



بنك القدس
Quds Bank

Annual
Report
2012

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Firm Steps towards Distinction

Quds Bank is amongst the largest and fastest growing local banks operating in Palestine. With a view to materialize its emblem 'The Bank of the Nation and Citizen', Quds Bank places the customer at the center of its attention and services.

بنك القدس
Quds Bank

الإدارة العامة
General Management

ATM
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Since its inception in 1995, Quds Bank has been amongst the largest local banks operating in Palestine. It is a fast-growing leading financial institution that places the customer at the center of its attention and services. The Bank provides comprehensive sets of innovative banking solutions to its customers whether personal or business, including corporate or small and medium enterprises (SMEs), in the form of integrated banking and investment services and products, as well as highly professional advisory and financial solutions. For more than 17 years of banking experience and as a provider of varied development resources, Quds Bank has relentlessly and successfully strived to be at the forefront of banks operating in Palestine contributing to the development and support of the local community and diversifying resources of local growth.



With an existing capital of USD 50 million, Quds Bank was incorporated on 2 April 1995 as a limited shareholding company. With its distinctive experience, Quds Bank diligently employs its funds to play an effective and efficient role in developing and promoting service deliverance to cater for the various needs of its customers.

To achieve the best return on capital, the Bank applies an effectively balanced and prudent financial management of both its sources and uses of funds. Quds Bank conducts its operations as a full-fledged commercial bank in Palestine. It focuses on attracting and investing customers' deposits whilst generating innovative and rewarding financing solutions that respond and rather surpass the financing needs of its customer base comprised of personal, corporate and SMEs, and hence contributing directly and indirectly to supporting the Palestinian National Economy.

Presently, Quds Bank operates through its General Management in the Al-Masyoun area in Ramallah. It serves its customers and runs its banking operations through its network of 22 branches and offices across the Palestinian governorates in the West Bank and Gaza Strip.



Vision and Mission

In light of the rising growth and aiming to develop and position ourselves in the Palestinian society, we at Quds Bank have defined our vision as follows:

To be a leading, customer-centric, trustworthy, widely expanding bank in Palestine and beyond. We take pride in the fact that we exceed our customers' expectations through providing innovative services and guiding our customers to boundless success.

We have defined our mission as follows:

To provide exceptional, comprehensive, reliable, and modern banking solutions and services that cater to the evolving needs of customers, while actively supporting the economical and social development to optimize stakeholders' interests.

◀ **We are distinguished
by a balanced and fair
financial system** ▶



The year 2012: Outcomes

Consistent with the economic conditions in Palestine, Quds Bank had many achievements and success stories on various levels in 2007, 2008, 2009, 2010 and 2012. The successes achieved by the Bank remain an integral part of a wise vision represented by good leadership that has provided generous support in order to create a stable economic and financial climate. As a result, Quds Bank focused on its own operations and managed to achieve growth and prosperity in spite of the global financial crisis and surrounding challenging climate.

As a leading financial institution operating in Palestine, Quds Bank focused on following up and analyzing its operations in line with the current economic situation in the region. Additionally, the Bank focused on providing the best services to its customers whether personal, corporate or SMEs through a diversified portfolio of banking services and products designed specifically to meet the aspirations and fulfill the needs of all sectors. Moreover, Quds Bank developed plans to manage its assets through future investments and other investments of relevance.



Corporate Governance: Preview

The Board of Directors is responsible for developing the Bank's general strategy, following up its operations and taking decisions on sensitive matters related to other businesses. Currently, the Board comprises 11 members from different backgrounds and experiences who exercise their mandate individually and collectively, independently and objectively.

This is in line with the general framework of the concept of corporate governance which directly refers to the Bank's internal control and supervision system. Corporate governance looks into the fair organization of the contractual relation between the Bank's management, shareholders and relevant parties based on transparency, integrity, legal accountability, independence and justice. Corporate governance directs the Bank's operations toward meeting the needs of investors and relevant parties, secure their investments, sustain growing profits and meet their expectations in fair representation of their transactions with the Bank.

Additionally, corporate governance acts as a tool for distributing rights and duties amongst the different parties in the Bank such as the Board of Directors, Executive Management, and relevant shareholders. Moreover, corporate governance draws up the rules and procedures necessary for decision making on Bank matters, and it develops goals and strategies required for their achievement, follow up principles, evaluation and monitoring of performance.

