

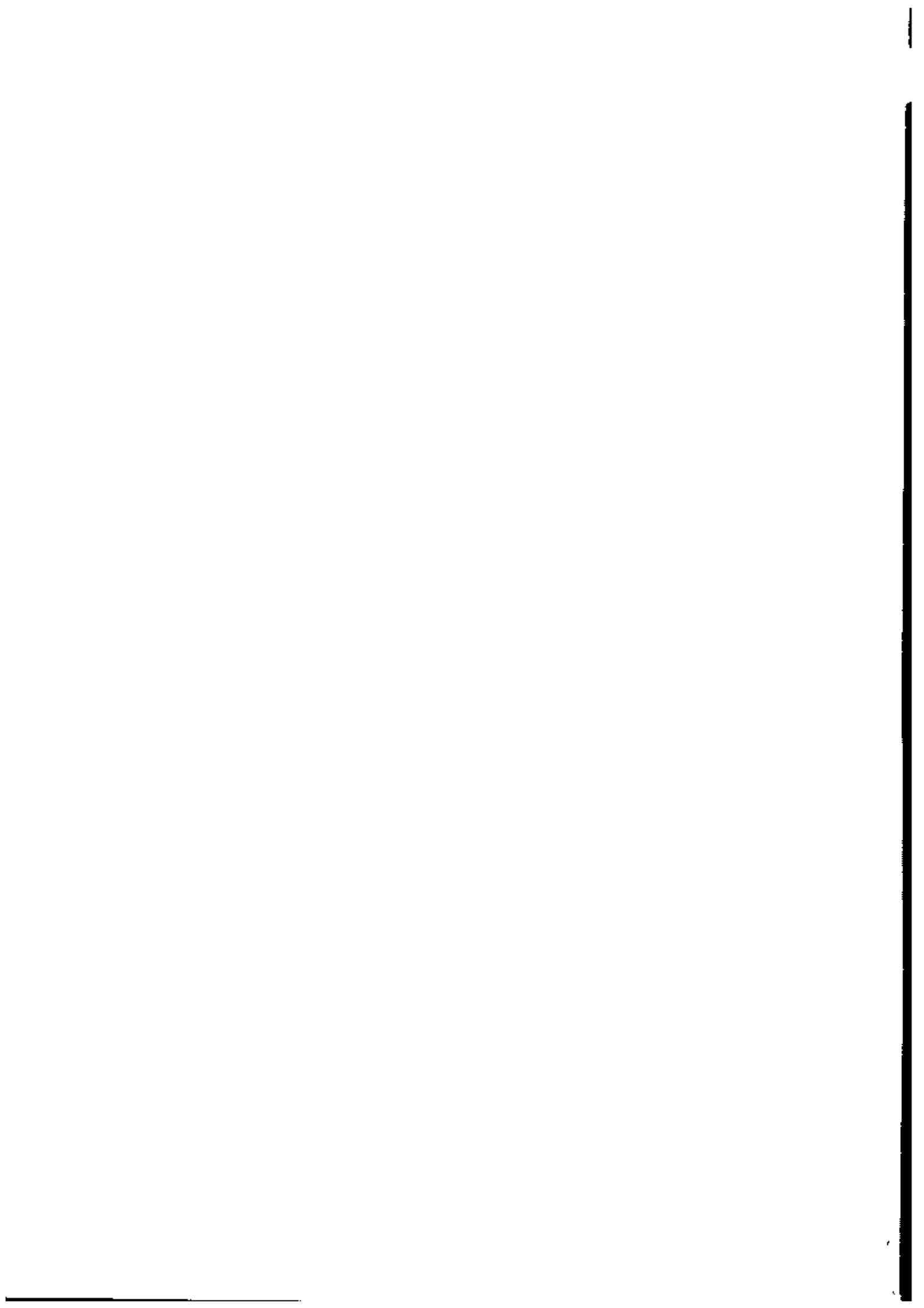
بنك القدس  
Quds Bank



Annual Report

2008







بنك القدس  
Quds Bank



بنك القدس  
General Management





بنك القدس  
Quds Bank

Annual Report

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## Board of Directors



**Mr. Akram A. Jerab**  
Chairman



**Mr. Abdelrahim N. Jardaeh**  
Vice Chairman



**Mr. Adel A. Hijawi**  
Member



**Mr. Walid N. Al-Ahmad**  
Member



**Mr. Saleh J. Ihmaid**  
Member



**Ramzi R. Darwish**  
Member (Representative of Jordan  
Investment & Finance Bank)



**Mr. Ziad F. Barghouti**  
Member



**Mr. Munther J. Al-Nabulsi**  
Member



**Mr. Ahd F. Bsaiso**  
Member



**Mr. Adnan A. Abdulatif**  
Member (Representative of  
Jerusalem Cigarettes Co.)



**Mr. Hamid A. Jaber**  
Member



**Mr. Duraid A. Jerab**  
Member

## MEMBERS OF THE EXECUTIVE COMMITTEE OF QUDS BANK



**Mr. AZZAM A. SHAWWA**  
General Manager

**Mr. GHAZI A. MUSLEH**  
Deputy General Manager

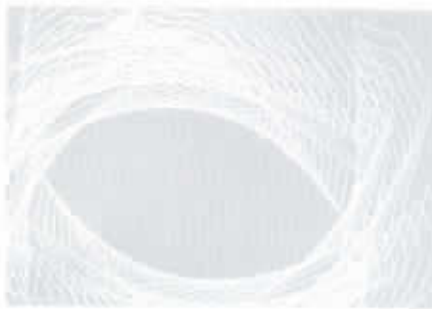
**Mr. KHADER M. ALKOUZ**  
Deputy General Manager / Credit Facilities

**Mr Sulaiman M. Sulaymieh**  
Assistant General Manager / Banking Operations & Branches Affairs

**Mr. GEORGE A. ABOUKHALIL**  
Assistant General Manager / Technology & Business Development.

**LEGAL CONSULTANTS**  
MR. HUSSAM AL-ATTEERA  
MR. SHARHABEEL AL-ZA'EEM

**EXTERNAL AUDITOR**  
SABA AND CO.



## Message from the Chairman



### Esteemed Shareholders

I would like to welcome and thank you for accepting our invitation to the ordinary meeting of the General Assembly in which we will present our fourteenth annual report including a summary of the company's business as explained in the general budget as it appears on 31<sup>st</sup> Dec. 2008. As well as the income statement, cash flows, changes in the shareholders equities and recent developments at the Bank Level.

The year "2008" was an exhausting year that reflects continuity of great challenge at the institutional Level. The bank general and executive administration board with all their executive administration work to correct the Bank's previous status to have the Year 2008 as the year of the strong basis on which the Bank's future plan will be built and to achieve the Bank's strategy goals by increasing the bank share in the Palestinian Banking Market and to participate in supporting economical and social development.

In 2008, the bank achieved qualitative shift in its banking process as that there is a distinguished shift in transactions of this institution assets increase from 251 Million U.S. Dollars to 260 Million U.S. Dollars and the operational revenues increased from 6.1 Million U.S. Dollars to 8.99 Million U.S. Dollars, with an increase of 47%. In the meantime the Bank avoided the decrease in Banking Facilities with an amount 4,083,000 U.S. Dollars and 2,304,100 U.S. Dollars for decrease of securities value prepared for the sale as the effects of difficult debits and the decrease of securities of about 110% of net losses amounting to \$ 5.97 millions : i.e. the losses resulted from shares and not from direct banking activities.

So the Bank achieves a distinguish result regarding distribution of its customers basis in all areas ,as the customers number increased from 20372 customers for the year 2007 to 31924 customer for the year 2008 an increase of 56% due to varying and developing banking services and organized marketing campaigns which were executed in all Bank's Branches and also operating our Hebron and Jenin Branches in the second half of 2008 year which led to increase in the customers deposits and cash increase from 105 Million U.S. Dollars to 157.8 Million U.S. Dollars with an increase of 50.2 % As for using Money, the Bank achieved a concrete increase in the credit facilities, portfolios so the direct credit facilities given to the customers increased from 60.3 Million U.S. Dollars to 144.3 Million U.S. Dollars with an increase of 139%. The Palestinian National Authority was granted a loan with an amount of Fifty Million U.S. Dollars to be paid in 2009. And the Bank continued in distributing its saving basis focusing on individual personal loans through different loaning programs that meet needs of all society segments.

During the year 2008 the Bank settled its status with the Income Tax and VAT Departments, so the tax status was settled for the period of 1998 up to the end of 2007.

During 2008, we opened our three branches, Hebron Branch on July 2008, Jenin Branch on September 2008 and Massyoun / Ramallah Branch on January 2009 to make the number of the Bank's amount to thirteen Branches and offices in Palestine, and we have a plan for 2009 to get licenses for opening three other branches in Tulkarem, Bethlehem, and Khan Younis, the central cities where we do not have Branches in, and opening such branches will increase our shares in the Palestinian Banking Market.

We consider the year 2009 as the actual starting point for the Bank and we put a plan and appropriate budget prepared in a highly professional way that might achieve the requested purposes, and a good results started to appear during the first quarter of 2009.

Let me thank you all and thank all the customers for the faith and trust you bestowed us to go ahead to take its vanguard role with other Banks in supporting the sustainable economical development in Palestine; especially , we are facing a critical situation either at national conflict level or the global economical crisis which affect the world economy.

Thanks to my colleagues in the board of Directors for their continuous cooperation and support and their permanent follow up development of the Bank's performance hard work. Thanks to the Executive Administration for their hard work in order to achieve the Bank goals.

Thank You  
Akram Abdullatif  
Chairman





Annual Report



## Message from the General Manager



### Esteemed Shareholders

I would like to thank you and welcome you for attending the General assembly normal meeting which is dedicated for discussing the results of the bank work for the year 2008.

During the year 2008 the Bank continued implementing the strategy plan set by the Board of Directors for correcting the Bank's process and activities to make a significant shift in its performance and growth and increasing the Bank Shares in the Palestinian Banking Market and, consequently to support economical and social development in our homeland Palestine . I have the honor to start executing that strategy since the mid of the year 2007, so we could achieve most of our goals, so we put the Bank at the correct status to start its actual process at mid at mid of 2009 .

To achieve these goals the Bank implemented the following activities and accomplishments during 2008:

- **Human resources:** A development in the organization structure of most of bank's Branches and departments was made by employing young qualified staff who prove their capabilities through the results achieved, the number of the Bank's employees increased from 150 employees in year 2007 to 215 employees in 2008 and also a training plan was executed to improve the employees performance, so the Bank participated in 69 training programs of different banking specializations from which .360 employees benefited different levels.
- **Branches:** During the year 2008 Hebron Branch was opened on July 2008, Jenin Branch was opened on September 2008 and Massyoun / Ramallah Branch was opened at the beginning of the year 2009; and by opening these branches the number of branches increased to 13 branches and offices covering most of the major cities. The new Branches and the intensive actively in different areas where and the banking auto exchange network to increased the Bank's customers from 20372 customers in 2007 to 31924 customers for 2008 with a percentage of 56.7% and the number of the opened accounts increased from 36232 accounts in 2007 to 60149 by the end of 2008 with a percentage of 66%,The new accounts centered in the current account, saving and accounts which are considered to be more stable less expense on the Bank.
- **General Administration:** By the end of 2008 the general management moved to the new building in Massyoun where all departments collected in one building and that facilitated the communication and coordination among them the building of the general administration is considered a distinctive civilizational castle, the cost of which amounted 6.8 Million U.S. Dollars.
- **Development of auto system and information Network:** Quds Bank continued developing the computer system to go along with the technological developments in the world. The Bank developed computer infrastructure by adopting a new technology that links the Bank Branches with the general administration. A new information center was built with the most recent international criteria in addition to purchasing new supportive systems programs to develop banking works with cost of which amounted 1.3 Million U.S. Dollars .Our future plan will include modernizing the banking system with analytical data systems, and activating the world Credit Cards, electronic services like internet and short messages.
- **Policies and procedures :** during 2008 the guidelines and procedures for the work of all departments of the bank , were implemented and were approved by the board of Directors so as to fulfill the requirements of the Palestinian Monetary Authority and to unify the systems and procedures of work in all the departments , branches and divisions of the Bank.
- **Sources of funds:** all the level of using funds, the bank achieves a qualitative shift as for the first time we participate in collective Banking shared loan for the National Company the second Mobile company in Palestine with the amount of US \$8 Million guaranteed with 70% by LGF in addition to the loan given to Palestinian National Authority with amount of US\$ 50 Million to be paid with installments monthly before the end of 2009.
- **Banks Correspondent:** The Bank activated swift Direct System with all correspondent Banks and opened accounts with a number of the different new foreign Banks and expanded our relations with Citi Bank Group in order to distribute our external investment to avoid risks of Bank and geographical risks and following the Palestinian Monetary fund regulations.



## Message from the General Manager

- The Social Role: believing in the Bank role in the social development and in continuity of interaction with all events and activities in our homeland the Bank contributing to supporting and sponsoring many activities in our homeland such as Bazel' conference II which the Palestinian Monetary Authority organized in Jericho, and the Palestinian conference for investment Forum in Bethlehem and the North Investment forum in Nablus , the and the second construction and industry Fair, in addition to sponsoring Al-Tharayeh sports club within the excellent football tournament, Nablus fair for creativity, and Ramallah Municipality project to plant trees in Ramallah and supporting Palestinian Management Institutions in Gaza and also supporting the cultural forum in Gaza, Al-Aqsa University Friends Association in Gaza and other Social, cultural and humanitarian activities with a large media coverage that stated Quds Bank in first level of Palestinian Banking work.
- Future Plan: A three years' strategic plan was set at the Bank level' in which detailed plans was emerged and including Branches and services development in addition to new Banking products and the plan included applying for licenses of new three branches during 2009, in Tulkarem, Bethlehem and Khan Younis.

Thanks to chairman and Board of Directors for their permanent trust and support, and also thanks to my colleagues in the Executive administration for their distinctive efforts, thanks to our customers for their trust and support to us and we promise you to continue in our work as a one team work who put all the efforts to achieve the institution efforts to provide the best Banking services for our customers and a professional bases to participate in the sustainable economical development in this very critical situation on the internal and external levels, we promise the chairman and the Directing Board to translate their trust to action that increase the profits for 2009.

Thank You  
Azzam A. Sharwa



## Quds Bank

### General Management

#### First:

#### General Information:

Quds Bank was established on the 2nd of April 1995 as a public shareholding company in Gaza under Registration number 563200880 with amounting capital U.S. Dollar of 20,000,000 divided into 20,000,000 shares with nominal value of one (1) \$ per share. On 20th of August 2005 the capital increased with U.S. Dollars 5,000,000 in private subscription, Thus the Bank's capital reached U.S. Dollars 25,000,000 at the same nominal value of the share.

The Bank started its Banking activities on the 18th of January 1997, and it is currently working through its General Administration and its Branches in Aizariya, Nablus, Beit Jala, Salfet, Toubass, Atteel, Gaza, Hebron, Jenin, Ramallah, Al-Massyoun in addition to two offices in Beit latria and Anabta.

#### Second:

#### Bank's Work Nature

The Bank is engaged in commercial banking and investments activities through lending, financing, opening accounts and documentary credits in the line with the objectives of the Bank. It also accepts deposits from the public for medium and long terms, in addition to current accounts. The Bank also deals with buying and selling different currencies with present prices and it manages and markets securities for the benefit of the Bank.

