



Suez Canal Authority building, Suez Canal, Port Said

Financial Report

The financial statements were prepared in accordance with the Egyptian Accounting Standards, which comply with the relevant local laws and regulations

Financial Report

for the Financial Year ended 31/12/2005

The Board of Directors is pleased to present the results achieved during the Financial Year ended December 31, 2005 through the Financial Statements of the Financial Year ended on the said date.

Total financial position amounted to L.E. 2 325.2 million on 31/12/2005 versus L.E. 2 425.5 million on 31/12/2004, with a decrease of L.E. 100.3 million that reflects a rate of 4.1%.

Total balances of Contingent Liabilities and other commitments have reached L.E. 389.1 million on 31/12/2005 versus L.E. 575.8 million on 31/12/2004, with a decrease of L.E. 186.7 million, that reflects a rate of 32.4%. Contingent liabilities and other commitments as of 31/12/2005 include commitments for Swap and Forward Contracts amounting to L.E. 108.8 million versus L.E. 271.4 million on 31/12/2004 with a decrease of L.E. 162.6 million.

The total Bank's activities resulted in a Net Profit of L.E. 28 million in 2005 versus L.E. 14.8 million in the previous Financial Year, with an increase of L.E. 13.2 million.

The valuation loss of Liquid Assets and Liabilities amounted to L.E. (7.2) million on 31/12/2005 versus L.E. (0.7) million on 31/12/2004 with an increase of L.E. 6.5 million.

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Hereunder are details of fund sources and their application during the financial year ended on 31/12/2005:

Application of Funds	(L.E. Million)	Sources of Funds	(L.E. Million)
Increase in Assets		Increase in Liabilities	
Financial Investment	47.8	Equity Capital	318.3
Loans and Advances	2.2	Net Profit	13.2
Debit Balances & other Assets	1.5		
Decrease in Liabilities		Decrease in Assets	
Due to Banks	227.3	Cash and Due from Banks	145.5
Clients' Deposits	187.2	Fixed Assets	6.3
Credit Balances & other Liabilities	9		
Other Provision	8.3		
Total Applications of Funds	483.3	Total Sources of Funds	483.3

The following presentation illustrates the most important developments of the sources of fund and aspects of applications during the financial year 2005:

First: Deposits

Total balances of clients' deposits of all types amounted to L.E. 1 640.6 million on 31/12/2005 versus L.E. 1 827.8 million on 31/12/2004 with a decrease of L.E. 187.2 million which was distributed over the sectors of different economic activities in the following manner:

(L.E. Million)				
Sector	Year 2005	Year 2004	Change	Growth Rate %
Agricultural	65.7	61.5	4.2	6.8%
Industrial	32.7	33.7	-1	-3%
Commercial	108.7	115.4	-6.7	-5.8%
Services	123.2	189.9	-66.7	-35.1%
Family	1 274.9	1 417.2	-142.3	-10%
Financial Intermediaries	28.2	3.7	24.5	662.2%
Others	7.2	6.4	0.8	12.5%
Total	1 640.6	1 827.8	-187.2	-10.2%

The following table shows the development of deposits' balances according to their types between the end of 2005 and 2004:

(L.E. Million)				
	Year 2005	Year 2004	Change	Growth Rate %
Demand Deposits	187.6	175.6	12	6.8%
Call & Time Deposits	737.2	843.9	-106.7	-12.6%
Saving Certificates	445.1	545	-99.9	-18.3%
Saving Deposits	197.6	155.5	42.1	27.1%
Other Deposits	73.1	107.8	-34.7	-32.2%
Total	1 640.6	1 827.8	-187.2	-10.2%

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Second: Due to Banks and Correspondent Banks

Total Due to Banks and Correspondent Banks domestically and abroad amounted to L.E. 60.5 million on 31/12/2005 versus L.E. 287.8 million on 31/12/2004 with a decrease of L.E. 227.3 million that reflects a rate of 79%.

Third: Cash and Balances with Banks and Correspondent Banks

Total Balances of this item amounted to L.E. 740.6 million on 31/12/2005 versus L.E. 886.1 million on 31/12/2004, as shown in the following table:

(L.E. Million)				
	Year 2005	Year 2004	Change	Growth Rate %
Cash on Hand and Due from Central Bank of Egypt	99.4	91.9	7.5	8.2%
Due from Banks	641.2	794.2	-153	-19.3%
Total	740.6	886.1	-145.5	-16.4%

Fourth: Loans and Advances

The net amount utilized for Loans and Advances granted to clients amounted to L.E. 1 044.8 million on 31/12/2005 versus 1 042.6 million on 31/12/2004 with an increase of L.E. 2.2 million and a growth rate of 0.2%.