The Board holds regular meetings (usually 6 times a year) and has a special schedule of all tasks and duties that fall under its jurisdiction. In addition to evaluating the performance of the Executive Management, the Board looks into the main issues of the Bank referred to it for decision making besides reviewing and approving of financial plans and all other substantial changes proposed in the financial policies and relevant organizational structure(s).

The Board is also responsible for the Bank's internal monitoring/ auditing system and its effectiveness, as well as for defining and implementing governance and accountability standards which enable the Executive Management to achieve the Bank's goals. The Bank has also approved ongoing procedures for diagnosing, evaluating and managing of risks facing it which are regularly reviewed and analyzed by the Board. The Bank's internal monitoring procedures provide for the existence of documented sequence of verifications for responsibilities that are applied upon the Bank's operations.

Board of Directors

A Board of Directors, comprised of 11 members, overlook Quds Bank. Board members are equipped with extensive experience and high profile qualifications to supervise and manage the Bank's operations. Members of the Board exercise their mandate individually and collectively, independently and objectively.







Akram Abdul Latif Jerab
Chairman

Chairman's Statement

Dear Shareholders,

On behalf of Quds Bank Board members, I would like to cordially welcome and thank you for accepting our invitation and attending the General Assembly ordinary meeting. In this meeting we will present the 18th Annual Report of 2012 re the Bank's financial performance and the results of its operations for the past year, which was a challenging year as well as a year of success.

I do indeed appreciate your unwavering confidence and support to Quds Bank as well as your strong belief in the Bank's national mission and constructive role in the Palestinian economy. Quds Bank is a leading banking institution that plays a crucial role in the economic development in Palestine and redistribution of capital in the best ways and according to the best standards. I would like as well to extend my gratitude to our esteemed customers for their trust and loyalty to the Bank. They have always been the focus of our attention and we have spared no efforts to provide them with the best banking services. Likewise, I would like to thank my colleague members of the Board for their constructive cooperation and dedication, and the Executive Management and all employees for their loyalty and sincere performance over the last period.

The year 2012 was exceptionally challenging and a continuation to the prevailing financial and economic crisis that impacted and reflected gravely on the international, regional and local arenas. Consequently, many countries worldwide suffered from severe economic crises. The political and financial crisis in Palestine coupled with a drop in government spending and the scarcity of financial resources for the Palestinian Government have had a major impact on the different sectors of the Palestinian Economy.

The Banking sector was seriously affected by the financial and economic situation in Palestine. Banks faced enormous difficulties in developing their businesses especially in the area of deposits as a result of the scarcity in financial resources and lack of inbound of funds from abroad. As a result, competitiveness amongst banks increased leading to a rise in costs of attracting and retaining deposits. Moreover, the challenging economic situation in Palestine has limited the development of credit facilities which are the main source of profit. In addition, 2012 witnessed extreme difficulties in the accumulation of banknotes in the banks on account of the existent political conditions. The accumulation of cash in large amounts has led to an increase in monetary costs and huge breakdown loss thus negatively impacting businesses. Consequently, banks were forced to legally utilize costly tools to realize cash in its accounts' balances and compensate for its accumulation.

In spite of the challenges met in 2012, Quds Bank attained and maintained considerable growth in the budget and core financial indicators in tandem with the Bank's systematic plans developed specially for dealing with economic and financial challenges and intensive following-up of all changes on the ground. The efficient and effective management of Quds Bank resulted in raising debit and credit, improving the quality of assets and managing profit margins using fair and best practices. Furthermore, Quds Bank continues to expand its businesses and strengthen its presence in various areas.

By the end of 2012, Quds Bank's financial position registered an asset growth of USD 481 million compared to USD 468 million in 2011, achieving a 3% growth of USD 13 million in the total budget. The rise in the budget was primarily evident in the 5% increase of customers' deposits and insurances by about USD 16 million making USD 354 million in 2012 compared to 338 in 2011. Likewise, credit facilities portfolio rose from USD 288 million in 2011 to USD 293 million in 2012 marking, a 2% rise of USD 5 million.