#### Third:

#### Members of Board of Directors

Number	Name	Nationality	Number of Shares Until Dec. 31 <sup>st</sup> 2008
1.	Mr. Akram Abdullatif Hassan Jerab, (Chairman) of Board of Directors	Jordanian	8.112.143
2.	Mr. Abdulrahim Nizar Jerdaneh (vice Chairman)	Jordanian	30.000
3.	Mr. Adel Adeeb Hijawi	Jordanian	393.817
4.	Mr. Walid Najeeb Al-Ahmad	Palestinian	291.101
5.	Mr. Saleh Jaber Ahmad Ihmaid	Jordanian	3.528.559
6.	Mr. Ramzi Radwan Darwish (Representative of Jordan Investment & Finance Bank)	Jordanian	1.097.549
7.	Mr. Ziad Fawzi Barghouti	Palestinian	365.000
8.	Mr. Munther Jawdat Abdelraheem Al-Nabulsi	Jordanian	112.562
9.	Mr. Ahed Faeq Bsaiso	Palestinian	35.000
10.	Mr. Adnan Adel Abdelqader Abdullatif (Representative of Jerusalem Cigarettes Co.)	Palestinian	1.205.070
11.	Mr. Hamid Abdulghani Mahmoud Jaber	Jordanian	1.000.000
12.	Mr. Duniid Akram Abdullatif Jerab	Jordanian	50.000

A detailed list of the data of the members of Board of Directors is attached.

**Fourth:  
Senior Shareholders Until Dec. 31<sup>st</sup> 2008**

Number	Name	Number of Shares	Percentage
1.	Mr. Akram Abdullatif Hassan Jerab	8,112,143	16.2243%
2.	Amual Invest Company	4,990,900	10%
3.	Abdulraheem Jerdaneh and Sons Company	4,000,000	8%
4.	Saleh Jaber Ahmad Ilmaid	3,528,559	7.0571%
5.	World Investment house company	3,159,950	6.3199%
6.	Nizar Abdulraheem Muneeb Jerdaneh	2,987,783	5.9756%
7.	Raja Mufeed Abdulfatah Shaban	2,737,857	5.4757%



**Fifth:  
Members of The Executive Committee of Quds Bank**

Mr. AZZAM A. SHAWWA - General Manager

Mr. GHAZI A. MUSLEH - Deputy General Manager

Mr. KHADER M. ALKOUZ - Deputy General Manager / Credit Facilities.

Mr. SULAIMAN M. SULAYMIEH - Assistant General Manager / Banking Operations & Branches Affairs.

Mr. GEORGE A. ABOUKHALIL - Assistant General Manager / Technology & Business Development.

**Sixth: Communication with  
Shareholders**

Comprehensive information on the Bank's and works is implied in the annual report, activities and financial sheet and such information is published in Local Newspapers and sent a copy to the shareholders by post in which the general assembly reveals everything relating to bank activities in order to discuss, the Number of the Shareholders reached as shown at the end of 2008 "483" shareholder.





## Seventh: Exchanging Market Size

The financial market size during the year 2008 was as follow:

Number of Deals	2,410
Size of Exchange	28,753,714
Value of Exchanging	25,046,078

## Eighth: Investment Policy

The Bank's investment policy aims at setting the bases for base for the optional exploitation of the Bank's financial resources in order to get the best returns taking into consideration reducing the of risks to lowest possible Level.

Investment policy is involved in its specifying the Bank's general targets for distributing it and employing such surplus of cash flow with secure internal and external authorities taking into consideration the market risks, competition, currencies and international interest rates .The investment policy is also involved in forming of securities portfolio within a clear policy that might achieve better income within a clear and specific policy that might achieve better returns.

## Ninth: Branches and expansion

The Bank has been transferred to the General administration building in Massyoun, and also new Branches was opened during 2008, two of them in Hebron and one in Jenin, but the Massyoun branch were opened in the first Month of 2009. We are looking forward to open a new branches and offices in Tulkarem, Qalqelia and Jericho and in other areas during the year 2009.



## Tenth: Commitment to Regulations and By-Laws

The Bank shall abide to the regulations and instructions of the Palestinian Monetary Authority and other controlling Authorities and shall be committed to securing necessary cash liquidity in all major currencies to confront any urgent and extraordinary withdrawals. It shall also abide to local and external employment rates stated in the instruction issued by Palestinian Monetary authority.

## Eleventh: Sufficiency of Internal Control system

The Bank Executive administration is responsible for the equality of presenting the bank financial data according to international financial criteria, and disclosures. It is also responsible for designing and applying the accounting system and keep the internal control in order to avoid discover and correct any possible mistakes and to discover all frauds before it occurs and correct them if they occur. So the general executive management assures the following:

- There were no mistakes made by administration or staff that have an essential and effective role in internal financial control that may have an essential impact on the data.
- Quds Bank's General administration assures that all the accounting records and supporting documents and documents were provided in addition to the Board of Directors meeting reports which were held in 2008.
- The Bank complied with all contractual references and was committed to followed all the agreements and was committed the requirements which affects the financial sheets.
- The financial assets and liabilities declared in the financial data in accordance with accounting regulations which is declared in the financial declaration.

## Twelfth: The General Strategy of Quds Bank for the Next three years 2009/2011

The strategic plan of Quds Bank for the next three years includes the main goals that the bank is seeking to accomplish. This strategic plan relies on the directions of the Board of Directors taking into consideration the expectations of the economic, political and security situation in Palestine; as well as the Bank's financial administration and technical potentialities and capabilities to compete in order to acquire the largest possible share of the banking industry in Palestine whether on the assets level in general, and deposits and facilities in particular and to achieve best returns on the invested capital and making a qualitative shift in the financial, administrative and technical system. And to take all means that help to achieve such goals such as establishing new branches developing services and increasing the banking products and attracting and distinguished proficiencies, qualifications holding training courses and using the most advanced technical banking methods.

Following is a summary of the strategic plan of the coming three years 2009/2011:

Opening new branches to cover the district with feasibly economic profits and have branches of Quds Bank such as Toulkarem, Qalqeelia, Terieh Bethlehem central area of Gaza, Rafah, Khan Younis, Dora's towns, Ethna, Qabatia, Halhoul, Bertunia, Arrabeh, Ya'abad, Beit Sahour and Tarqoomia.

Focusing on collecting stumpled debts. And finding most suitable solutions for all file specially those which have stumpled for a long period of time and intense follow up to issue judgments against customers who are not covering their debts. And make follow up the exclusion of customers these judgments are fully executed and signing up a fixed plan for such purpose.

The increase of the share of the Bank in the banking market in Palestine at and they are deposits banking facility level concentration on saving accounts since they are more stable and costless and working attracting. The deposits of Ministries, Government and sem Government institutions, unions, business and institutes forums universities and colleagues, Public stock companies and international organization.

Attracting the largest possible numbers of the Palestinian Authority's employees to open accounts at our bank. In the mean time our bank shall provide suitable leading Programs for them in order to enlarge the credit circle and therefore minimize the risks.

Working on attracting distinctive banking qualifications and experiences specially those who the unique who are highly qualified and professional experienced with special focusing on the specializations directly relevant to the advanced banking work and working on developing the capacity of the employees in all levels either by training them during the work or train them locally or abroad. Also, inviting consultants and experts from abroad for limited periods of time to benefits from their banking backgrounds.

Developing the General Administration's departments specially the Banking Operations Department, Credit Follow-up department Loan Stumbling Department, Marketing and Public Relation Department and Research and Quality Department.



Developing Human Resources Department through establishing training departments, evaluation and watching, creating incentives for creative workers in order create as permit of hand working and creativity among the employees.

Developing the performance of the Inspection and Investigation Department and committed to the instruction of Monetary Authority and banking regulations, Bazel II Fighting Money Laundry law, governization, transparency, good management and focusing on the quality of reports what reveal risks before it happens

Developing Treasury Department by adding Investment Section to include the share of deeds that deals with stocks and bonds and preparing a section that is specialized in preparing researches and studies that are necessary in helping in making the right investment decisions and mobilizing a section to contact foreign banks.

Establishing Disaster Recover Data center in computer department to prevent danger and quantities the continuous of work in case the main center face any obstacles and to guarantee the flow of information and its secrecy. The location of this center must be outside the geographic area on the main center is located such as Turkey or Dubai.

Increase the use of Automated Teller Machine (ATM) in order to make our ATM card useful on all ATM that holds the logos of the global company such as Master card, VISA card and that is achievable through contracting with an International company to issue and accept Master Card and accepting VISA Card. Master Card on the behalf of our bank.

Increase the wide spread of our ATM machines Network to cover the widest area possible by affixing 5 ATM machines in public gathering areas and trade centers.

Unifying the external view of all bank Branches and renew fixtures and furniture and other needed tools and equipments.

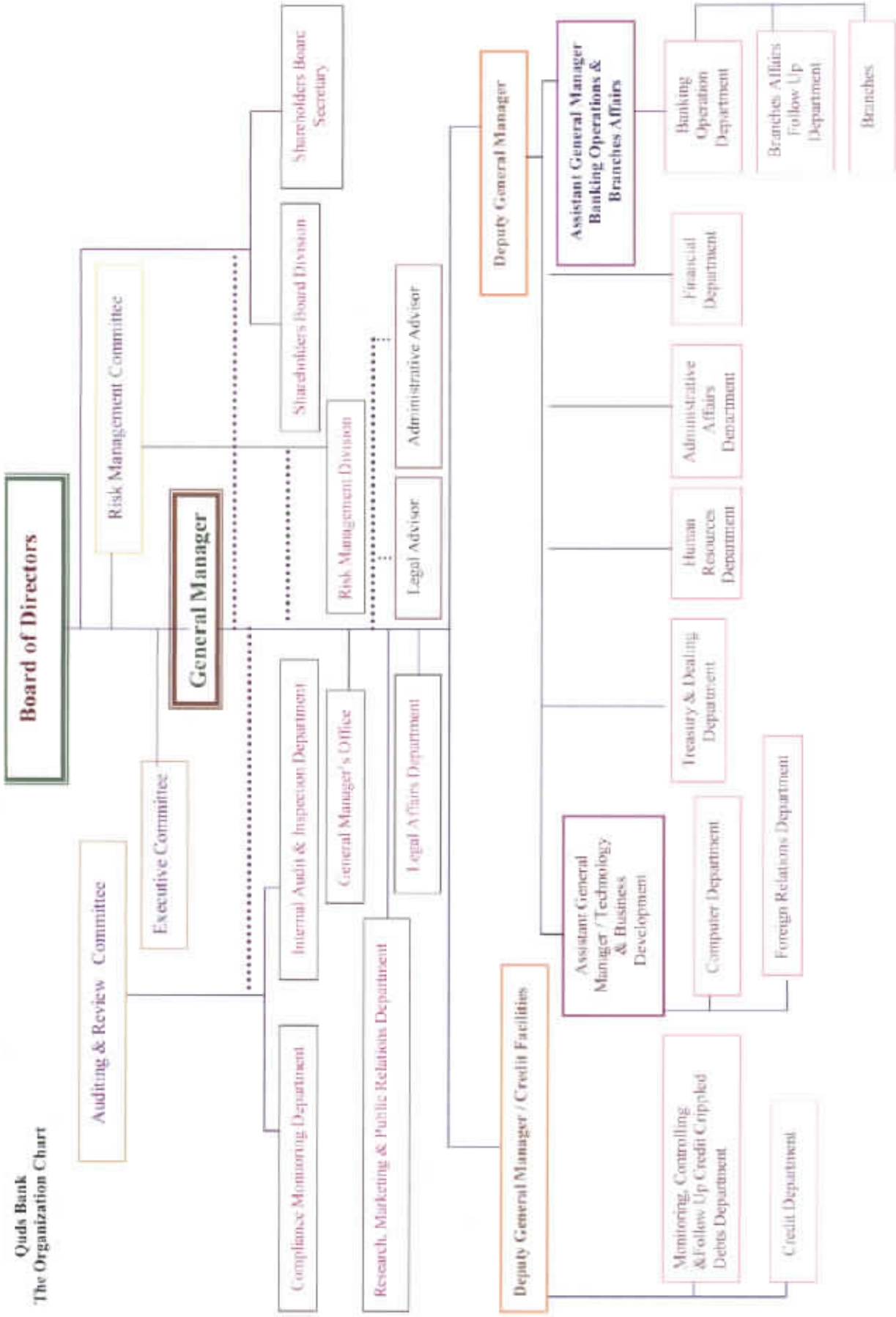


The plan / the estimated working budget for the next three years

Years	2009	2010	2011
Deposits	200	260	320 Million US \$
Facilities	140	160	190 million US \$
Number of accounts	70,000	85,000	95,000
Number of customers	36,000	45,000	55,000
Number of Branches	13	15	18
Number of Employees	220	245	270
Net profits	4.5	6.5	8.5 Million

The implementation of the plan relay's on the settlement of the internal situation and the stability of political factor, the security status the plan shall be fixable enough to respond and react instantly with sudden and unexpected events.

**Quds Bank  
The Organization Chart**



## Social Responsibilities

Needless to mention that Quds Bank played a very important role in taking full social responsibility wherein he participated in various and different life scope such as: Health, Environment, Cultural, Educational and Sports. Following are the distinguished contributions:

5/1/2008	Contribution to Ramallah Forestry Campaign
14/1/2008	Donation with Computers and projector to Fateh Representative office for External Relation
14/1/2008	Donation to Al-Quds open university, library in Salfet Branch.
16/1/2008	Donation to the Palestinian Administrative Association - Gaza
17/1/2008	Donation to Salfet Marathon
28/1 /2008	Donation to Children Village SOS , Bethlehem to complete construction of the village Playground
3/2/2008	Donation to the Palestinian Union for Sports of the Disabled
10/2/2008	Donation to (hand in Hand ) festival for the disabled Children



13/2/2008	Sponsoring the costs of Umra for three patients of Ibdaa' Establishment – Beit-Jala
28/2/2008	Purchasing 50 records from Faisal Al-Huseini Foundation ( Buy time in Jerusalem )as the product is allocated to support the educational institutions in Jerusalem .
28/2/2008	Donation to Al-majd Society for disaster families – a society takes care of children with special needs , in order to hold a lunch on the honor of the Bank
3/3/2008	Contribution to the Tamer Institute for Continuing education in purchasing 1000 books called :Eman & the flying Kite.
3/3/2008	Contribute to the Tamer Institute for continuing education costs for the book and the artistic pictures printing of an illustrated book of Mahmoud Shakir (the Knight and the Air )
5/3/2008	Donation to Women and children rights committee to make a supporting to national unity activity ,on 8 <sup>th</sup> of March 2008
5/3/2008	The support of the Society for cancer patients (Balsam Committee) for the printing of promotional materials
11/3/2008	Donation to Palestinian Administrative Committee
13/3/2008	Sponsoring the Medication of Palestinian patient female Child suffering from cancer and in need of chemical medication in Jordan
17/3/2008	The main Care of Nablus exhibition of authenticity and creativity from 17/20/3/82008
15/3/2008	Contribution to Ramallah Forestry Campaign

- 19/3/2008 Donation to Business Women Forum in the women international day , To set up a dinner for about 120 women in the 19 of March .
- 21/3/2008 Care of Bedix fourth Educational Conference
- 24/3/2008 Donation to breezes of the Assembly of Compassion for the care of an Orphan Festival Day in Palestine
- 27/3/2008 Donation to Dair Ijreer Youth Club to buy LCD and projector
- 27/3/2008 Donation to Social Youth Center in Askar camp in processing of the gym hall
- 27/3/2008 Donation to the Tamer Institute for continuing education to cover the Open Day activities 4/5 Palestinian Child Day