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 31/12/2005:

(L.E. Million)				
Sector	Year 2005	Year 2004	Change	Growth Rate %
Agricultural	8.6	8.6	-	-
Industrial	225.9	254	-28.1	-11.1%
Commercial	675.1	670.1	5	0.7%
Services	175.8	267.9	-92.1	-34.4%
Family	94.9	75.9	19	25%
Financial	105.2	15.2	90	592.1%
Total	1 285.5	1 291.7	-6.2	-0.5%
Less:				
Loan loss provision	212.3	223.8	-11.5	-5.1%
Unearned Discount for Discounted Bills	1.4	0.6	0.8	133.3%
Suspended Interest	27	24.7	2.3	9.3%
Net Credit Facilities used	1 044.8	1 042.6	2.2	0.2%

The above table shows that provision for Loan loss amounted to L.E. 212.3 million on 31/12/2005 versus L.E. 223.8 million on 31/12/2004, with a decrease of L.E. 11.5 million reflecting a rate of 5.1%.

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Fifth: Financial Investments

Net Balances of this item amounted to L.E. 425.9 million on 31/12/2005 with an increase of L.E. 47.8 million versus the outstanding Balances on 31/12/2004. The following table shows the changes in the Balances of this item during the Financial Year 2005:

(L.E. Million)			
	Year 2005	Year 2004	Change
Treasury Bills	123.9	349.7	-225.8
Outright Sale Central Bank of Egypt - Notes	265.5	0	265.5
Equity Securities	4.7	6.8	-2.1
Investments in Marketable Securities	31.8	21.6	10.2
Net Financial Investment	425.9	378.1	47.8

Sixth: Shareholders' Equity

The Balances of Shareholders' Equity amounted to L.E. 512 million on 31/12/2005 versus L.E. 207.8 million on 31/12/2004 with an increase of L.E. 304.2 million.

The following table shows the changes in Shareholders' Equity during the Financial Year 2005:

(L.E. Million)			
	Year 2005	Year 2004	Change
Capital	500	157.6	342.4
Reserves	12	20.2	-8.2
Retained Earnings	-	15.9	-15.9
Total	512	193.7	318.3

The previous table indicates that Shareholders' Equity increased by L.E. 318.3 million representing the increase in Paid In Capital, the value of distributions of the 2004 approved by the General Assembly meeting and the utilization of an amount from the reserves and brought forward profits as share dividend in accordance with the resolution of the General Assembly in this regard.

Seventh: Contingent Liabilities and Other Commitments

Total clients' Liabilities against Opened Documentary Letters of Credit, Issued Letters of Guarantee and other commitments amounted to L.E. 389.1 million on 31/12/2005 versus L.E. 575.8 million on 13/12/2004 with a decrease of L.E. 186.7 million as shown in the following table:

(L.E. Million)				
	Year 2005	Year 2004	Change	Growth Rate %
Uncovered value for Opened Documentary Letters of Credit	179.6	49.1	130.5	265.8%
Uncovered Value for Issued Letters of Guarantee	100.7	255.4	-154.7	-60.6%
Other Commitments (Swap & Forward Exchange Contracts)	108.8	271.3	-162.5	-60%
Total	389.1	575.8	-186.7	-32.4%

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Eighth: Activity Results

The outcome of the Bank's activity for the Financial Year 2005 resulted in realizing net profit of L.E. 28 million (after deducting L.E. 0.1 million profit of Fixed Assets sale transferred to Capital Reserve), the distributable amount became L.E. 27.9 million versus L.E. 30.1 million for 2004.

The following table shows Appropriation proposed by the Board of Directors for 2005 compared to the Actual Appropriation of 2004:

(L.E. Million)

	Suggested Appropriation 2005	Actual Appropriation 2004
Reserves, Legal & General	22.8	1.4
Staff Profit Share	1.6	0.5
Board of Directors' Remuneration	0.6	0.2
Retained Earnings at the end of the year	2.9	28.0 #
Total	27.9	30.1

includes an amount of L.E. 15.9 million brought forward from 2003.

Ninth: Branches

The Bank operates through twelve Branches of which, nine are located in Cairo, one in 10th of Ramadan City, one in Alexandria, and one Branch in Sharm El Sheikh. Massaken Sheraton Branch is being prepared for inauguration during the beginning of the financial year 2006.

Tenth: Employment

At the end of the Financial Year 2005, the number of employees was 346 versus 345 at the end of the previous year, in addition to 48 supporting staff.

Due to the importance of the human element, the Bank's Management is keen on improving the employees' banking skills and elevating their experience in the administrative and functional levels through sending them for training courses, to enable them to render the optimal possible level of Banking services.