The total income maintained the same level of growth in 2012 compared to 2011 scoring a volume of USD 25.2 million due to the Bank's failure to develop the facilities portfolio. Profits were affected negatively as a result of the circumstances the Palestinian market went through in general. Profits dropped because of the rise in some costs especially the costs of high banknote accumulation, as well as the costs of paid interests on the money resulting from the scarcity in financial resources and the economic challenges, and the increase in competitiveness. Moreover, there was a rise in operational costs due to the Bank's expansion which concurred with the Bank's challenging role to develop and further diversify its credit portfolio. Earnings before tax reached USD 4.5 million in 2012 compared to USD 6.5 million in 2011. Similarly, rights of shareholders grew to USD 3.4 million or by 6% making USD 58 million in 2012 compared to USD 54.6 million in 2011.

Quds Bank continued in 2012 to develop its businesses and enhance its capabilities. It consistently sought to have a solid and sound institutional organization whereby it could achieve sustainable development and build its capacity. Notwithstanding the challenging financial and economic conditions the Palestinian market went through, Quds Bank's Management was able through its competent leadership, good planning and human and technical resources to develop strong relations with customers, arrange strategic account files, deal with the challenges of cash flow and find suitable solutions. In addition, the Bank managed to organize banking relations with customers and other banks in accordance with the best standards, to update its administrative cadre and consolidate institutional thought. Quds Bank also made administrative changes and developed its organizational structure in line with its strategic vision and in application of relevant best practices.

Throughout 2012, Quds Bank continued to implement its plan for developing its banking services comprehensively and thoroughly, signing an agreement whereby it became the main agent for Western Union money transfer services thus opening new horizons before the Bank for expansion. Additionally, Quds Bank launched a plan for the development of business units in cooperation with the International Finance Corporation (IFC), and the development of specialized businesses centers that provide services to small and medium enterprises (SMEs). Quds Bank is now in the final stage ready to open the centers which are expected to upgrade the quality of banking services provided to the various sectors in accordance with the recommendations presented by the IFC. Furthermore, Quds Bank approved a plan for the development of the Bank's organization which also aims to centralize operations in specialized and qualified units that would provide branches with quick and highly reliable services. The plan is also expected to achieve a high level of productivity and efficiency for all the Bank's operations. Finally, Quds Bank conducted a study of its operations with the view of reorganizing them to reap the best possible benefits from available resources. For this purpose, the Bank's public departments were redesigned and several locations renovated to be used for the different central operations.

Quds Bank also implemented well-informed plans to develop its operations in 2012. A new branch for the Bank was inaugurated in Qalqilya and the Bank now operates a total of 22 branches. Additionally, Quds Bank renovated and updated its branches in Nablus, Bethany and Al-Bireh, and currently some old branches of the Quds Bank are being renovated and others relocated for the provision of better and competitive services to the public. Quds Bank also dispensed ATMs throughout the West Bank and Gaza and it will stretch its ATM services to enable its customers carry out their banking transactions effectively and efficiently wherever they are in the country. Focusing more on its collection activities, Quds Bank updated its e-banking services and established a special sales department staffed with qualified employees.

Quds Bank continues to develop its human capital, major operational processes and IT systems in line with the state-of-the-art international standards. As part of its unrelenting interest in attracting the best and the brightest, the Bank did conjunctly scale up its social role as a major recruiter by creating new job opportunities to attract and hire the most qualified and promising. By doing so, a win-win situation was brought to the benefit of all parties involved.

Believing in its role in corporate social responsibility, 2012 marked numerous initiatives and landmarks which Quds Bank designed to support national and social activities. The Bank has provided support and donations to many health, educational, cultural, artistic, social and humanitarian, sports and environmental centers and organizations.

In spite of the exceptional challenges, 2012 is Quds Bank's year of triumph and overcoming of all challenges and difficulties. It is also a foundational year for success in the future.

Finally, I would like to reiterate my gratitude to our esteemed shareholders and venerable Board members for the efforts and unceasing cooperation and support. I would like as well to thank the Executive Management and all staff of Quds Bank for the loyalty, responsibility and sincere efforts exerted for the achievement of the Bank's goals.

