The Bank carried out transactions with Arab Banking Corporation-Bahrain (Head Office, Branches and Affiliated Companies) on an arm's length basis, these transactions and there balances were as follows: -

Nature of transaction

Due from banks	19 466	1 984
Clients' deposits	6 297	6 133
Due to banks	217	-

	2004 L.E.000's	2003 L.E.000's
Due from banks	19 466	1 984
Clients' deposits	6 297	6 133
Due to banks	217	-

30- Staff Pension Fund (Pensions and end of service compensation)

- Bank contributions to the staff pension funds are included among general and administration expenses in the income statement in addition to forming the necessary provision as stated under the item of provision for claims to meet the Bank's probable liabilities towards the fund.

31- Comparative figures

- The comparative figures were reclassified to comply with the presentation of the current year's financial statements.
- Net profit of year 2003 was not stated in the comparative figures since it was appropriated according to the General Assembly resolution.

Resolutions taken in the General Assembly held on 27th March 2005:

- The Ordinary General Assembly has approved the financial statements for the year ended December 31, 2004, and all minutes presented in the meeting.
- The Extraordinary General Assembly has agreed to increase the licensed, issued and paid in capital of the bank, to become 500 Million Egyptian pounds.