- 31/3/2008 Donation to Rammallah Municipality with one thousand helmets and one thousand Shirts for the activities of health international day
- 31/3/2008 Donation to Negotiation and Resistance Conference organized by Palestinian Media Center – (Bada'1)
- 31/3/2008 Donation to The Disabled Without borders with two computers and office freezer.
- 2/4/2008 Donation to Beir-Zeit University with five computers and two printers
- 9/4/2008 Donation to Al-quds University Abu –Deeis with one computer
- 15/4/2008 Donation to Palestinian National Security in Toubass with one computer and one laser printer
- 20/4/2008 Donation to the Palestinian Society for Veteran Athletes for the championship will be assessed by the assembly on the occasion of labor day
- 23/4/2008 Contribution to Beir Zeit friendship Society for the coupons for the year 2007/2008
- 24/4/2008 Donation to Palestinian Establishment for taking care of children.
- 12/5/2008 donation to the chamber of Commerce and Industry in Nablus
- 12/5/2008 Contribution with Al-quds university ( abo-Dees) in order to pay Studying fees for students in medical Department in the university
- 27/5/2008 Care of the ceremony of opening Beldix Exhibition
- 1/6/2008 Donation to Ama'ree secondary school for boys subsidized by UNRWA for supporting senior students with a number of 120 students
- 1/6/2000 Donation and care of ceremony for opening headquarter for Palestinian Contractors Union and Cultural Forum

1/6/2008	Donation to Al-Aqsa University friends Committee
1/6/2008	Donation to Palestine is Our Home committee
1/6/2008	Donation to Child Care Committee for the purpose of processing the external play ground
3/6/2008	Donation to pay studying fees for three students from American University
11/6/2008	Transfer for the care and support allowance , and the production of Al-Quds film which was posted in Palestine Investment Conference
15/6/2008	Donation to Al-Quds center for studies for the conference discussing Jerusalem in Palestinian Media , Israeli Media , Arab Media and international media
3/7/2008	Contribute to the processing of Sinjil Club Volleyball team
14/7/2008	Donation to Al-Soqoor Athletes club club in processing a play ground for the team
18/7/2008	Care of Ceremony for Workers Union in Al-Najah National University
7/8/2008	Donation to Graduated Engineers Ceremony in Training and Working program
13/8/2008	Donation to the Assembly of the Arab Women Union.
20/8/2008	Donation to thahreia Youth Club for holding General championship
14/9/2008	Donation to Faqu'a Athletes Club
8/10/2008	Donation to Jafa Charitable Committee.
22/9/2008	Donation to the mercy of the breeze for a breakfast of a collective "Ramadan"
28/10/2008	Donation to Veterans Association for Athletes , for the Martyr Abu Ammar's championship
5/11/2008	Care of Palestinian Investment Conference , North Forum
December 2008	Participation in the first investment conference held in London



## Correspondent

### BIC

#### Palestine

- Palestine Monetary Authority PMAPPS22

#### Jordan

- Arab Banking Corporation ABCJJOAM
- Citibank N.A. CITIJOAX
- Jordan Investment & Finance Bank JIFBJOAM
- BLOM Bank Jordan BLOMJOAM
- Housing Bank HBHOJOAX

#### Israel

- Israel Discount Bank LTD IDBLILIT

#### Turkey

- Citibank N.A. CITITRIX

#### Sweden

- Svenska Handelsbanken HANDESESG
- Svenska Handelsbanken HANDESEM
- Svenska Handelsbanken HANDESESS

#### Norway

- Bank 1 A.S. LABANOKK

#### Great Britain

- Citibank N.A. CITIGB2L

#### US

- Citibank N.A. CITIUS33

#### China

- Zhejiang Nansun Rural Cooperative Bank  
NXBKCNBH



## Companies main address and Branches addresses

Branch	Number of Employees	Address
General Management	77 Employees	Jerusalem St. Al-Massayoun - Ramallah Tel.: +970 2 297555 - Fax: +970 2 2979895
Gaza Branch	19 Employees	Omar al Mukhtar St. - Al-Sabrah - Gaza Tel.: +970 8 3830190 - Fax: +970 8 2893402
Al-Aizariyeh branch	11 Employees	Ras Al-Kabsch - Al-Aizariyeh Tel.: +970 7 2798800 - Fax: +970 7 2798805
Kabias Branch	11 Employees	Deira Al-mukhtar st., trading Center - Nablia Tel.: +970 9 2389741 - Fax: +970 9 2389743
Suffet Branch	12 Employees	Al-Shuhada st., opposite to Chamber of commerce Tel.: +970 9 283981 - Fax: +970 9 2518662
Beit Jala Branch	11 Employees	Al-Sabrah - Beit Jala Tel.: +970 2 2768071 - Fax: +970 2 2765872
Ramallah Branch	19 Employees	Rikab st., opposite to Al-nashel Building Ramallah Tel.: +970 2 290150 - Fax: +970 2 2901753
Fotbass Branch	10 Employees	Al-Anbus Center Tel.: +970 9 253100 - Fax: +970 9 253121
Atceel Branch	9 Employees	Main st., Al-Hal Al-Shamsiye Atceel Tel.: +970 9 2662401 - Fax: +970 9 2662405
Hebron Branch	13 Employees	Main St. - The-Road of Circle - Hebron Tel.: +970 2 2211357 - Fax: +970 2 2211359
Jenin Branch	17 Employees	Abu Baker St. Municipality Building - Jenin Tel.: +970 7 4750952 - Fax: +970 7 42502653
Al-Massayoun Branch	11 Employees	Jerusalem St. Al-Massayoun - Ramallah Tel.: +970 2 2979888 - Fax: +970 2 2979860
Beit-Lahia Office	7 Employees	Down Town - Round Circle - Beit Lahia Tel.: +970 8 2471420 - Fax: +970 8 2471422
Anabta Office	5 Employees	Main St. - Anabta Tel.: +970 9 2680437 - Fax: +970 9 2680439



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Annual Report

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**Financial Statements and Independent Auditor's Report**

Annual Report

**Quds Bank**  
**Public Shareholding Company, Ltd.**  
**Ramallah-Palestine**

**Financial Statements and Independent Auditor's Report**  
**December 31, 2008**



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Annual Report

Quds Bank  
Public Shareholding Company, Ltd.  
Ramallah-Palestine

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Annual Report

## Independent Auditor's Report

To the General assembly of  
**Quds Bank**  
Ramallah - Palestine

### **Report on the Financial Statements:**

We have audited the accompanying financial statements of **Quds Bank (Public Shareholding Co. Ltd)**, which comprise of the statement of Financial Position as of December 31, 2008, the statement of income, the statement of changes in shareholders' equity and cash flows statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's responsibility for the financial statements:**

The management of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility:**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

### **Opinion:**

In our opinion, the financial statements give a true and fair view of the financial position of "**Quds Bank**" as of December 31, 2008, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and we recommend the General Assembly to approve these financial statements taking into consideration the following matters:

### **Other Matters:**

Without qualifying our opinion on the financial statements, we would like to draw attention to the following matters:

During March 2008, the bank extended loans in the amount of U.S Dollar 3,530,000 within its normal lending procedures and on arms length in respect, with interest and commission rates to certain individuals whom utilized these facilities to finance their investments in the bank's shares. Extending loans to these individuals did not require the pre-approval of the Palestinian Monetary Authority (PMA) since these borrowers were not shareholders at the time of extending these loans. Further and without obtaining the pre-approval of the PMA, the bank also extended a loan in the amount of U.S Dollar 3,500,000 to a related party company which is now utilized to finance the investment in the bank's share.

The extension of the above loans for the above specified purposes violates the PMA regulations and accordingly, the PMA set the repayment period of these loans to be no later than March 31, 2009.

Ramallah  
& Co. March 5, 2009

Saha

**Quds Bank**  
**Public Shareholding Company, Ltd.**  
**Ramallah-Palestine**  
**Statement of Financial Position**  
**as of December 31, 2008**  
**(Amounts Are Expressed in U. S. Dollar)**

<u>Assets</u>	Note	December 31, 2008	December 31, 2007
Cash on hand	4	18,239,162	8,697,211
Deposits with local banks	5	24,083,376	58,380,848
Deposits with foreign banks	6	48,458,154	13,982,301
Deposits with Palestinian Monetary Authority	7	13,632,994	8,889,798
Credit facilities, Net	8	128,820,482	43,213,806
Available for sale investments	9a	7,668,615	1,826,747
Investments in subsidiaries	9b	872,708	872,708
Property, plant and equipment - Net	10	6,515,831	2,785,786
Deferred tax asset	11	1,087,968	7,566,168
Other assets	12	14,468,631	4,361,178
<b>Total assets</b>		<b>259,549,161</b>	<b>251,451,548</b>
<b><u>Liabilities and Shareholders' Equity</u></b>			
<b>Liabilities:</b>			
Deposits of Palestine Monetary Authority	13a	18,896,317	50,674,583
Deposits of Banks and financial institutions	13b	34,877,946	43,919,831
Customers' deposits	14	145,703,493	99,877,233
Cash margins	15	12,123,052	5,258,569
Sundry provisions	16	1,346,275	897,779
Provision for taxes	17	-	1,262,089
Other credit balances	18	7,652,521	1,506,171
<b>Total liabilities</b>		<b>215,593,734</b>	<b>203,102,065</b>
<b>Shareholders' Equity:</b>			
Paid up capital	19	80,000,000	80,000,000
Paid in capital in excess of par value	19	3,000,000	3,000,000
Compulsory reserve	20	135,343	435,343
Optional reserve	20	224,912	224,912
General banking risk reserve	20	7,031,583	109,103
Accumulative change in fair values	9c	(77,502)	(2,374,112)
Land valuation reserve		-	418,820
Accumulated losses		(1,658,909)	(4,164,881)
<b>Net shareholders' equity</b>		<b>43,955,427</b>	<b>48,349,483</b>
<b>Total liabilities and shareholders' equity</b>		<b>259,549,161</b>	<b>251,451,548</b>
Contra Accounts	20	21,982,660	6,196,740

The accompanying notes constitute an integral part of these financial statements.

Chairman

General Manager

**Quds Bank**  
**Public Shareholding Company, Ltd.**  
**Ramallah-Palestine**  
**Statement of Income for the Year Ended December 31, 2008**  
**(Amounts Are Expressed in U.S. Dollar)**

		December 31,	December 31,
	Note	2008	2007
Interest income	21	10,443,732	16,978,460
Interest expense	22	(3,983,406)	(6,277,065)
<b>Net interest income</b>		<b>6,460,326</b>	<b>4,701,395</b>
Net commission income	23	1,898,373	840,053
<b>Net interest and commission income</b>		<b>8,358,699</b>	<b>5,541,447</b>
Recovery from credit facilities impairment losses	8	-	431,610
Gain (Loss) from foreign currencies exchange		430,722	(19,459)
Gain from investments in securities		44,789	89,298
Other income	24	(59,638)	(2,075)
<b>Gross income</b>		<b>8,993,828</b>	<b>6,114,941</b>
Emp. wages cost	25	(3,479,686)	(2,674,185)
Other expenses	26	(3,371,694)	(1,703,110)
Palestinian Monetary Authority fines		(72,470)	(24,616)
Depreciation		(776,368)	(217,660)
Provision for impairment losses on credit facilities	8	(1,083,060)	(365,653)
Provision for end of service indemnity	16	(139,053)	(150,219)
Special provisions	16	(148,725)	(187,231)
Impairment loss on available for sale securities	9c	(2,204,103)	-
<b>Total expenses</b>		<b>(14,146,206)</b>	<b>(5,322,624)</b>
<b>Profit (Loss) before taxes</b>		<b>(5,152,378)</b>	<b>792,317</b>
Taxes	17	-	(171,201)
Taxes expense retained for prior years	17	(819,470)	384,818
<b>Profit (loss) for the year</b>		<b>(5,971,848)</b>	<b>972,764</b>
<b>Earning (loss) per share</b>	32	<b>(0.1193371)</b>	<b>0.01945</b>

The accompanying notes constitute an integral part of these financial statements.

Chairman

General Manager

**Statement of Changes in Shareholders' Equity for the Year Ended December 31, 2008**  
(Amounts Are Expressed in U.S. Dollar)

	Paid-up capital	Paid in Capital in Excess of Par Value	Optional Reserves	Compulsory Reserves	General Banking Risk Reserve	Cumulative Change in Fair Value	Land Valuation Reserve	Accumulated Losses	Shareholders' Equity
<b>December 31, 2008</b>									
Balance as of January 2008	50,000,000	3,000,000	224,912	435,343	409,201	(2,074,114)	418,820	(4,064,881)	48,349,483
Loss for the year	--	--	--	--	--	--	--	19,971,826	(19,971,826)
Impairment loss on available for sale investments	--	--	--	--	--	2,304,100	--	--	2,304,100
Change in fair values of available for sale investments	--	--	--	--	--	(2,304,100)	--	--	--
Appropriation to reserves	--	--	--	--	1,622,183	--	(418,820)	(11,622,180)	--
Write off land valuation reserve	--	--	--	--	--	(177,502)	--	--	(177,502)
<b>Balance as of December 31, 2008</b>	<b>50,000,000</b>	<b>3,000,000</b>	<b>224,912</b>	<b>435,343</b>	<b>2,031,583</b>	<b>(177,502)</b>	<b>--</b>	<b>(11,658,909)</b>	<b>43,055,427</b>
<b>December 31, 2007</b>									
Balance as of January 2007	50,000,000	3,000,000	224,912	435,343	2,811,657	(11,999,054)	--	(11,519,524)	43,633,998
Profit for the year	--	--	--	--	--	6,057,990	--	977,704	977,704
Change in fair values of available for sale investments	--	--	--	--	--	--	--	--	--
Appropriation to reserves	--	--	--	97,955	127,756	--	418,820	(225,711)	--
Surplus arising from land valuation	--	--	--	--	--	--	418,820	--	418,820
<b>Balance as of December 31, 2007</b>	<b>50,000,000</b>	<b>3,000,000</b>	<b>224,912</b>	<b>435,343</b>	<b>4,019,403</b>	<b>(2,074,114)</b>	<b>418,820</b>	<b>(14,064,881)</b>	<b>48,349,483</b>

The change in the general banking risk reserve equates the approval of the Palestinian Monetary Authority.  
 Retained earnings as of December 31, 2008 and 2007 include a contribution of U.S. Dollar 2,500,000 representing deemed assets that would not be used by the bank.

The accompanying notes constitute an integral part of these financial statements.

**Quds Bank**  
**Public Shareholding Company, Ltd.**  
**Ramallah-Palestine**  
**Statement of Cash Flows for the Year Ended December 31, 2008**  
**(Amounts Are Expressed in U.S. Dollar)**

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
<b>Operating Activities:</b>		
(Loss) profit before taxes	(5,152,378)	792,317
<b>Non-cash Items and Transactions:</b>		
Depreciation	279,868	237,699
Provision for impairment loss in credit facilities	4,083,060	369,603
Provision for end of service indemnity	450,053	150,310
Stockxy provisions	<u>132,346</u>	<u>187,254</u>
	(209,851)	1,733,030
<b>Changes in Assets and Liabilities</b>		
Increase in compulsory reserve with PMA	(4,165,979)	(2,848,716)
Increase in credit facilities	(8,194,952)	(9,356,068)
Increase/ Decrease in other assets	(10,107,453)	(432,320)
Increase in customers deposits	45,836,260	40,518,046
Increase in cash margins	6,864,482	875,895
Increase in other credit balances	1,346,050	294,295
<b>Cash Provided from (used in) Operating Activities</b>	<b>(48,041,442)</b>	<b>30,765,262</b>
Payments toward end of service indemnity	(94,685)	(306,995)
Tax payments	(324,029)	(17,401)
<b>Net cash used in operations</b>	<u><b>(48,410,074)</b></u>	<u><b>30,284,771</b></u>

The accompanying notes constitute an integral part of these financial statements.