Sincerely yours,

Akram Abdul Latif Jerab

Chairman





Mr. Akram Abdul Latif Jerab
Chairman of the Board

Masters in Business Administration –
Durham University, UK

- Board Chairman and Owner, Cometa Scientific, UK
- Board Chairman and Owner, Cumberland Health Care Ltd., Nottingham, UK
- Board Chairman, Arab Company for Science and Technology, Qasyoun University, Syria
- Shareholder, Arab Hotels Company – Mövenpick Hotel
- Shareholder and Board Member, Jerusalem Real Estate Investment Company
- Founder and Chairman, Karmel Company Group, Jordan
- Shareholder and Board Member, Dar Al Dawa' Development Investment Company, Jordan
- Shareholder and Board Member, Sunday Resort – Dead Sea, Jordan
- Board Member and Executive Committee Member Member, Al-Jazeera Sudanese Bank, Sudan



Mr. Abdel Rahim Nizar Jardaneh

**Deputy Chairman of the Board
Executive Committee Member**

Bachelor of Science Pharmaceuticals,
Minnesota University, USA

- Board Chairman, Dar Al Dawa' Development and Investment Company (Dar Al Dawa'), Jordan
- Board Chairman, Arab Pharmaceutical Manufacturing Company Ltd., Jordan
- Board Member, Jordan Investment and Finance Bank (INVESTBANK), Jordan



Engineer Ahed Fayege Bseiso

**Board Member
Audit Committee member**

Bachelor of Science in Architecture, Cairo
University, Egypt

- Board Chairman, Palestine Development Fund
- Board Member, Palestinian Housing Council
- Executive Committee Member, Arab Architects Critics Association (AACA)
- Board Member, Banks Association in Palestine
- Board Member, Palestine Trade Center (PalTrade)
- Representative, Ulf Palm Foundation, Spain
- General Assembly Member, Palestine Investment Fund
- Board Member, Palestine International Business Forum
- Board Member, Advisory Council, Ministry of Public Works and Housing, Palestine
- Board Member, Housing Loans Committee (SAKAN)
- Board Member, Al Karama Orphanage Society
- Board Member, Spanish Palestinian High Training Institute (SPHTI)



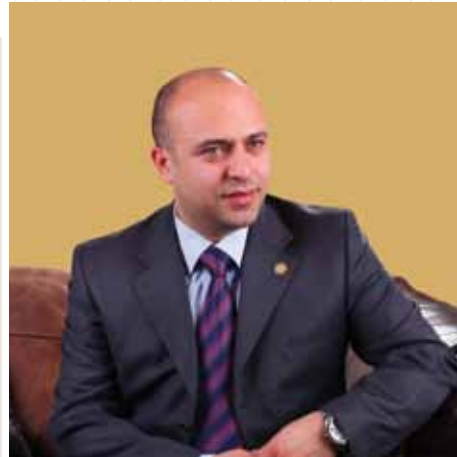
Mr. Duried Akram Jerab

Board Member

Audit Committee Member
Risk and Compliance Committee Member
Corporate Governance, Nominations and
Honorary Committee Member

Masters in Business Administration,
Durham University, UK

- Medical Section General Manager, Karmel Company Group, Jordan
- Board Member, Arab Hotels Company, Palestine
- Board Member, Dar Al Dawa' Company, Jordan



Mr. Louai Bishara Kawas

(Palestine Investment Fund Representative)

Board Member

Risk and Compliance Committee Member

Bachelor of Science in Accounting,
Bethlehem University, Palestine

- Board Chairman, Grand Park Hotel
- Board Chairman, Tri-Fitness Gym Club
- Board Member, Bulk Express Transport
- Board Member, Al Reehan Real Estate Investment Company
- Board Member, Al Hayat Al Jadeeda Newspaper



Dr. Hamed Abdul Ghani Jaber
Board Member



Palestine Banking Corporation
Represented by a member selected
by the Corporation

Doctorate in Electronic Engineering

- President, Federation of Contractors Islamic Countries (FOCIC)
- Board Member, Al Jazeera Bank, Sudan
- Board Member, Building Information Modeling
- Board of Trustees Member, Injaz Association



Ms. Ruba Mohammad Masrouji
Board Member
Corporate Governance, Nominations and
Honorary Committee Member

Masters in Business Administration, Birzeit
University, Palestine

- CEO, United Securities Company
- Shareholder and Board Member, Al Masrouji Company
- Member, Business Women Forum (BWF)
- Member, Society of Inash Al Usra and Al Amal Institute for Orphans
- Associate, Aspen Institute



Engineer Walid Najib Al Ahmed
Board Member
Executive Committee Member

Bachelor of Science in Electrical
Engineering

- Board Member and Deputy Board Chairman, Jerusalem Real Estate Investment Company



Mr. Muntaser Izzat Abu Dawwas

(Investment Bank Representative)