Auditors' Report

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, 2005, 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, 2005, 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, February 23, 2006

Balance Sheet

as of December 31, 2005

	Note No.	2005 L.E.000	2004 L.E.000
Assets			
Cash and due from Central Bank of Egypt	(4)	99 381	91 895
Due from Banks	(5)	641 192	794 185
Treasury Bills	(6)	123 896	349 660
Outright Sale Central Bank of Egypt - Notes	(7)	265 468	-
Investment held for trading	(8)	8 399	9 353
Investment available for sale	(9)	28 126	19 037
Loans & Advances (Net)	(11-10)	1 044 772	1 042 630
Debit Balances & other Assets	(13)	63 119	61 622
Fixed Assets (Net)	(14)	50 874	57 130
Total assets		2 325 227	2 425 512
Liabilities & Shareholders' equity			
Liabilities			
Due to Banks	(15)	60 488	287 772
Clients' Deposits	(16)	1 640 589	1 827 818
Credit Balances & other liabilities	(17)	52 350	61 343
Dividends payable		-	710
Other provisions	(18)	31 807	40 076
Total liabilities		1 785 234	2 217 719
Shareholders' equity			
Paid in Capital		500 000	157 577
Reserves		12 022	22 267
Retained Earnings		1	27 949
Total shareholders' Equity	(19)	512 023	207 793
Net profit		27 970	-
Total shareholders' Equity & Net Profit		539 993	207 793
Total Liabilities & Shareholders' Equity		2 325 227	2 425 512
Contingent Liabilities & Commitments			
Letters of Credit, Letters of Guarantee and other contingencies	(20)	389 079	575 845

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



Ghazi Abdul Jawad
Chairman

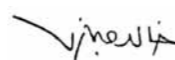


Tamer Ragheb
KPMG Hazem Hassan

Auditors



Tarek Helmy
Chief Executive Officer



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

Income Statement

for the year ended December 31, 2005

	Note No.	2005 L.E.000	2004 L.E.000
Interest income from clients and Banks		114 895	125 791
Return on Treasury Bills, outright Sale Notes & Bonds		44 515	29 586
Less:			
Interest expenses on deposits		(99 605)	(101 330)
Net interest income		59 805	54 047
Fees and commissions income		23 181	22 170
Dividends income		698	519
(Losses) gains on exchange	(21)	(3 101)	5 362
Gains from selling of investments		8 981	579
Valuation differences of trading investments		1 149	(55)
Other revenue		9 855	10 668
Net operating income		100 568	93 290
Less:			
Fees and commissions expenses		(1 218)	(1 004)
Provisions		(4 413)	(7 219)
Other investments valuation differences	(22)	(2 085)	(84)
General & administrative expenses, depreciation & amortization		(66 119)	(70 238)
Other operating expenses		(1 061)	(613)
Operating Profit		25 672	14 132
Income from non - operating activities		145	616
Net profit of the year before taxes		25 817	14 748
Less:			
Current Income Tax	(26)	-	-
Deferred Income Tax	(25)	2 153	-
Net Profit for the year	(34)	27 970	14 748
Earning per share	(23)	0.70	0.72

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

Cash Flows Statement for the year ended 31/12/2005

	2005 L.E.000	2004 L.E.000
Cash flows from operating activities		
Net Profit for the year before taxes	25 817	14 748
Adjustment to reconcile net profit to net cash from operating activities		
Depreciation and Amortization	13 069	11 705
Provisions	4 413	7 979
Differences from valuation of trading investments	(1 149)	55
Differences from valuation of other investments	2 085	84
Provisions used excluding loan loss provisions	(8 568)	(10 707)
Released Provisions	(9 855)	(11 428)
Foreign currencies revaluation differences of provisions excluding loan loss provision	(446)	(64)
(Gains) on sales of fixed assets	(145)	(616)
Differences from valuation of assets acquired by the Bank	1 061	613
Net operating profit before changes in assets and liabilities generated from operating activities	26 282	12 369
Net (increase) decrease in assets		
Due from Banks	(197 273)	(76 318)
Treasury Bills	177 246	(301 142)
Investments held for trading	2 103	(9 277)
Investments available for sale	(11 174)	(10 202)
Loans to clients and banks	3 385	12 871
Debit Balances and other Assets	(3 107)	10 174
Net increase (decrease) in liabilities		
Due to Banks	(227 284)	80 440
Clients' Deposits	(187 229)	(6 372)
Credit Balances and other Liabilities	(8 993)	19 687
Net cash used in operating activities (1)	(426 044)	(267 770)
Cash Flow from investment activities		
Purchase of Fixed Assets and Branches leasehold improvements	(3 451)	(5 896)
Proceeds from sale of Fixed Assets	145	616
Net cash used in investing activities (2)	(3 306)	(5 280)
Cash Flow from financing activities		
Increase in Paid In Capital	304 230	-
Dividends paid	(710)	(1 020)
Net cash provided from / used in financing activities (3)	303 520	(1 020)
Net decrease in cash and cash equivalent during the year (1+2+3)	(125 830)	(274 070)
Cash & cash equivalent at the beginning of the year	607 766	881 836
Cash and cash equivalent at the end of the year	481 936	607 766
Cash & Cash equivalent represented in:		
Cash and Due from CBE	99 381	91 895
Due from Banks	641 192	794 185
Treasury Bills	123 896	349 660
Outright sale CBE - Notes	265 468	-
Deposits with Banks	(524 105)	(326 832)
Treasury Bills mature more than 3 months	(123 896)	(301 142)
Cash & Cash Equivalent	481 936	607 766