**Quds Bank**  
**Public Shareholding Company, Ltd.**  
**Ramallah-Palestine**  
**Statement of Cash Flows for the Year Ended December 31, 2008**  
**(Amounts Are Expressed in U.S. Dollar)**

	December 31, 2008	December 31, 2007
<b>Cash Flows from Investing Activities:</b>		
Acquisition of property, plant and equipment	(1,435,733)	(1,822,099)
Investment in securities	1,074,830	(883,268)
<b>Net cash used ( Shortage ) in investing activities</b>	<b>(3,351,403)</b>	<b>(2,707,367)</b>
Net (decrease) increase in cash and cash equivalents for the year	(51,781,177)	57,577,461
Cash and cash equivalents at beginning of the year	90,002,067	32,424,603
<b>Cash and cash equivalents at end of the year</b>	<b>38,240,890</b>	<b>90,002,067</b>
<b>Represented by:</b>		
Cash on hand	18,239,302	6,697,211
Deposits with Local and Foreign Banks	72,541,530	177,333,346
Deposits with PMA	1,234,351	156,151
Deposits of banks and financial institutions	(53,774,293)	(91,994,624)
	<b>38,240,890</b>	<b>90,002,067</b>

The accompanying notes constitute an integral part of these financial statements.

**Quds Bank**  
**Public Shareholding Company, Ltd**  
**Ramallah-Palestine**  
**Notes to the Financial Statements**  
**December 31, 2008**  
**(Amounts Are expressed in U.S. dollars)**

**1- General Information:**

- Quds bank was established on April 2, 1995 as a public shareholding company, Ltd. in Gaza under registration No. 543209889 with a capital of U.S. dollar 20,000,000 divided into 20,000,000 shares at par value of \$ 1 per share. On August 20, 2005, the capital was increased by U.S. Dollar 5,000,000 in private subscription, thus, the bank's capital reached U.S. Dollars 25,000,000 at the same par value per share. On June 26, 2006, the general assembly decided in its extraordinary meeting to raise the capital by U.S. Dollar 22,000,000 to become U.S. Dollar 50,000,000 at the same par value (Note-19).
- The bank commenced its operations on January 18, 1997 and is currently working through its main headquarter and ten branches in Uziariya, Nablus, Beer Lely, Ramallah, Salfit, Tubas, Hebron, Jenin, Araf and Gaza, in addition to the offices of Beer Labia and Anzou. Moreover, Al-Masvoun branch was opened during January 2008.
- The bank engaged in commercial banking and investments through lending, financing, opening accounts and documentary credits, it also accepts deposits from the public for the medium and long terms.
- The bank is subject to the Palestinian Banking Law and to the instructions of the Palestinian Monetary Authority.
- The bank shares are listed for trading in Palestine Securities Exchange.

**2- Financial Statements and Significant Accounting Policies:**

**A- Financial Statements:**

- The accompanying financial statements include the financial statements of the bank's branches and the General management in Ramallah after eliminating inter-branches balances and transactions. In transit balances between branches and the regional management are presented under the "Other Assets" account in the accompanying statement of financial position.
- The financial statements were approved by the Board of Directors of the bank on February 26, 2009.

**B- Significant Accounting Policies and Basis Of Preparation of Financial Statements:**

- The financial statements have been prepared in accordance with International Financial Reporting Standards, relevant local laws and regulation of the Palestinian Monetary Authority, under the historical cost convention, except for securities available for sale which are measured at their fair values on the date of the financial statements.
- The financial statements have been presented in U.S. Dollar which is the Bank's functional currency.
- The accounting policies applied in the current year are consistent with those applied in the previous years.
- **Adoption of New and Revised International Financial Reporting Standards:**

Standards and interpretations in issue not yet adopted. At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

Effective for accounting periods beginning on or after January 1, 2009

IAS 1 (Revised)	Presentation of financial statements	_____	_____	_____
IAS 16 (Revised)	Property, plant and equipment	_____	_____	_____
IAS 19 (Revised)	Employee benefits	_____	_____	_____
IAS 20 (Revised)	Government grants and disclosure of government assistance	_____	_____	_____
IAS 23 (Revised)	Borrowing costs	_____	_____	_____
IAS 27 (Revised)	Consolidated and separate financial statements	_____	_____	_____
IAS 28 (Revised)	Investments in associates	_____	_____	_____
IAS 39 (Revised)	Financial reporting in hyperinflationary economies	_____	_____	_____
IAS 31 (Revised)	Interests in joint ventures	_____	_____	_____
IAS 32 (Revised)	Financial instruments: Presentation	_____	_____	_____
IAS 36 (Revised)	Impairment of assets	_____	_____	_____
IAS 38 (Revised)	Intangible assets	_____	_____	_____
IAS 39 (Revised)	Financial instruments: Recognition and measurement	_____	_____	_____
IAS 40 (Revised)	Investment property	_____	_____	_____
IAS 41 (Revised)	Agriculture	_____	_____	_____
IFRS 1 (Revised)	First-time adoption of International Financial Reporting Standards	_____	_____	_____
IFRS 2 (Revised)	Share-based payment	_____	_____	_____
IFRS 8	Operating segments	_____	_____	_____
IFRIC 15	Agreements for the construction of real estate	_____	_____	_____
Others:		_____	_____	_____
IFRS 3 (Revised)	Business Combinations (effective for accounting periods beginning on or after July 1, 2009)	_____	_____	_____
IFRS 5	Non-current assets held for sale and discontinued operations (effective for accounting periods beginning on or after July 1, 2009)	_____	_____	_____
IFRIC 13	Customer loyalty programs (effective for accounting periods beginning on or after July 1, 2009)	_____	_____	_____
IFRIC 16	Hedges of a net investment in a foreign operation (effective for accounting periods beginning on or after July 1, 2009)	_____	_____	_____
IFRIC 17	Distribution of non-cash assets to owners (effective for accounting periods beginning on or after July 1, 2009)	_____	_____	_____

The bank's management believes that these standards and interpretations will be adopted by the financial statements on January 1, 2009, and according to their effective dates. This adoption may not have a material impact on the bank's financial statements at the first phase of adoption.

#### Segment Information:

A business segment is a distinguishable component of an entity engaged in providing an individual product or service or a group of related products or services subject to risks and returns different from those of other business segments.

A geographical segment is a distinguishable component of an entity engaged in providing products or services within a particular economic environment subject to risks and returns different from those of components operating in other economic environments.

#### Direct Credit Facilities

Direct credit facilities are financial assets that have fixed or specific payments, the bank has granted to customers or acquired, and have no market prices from active markets.

Provision for impairment loss is taken on non-performing credit facilities when management realizes the uncollectability of the debt or part of it. This provision is calculated based on the instructions of the Palestinian Monetary Authority.

Interest and commission on non-performing credit facilities are suspended in accordance with the instructions of the Palestinian Monetary Authority.

Uncollectible credit facilities are written off by decreasing the provision for impairment losses. Any surplus in the provision as well as any amount collected from credit facilities previously written off are taken to the statement of income.

### **Financial Assets Available for Sale:**

Available for sale financial assets are those financial assets held by the Bank and classified as neither trading nor held-to-maturity financial assets.

Available for sale financial assets are initially recorded at fair value including acquisition costs. They are subsequently re-measured to fair value as of the date of the financial statements. Moreover, changes in fair values are recorded in a separate account in the shareholders' equity. When these assets are fully or partially sold, disposed of, or determined to be impaired, the income or loss are recorded in the income statement, including the related amounts previously recorded in the shareholders' equity. The loss resulting from the impaired value of the debt instruments is reversed when it is objectively evident that the increase in their fair values occurred after the losses had been recognized and recorded in the statement of income. Impairment losses resulting from the decline in the value of equity securities is reversed through the cumulative change in fair value.

Income and loss resulting from foreign currency interest-bearing debt instruments is included in the statement of income. The differences in the foreign currency of equity instruments are included in the cumulative change in fair value in shareholders' equity.

Interest from available for-sale financial instruments is recorded in the statement of income using the effective interest method. Impairment in assets is recorded in the statement of income when incurred.

- Financial instruments for which fair values can not be reliably determined are shown at cost. The impairment is recorded in the statement of income.

### **Fair Value:**

Fair value represents the closing market prices of the financial assets on the date of the financial statements. In case quoted market prices do not exist, active trading of some financial assets is not available, or the market is inactive, fair values are estimated by one of several methods including the following:

- Comparison with the fair value of another financial asset with similar terms and conditions.
- Analysis of the present value of expected future cash flows for similar instruments.
- Financial assets, the fair value of which can not be reliably measured, are stated at cost less any impairment.

The valuation methods aim to provide a fair value reflecting the expectations of the market, expected risks and expected benefits.

### **Impairment in the Value of Financial Assets:**

The Bank reviews the values of the financial assets on the date of the financial statements in order to determine if there are any indications of impairment in their values individually or in the form of a portfolio. In case such indications exist, the recoverable value is estimated so as to determine the impairment loss.

The impairment is determined as follows:

- The impairment in the financial assets recorded at amortized cost is determined on the basis of the present value of the expected cash flows discounted at the original interest rate.
- The impairment in the financial assets available for sale recorded at fair value represents the difference between the book value and fair value.

The impairment in the financial assets recorded at cost is determined on the basis of the present value of the expected cash flows discounted at the market interest rate of similar instruments.

The impairment in value is recorded in the statement of income. Any surplus in the following periods resulting from previous declines in the fair value of financial assets is taken to the statement of income except for the impairment in available for sale investments which is booked in the cumulative change in fair value in the shareholders equity.

### **Investments in Subsidiary Company:**

The subsidiary company is the company that the has an effective influence on the decisions related to the financial and operational policies, and owns more than 50 % of voting rights. The investment in subsidiary company is presented at cost in the attached financial statements.

#### **Property, plant and equipment:**

Property, plant and equipment are stated at cost net of accumulated depreciation except for land. Depreciation is computed using the straight-line method based on the estimated useful lives. As the following:

Tools and instruments	15%
Furniture and fixture	10%
Vehicles	20%
Computer and Programs	25%
Decorations to the rented building	12%

- When the expected recoverable amount is less than the net book value, the property, plant and equipment amount is reduced to the lower of the cost or net realizable value and the difference (if any) is included in the statement of income.
- The useful lives of property, plant and equipment are reviewed at the end of each year. In case the expected useful life is different from what was determined before, the change in estimate is recorded in the following years, being as a change in estimate.
- Property, plant and equipment are disposed off when there is no expected future benefit from the use of that asset.

#### **Provisions:**

Provisions are recognized when the Bank has an obligation on the date of the financial statements as a result of past events, and it is probable to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

#### **Provision for Employees End of Service Indemnity:**

End-of-service indemnities are provided for in accordance with the labor law applied in Palestine and based the last salary paid and on the employees' length of service.

#### **Taxes:**

Income tax expense represents accrued taxes and deferred taxes.

Income tax expense is accounted for on the basis of taxable income. Moreover, income subject to tax differs from income declared in the financial statements because the latter includes non-taxable revenues or tax disallowed expenses in the current year but deductible in subsequent years, accumulated losses acceptable by the tax authorities, and items not accepted for tax purposes or subject to tax.

Taxes are calculated on the basis of the tax rates prescribed according to the prevailing laws, regulations, and instructions of the Tax Authorities.

- Deferred taxes are taxes expected to be benefited from or incurred and arise from temporary timing differences between the value of the assets and the liabilities in the financial statements and the value of the taxable amount.
- Deferred taxes are calculated on the basis of the liability method in the financial statements and according to the rates expected to be applied when the tax liability is settled or tax asset is recognized. Deferred taxes asset is reviewed as of the date of the financial statements, and is reduced in case it is expected that no benefit will arise there from, partially or totally.

#### **Offsetting:**

Financial assets and financial liabilities are offset, and the net amount is reflected in the financial statements only when there are legal rights to offset the recognized amount and that the Bank intends to settle them on a net basis, or assets are realized and liabilities settled simultaneously.

### **Recognition of Income and Expenses:**

Interest income is recognized based on the effective interest method, except for interest and commission on non-performing credit facilities which are not recognized as revenue but taken to the interest and commission in suspense account until they are received in cash.

Commission is recorded as revenue when the related services are rendered. Dividend revenue from companies is recognized when earned (or when approved by the general assembly of the investee company).

### **Recognition of Financial Assets:**

Purchase and sale of financial assets are recognized on the trade date (the date the Bank is liable to sell or purchase the financial asset).

### **Foreign Currencies:**

- Foreign currency transactions are recorded at its U.S. Dollar equivalent at the exchange rates prevailing at the date of each transaction.
- Assets and liabilities denominated in foreign currencies are translated into U.S. Dollar equivalent at the exchange rates ruling at year end and the resultant difference on exchange rates is taken to the statement of income.
- The resultant difference on exchange rates for non-monetary assets and liabilities are taken as part of the changes in fair values.

### **Related Parties:**

Subsidiary Companies, board of directors and the head administrative officers are considered as related parties.

### **Cash and Cash equivalents:**

Cash and cash equivalents comprise cash balances with PMV and balances with banks and financial institutions maturing within three months, less balances due to banks and financial institutions maturing within three months and those restricted funds.

### **Accounting Estimates:**

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and the actual results may therefore differ resulting in future changes in these estimates. In particular, considerable judgment by management is required in the determination of the adequacy of the provisions and the assessment of the commitments. The management believes that its assumptions were reasonable in the financial statements, some of these assumptions are as follows:

- Tax expense is charged for in accordance with applicable laws, regulations and accounting standards and by taking into consideration the share for the year from deferred tax.
- End of service indemnity is calculated based on the labor law applied in Palestine.
- Management periodically reassesses the economic useful lives of tangible and intangible assets for the purpose of calculating annual depreciation and amortization. The calculation is made based on the general status of these assets and the assessment of their useful economic lives expected in the future. Impairment loss (if any) is taken to the statement of income.
- Management performs a frequent review of the financial assets stated at cost to estimate any decline in their value. Impairment loss (if any) is taken to the statement of income as an expense for the period.
- The management of the Bank estimates the value of the provisions against credit facilities in accordance with PMV instructions and in accordance with International Financial Reporting Standards.

### 3. Financial Instruments and risk management:

#### a. Financial Instruments:

- Financial instruments of the bank consists of financial assets and financial liabilities. Financial assets include cash balances, current accounts, deposits with PMA and banks, investments, and loans. The liabilities include customers' deposits and balances due to banks. Also, the financial instruments include rights and obligations listed outside the statement of financial position.
- Fair Values of Financial Instruments.

The following represent the fair values of financial instruments:

	Net Book Value Current Year U.S Dollar	Fair Value Current Year U.S Dollar	Net Book Value Prior Year U.S Dollar	Fair Value Prior Year U.S Dollar
<b>Assets</b>				
Cash and Balances with PMA	31,873,396	31,873,396	15,491,009	15,497,009
Cash and Balances with Financial Institutions	77,541,530	72,541,530	17,333,146	17,733,146
Direct Credit Facilities - Net	128,520,482	128,520,482	13,214,896	43,214,896
Available for sale investments and investments in subsidiaries	4,541,323	4,541,323	5,693,455	5,693,455
<b>Liabilities</b>				
Financial Institutions Deposits	53,774,393	53,774,393	44,594,424	93,591,424
Customers Deposits	745,703,493	745,703,493	69,877,233	99,877,233
Other Liabilities	12,123,052	12,123,052	5,258,569	5,258,569

#### 3.b Risk Management:

##### • Risk Management Composition:

The bank manages the various banking risks in several ways: through a comprehensive strategy theme which identifies risks and ways to mitigate them, this can be achieved through special committees on risk management.

The Board of Directors performs its role in ensuring that the Bank manages the various risks and adopts the policies and procedures that streamline the Bank's risk management through the Risks Committee, Assets and liabilities committee as well as the central credit committee. The aforementioned committees include executive and non-executive members. Moreover, the Bank sets the risks acceptable limits (risk appetite). These committees evaluate, control, and recommend mitigating risks, and submits the necessary reports to higher management independently from the bank's departments (risk takers) which perform other banking activities in order to ensure the objectivity in analyzing the various risk types.