Board Member

Risks and Compliance Committee Member

Corporate Governance, Nominations and

Honorarium Committee Member

Bachelor of Science in Accounting and
Finance, University of Buckingham, England

- Certified Public Accountant, USA
- Chief Executive Officer , Investment Bank



Mr. Saleh Jaber Ihmaid

Board Member

Executive Committee Member

Bachelor of Science in Accounting

- Board Chairman, New Laksaknd Factory, Sri Lanka
- Board Member, Al Asriyya Schools, Jordan
- Board Member, Methaq real Estate company, Jordan
- Board of Trustees Member, Qasyoun University, Syria
- Board Member, Palestine International Institute, Jordan

Mr. Azzam Shawwa
General Manager

Bachelor of Science in Mathematics
Lemoyne-Owen College, USA (until 31
December 2012)*

***Mr. Mohammad Nabil Hamdan**
(appointed Quds Bank General
Manager as of 3 March 2013)

Mr. Samih Sbaih
Deputy General Manager

Masters in Accounting
University of Jordan – Jordan

Mr. Ghassan Qaadani
Branches and Sales Deputy General
Manager

Masters in Accounting
Oklahoma City University

Mr. Zaid Al Jallad
Executive Manager Operations and
Support

Bachelor in Banking and Financial
Management
Al Ahliyya Amman University – Jordan

Mr. Hussein Habbab
Executive Manager Business
Development Marketing and
Marketing Research

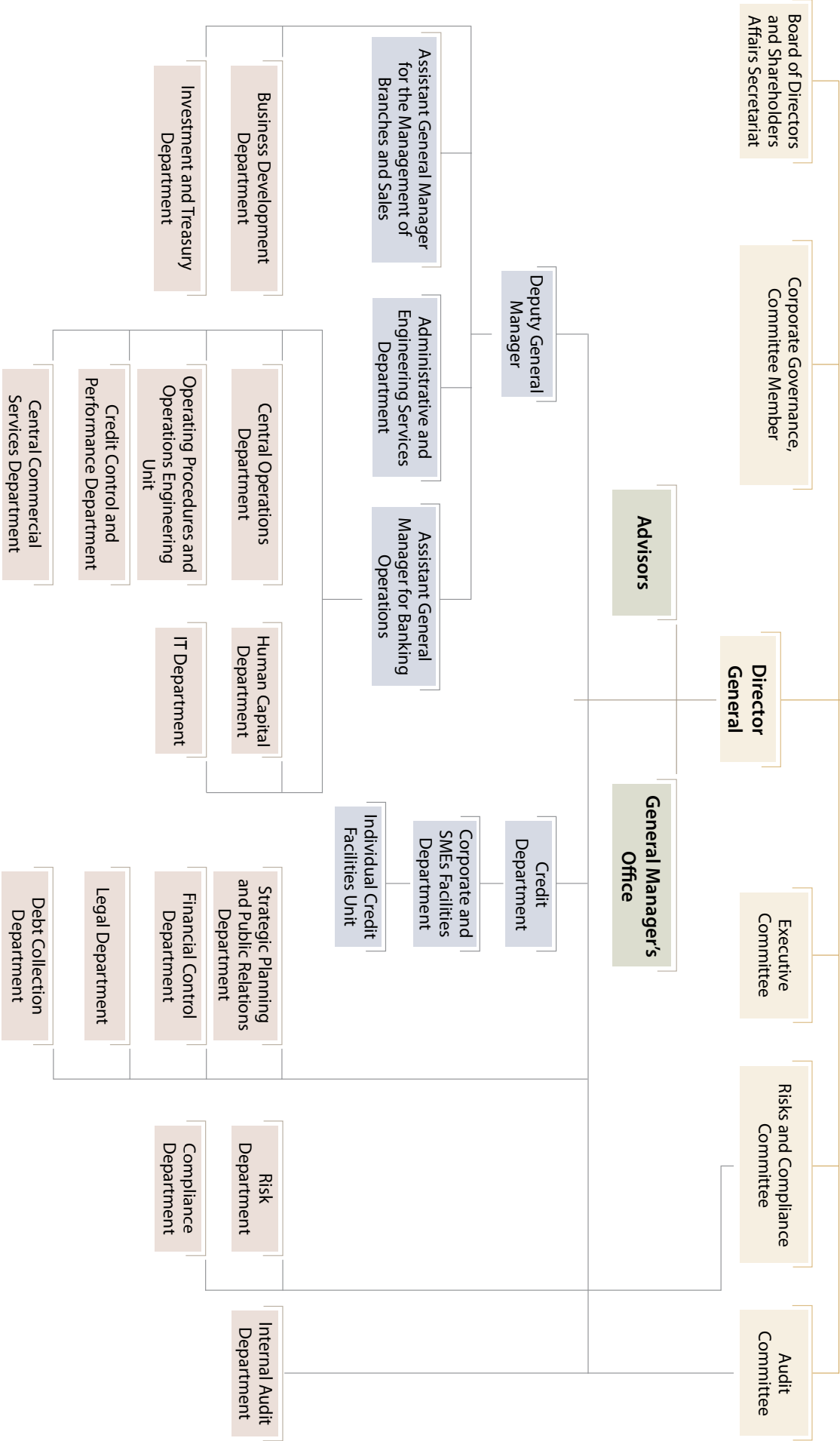
Masters in Business Administration
Claremont Graduate University – USA