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

Statement of Change in Shareholders' Equity for the Financial Year ended December 31, 2005

	Paid In Capital L.E.000	Legal reserve L.E.000	General reserve L.E.000	Special reserve L.E.000	Other reserves L.E.000	Retained earnings L.E.000	Net Income L.E.000	Total L.E.000
2004								
Balance at 1/1/2004	100 000	23 210	43 828	9 295	1 519	15 903	-	193 755
Transfer to Paid in Capital	57 577	(13 181)	(33 828)	(9 295)	(1 273)	-	-	-
Net Profit for the year	-	-	-	-	-	-	14 748	14 748
Transfer to Reserves	-	1 417	-	-	575	12 046	(14 038)	-
Dividend paid	-	-	-	-	-	-	(710)	(710)
Balance as of 31/12/2004	157 577	11 446	10 000	-	821	27 949	-	207 793
2005								
Cash paid to increase Paid in Capital	304 230	-	-	-	-	-	-	304 230
Transfer to Paid in Capital	38 193	-	(10 000)	-	(245)	(27 948)	-	-
Net Profit for the year 2005	-	-	-	-	-	-	27 970	27 970
Balance as of 31/12/2005	500 000	11 446	-	-	576	1	27 970	539 993

Statement of Appropriation Account

for the year ended December 31, 2005

	2005 L.E.000	2004 L.E.000
Net Profit for the year (As per income statement)	27 970	14 748
Less:		
Profit from sales of Fixed Assets - transferred to capital reserve according to provisions of law	(130)	(575)
Net Profit for the year - available for appropriation	27 840	14 173
Retained Earnings at the beginning of the fiscal year	1	15 903
Total	27 841	30 076
Appropriation		
Legal Reserve	2 784	1 417
General Reserve	20 000	-
Shareholders' Dividends	-	-
Staff Profit share	1 560	500
Board of Directors' Remuneration	610	210
Retained Earnings at the end of the year	2 887	27 949
Total	27 841	30 076

The statement of proposed profit appropriation for the financial year ended December 31, 2005 was prepared subject to the approval of the Bank's General Assembly.

Notes to the Financial Statements

for the year ended December 31, 2005

1- Activity

The Bank has been established on 21/8/1982 according to provisions of Investment Law and its amendments, as 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 of 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 twelve Branches.

2- Significant accounting policies

a) Accounting policies

The financial statements were prepared in accordance with the Egyptian Accounting Standards, which comply with the relevant local laws and regulations.

b) Foreign currency translation

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 recognized in the income statement under the item of gains (losses) on exchange.

- The balances of forward exchange contracts outstanding at the year end are valued at the fair value, gains/losses resulting from the valuation of forward exchange contracts balances outstanding at year end and are recognized in income statement under the item of gains (losses) on exchange, using forward exchange rates for the remaining periods until maturity dates of such contracts.
- Foreign exchange contracts are recorded in the date of contract under the item of contingent liabilities and commitments. The difference between the two currencies of foreign exchange contracts is recognized under the item of debit balances and other assets and the item of credit balances & other liabilities considering that such difference is a profit / loss not realized on the date of contract. The said balances shall be amortized over the term of the foreign exchange 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 exchange contract is recognized 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 & other assets provided that the balance of the premium recognized in 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 recognized 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 (T.Bs) are stated in the books at its nominal value, and the related discount is included under the caption "Credit Balances & other Liabilities". (T.Bs) are presented 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 by debiting/ crediting treasury bills. Expense/return of such operations are included in income statement under item return on bills & bonds.

f) Outright Sale of Central Bank of Egypt (CBE) - Notes

Outright Sale CBE - Note are stated in the books at their nominal values, and the related discount is included under the caption "Credit balances & other liabilities". Outright Sale CBE - Notes are presented on the Balance Sheet at its nominal value net of discount.