- **Credit Risk:**

The Credit risk refers to the risk that counterparty will default on its credit terms and/or its creditworthiness deteriorates resulting in financial loss to the Bank.

The Board of Directors periodically reviews the credit risk management policies compatible with the laws and PMA instructions after being prepared by relevant committees. Moreover, the Board of Directors ensures that management of the Bank works according to their policies and executes related requirements. These policies include the Bank's credit policy through which many factors are determined such as:

Setting clear requirements, policies, and decision making procedures relating to the new or to existing credit facilities or any material amendment thereon within specified authorities that match the size and specifications of the credit facilities. Among the factors taken into consideration when granting the credit are the purpose of the credit facilities and the sources of settlements. Moreover, the credit committees ensure that extending credits is checked against the existence of conflict of interest and in a manner that guarantees the soundness and independence of the evaluating procedures of the customer requesting credit.

Laying out clear and effective policies and procedures for managing and executing credit including continuous analysis of the ability and readiness of the borrower to pay according to contractual terms, monitoring the credit documentation and any credit terms and covenants, and continuously controlling and evaluating guarantees.

Establishing adequate policies and procedures to ensure evaluation and management of non performing credit and its classification in addition to evaluating the adequacy of the provisions on monthly basis in connection with the instructions of PMA.

- **Credit risk exposure (Net of impairment provision and before guarantees and other risk - mitigating factors):**

	<u>December 31</u> <b>2008</b>	<u>December 31</u> <b>2007</b>
	<u>U.S Dollar</u>	<u>U.S Dollar</u>
<b>On Balance Sheet Items</b>		
Cash deposits with PMA and financial institutions	72,541,536	177,333,146
<b>Direct credit facilities:</b>		
Individual's	21,805,411	10,390,139
Property loans	1,268,041	626,733
Corporate	36,611,679	21,675,173
Small and medium companies	606,763	201,095
Government and public sector	65,327,393	10,321,739
Available for sale investments	<u>4,541,323</u>	<u>5,693,855</u>
	<b><u>205,232,131</u></b>	<b><u>226,241,407</u></b>
<b>Off Balance Sheet Items</b>		
Letters of guarantee	10,174,906	4,270,834
Letters of credit	6,015,285	156,797
Acceptances	<u>179,065</u>	<u>227,036</u>
	<b><u>16,669,256</u></b>	<b><u>4,654,667</u></b>
<b>Total</b>	<b><u>222,401,387</u></b>	<b><u>230,896,074</u></b>

• Credit exposures according to the degree of risk are categorized according to the following table:

2008	Individuals	Property Loans	Corporate	Small & Medium Companies	Government and Public Sector	Total
	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar
Low risk	11,487,092	660,077	79,607,348	390,580	69,331,815	91,136,851
Acceptable risk	23,107,933	666,767	23,801,363	307,071	3,025,833	57,908,465
Of which is due:						
Within 30 days	1,087,751	136,477	850,510	65,318	5,025,833	7,299,317
From 31 to 60 days	159,252	133,939	357,281	--	--	650,473
Under watch	2,933,304	50,741	3,437,182	20,260	--	6,501,495
Non-performing	7,752,521	21,111	2,499,772	--	--	5,253,404
Below level Allowance provided	946,310	--	860,718	--	--	1,807,028
Bad debt	8,496,171	39,789	5,632,253	46,323	--	13,214,536
<b>Total</b>	<b>54,894,996</b>	<b>1,326,282</b>	<b>12,108,710</b>	<b>637,651</b>	<b>65,357,678</b>	<b>144,325,317</b>
Less: Interest in suspense	(4,326,377)	(45,383)	(2,336,271)	(9,765)	(31,788)	(6,750,671)
Less: Impairment provision	(2,214,957)	(24,856)	(5,718,093)	(21,123)	--	(10,068,729)
<b>Net</b>	<b>24,723,651</b>	<b>1,268,041</b>	<b>36,894,634</b>	<b>606,763</b>	<b>65,327,393</b>	<b>128,520,482</b>

2007	Individuals	Property Loans	Corporate	Small & Medium Companies	Government and Public Sector	Total
	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar
Low risk	5,967,356	338,757	71,468,282	717,054	10,105,467	28,517,091
Acceptable risk	13,819,992	338,855	7,693,898	718,049	--	31,936,492
Of which is due:						
Within 30 days	90,987	43,671	7,813,226	5,906	--	7,970,829
From 31 to 60 days	101,772	55,29	445,332	--	--	642,371
Under watch	2,050,266	10,271	2,338,131	--	--	4,398,668
Non-performing	681,139	90,755	770,688	--	--	1,542,073
Below level Allowance provided	600,000	2,776	478,688	--	--	1,081,464
Bad debt	5,322,985	73,775	8,143,329	10,277	--	13,540,366
<b>Total</b>	<b>19,811,348</b>	<b>669,609</b>	<b>29,162,881</b>	<b>225,103</b>	<b>10,405,467</b>	<b>60,274,403</b>
Less: Interest in suspense	(1,769,150)	(25,310)	(3,047,407)	(97,127)	(83,733)	(5,429,767)
Less: Impairment provision	(5,152,180)	(17,459)	(4,445,350)	(14,855)	--	(9,629,844)
<b>Net</b>	<b>10,390,109</b>	<b>626,840</b>	<b>21,675,129</b>	<b>201,096</b>	<b>10,321,730</b>	<b>43,214,806</b>



- Credit exposures according to the degree of risk are categorized according to the following table:

2008	Individuals	Property Loans US Dollar	Corporate US Dollar	Small and Medium Companies US Dollar	Government and Public Sector US Dollar	Total US Dollar
	US Dollar	US Dollar	US Dollar	US Dollar	US Dollar	US Dollar
<b>Guarantees against:</b>						
Low risk	9,540,107	660,022	18,979,492	799,888	60,331,845	89,312,349
Acceptable risk	9,574,719	498,125	9,322,753	120,688	5,025,833	21,362,118
Under watch	4,214,910	29,487	8,029,950	77,681	--	9,336,327
Non-performing:	3,990,672	10,445	7,903,624	22,018	--	6,122,010
Below level	7,079,390	6,365	2,898,686	1,931	--	4,985,775
Allowance provided	5,544,982	24,858	3,447,385	21,123	--	9,068,738
Bad debt	--	--	--	--	--	--
<b>Total</b>	<b>34,594,996</b>	<b>1,326,282</b>	<b>42,408,710</b>	<b>637,651</b>	<b>65,357,678</b>	<b>144,325,317</b>

<b>Off:</b>						
Cash Margins	3,540,271	530,630	3,699,373	86,998	--	7,867,771
Real estate	11,158,722	1,885,20	17,907,666	621,500	--	29,136,092
Securities	1,794,935	71,325	1,967,338	17,302	--	3,850,797

2007	Individuals	Property Loans US Dollar	Corporate US Dollar	Small and Medium Companies US Dollar	Government and Public Sector US Dollar	Total US Dollar
	US Dollar	US Dollar	US Dollar	US Dollar	US Dollar	US Dollar
<b>Guarantees against:</b>						
Low risk	4,990,711	335,751	11,465,388	141,595	10,395,462	27,251,807
Acceptable risk	3,909,710	268,209	5,949,587	67,488	--	10,192,494
Under watch	2,737,911	79,135	3,306,530	--	--	6,062,676
Non-performing:	1,838,986	21,155	2,717,355	--	--	3,082,567
Below level	1,274,159	3,900	1,775,807	1,385	--	3,055,042
Allowance provided	5,152,180	17,256	4,445,750	14,835	--	9,629,821
Bad debt	--	--	--	--	--	--
<b>Total</b>	<b>19,811,348</b>	<b>669,609</b>	<b>29,162,881</b>	<b>225,103</b>	<b>10,405,462</b>	<b>60,274,403</b>

<b>Off:</b>						
Cash Margins	1,877,493	20,000	1,824,053	30,000	--	3,429,546
Real estate	5,229,346	950,000	4,383,833	320,000	--	10,882,889
Securities	3,120	--	164,206	--	--	167,326

- The framework that the bank followed in classifying credit facilities and accepted guarantees when calculating and determining the amounts and the provisions of capital needs in credit facilities to cover credit risk arising from doubtful and bad debts is the PMA instructions. These instructions require all the operating banks in Palestine to evaluate its credit portfolio at least one time each 3 months and to consider the proper provisions.
- **Liquidity risk**

Liquidity risk is represented in the bank's inability to provide the necessary funding to perform its obligations in due dates, and in order to prevent these risks, management is to diversify sources of funding and management of assets and liabilities, and harmonize terms and retain sufficient cash balance and securities.

Also, the PMA monitors liquidity situations of banks periodically through determining percentages from total deposits that banks should maintain at all times. The liquidity situations and PMA determined percentages are monitored by Assets & Liabilities committee at the bank general.

The maturity profile of the assets and liabilities as of December 31, 2008 and 2007 is as follows:

<u>2008</u>	<u>During One</u>	<u>After One Year</u>	<u>Total</u>
	<u>Year</u>		
	<u>U.S Dollar</u>	<u>U.S Dollar</u>	<u>U.S Dollar</u>
<b>Assets</b>			
Cash and deposits with PMA	31,873,396	--	31,873,396
Deposits with banks and financial institutions	72,511,530	--	72,511,530
Direct Credit facilities	111,381,481	1,339,031	128,520,180
Available for sale and Investments in Subsidiaries	3,668,015	872,708	4,540,723
Fixed assets	--	6,515,831	6,515,831
Deferred taxes asset	1,087,968	--	1,087,968
Other assets	1,468,031	--	1,468,031
<b>Total assets</b>	<b>231,721,591</b>	<b>24,827,570</b>	<b>259,549,161</b>
<b>Liabilities and shareholders' equity</b>			
Deposits of banks and financial institutions	53,774,593	--	53,774,593
Customers' deposits	113,517,593	2,183,500	115,701,093
Cash margins	12,173,052	--	12,173,052
Sundry provisions	--	1,340,275	1,340,275
Provisions for taxes	--	--	--
Other liabilities	2,289,166	393,053	2,682,219
<b>Total liabilities and shareholders' equity</b>	<b>211,674,904</b>	<b>3,918,830</b>	<b>215,593,734</b>
<b>Net liquidity gap</b>	<b>23,046,687</b>	<b>20,908,740</b>	<b>43,955,427</b>

<u>2007</u>	<u>During One</u>	<u>After One Year</u>	<u>Total</u>
	<u>Year</u>		
	<u>U.S Dollar</u>	<u>U.S Dollar</u>	<u>U.S Dollar</u>
<b>Assets</b>			
Cash and deposits with PMA	15,497,009	--	15,497,009
Deposits with banks and financial institutions	177,333,148	--	177,333,148
Credit facilities	34,100,194	9,114,702	43,214,896
Available for sale investments	1,879,747	872,708	2,652,455
Fixed assets	--	3,785,786	3,785,786
Deferred taxes asset	2,569,168	--	2,569,168
Other assets	1,361,778	--	1,361,778
<b>Total assets</b>	<b>238,678,352</b>	<b>12,773,196</b>	<b>251,451,548</b>
<b>Liabilities and shareholders' equity</b>			
Deposits of banks and financial institutions	91,594,424	--	91,594,424
Customers' deposits	98,350,087	1,518,700	99,868,787
Cash margins	5,258,569	--	5,258,569
Sundry provisions	--	802,279	802,279
Provisions for taxes	1,263,089	--	1,263,089
Other liabilities	1,386,471	--	1,386,471
<b>Total liabilities and shareholders' equity</b>	<b>200,781,640</b>	<b>2,320,425</b>	<b>203,102,065</b>
<b>Net liquidity gap</b>	<b>37,896,712</b>	<b>10,452,771</b>	<b>48,349,483</b>



The maturity profile of the assets and liabilities at December 31, 2008 & 2007 is as follows:

<u>2008</u>	<u>Within Three months</u> U.S Dollar	<u>Three to Six Months</u> U.S Dollar	<u>Six Months to One year</u> U.S Dollar	<u>Over One year</u> U.S Dollar	<u>No specific maturity</u> U.S Dollar	<u>Total</u> U.S Dollar
<b>Assets</b>						
Cash	18,779,403	--	--	--	--	18,779,403
Deposits with local banks	23,083,379	--	--	--	--	23,083,379
Deposits with foreign banks	38,158,154	--	--	--	--	38,158,154
Deposits with PMA	1,734,357	--	--	--	12,399,643	13,633,991
Derivatives liabilities, net	31,393,633	29,983,665	48,507,780	75,639,405	--	128,520,483
Available for sale investments	--	--	--	4,841,373	--	4,841,373
Fixed assets, net	--	--	--	6,515,837	--	6,515,837
Deferred tax asset	--	--	--	1,087,968	--	1,087,968
Other assets	14,468,631	--	--	--	--	14,468,631
<b>Total Assets</b>	<b>140,877,546</b>	<b>29,983,665</b>	<b>48,507,780</b>	<b>27,780,527</b>	<b>12,399,643</b>	<b>259,549,161</b>
<b>Liabilities and Equity</b>						
<b>Liabilities -</b>						
Deposits of banks and financial institutions	53,774,393	--	--	--	--	53,774,393
Customers' deposits	57,791,357	61,377,953	2,996,600	1,650,000	70,784,613	145,703,493
Cash margins	2,123,052	--	--	--	--	2,123,052
Sundry provisions	--	--	--	1,340,275	--	1,340,275
Provision for taxes	--	--	--	--	--	--
Other liabilities	2,657,521	--	--	--	--	2,657,521
Shareholders' equity	--	--	--	--	43,955,427	43,955,427
<b>Total Liabilities and equity</b>	<b>125,944,293</b>	<b>61,377,953</b>	<b>2,996,600</b>	<b>4,990,275</b>	<b>61,210,040</b>	<b>259,549,161</b>
Net liquidity gap	14,933,253	(31,394,288)	(3,511,182)	22,790,252	(51,840,397)	--
<b>Cumulative liquidity gap</b>	<b>14,933,253</b>	<b>(16,461,035)</b>	<b>(29,050,145)</b>	<b>51,840,397</b>	<b>-</b>	<b>-</b>

2007	Within Three months U.S. Dollar	Three to Six Months U.S. Dollar	Six to One year U.S. Dollar	Over One year U.S. Dollar	No specific maturity U.S. Dollar	Total U.S. Dollar
<b>Assets</b>						
Cash	6,607,733	--	--	--	--	6,607,733
Deposits with local banks	8,436,707	19,833,899	36,159,613	--	--	54,390,249
Deposits with foreign banks	7,061,868	27,782,593	83,131,810	--	--	117,976,271
Deposits with PMIA	656,134	--	--	--	8,233,664	8,889,798
Direct credit facilities, net	24,319,546	8,209,998	1,370,660	6,114,707	--	33,714,911
Available for sale investments	--	--	--	6,693,455	--	6,693,455
Fixed assets, net	--	--	--	2,785,756	--	2,785,756
Deferred tax asset	--	--	--	2,266,165	--	2,266,165
Other assets	1,361,178	--	--	--	--	1,361,178
<b>Total Assets</b>	<b>51,445,644</b>	<b>55,746,950</b>	<b>115,865,179</b>	<b>20,160,111</b>	<b>8,233,664</b>	<b>251,451,548</b>
<b>Liabilities and Equity</b>						
<b>Liabilities -</b>						
Deposits of Banks and Financial Institutions	46,267,331	48,026,695	--	--	--	94,294,026
Customers' deposits	31,699,023	50,811,551	191,1068	1,518,116	13,997,565	93,877,273
Cash margins	5,258,569	--	--	--	--	5,258,569
Sundry provisions	--	--	--	802,279	--	802,279
Provision for taxes	--	1,763,050	--	--	--	1,763,050
Other liabilities	1,296,471	--	--	--	--	1,296,471
Shareholders' equity	--	--	--	--	48,349,483	48,349,483
<b>Total Liabilities and equity</b>	<b>84,732,794</b>	<b>100,134,333</b>	<b>1,917,008</b>	<b>2,320,425</b>	<b>62,346,988</b>	<b>251,451,548</b>
Net liquidity gap	(33,287,150)	(44,387,383)	113,948,171	17,839,686	(54,113,324)	--
<b>Cumulative liquidity gap</b>	<b>(33,287,150)</b>	<b>(77,674,533)</b>	<b>36,273,638</b>	<b>54,113,324</b>	<b>--</b>	<b>--</b>

#### • Market risk

Market risks arise from fluctuations in interest rates and currency exchange rates and stock prices. The Board of Directors is setting limits on the value of acceptable risk, and the risks are controlled on monthly basis by a special committee.