g) 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 recognized in 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 according to last financial statement of the company. The valuation differences are recognized in 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 recognized in the income statement.

h) Valuation of available for sale investments

- Investments available for sale are valued at the lower of cost (taking into consideration foreign exchange differences) or the fair value whichever is lower. Revaluation differences are recognized in the income statement under the item of "other investments valuation differences". The increase in the fair value is recognized in the income statement to the extent of amounts charged to the income statement in prior financial periods.

i) Investments held to maturity

- Bonds purchased through public underwriting are to be valued

Notes to the Financial Statements

for the year ended December 31, 2005

using the amortized 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 recognized in the income statement under item of return on Treasury Bills and Bonds.

- 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 each bond and the impairment is to be recognized in 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 amended with the valuation result according to the exchange rates prevailing at the valuation date. The valuation differences are recognized to the income statement in gains (losses) on exchange item.
- Valuation of Mutual Fund Certificates that should be kept by the Bank till termination as the Bank is considered the establisher of the Mutual Fund are to be valued at cost. In case any decline in the realizable value compared with cost is recognized to the 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.

j) Valuation of assets acquired by the Bank in settlement of some clients' debts

- Assets acquired by the Bank are stated under the item of "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 acquired by the Bank in the Balance Sheet date, the resulting differences are recognized to income statement under the item of other operating expenses, in case of the increase of the fair value, such increase shall be recognized to income statement within the limit of amounts charged to the income statement in previous financial periods.

k) Provision for loans and contingent liabilities

- Provision are formed for specific loan and contingent liabilities, in addition to a percentage varies from 1% to 5% of the total of performing loans and contingent liabilities (other than those provided for) in accordance with the Central Bank of Egypt circular related to the Bases of Obligor Risk Rating dated June 6th, 2005.
- Non performing loans which are deemed uncollectible are written off against the provision. Collections from loans previously written off are added back to the provision.

l) Contingent Liabilities & Commitments

- Contingent liabilities, foreign exchange 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.

m) 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 date of acquisition.

n) Depreciation and amortization

- Fixed assets are depreciated on a straight-line method. Additions during the year are depreciated as if exist for the entire year over the estimated useful lives of these assets as follows:

Machinery and equipment	12.5%
Computer/Automated system	20%
Furniture	10%
Vehicles	20%
Buildings	2%
Premises Fittings & fixture	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 lives of the assets or the lease contract period whichever is shorter.
- Intangible assets are amortized over (10) year.

o) Staff Pension Funds

- 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 of 1979 and its amendments. Such contributions are charged to the income statement in accordance with the accrual basis.

- The Bank had a special fund to cover pension and end-of service bonuses for permanent Bank's employees. The Bank and the employees contribute to the fund by a given percentage of the employees' salaries and according to the resolution of the extraordinary General Assembly of the Fund dated 15/3/2005 and the Bank's Board of Directors decree dated 27/3/2005, approving the amendments of the nature of the fund to be Savings Fund with deduction of monthly fees recognized in accordance with the accrual basis.

p) Deferred Taxes

- Income Tax represents the payable current tax of the year and deferred tax, and is recognized in the income statement with the exception of the income tax related to shareholders equity that is recognized directly in shareholders equity. Income tax payable on taxable profit is calculated using current tax rates prevailing on the Balance Sheet date in addition to prior years tax differences. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities computed based on accounting principles used in the preparation of the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax amount is calculated based on the expected method applied to recognize or settle the value of assets or liabilities using prevailing tax rates at the Balance Sheet date. The Bank's deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against the

Notes to the Financial Statements

for the year ended December 31, 2005

deductible temporary differences that can be utilized. The carrying amounts of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that no sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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, and loans to clients and banks. The financial liabilities include clients' deposits & due to banks. Financial instruments include also rights and obligations to others stated in the contingent liabilities. Note No. (2). Financial statements include the accounting policies applied to measure and recognize 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. (9) 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. (27) to the financial statement 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 due amount at maturity date. The Bank follows the following procedures to minimize the credit risk:

- Prepare the credit review for the clients and banks before dealing with them and determining the credit risk rates related thereto. Obtain adequate guarantees in order to reduce the risks that might be created in case that clients or banks inability to oblige payment.
- Follow up and continuous review of clients and Bank's status in order to evaluate their financial and credit positions and estimate the required provisions for non performing debts.

- Distribution of loans portfolio and other assets over various sectors to avoid risk concentration. Note No. (29) disclose the distribution of lending portfolio and other assets on various sectors.

c) Foreign Currency fluctuation risk

Since 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. (30) to the financial statement discloses the significant foreign currencies position at the balance sheet date.