#### • Interest rate risk

Interest rate risks arise from the possible impact of changes in interest rates on the value of the financial instruments. The bank is exposed to interest rate risk due to lack of consensus or a gap in the amounts of assets and liabilities according to deadlines or multiple reviewed interest rates in a certain period of time, the bank manages these risks by reviewing the interest rates on assets and liabilities through the risk management strategy.

**Sensitivity of Interest Rates- December 31 2008:**

Assets	Up to one month	One to three months	Three to six months	Six months to one year	Sum interest bearing	Total
	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar
Cash on hand					18,799,402	18,799,402
Deposits with local banks	16,069,692	2,118,531				18,188,223
Deposits with foreign banks	88,444,350	10,013,151				98,457,501
Deposits with PMA					13,613,994	13,613,994
Direct credit line interest	47,158,359	22,333,378	71,963,650	35,954,299		177,410,106
Available for sale investments					1,547,323	1,547,323
Fixed assets					6,575,831	6,575,831
Deferred assets asset					1,957,968	1,957,968
Other assets					14,568,631	14,568,631
<b>Total assets</b>	<b>102,258,047</b>	<b>39,865,816</b>	<b>24,983,650</b>	<b>33,954,499</b>	<b>58,487,149</b>	<b>259,549,161</b>
<b>Liabilities and shareholders' equity</b>						
Deposits of banks and financial institutions	53,760,290	19,014,105				72,774,395
Customers deposits	55,017,208	58,598,225	2,325,000	2,780,799	54,317,537	145,703,435
Cash payments	12,173,052					12,173,052
Stands in deposits					1,346,338	1,346,338
Provisions for taxes						
Other liabilities					2,632,521	2,632,521
Shareholders' equity					3,955,437	3,955,437
<b>Total liabilities and shareholders' equity</b>	<b>110,961,080</b>	<b>38,612,328</b>	<b>2,325,000</b>	<b>5,050,799</b>	<b>102,659,753</b>	<b>259,549,161</b>
<b>Interest rate sensitivity gap</b>	<b>18,643,033</b>	<b>1,253,488</b>	<b>22,658,650</b>	<b>28,903,799</b>	<b>(44,172,604)</b>	
<b>Cumulative interest rate sensitivity gap</b>	<b>18,643,033</b>	<b>(7,389,545)</b>	<b>15,268,805</b>	<b>44,172,604</b>		

Sensitivity of Interest Rates- December 31, 2007:

Assets	Up to one month		One to three months		Three to six months		Six months to one year		Non interest bearing		Total	
	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar
Cash on hand												6,607,211
Deposits with local banks	58,350,545	--	--	--	--	--	--	--	--	--	--	58,350,545
Deposits with foreign banks	13,952,301	--	--	--	--	--	--	--	--	--	--	13,952,301
Deposits with PMA	--	--	--	--	--	--	--	3,889,398	--	--	--	3,889,398
Bank credit facilities-out	27,701,487	3,618,159	8,305,689	10,585,571	--	--	--	--	--	--	--	47,200,486
Available for sale investments	--	--	--	--	--	--	--	5,603,159	--	--	--	5,603,159
Fixed assets	--	--	--	--	--	--	--	2,783,786	--	--	--	2,783,786
Deferred taxes asset	--	--	--	--	--	--	--	2,566,168	--	--	--	2,566,168
Other assets	--	--	--	--	--	--	--	2,361,178	--	--	--	2,361,178
<b>Total assets</b>	<b>198,034,533</b>	<b>3,618,159</b>	<b>8,209,689</b>	<b>10,685,571</b>	<b>8,209,689</b>	<b>10,685,571</b>	<b>30,963,596</b>	<b>30,963,596</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>251,451,548</b>
<b>Liabilities and shareholders' equity</b>												
Deposits of banks and financial institutions	91,544,421	--	--	--	--	--	--	--	--	--	--	91,544,421
Customers' deposits	29,943,333	37,631,789	595,269	3,162,334	27,942,706	--	--	--	--	--	--	91,877,233
Cash margins	5,358,569	--	--	--	--	--	--	--	--	--	--	5,358,569
Standby provisions	--	--	--	--	--	--	--	822,279	--	--	--	822,279
Provisions for taxes	--	--	--	--	--	--	--	263,083	--	--	--	263,083
Other liabilities	--	--	--	--	--	--	--	326,471	--	--	--	326,471
Shareholders' equity	--	--	--	--	--	--	--	48,379,483	--	--	--	48,379,483
<b>Total liabilities and shareholders' equity</b>	<b>129,098,306</b>	<b>37,631,789</b>	<b>1,595,269</b>	<b>3,162,154</b>	<b>27,942,706</b>	<b>3,162,154</b>	<b>79,664,031</b>	<b>79,664,031</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>251,451,548</b>
<b>Interest rate sensitivity gap</b>	<b>68,936,227</b>	<b>(34,013,630)</b>	<b>6,614,420</b>	<b>7,223,417</b>	<b>(48,760,434)</b>	<b>7,223,417</b>	<b>(48,760,434)</b>	<b>(48,760,434)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Cumulative interest rate sensitivity gap</b>	<b>68,936,227</b>	<b>34,922,597</b>	<b>41,537,017</b>	<b>48,760,434</b>	<b>41,537,017</b>	<b>48,760,434</b>	<b>48,760,434</b>	<b>48,760,434</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>

◆ **Foreign currency risk**

Foreign currency risks are those risks that the change in the value of the financial instruments is affected as a result of the change in foreign currency rates. The American Dollar is the base currency of the bank and the Board of Directors is setting limits for the financial status of each currency of the bank. Foreign currencies position is controlled on a daily basis and strategies are adopted to ensure the retention of foreign currencies positions within the approved limit.

Below are the positions in foreign currencies:

	December 31, 2008	December 31, 2007
	U.S Dollar	
	-----	-----
Cash in US Dollar	121,024	(530,594)
Euro	8,130	628
Israeli Shekel	294,659	95,142
Sterling Pound	(75,877)	402
Swiss Franc	(1,108)	(129)
Other Currencies	(73,881)	(1,986)

**The risk of shares prices**

Risks in share prices are resulted from the change in fair value of investments in shares. The Bank is managing these risks by diversifying investments in various geographical regions and economic sectors. Most of the shares investments that the bank owns are listed in Palestine Securities Exchange (PSE).

The quantitative change in fair value as a result of potential changes in shares market prices supposing other variables are constant is as the following:

	Change in index	Effect on Ownership Equity
		-----
Shares Listed at PSE	+ 10 %	531,562
Shares Listed at PSE	- 10 %	(531,562)

4- **Cash on Hand**

**Composition:**

	December 31, 2008	December 31, 2007
	U.S Dollar	
	-----	-----
Cash in US Dollar	2,414,896	1,072,948
Cash in Jordanian Dinar	4,366,443	608,546
Cash in Israeli Shekel	11,117,478	1,843,757
Cash in Euro and Other Currencies	340,635	593,600
<b>Total</b>	<b>18,239,402</b>	<b>6,607,211</b>

The balance of this account includes an amount of U.S Dollar (1,153,881) representing cash at Gaza Branches as of December 31, 2008.

5- **Deposits with Local Banks:**

**Composition:**

	December 31, 2008	December 31, 2007
	U.S Dollar	
	-----	-----
Palestinian Islamic Bank	--	5,000
Arab Bank	2,835,477	
Al Rafah Microfinance Bank	11,016,434	16,026,958
Arab Islamic Bank	6,000,000	37,513,857
Egyptian Arab Land Bank	4,231,311	4,775,034
Bank Of Palestine	154	--
<b>Total</b>	<b>24,083,376</b>	<b>58,350,845</b>

Composition of this account classified by type of deposit is as follows:

	December 31,	December 31,
	2008	2007
	U.S Dollar	U.S Dollar
Non interest bearing deposits in U.S.S	151	5,060
Term deposits in Euros	7,835,177	--
Term deposits in JD	1,231,711	4,5054
Term deposits in U.S.S	17,916,434	57,576,811
<b>Total</b>	<b>24,083,376</b>	<b>58,350,845</b>

\* All of the above deposits mature within three months

#### 6- Deposits with Foreign Banks:

Composition:

	December 31,	December 31,
	2008	2007
	U.S Dollar	U.S Dollar
Arab Bank - Bahrain	7,718,299	
Arab Bank - Jordan	11,741,516	
Arab Bank Bank for Investment and Finance	9,851,497	78,587,794
Jordan Kuwait Bank	10,014,103	35,398,228
D.S. Bank Bank	6,796,976	4,996,279
Deutsche Bank - United Kingdom	1,328,179	
City Bank - United Kingdom	7,227	
City Bank, USA	943,467	--
City Bank, France	142,044	
Arab Banking Corporation, Jordan	4,846	
<b>Total</b>	<b>48,458,154</b>	<b>118,982,301</b>

Deposits with foreign banks classified by currency are as follows:

	December 31, 2008			December 31,
	U.S Dollar			2007
	Time Deposits	Current accounts	Total	U.S Dollar
U.S Countries Currencies	656,859	--	656,859	
U.S Dollar	--	1,717,842	1,717,842	57,711,308
Jordanian Dinar	25,828,910	326,124	26,155,034	54,412,685
Israeli Shekel	5,608,480	2,276,774	7,885,254	4,996,279
Other	8,507,429	3,835,736	12,343,165	7,949,379
<b>Total</b>	<b>40,509,678</b>	<b>8,156,476</b>	<b>48,458,154</b>	<b>118,982,301</b>

#### 7- Deposits with Palestinian Monetary Authority

Composition of this account classified by type of currency is as follows:

	December 31, 2008			December 31,
	U.S Dollar			2007
	Current Account	Compulsory reserve*	Total	U.S Dollar
U.S Dollar	891,793	5,581,766	6,473,559	4,945,228
Jordanian Dinar	91,957	2,895,551	2,990,508	1,817,165
Israeli Shekel	10,988	3,206,051	3,217,039	1,987,297
Other currencies	236,613	716,275	952,888	140,108
<b>Total</b>	<b>1,234,351</b>	<b>12,399,643</b>	<b>13,633,994</b>	<b>8,889,798</b>

According to PMA circular No. 05/2008 dated December 24, 2008. The Bank should maintain with PMA non interest bearing compulsory cash reserve as percentages of all customers' deposits. The compulsory cash reserve is calculated at the end of each month at the following rates:

Deposits in New Israeli Shekel	8%
Deposits in Other Currencies	0%



## 8- Credit Facilities, Net:

### Composition:

	December 31, 2008	December 31, 2007
<b>Individuals (Retail):</b>		
Overdrafts Accounts	11,100,894	9,658,807
Loans and discounted bills **	23,494,182	10,645,541
	<b>34,594,996</b>	<b>19,811,348</b>
<b>Real Estate Loans</b>		
	<b>1,326,282</b>	<b>669,609</b>
<b>Corporate:</b>		
Overdrafts Accounts	1,204,180	9,128,538
Loans and discounted bills **	30,360,890	16,734,287
	<b>62,108,710</b>	<b>29,162,881</b>
<b>Medium and Small Companies:</b>		
Overdrafts Accounts	391,083	100,615
Loans and discounted bills **	246,571	124,488
	<b>637,651</b>	<b>225,103</b>
<b>Government And Public Sector:</b>		
Overdrafts Accounts ***	10,181,412	10,405,162
Loans ****	55,176,296	-
	<b>65,357,678</b>	<b>10,405,162</b>
<b>Total</b>	<b>144,325,317</b>	<b>60,274,403</b>
Interest in suspense	(6,736,097)	(1,129,779)
Provision for impairment loss	(9,068,735)	(9,298,211)
<b>Net direct credit facilities</b>	<b>128,520,482</b>	<b>43,214,806</b>

\* Loans and Advances are stated net of interest and commission received in advance in the amount of U.S. Dollar 277,457 as of December 31, 2008 and U.S. Dollar 87,241 as of December 31, 2007.

\*\* Including an amount of U.S. Dollar 7,291,839 represents loans extended to employees of the public sector as of December 31, 2008 and U.S. Dollar 687,237 U.S. Dollars as of December 31, 2007. Interest suspended on these loans through December 31, 2008 and 2007 amount to U.S. Dollar 20,788 and U.S. Dollar 91,536 respectively.

\*\*\* The percentage of credit facilities extended to the Ministry of Finance as of December 31, 2008 is 45% of the total credit facilities. A percentage of 17% as of December 31, 2007. Particulars of credit facilities extended to the Ministry of Finance are as follows:

1. On November 30, 2008, the Ministry of Finance was given a loan of U.S. Dollar 50,000,000 at an annual interest rate of 6.6% and with no commission. The loan would be repaid starting February 1, 2009 and on 12 equal monthly installments of U.S. Dollar 7,166,666 in addition to interest.
2. On November 30, 2008, the Ministry of Finance was given a overdraft facility at a ceiling of U.S. Dollar 10,000,000 at an annual interest rate of 7% and with no commission.

### Other Information on Credit Facilities:

- A. The amount of non-performing credit facilities, net of interest in suspense, is U.S. Dollar 10,777,203 which represents 7.4% of the total credit facilities as of December 31, 2008 (U.S. Dollar 3,954,187 which represents 6.4% as of December 31, 2007).
- B. The amount of direct credit facilities extending first mortgages on houses is U.S. Dollar 17,136,095 as of December 31, 2008 and U.S. Dollar 10,882,889 as of December 31, 2007.
- C. The amount of mortgages collateral signed direct credit facilities is U.S. Dollar 28,756,865 as of December 31, 2008 and U.S. Dollar 13,663,230 as of December 31, 2007.