Notes to the Financial Statements

for the year ended December 31, 2005

4- Cash and due from Central Bank of Egypt

	2005 L.E.000s	2004 L.E.000s
Cash on Hand	29 848	29 912
Due from Central Bank of Egypt (mandatory reserve).	69 533	61 983
Total	99 381	91 895

5- Due from Banks

	2005 L.E.000s	2004 L.E.000s
a) Central Bank of Egypt		
Current Accounts	1 176	2 746
Deposits	83 114	403 597
b) Local Banks		
Current Accounts	6 722	1 620
Deposits	32 253	221 659
c) Correspondent Banks		
Current Accounts	26 075	59 390
Deposits	491 852	105 173
Total (A+B+C)	641 192	794 185

6- Treasury Bills (Net)

	2005 L.E.000s	2004 L.E.000s
Treasury Bills – 91 days maturity	-	400
Treasury Bills – 182 days maturity	52 225	48 675
Treasury Bills – 364 days maturity	28 050	329 200
Total	80 275	378 275
Unearned income	(2 755)	(28 615)
Treasury Bills (Net)	77 520	349 660
Treasury Bills reverse Repo within 10 months	46 376	-
Total	123 896	349 660

Notes to the Financial Statements

for the year ended December 31, 2005

7- Outright sale Central Bank of Egypt Notes (Net)

	2005 L.E.000s	2004 L.E.000s
Outright sale CBE Notes – 7 days maturity	60 000	-
Outright sale CBE Notes – 63 days maturity	50 000	-
Outright sale CBE Notes – 84 days maturity	60 000	-
Outright sale CBE Notes – 91 days maturity	97 000	-
Total	267 000	-
Unearned income	(1 532)	-
Outright sale CBE - Notes (Net)	265 468	-

8- Investments held for trading

	2005 L.E.000s	2004 L.E.000s
Shares	-	1 218
Bonds	8 399	8 135
Total	8 399	9 353

All investments are quoted on the stock exchange.

9- Investments available for sale

	2005 L.E.000s	2004 L.E.000s
Equity Securities	4 733	6 826
Governmental and Corporate Bonds	23 393	12 211
Total	28 126	19 037
Investment available for sale are represented as follows:		
Investments quoted on the Stock Exchange	24 383	13 209
Investments not quoted on the Stock Exchange	3 743	5 828
Total	28 126	19 037

The market value of investments available for sale quoted on the Stock Exchange amounted to L.E 29 405 M on December 31, 2005 vs L.E 15 764 M on December 31, 2004.

10- Loans & Advances to clients & banks

	2005 L.E.000s	2004 L.E.000s
Discounted Bills	88 274	50 193
Loans to Clients	1 092 050	1 241 545
Loans to Banks	105 209	-
Total	1 285 533	1 291 738
Unearned discount for Discounted Bills	(1 475)	(634)
Loan loss provision	(212 305)	(223 790)
Suspended interest	(26 981)	(24 684)
Total	1 044 772	1 042 630

Notes to the Financial Statements

for the year ended December 31, 2005

11- Loan loss provision (Performing / non performing)

	Specific L.E.000s	2005 General L.E.000s	Total L.E.000s	Specific L.E.000s	2004 General L.E.000s	Total L.E.000s
Balance at the beginning of the year	219 290	4 500	223 790	230 763	4 388	235 151
Formed during the year	-	3 668	3 668	-	-	-
Transferred from specific to general	-	-	-	(143)	143	-
Foreign currencies revaluation	(3 591)	(127)	(3 718)	(560)	(31)	(591)
	215 699	8 041	223 740	230 060	4 500	234 560
Released provision	(9 855)	-	(9 855)	(10 668)	-	(10 668)
Used during the year	(1 580)	-	(1 580)	(102)	-	(102)
Balance at year end	204 264	8 041	212 305	219 290	4 500	223 790

12- Capital expenditures commitments

Value of commitments related to purchasing of fixed assets and fittings not executed until the Balance Sheet date amounted to L.E 921 000.

13- Debit Balance and Other Assets

	2005 L.E.000s	2004 L.E.000s
Accrued income	7 907	8 565
Prepaid expenses	1 214	1 287
Advance payment for fixed assets & Intangible assets	1 272	5 007
Assets acquired by the Bank in settlement of clients' debts*	24 736	25 136
Refundable deposits	699	707
Intangible assets – computer software* *	21 721	17 134
Sundry debit balance	5 570	3 786
Total	63 119	61 622

* Net of valuation differences amounted to L.E 3 907 M on December 31, 2005 vs. L.E 2 847 M on December 31, 2004.

** Net of amortization amounted to L.E 3 948 M on December 31, 2005 vs. L.E 2 500 M on December 31, 2004.

Notes to the Financial Statements

for the year ended December 31, 2005

14- Fixed Assets

Description	Land L.E.000s	Buildings L.E.000s	Automated System L.E.000s	Vehicles L.E.000s	Fittings & Fixture L.E.000s	Appliances & Equipment L.E.000s	Furniture L.E.000s	Total L.E.000s
Cost as of 1/1/2005	808	36 522	18 243	3 343	15 725	7 187	6 481	88 309
Additions during the year	-	-	999	233	1 149	402	82	2 865
Disposals during the year	-	-	-	(397)	-	(144)	-	(541)
Total cost on 31/12/2005 (1)	808	36 522	19 242	3 179	16 874	7 445	6 563	90 633
Accumulated depreciation on 1/1/2005	-	4 519	11 456	2 171	6 234	4 492	2 307	31 179
Depreciation for the year	-	730	2 978	470	3 802	546	595	9 121
Accumulated depreciation of disposals	-	-	-	(397)	-	(144)	-	(541)
Accumulated depreciation on 31/12/2005 (2)	-	5 249	14 434	2 244	10 036	4 894	2 902	39 759
Net assets as of 31/12/2005 (1-2)	808	31 273	4 808	935	6 838	2 551	3 661	50 874
Net assets as of 31/12/2004	808	32 003	6 787	1 172	9 491	2 695	4 174	57 130

- Fixed assets (net of depreciation) include at the balance sheet date, an amount of L.E 518 M. This represents assets not registered yet in the name of the bank and are currently under legal procedures to notarize these assets.

15- Due to banks

	2005 L.E.000s	2004 L.E.000s
a) Local Banks		
Current Accounts	2	111
Deposits	-	84 304
	2	84 415
b) Foreign Banks		
Current Accounts	46 911	22 778
Deposits	13 575	180 579
	60 486	203 357
Total (a+b)	60 488	287 772

16- Clients' Deposits

	2005 L.E.000s	2004 L.E.000s
Demand Deposits	187 575	175 589
Call and time Deposits	737 177	843 911
Saving Certificates	445 140	544 977
Saving Deposits	197 588	155 543
Other Deposits	73 109	107 798
Total	1 640 589	1 827 818

Notes to the Financial Statements

for the year ended December 31, 2005

17- Credit Balance & other Liabilities

	2005 L.E.000s	2004 L.E.000s
Accrued interest payable	7 315	10 800
Unearned revenues	788	1 126
Accrued expenses	3 732	3 046
Creditors	34 748	35 264
Sundry credit balance	5 767	11 107
Total	52 350	61 343

18- Other Provisions

2005	Balance at the beginning of the year L.E.000s	Formed during the year (P/L) L.E.000s	Foreign currencies revaluation differences L.E.000s	Used during the year L.E.000s	Balance at the end of the year L.E.000s
Provision for potential claims	34 937	288	(271)	(8 551)	26 403
Provision for contingencies	2 070	457	(62)	-	2 465
Other provisions	3 069	-	(113)	(17)	2 939
	40 076	745	(446)	(8 568)	31 807

	Balance at the beginning of the year L.E.000s	Formed during the year (P/L) L.E.000s	Foreign currencies revaluation differences L.E.000s	Used during the year L.E.000s	Balance at the end of the year L.E.000s
Provision for potential 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
	43 628	7 219	(64)	(10 707)	40 076

19- Capital and Reserves

a) Authorized Capital

Authorized Capital amount to L.E. 500 million.

b) Issued and Paid In Capital

- Issued and Paid In Capital amount to L.E. 500 million represented in 50 million common shares with nominal value of L.E. 10 each, the foreign currency shares represent 97.9% and paid in foreign currency. The values of shares paid in foreign currency were paid according to the exchange rates prevailing on the payment date.

- The resolution of the extraordinary General Assembly dated 27/3/2005 which approved the increase of the issued and Paid In Capital from L.E. 157,576,500 to L.E 500 million through the issuance of Dividend Shares financed by reserves utilization for an amount of L.E 38,193,500 and cash payment amount to L.E 304,230,000. The cash increase was paid in June 2005 & all necessary procedures were carried out to incorporate and register 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 end when such a reserve reaches 100% of the issued and paid in capital.