- D. The amount of credit facilities in foreign currencies (U.S. Dollar) 248,908,806 as of December 31, 2008 (U.S. Dollar) 19,708,179 as of December 31, 2007).
- E. The fair value of mortgages collateralized against direct credit facilities as U.S. Dollar 38,522,640 as of December 31, 2008 (U.S. Dollar) 1,067,348 as of December 31, 2007).
- F. The composition of credit facilities by economic sector are as follows:

	December 31, 2008 U.S. Dollar	December 31, 2007 U.S. Dollar
Public sector	62,321,678	10,408,462
Private sector		
Corporate	11,373,537	30,057,593
Individuals	34,594,102	19,811,348
<b>Total</b>	<b>144,325,317</b>	<b>60,274,403</b>

- G. Direct credit facilities by sector include facilities granted to non-residents as follows:

	December 31, 2008 U.S. Dollar	December 31, 2007 U.S. Dollar
Corporate and organizations	11,961,426	7,231,857
Others	1,546,939	935,661
<b>Total</b>	<b>13,508,365</b>	<b>8,170,517</b>

- H. Classification of credit facilities according to the economic sector are as follows:

	December 31, 2008 U.S. Dollar	December 31, 2007 U.S. Dollar
Service and public utilities	79,889,871	10,707,878
Agriculture	4,186,613	17,2512
Industry and mining	3,413,729	2,734,785
Constructions	898,678	1,019,760
General Trading	6,171,671	6,814,343
Tourism, hotels and restaurants	1,617,411	1,225,276
Investment and financial services	12,920,398	13,658,456
Others	78,193,887	16,308,726
<b>Total</b>	<b>137,889,220</b>	<b>52,844,627</b>

- I. According to PMA instructions in its circular No. 1, 2008, non-performing direct credit facilities for a period of six years or more are to be transferred to off accounts items. The details of these facilities are as follows:

	December 1, 2008 U.S. Dollar
Overdraft Accounts	763,601
Loans & Discounted Bids	6,032,280
<b>Total</b>	<b>6,795,881</b>
Interest in suspense	2,151,738
Provision for impairment loss	4,644,143
<b>Total</b>	<b>6,795,881</b>

J Provision for direct credit facilities impairments

The Movements in the impairment loss in direct credit facilities are as follows:

	Individuals	Property & Real Estates Loans	Corporate	Small & Medium Companies	Total
	U.S.S	U.S.S	U.S.S	U.S.S	U.S.S
<b>2008</b>					
Balance at beginning of the year	5,152,180	17,456	4,445,350	14,835	9,629,821
Provision for the year	2,781,534	1,402	1,381,836	6,288	4,682,060
Write off during the year	(1,791,792)	--	(2,852,381)	--	(4,644,173)
Balance at year end	<b>5,544,952</b>	<b>24,858</b>	<b>3,477,805</b>	<b>21,123</b>	<b>9,068,738</b>
<b>2007</b>					
Balance at beginning of the year	5,187,495	16,345	4,318,055	13,031	9,629,826
Provision for the year	192,666	1,506	1,177,551	905	3,569,628
Write off during the year	(230,921)	(178)	(190,961)	--	(422,060)
Balance at year end	<b>5,152,180</b>	<b>17,456</b>	<b>4,445,350</b>	<b>14,835</b>	<b>9,629,821</b>

K Interest in suspense

The movements in interest in suspense are as follows:

	Individuals	Property & Real Estates Loans	Corporate	Small-Medium Companies	Government & Public Sector	Total
	U.S.S	U.S.S	U.S.S	U.S.S	U.S.S	U.S.S
<b>2008</b>						
Balance at beginning of year	4,269,059	25,410	3,042,402	9,173	83,732	7,429,776
Interest suspended during the year	911,717	21,063	576,140	597	17,852	1,534,369
Transferred to Revenues	--	--	--	--	(71,290)	(71,290)
Write off during the year	(853,373)	(18,090)	(1,283,271)	--	--	(2,154,734)
Balance at end of the Year	<b>4,326,393</b>	<b>33,383</b>	<b>3,336,271</b>	<b>9,765</b>	<b>30,285</b>	<b>6,736,097</b>
<b>2007</b>						
Balance at beginning of year	3,207,388	--	2,422,956	8,078	47,951	5,715,283
Interest suspended during the year	1,094,844	25,410	618,460	1,145	38,801	1,682,660
Write off	(1,175)	--	--	--	--	(1,175)
Balance at year	<b>4,269,059</b>	<b>25,410</b>	<b>3,042,402</b>	<b>9,173</b>	<b>83,732</b>	<b>7,429,776</b>

**9.A. Available for Safe Investments:**

The details of this item are as follow:

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
	<u>U.S. Dollar</u>	<u>U.S. Dollar</u>
<b>Quoted Financial Assets:</b>		
Companies shares	3,412,615	4,567,747
<b>Unquoted Financial Assets</b>		
Companies shares	253,000	253,000
<b>Total</b>	<b>3,668,615</b>	<b>4,820,747</b>

The Movements in this account are as follow:

	<b>December 31,2008</b>	<b>December 31,2007</b>
	<u>U.S. Dollar</u>	<u>U.S. Dollar</u>
Balance at beginning of year	4,820,747	4,670,938
Acquired securities, net of sales	(1,074,630)	885,208
Change in fair value for the year	(77,502)	(675,099)
	<b>3,668,615</b>	<b>4,820,747</b>

**9.B. Investments in Subsidiaries:**

The balance of this account represents investments in companies which are still in organization stage as of December 31, 2008. Particulars of these investments are as follow:

	<b>December 31,2008</b>	<b>December 31,2007</b>
	<u>U.S. Dollar</u>	<u>U.S. Dollar</u>
Al-Otaq Financial Papers Company Paid 25% of its capital of 2,000,000 USD	698,166	698,166
A. Naser Investment Company Paid 25% of its capital of 500,000 USD	174,542	174,542
	<b>872,708</b>	<b>872,708</b>

**9.C. Cumulative change in fair value:**

	<b>December 31,2008</b>	<b>December 31,2007</b>
	<u>U.S. Dollar</u>	<u>U.S. Dollar</u>
Balance at year beginning	(2,074,114)	(2,074,141)
Change during the year	(307,488)	--
Transferred to Income Statement	2,304,160	(1,392,051)
	<b>(77,502)</b>	<b>(675,099)</b>

**10- Property, Plant and Equipment-Net:**

**Composition:**

December 31, 2008	Furniture		Computers and programs		Vehicles		Equipment and Tools		Decorations in Leasehold		Lands*		Total	
	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar
Cost:														
Balance at beginning of year	377,150	1,235,607	33,500	654,228	317,163	654,228	1,901,038	4,508,686						
Additions	59,222	198,637	63,229	628,214	69,179	628,214	3,800,600	4,225,333						
Write off land of no value	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Balance at end of year</b>	<b>433,374</b>	<b>1,344,304</b>	<b>96,729</b>	<b>1,282,432</b>	<b>416,342</b>	<b>1,282,432</b>	<b>4,982,218</b>	<b>8,555,999</b>						
Accumulated depreciation:														
Balance at beginning of year	245,122	850,651	-	141,310	192,817	141,310	-	767,910						
Depreciation for the year	29,290	141,839	5,025	31,398	28,615	31,398	-	376,808						
<b>Balance at end of year</b>	<b>304,212</b>	<b>993,191</b>	<b>5,025</b>	<b>515,908</b>	<b>221,432</b>	<b>515,908</b>	<b>-</b>	<b>2,099,708</b>						
<b>Net book value</b>	<b>129,162</b>	<b>351,113</b>	<b>91,704</b>	<b>766,524</b>	<b>194,910</b>	<b>766,524</b>	<b>4,982,218</b>	<b>6,515,831</b>						

- \* During May 2008, the bank purchased a piece of land (15,134 sq. meters) in Ramat Hashikma with buildings on it for an amount of U.S. Dollar 3,500,000.
- \* The purpose of acquiring this land (being a piece of land) is to build a new branch for the bank in the area.

**December 31, 2007**

Cost:	Furniture		Computers and programs		Vehicles		Equipment and Tools		Decorations in Leasehold		Lands*		Total	
	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar
Balance at beginning of year	346,241	1,134,023	41,300	3,900,086	286,194	3,900,086	-	5,179,544						
Additions	30,609	119,271	33,500	413,822	112,309	413,822	1,901,038	3,240,919						
Disposals	-	11,571	14,000	1,279,690	191,510	1,279,690	-	1,871,777						
<b>Balance at end of year</b>	<b>377,150</b>	<b>1,235,607</b>	<b>33,500</b>	<b>654,228</b>	<b>347,163</b>	<b>654,228</b>	<b>1,901,038</b>	<b>4,548,686</b>						
Accumulated depreciation:														
Balance at beginning of year	211,122	735,151	4,060	1,617,755	232,062	1,617,755	-	3,417,617						
Depreciation for the year	33,995	133,107	-	62,345	8,313	62,345	-	217,669						
Disposals	-	573	141,000	1,279,690	629,310	1,279,690	-	1,871,777						
<b>Balance at end of year</b>	<b>245,122</b>	<b>850,651</b>	<b>-</b>	<b>444,310</b>	<b>192,817</b>	<b>444,310</b>	<b>-</b>	<b>1,762,909</b>						
<b>Net book value</b>	<b>102,028</b>	<b>384,956</b>	<b>33,500</b>	<b>209,918</b>	<b>154,346</b>	<b>209,918</b>	<b>1,901,038</b>	<b>2,785,786</b>						

## 11-Deferred Tax Asset:

The balance of this account consists of deferred tax arising from temporarily timing difference from the following accounts:

<b>2008 Accounts Included</b>	<b>Beginning Balance at U.S. Dollar</b>	<b>Releases * U.S. Dollar</b>	<b>Additions U.S. Dollar</b>	<b>Ending Balance U.S. Dollar</b>	<b>Deferred Tax Asset U.S. Dollar</b>
End of service indemnity	1,170,327	(18,019)	181,511	1,186,909	328,358
Other provisions	218,365	(12,060)	144,546	318,909	86,877
Interest in suspense	--	--	1,221,178	1,327,758	359,488
Tax losses brought forward	1,688,050	--	169,322	2,157,352	573,603
	<b>2,974,720</b>	<b>(180,019)</b>	<b>2,025,684</b>	<b>4,920,385</b>	<b>1,087,968</b>
<b>2007 Accounts Included</b>					
Credit facilities impairment loss	9,695,828	(7,367,012)	365,693	2,694,419	828,456
End of service indemnity	741,990	(306,096)	156,216	588,916	162,167
Other provisions	--	--	216,363	216,363	59,846
Interest in suspense	5,715,283	(3,033,208)	1,085,666	4,397,741	1,217,557
Tax losses brought forward	--	--	1,988,050	1,988,050	298,205
	<b>16,182,961</b>	<b>(10,406,310)</b>	<b>4,405,878</b>	<b>10,182,469</b>	<b>2,566,168</b>

\* The effective taxes rates applied in the calculation of deferred tax asset was 27.664% for 2008, except for carried forward losses which was subject to tax rate at 15%.

The movements in deferred tax asset are as follow:

	<b>December 31, 2008 U.S. Dollar</b>	<b>December 31, 2007 U.S. Dollar</b>
Balance at beginning of the year	2,566,168	4,058,661
Additions	538,910	968,361
Releases	(2,017,140)	(3,040,863)
Balance at end of year	<b>1,087,968</b>	<b>2,566,168</b>

## 12- Other Assets :

### Composition:

	<b>December 31, 2008 U.S. Dollar</b>	<b>December 31, 2007 U.S. Dollar</b>
Organization and preparation cost for new branches**	4,588,341	
Prepaid expenses	351,947	1,513,544
Stationery and printing	86,197	49,837
Interest receivable	117,921	96,440
Tax advances	--	574,015
Inter-Branches transactions balances	6,780,958	420,775
Debits and other debit balances	38,893	37,113
Checks under clearance	1,068,903	330,247
Receivable tax payments	250,000	--
In suspense account ( Their Case Provision ) Note 10	238,981	733,574
Refundable legal fees	286,990	284,358
<b>Total</b>	<b>14,468,634</b>	<b>4,361,178</b>

\*\* The balance of this account consists of all prepayments and advances paid to contractors and service providers as well as other operating expenses for branches in the organization stage.

**13- Due to Banks and Financial Institutions:**

**Composition:**

**a- Deposits of PMA:**

	December 31, 2008			December 31, 2007		
	Inside Palestine U.S Dollar	Outside Palestine U.S Dollar	Total U.S Dollar	Inside Palestine		Outside
				U.S Dollar	U.S Dollar	Total U.S Dollar
Current accounts and demand deposits	293,485	--	293,485	308,246	--	308,246
Term deposits maturing within three months	18,602,962	--	18,602,962	50,366,337	--	50,366,337
<b>Total</b>	<b>18,896,447</b>	<b>--</b>	<b>18,896,447</b>	<b>50,674,583</b>	<b>--</b>	<b>50,674,583</b>

**b- Deposits of Banks and other Financial Institutions:**

	December 31, 2008			December 31, 2007		
	Inside Palestine U.S Dollar	Outside Palestine U.S Dollar	Total U.S Dollar	Inside Palestine		Outside
				U.S Dollar	U.S Dollar	Total U.S Dollar
Current accounts and demand deposits	21,388	65	21,453	50,008	166,840	255,848
Term deposits maturing within three months	34,356,460	500,003	34,856,493	43,663,993	--	43,663,993
<b>Total</b>	<b>34,377,848</b>	<b>500,098</b>	<b>34,877,946</b>	<b>43,753,001</b>	<b>166,840</b>	<b>43,919,841</b>

#### 14- Customers' Deposits:

##### 2008

	Individuals	Corporate	Small & Medium Companies	Government & Public Sector	Total
	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar
Current Accounts	38,637,607	3,705,978	13,353,369	738,187	56,435,141
Savings Accounts	16,749,534	84,510	40,712	--	16,874,756
Term Deposits	38,221,797	1,850,000	2,083,941	2,412,284	42,568,022
Al-Quds Investment Accounts	11,352,100	2,577,623	1,827,034	9,718	15,766,475
	<b>100,754,927</b>	<b>23,718,113</b>	<b>17,067,056</b>	<b>4,163,397</b>	<b>145,703,493</b>

##### 2007

Current Accounts	18,311,940	7,852,631	5,705,860	3,333,833	27,604,264
Savings Accounts	12,656,259	18,217	--	--	12,674,476
Term Deposits	28,451,300	15,000,000	4,500,567	1,201,315	49,153,182
Al-Quds Investment Accounts	5,115,783	5,770,277	3,388,323	8,391	14,382,774
	<b>64,535,282</b>	<b>28,641,125</b>	<b>13,594,750</b>	<b>4,633,329</b>	<b>111,304,486</b>

- Deposits of the public sector amounted to U.S Dollar 4,163,397 as of December 31, 2008 representing 2.86 % of total deposits against U.S Dollar 4,633,329 as of December 31, 2007 representing 4.64% of total deposits.
- Non interest bearing deposits amounted to U.S Dollar 54,771,250 as of December 31, 2008 representing 37.55 % of total deposits (U.S Dollar 2,292,708 as of December 31, 2007 representing 2.198 % of total deposits).
- Blocked/pledged deposits amounted to U.S Dollar 8,468,750 as of December 31, 2008 representing 5.88 % of total deposits (U.S Dollar 3,035,516 as of December 31, 2007 representing 3.41 % of total deposits).
- Dormant deposits amounted to U.S Dollar 1,384,188 as of December 31, 2008 representing 0.95 % of total deposits (U.S Dollar 967,953 as of December 31, 2007 representing 0.9 % of total deposits).
- Customers accounts in foreign currencies amounted to U.S Dollar 87,311,409 as of December 31, 2008 (U.S Dollar 18,060,222 as of December 31, 2007).
- Non resident customers' accounts amounted to U.S Dollar 1,767,117 as of December 31, 2008 (U.S Dollar 2,887,715 as of December 31, 2007).

#### 15- Cash Margins:

##### Composition:

	December 31, 2008	December 31, 2007
	U.S Dollar	U.S Dollar
Cash margins against direct liabilities	7,867,771	5,475,546
Cash margins against indirect liabilities	3,167,838	1,405,349
Other margins	787,983	527,284
	<b>12,123,052</b>	<b>7,408,179</b>

## 16- Sundry Provisions:

### Composition:

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
	<b>U.S Dollar</b>	<b>U.S Dollar</b>
Provision for end of service indemnity	491,366	282,916
Provision for lawsuits against the bank	79,714	16,383
Provision for potential loss-Beit Jala branch robbery	269,195	200,090
	<b>1,340,275</b>	<b>802,279</b>

The movement in the provision for end of service indemnity is as follows:

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
	<b>U.S Dollar</b>	<b>U.S Dollar</b>
Balance at beginning of year	585,916	371,340
Additions during the year	450,053	150,216
Payments during the year	(44,603)	(306,090)
<b>Balance at end of year</b>	<b>991,366</b>	<b>585,916</b>

### 17-A. Provision for Taxes

The movement in the provision for taxes is as follows:

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
	<b>U.S Dollar</b>	<b>U.S Dollar</b>
Balance at beginning of year	1,263,089	3,693,436
Paid through the year	(324,029)	(14,403)
Excess tax provision transferred to income	(939,060)	(2,427,317)
Current year taxes	--	4,301
<b>Balance at End of the year</b>	<b>--</b>	<b>1,263,089</b>

During 2007, the bank has assigned a tax consultant to reconcile its tax status for the years from 1999 to 2004 based on the appeal submitted by the bank to the tax authorities to treat the bank in accordance with the income tax law in effect in Gaza Strip number 13 of 1997. The income tax authority accepted the appeal of the bank and according to the resolutions reached with the income tax authority regarding the years from 1999 to 2004, the credit impairment loss and interest in suspense were allowed by the income tax authority as tax deductible expenses.