Notes to the Financial Statements

for the year ended December 31, 2005

20- Contingent Liabilities and Commitments

	2005 L.E.000s	2004 L.E.000s
Letters of Guarantee	100 713	255 441
Letters of Credit (import & export)	179 550	49 050
Foreign Currencies Swap & Forward Contracts	108 816	271 354
Total	389 079	575 845

21- Gains from foreign exchange

	2005 L.E.000s	2004 L.E.000s
Gains of foreign currency exchange	4 050	6 013
Revaluation differences from monetary assets and liabilities	(7 151)	(651)
Total	(3 101)	5 362

22- Other investments revaluation differences

	2005 L.E.000s	2004 L.E.000s
Investments available for sale	(2 085)	(84)

23- Earnings per share

	2005 L.E.000s	2004 L.E.000s
Net Profit of the year	27 970	14 748
Board of Directors and Employees Remuneration (from net profit)	(2 171)	(710)
Shareholders' Share from Net Profit	25 799	14 038
Weighted average number of shares	36 974	19 577
Earnings per share	0.70	0.72

24- Maturity of Assets and Liabilities

	Maturity within one year L.E.000s	Maturity over one year L.E.000s
a) Assets		
Due from Banks	623 980	17 212
Treasury Bills	123 896	-
Outright Sale CBE - Notes	265 468	-
Investments held for trading	8 399	-
Investments available for sale	23 393	4 733
Loans & Advances	531 818	753 715
Other Debit Balance & Assets	16 662	46 457
Total	1 593 616	822 117
b) Liabilities		
Due to Banks	60 488	-
Clients' Deposits	1 161 917	478 672
Other credit balance & liabilities	52 350	-
Total	1 274 755	478 672

Notes to the Financial Statements

for the year ended December 31, 2005

25- Deferred Tax

2005	L.E.000s Asset	L.E.000s Liability
Fixed Assets	-	6
Investment available for sale	652	-
Other Provisions	726	-
Other Debit Balances & Assets	781	-
Total Deferred Tax	2 159	6
Deferred Tax (Net)	2 153	-

26- Income Tax settlement calculations

	L.E.000s	2005	L.E.000s
Net Profit for the year before tax	-		25 817
Income Tax according to Tax Law (20%)	-		5 163
Undeductible expenses	62		-
Tax Exemption	(6 920)		-
Provision	(917)		-
Interest in suspense	459		-
Total tax difference	---		(7 316)
Deferred Income Tax			(2 153)

27- 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)
The average interest rates on fund resources (liabilities)

	Egyptian pound	Foreign currencies
The average interest rates on fund uses (assets)	11.20%	3.57%
The average interest rates on fund resources (liabilities)	7.90%	2.65%

28- Tax position

- The Bank had 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.
- Tax review concerning both corporate income tax and movable value tax has been carried out by the Tax Authority 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 2006 with the realization of tax losses that could be used during the inspections of future years.
- The Bank has submitted its tax return for the years 2000 to 2004 and settled the taxes for these years based on the reports submitted, which are not yet inspected by the Tax Authorities.

Notes to the Financial Statements

for the year ended December 31, 2005

29- Distribution of Assets, Liabilities, Contingent Liabilities and Obligations according to the activity

	L.E. Million Assets (loans and advances)	L.E. Million Liabilities (Clients' deposits)	L.E. Million Contingent liabilities and obligations
Agricultural	8.6	65.7	46.8
Industrial	225.9	32.7	12.5
Commercial	675.1	108.7	32.0
Services	175.8	123.2	11.6
Family	94.9	1 274.9	0.5
Financial	105.2	28.2	285.7
Others	-	7.2	-
Total	1 285.5	1 640.6	389.1

30- Position of major currencies

	2005 Surplus (Deficit) in L.E.000s	2004 Surplus (Deficit) in L.E.000s
Egyptian Pound	(12 576)	(20 610)
US Dollar	14 487	20 419
Sterling Pound	(128)	86
Euro	(474)	213
Other currencies	(1 309)	(108)

31- Trust Activities

Assets held on account or on behalf of other parties

Saving Certificates
Investment Certificates

	Total Value L.E.000s	2005	Related Liabilities L.E.000s
Saving Certificates	419 525		13 097
Investment Certificates	14 397		153
Total	433 922		13 250

Notes to the Financial Statements

for the year ended December 31, 2005

32 – Related Parties Transactions

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

Nature of transaction	2005	2004
	L.E.000s	L.E.000s
Due from Banks	69 792	19 466
Clients' Deposits	6 660	6 297
Due to Banks	226	217

33- Staff Saving Fund (Ex. Previous 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. In light of the extra ordinary General Assembly resolution of staff pension fund dated March 15, 2005 and the resolution of the Bank's BOD dated March 27, 2005, approved amendment of the fund to be saving fund.

34- Comparative figures

- The comparative figures were reclassified to comply with the presentation of the current year financial statements.
- Net Profit of year 2004 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 23rd March 2006:

- The ordinary and extra ordinary General Assembly has approved the financial statements for the year ended December 31, 2005, and all minutes presented in the meetings.