The bank had provided for taxes up to the year 2006 according to the income tax law number 11 of 2001 in effect starting January 2005.

During 2008, the tax consultant had obtained a final settlement with the tax authorities covering the period ended December 31, 2007.

The movements in the tax provisions are as follows:

	<b>U.S Dollar</b>
Excess tax provision till December 31, 2007	939,060
Amortized deferred taxes till December 31, 2008	(1,178,260)
Tax prepayments for previous years	(53,330)
Refundable tax prepayments	250,000
<b>Net Tax expense/total Tax allocated</b>	<b>(819,170)</b>

## 17/B - Financial Net Income and Taxable Net Income :

Particulars of financial net income and taxable net income are detailed in the below table:

	<b>December 31, 2008</b>
	<b>U.S Dollar</b>
Financial net income ( Loss )	(5,152,378)
Non taxable reverses	(44,789)
VAT on salaries	534,186
Interest In Suspense	1,225,175
Impairment in available for sale securities	2,304,100
<b>Income (Loss) subject to VAT</b>	<b>(1,331,706)</b>
VAT on salaries	(334,186)
<b>Net income ( Loss ) for income tax purposes</b>	<b>(1,665,892)</b>
VAT on profit ( Loss )	--
Tax on profit ( Loss )	--

## 18-Other Liabilities

### Composition:

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
	<b>U.S Dollar</b>	<b>U.S Dollar</b>
Interests received in advance	--	105,787
Accrued interest payable	180,312	464,896
Accrued expenses	124,286	111,427
Post-dated checks and remittances payable	1,931,170	766,195
Accounts payable	197,472	157,977
Allowance for vacations	195,583	184,411
Tax withheld from wages	23,698	16,294
<b>Total</b>	<b>2,652,521</b>	<b>1,306,471</b>

## 19-Paid-up Capital:

The General Assembly resolved collectively in its extra ordinary meeting held in Amman Jordan on June 26, 2006 and based on the recommendation of the Board of Directors to increase the bank's capital by an amount of U.S Dollar 25 million to reach U.S Dollar 50 million divided into 50,000,000 shares at a par value U.S Dollar 1 per share. The increase in the capital is to be made according to the following criteria:

- 15 million shares for the benefit of International Investment House Company (Global) at U.S Dollar \$ 1.20 per share.
- 10 million shares for the shareholders of the bank as listed at Palestine Securities Exchange on June 25, 2006 at par value of U.S Dollar 1 per share. This constituted 40% of the capital before the approved increase.

Through December 31, 2006, the approved increase in the capital was fully paid by the shareholders, and accordingly the paid up capital became U.S Dollar 50,000,000 in addition to the paid in capital in excess of par value.

### Capital Risk Management

The primary objectives of the bank capital risk management are to ensure that the bank complies with externally imposed requirements and that the bank maintains strong credit rating and healthy capital ratio in order to support its business with other banks and its customers and to maximize the shareholders value.

As of December 31, 2008, the shareholders equity in the amount of U.S Dollar 43,982,421, net of accumulated losses is composed of paid in capital, statutory reserves, and paid in capital in excess of par value which constituted 17% of the total assets of the bank as of that date.



### Capital Adequacy:

According to PMV regulations, the bank should maintain a minimum capital adequacy ratio of 12%. As of December 31, 2008, the bank was compliant with this ratio. Particulars of capital ratios are as follows:

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Amount U.S Dollar</u>	<u>Ratio to assets by weighted risk</u>	<u>Amount U.S Dollar</u>	<u>Ratio to assets by weighted risk</u>
Core (primary) capital	42,911,963	32.90%	47,575,280	37.07%
Regulatory capital	56,022,036	38.74%	79,807,727	31.02%

### 20 - Reserves:

#### Compulsory Reserve:

In accordance with the Bank's Bylaws, the company's law and the banks' laws, 10% of the Bank's annual net income before taxes should be appropriated to a compulsory reserve until the reserve balance equals the Bank's share capital. The distribution of this reserve is restricted.

#### Optional Reserve:

The Bank's General Assembly, based on the Board of Directors' recommendation, can appropriate up to 20% of the annual net income before taxes to the optional reserve. This reserve is distributable to the shareholders after the approval of the General Assembly of the bank.

#### General Banking Risk Reserve:

This reserve is appropriated from retained earnings in compliance with Palestinian Monetary Authority regulations. The reserve can only be utilized without the prior approval of the Palestinian Monetary Authority.

### 21- Interest Income:

	<u>2008 U.S Dollar</u>	<u>2007 U.S Dollar</u>
<b>Direct credit facilities :</b>		
Individuals (Retail):		
Overdraft facilities	986,371	714,446
Loans and discounted bills	1,373,054	1,053,694
Others	184,719	104,377
	<u>2,544,144</u>	<u>1,872,517</u>
<b>Real Estate Facilities:</b>	<u>14,588</u>	<u>8,336</u>
Corporate:		
Overdraft facilities	997,830	730,988
Loans and discounted bills	460,312	737,708
	<u>1,458,142</u>	<u>468,693</u>
Small and medium companies:		
Overdraft facilities	4,439	74,871
Loans and discounted bills	50,737	29,845
	8,749	5,174
	<u>106,925</u>	<u>59,890</u>
<b>Public Sector</b>	<u>1,913,117</u>	<u>799,465</u>
<b>Palestinian Monetary Authority</b>	<u>49,775</u>	<u>42,982</u>
<b>Banks and Financial Institutions</b>	<u>4,357,041</u>	<u>8,226,517</u>
	<u>10,443,732</u>	<u>10,978,400</u>

**22. Interest Expense:**

Composition:	2008	2007
	U.S Dollar	U.S Dollar
Business and Financial Institutions Deposits	1,878,801	1,886,866
<b>Customer's Deposits:</b>		
Current Accounts and Demand Deposit	25,591	32,565
Saving Accounts	289,070	431,814
Term Deposits	1,472,827	530,293
Cash Margins	2,365	105,852
Others	238,185	329,217
	<b>3,983,406</b>	<b>6,277,005</b>

**23 -Net Commission Income:**

Composition:	December 31,	
	2008	2007
	U.S Dollar	U.S Dollar
<b>Commission income:</b>		
Direct credit facilities	909,133	686,321
Indirect credit facilities	325,168	63,893
Other commissions	751,239	186,787
Commission expenses	(87,167)	(98,899)
<b>Net commission income</b>	<b>1,898,373</b>	<b>840,052</b>

**24 -Other Income:**

Composition:	December 31,	
	2008	2007
	U.S Dollar	U.S Dollar
Check books	66,031	31,773
Swim, postage and telephony	7,379	6,136
Miscellaneous income	86,208	23,877
	<b>159,618</b>	<b>62,075</b>

**25 -Employees' Cost:**

Composition:	December 31,	
	2008	2007
	U.S Dollar	U.S Dollar
Salaries, benefits and related costs	2,805,166	2,124,375
Vacat. add. tax on salaries	334,186	371,513
Medical insurance	165,686	76,554
Training	47,615	39,995
Vacation	34,588	121,518
Costs	92,415	--
	<b>3,479,686</b>	<b>2,674,185</b>

**26 - Other Expenses:**

Composition:	December 31,	
	2008	2007
	U.S Dollar	U.S Dollar
Board of Directors expenses	20,531	18,825
Rent	612,593	389,031
Stationery and printings	159,488	8,753
Swim, postage and telephony	207,238	162,837
Cleaning and maintenance	189,332	155,067
Subscriptions, taxes and licenses	213,277	250,276
Insurance	76,195	20,773
Water and electricity	188,691	107,748
Computer software	63,197	31,611
Gasoline	136,977	52,661
Professional fees	415,776	6,383
Car rental	63,499	30,177
Travel and transportation	105,121	61,988
Advertisement	668,622	179,394
Others	25,793	86,336
Donations	182,440	17,617
	<b>3,331,694</b>	<b>1,703,410</b>



## 22. Information for the Bank's Business Activities:

The table is organized for managerial purposes into major accounts, provided by all corporate, accounts and treasury. In addition, accounts are available following group and total insurers accounts providing their loans, retail and other services. Corporate accounts include all group deposits, credit facilities, and other financial services offered to its customers. This summary includes portfolio management and management of the Bank's funds.

	Individuals U.S. Dollar	Corporate U.S. Dollar	Financing U.S. Dollar	Treasury U.S. Dollar	Others U.S. Dollar	Total 2008 U.S. Dollar	Total 2007 U.S. Dollar
Gross income	5,302,918	2,341,516	44,789	3,383,987	2,040,172	7,375,277	11,960,236
Provision for credit facilities	7,143,861	11,891,791	-	-	-	6,498,576	668,097
Gross profit	1,159,057	551,022	44,789	4,387,987	3,040,174	8,895,174	12,026,343
Undistributed costs	(1,159,471)	(989,547)	(2,704,000)	(1,836,800)	(7,758,690)	(11,406,667)	(11,234,026)
Profit (loss), before taxes	55,586	(139,025)	(2,259,311)	2,989,555	(57,332)	657,337	792,317
Taxes	-	-	-	-	1,819,470	1,819,470	1,801,447
<b>Profit (loss) after taxes</b>	<b>55,586</b>	<b>(139,025)</b>	<b>(2,259,311)</b>	<b>2,989,155</b>	<b>(6,538,002)</b>	<b>(5,971,888)</b>	<b>972,764</b>
<b>Additional Information:</b>							
Securities Assets	36,098,891	43,868,778	52,533,323	46,175,524	10,318,832	299,996,138	250,155,421
Elimination of securities and liabilities	(9,029,027)	(5,534,988)	-	-	-	(15,804,855)	(17,659,997)
Securities liability results	-	-	-	-	65,687,628	65,687,628	18,378,824
<b>Total assets after elimination</b>	<b>26,168,934</b>	<b>36,993,870</b>	<b>4,541,323</b>	<b>46,175,524</b>	<b>105,669,510</b>	<b>259,549,161</b>	<b>251,451,548</b>
Securities liabilities	100,754,527	30,585,109	-	53,274,363	4,563,917	199,477,886	192,681,833
Securities distributed liabilities	1,533,007	(970,451)	-	-	3,992,796	16,115,848	1,920,192
<b>Total liabilities</b>	<b>102,287,534</b>	<b>45,755,620</b>	<b>-</b>	<b>53,774,393</b>	<b>8,156,193</b>	<b>215,993,734</b>	<b>203,102,065</b>

**2b. Credit Risk Exposure According to Sector:**

**A. Credit Risk Exposure According to Geographical Area:**

	Geographical Area		Middle East Countries		Europe		Asia & Africa *		Total	
	Inside Palestine		U.S. Dollar		U.S. Dollar		U.S. Dollar		U.S. Dollar	
	U.S. Dollar		U.S. Dollar		U.S. Dollar		U.S. Dollar		U.S. Dollar	USD
Deposits with PNA	13,633,994									13,633,994
Deposits with banks and financial institutions	24,983,376		48,458,154							72,541,530
<b>Credit facilities:</b>										
Individuals	36,894,996									31,594,996
Retail loans	1,326,232									1,326,282
Corporate	42,408,710									42,408,710
Small and medium companies	632,651									632,651
Government and public sector	65,357,678									65,357,678
Available for sale financial assets	6,541,323									4,541,323
Other assets	40,485,638									40,485,638
<b>Total for the current year</b>	<b>226,895,842</b>		<b>48,458,154</b>							<b>275,527,792</b>
<b>Total for the year 2007</b>	<b>149,528,844</b>		<b>118,982,301</b>							<b>268,511,145</b>

\* Includes the Middle East Countries

b. Exposure According to Economic Sector as of December 31, 2008:

Economic Sector	Financial		Industrial		Trade		Real Estates		Agricultural		Securities		Individuals		Government & Public Sector		Total	
	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar
Deposits with PMA	13,633,994	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	13,633,994
Deposits with banks & financial institutions	72,541,530	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	72,541,530
Credit facilities	2,920,598	5,208,765	6,471,621	326,282	4,186,640	34,594,956	14,258,937	65,357,638	144,425,317									
Securities available for sale	--	--	--	--	--	--	--	--	--	--	4,541,333	--	--	--	--	--	--	4,541,333
Others assets	18,239,492	--	--	--	--	--	--	--	--	--	--	20,984,462	1,587,968	40,311,822				
<b>Total</b>	<b>117,335,324</b>	<b>5,208,765</b>	<b>6,471,621</b>	<b>326,282</b>	<b>4,186,640</b>	<b>34,594,956</b>	<b>18,800,260</b>	<b>66,445,646</b>	<b>144,425,317</b>			<b>55,579,458</b>	<b>66,445,646</b>	<b>275,353,996</b>				

Exposure According to Economic Sector as of December 31, 2007:

Economic Sector	Financial		Industrial		Trade		Real estate		Agricultural		Securities		Individuals		Government & public sector		Total	
	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar
Deposits with PMA	8,889,798	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	8,889,798
Deposits with banks & financial institutions	177,333,146	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	177,333,146
Credit facilities	12,058,586	2,534,785	6,814,543	9,750	1,756,425	19,811,338	4,375,854	10,405,462	60,274,403									
Securities available for sale	--	--	--	--	--	--	--	--	--	--	5,695,455	--	--	--	--	--	--	5,695,455
Others assets	6,603,211	--	--	--	--	--	--	--	--	--	--	7,146,964	2,566,168	16,320,343				
<b>Total</b>	<b>206,888,496</b>	<b>2,534,785</b>	<b>6,814,543</b>	<b>9,750</b>	<b>1,756,425</b>	<b>19,811,338</b>	<b>9,967,339</b>	<b>12,971,630</b>	<b>60,274,403</b>			<b>30,302,477</b>	<b>12,971,630</b>	<b>268,511,145</b>				



### 31- Lawsuits Against the Bank:

There are lawsuits filed against the bank to abolish the bank's claims on others and/or damage claims and/or labor claims. The total amount of such lawsuits is around U.S. Dollar 300,000 as of the end of the year. A provision was established in the amount of U.S. Dollar 91,714 for any potential losses that would result from such lawsuits. In November 2008 an agreement reached with one of the opponents who was claiming U.S. Dollar 70,000 and the bank settled only U.S. Dollar 12,000 and accordingly, the provision held for this purpose became U.S. Dollar 78,714. The bank's lawyer and the management of the bank believe that the provision is adequate to meet any probable future costs.

### 32- Earnings (Loss) per Share:

Particulars of earnings per share are detailed in the below table:

	<u>Year Ended December 31, 2008</u>	
Net Loss for the year	U.S. \$ (57,181)	U.S. Dollar (0.11913)
Weighted average of outstanding shares	50,000,000	
	<u>Year Ended December 31, 2007</u>	
Net income for the year	U.S. \$ 972,764	U.S. Dollar (0.01815)
Weighted average of outstanding shares	50,000,000	

### 33- Comparative Figures:

Certain comparative figures were reclassified to conform to the current year presentation.