Mr. Raed Najeb
Executive Manager Banking Operations

Masters in Business Administration
Al Najah National University – Palestine

Mr. Abdul Raouf Al Sadi
Executive Manager, Central Region
Branches

Masters in Business Administration
Vrije Universiteit Amsterdam -
Netherlands



Quds Bank's General Strategy

Quds Bank's General Strategy incorporated several fundamental components based on action plans and programs, aiming to realize the objectives of growth, financial stability, operational efficiency, competitiveness and profitability set forth by the Board of Directors.





Quds Bank's Board of Directors developed a comprehensive three-year strategic plan aiming to strengthen the Bank's distinction and enhance its efficiency, hence fulfilling the aspirations of stakeholders and relevant parties. In order to maintain excellence and success, Quds Bank increased its market share, entered new markets and sectors and provided competing, diverse and updated services. As a result of the Bank's competitiveness and efficiency, its profitability and shareholders' wealth were maximized. Quds Bank aims to provide services to the different sectors and support sustainable growth and development.

The Board has developed action plans and programs in cooperation with the Executive Management to achieve growth, financial stability operational efficiency, competitiveness and profit through the following main components:

Component		Method
1	Raising the level of operational efficiency, competitiveness and growth.	Re-organizing and centralizing operations.
2	Developing human capital for the consolidation of competitiveness and realization of eligible efficiency as an integral part of Quds Bank's general strategy.	Investing in human capital and developing human capabilities and skills.
3	Entering and targeting feasible new markets and sectors with controlled risk.	Establishing "Quds Bank A'amal" to provide services to the business sector, hence activating a relationship management approach with customers, improving specialization and directing efforts towards selling the Bank's products and services which will eventually reflect positively on the Bank's profitability and relationships.
4	Creating and activating various innovative profitable services and low-risk lending and non-lending services, as well as expanding outlets of access to customers.	Diversifying income resources by means of creating and activating distinctive products as tools to achieve additional stable and increasing returns.

> Reorganizing and Centralizing Operations

Quds Bank aims to realize its aspirations and those of its shareholders in line with the aspirations of customers and the market, as well as the requirements of monitoring authorities. For this purpose, Quds Bank has developed a strategic plan defining the main goals, target components and action plans and programs with the view of achieving competitive excellence and comprehensive quality performance. Through good leadership and operational efficiency, Quds Bank seeks to achieve the following goals:

- Raise operational efficiency.
- Raise the Bank's market share and its capability for internal and external expansion and deployment.
- Control and eliminate risks related to banking operations.
- Achieve optimum utilization of available resources particularly human capital.
- Invest efficiently in state-of-the-art technology.
- Enhance transparency and disclosure especially with respect to the requirements of monitoring

authorities.

The projects approved by the Board include the Bank's internal re-organization in order to cope with the best banking practices in line with the current conditions and internal instructions of the Bank, as well as the needs of the surrounding environment in accordance with an implementation plan that is consistent with that of the Bank's strategy. The realization of this project accommodated for a set of goals that help achieve the strategic goals through the adoption of the following organizational principles:

› Separation of Responsibilities

This refers to the clear definition of responsibilities and tasks. It also deflects overlapping, redundancy or contradiction, whereby selling, marketing and service provision are completely separate from credit decision making and implementation processes.

› Selling Culture

This means guiding all officers to sell Quds Bank's products and services in the following manner:

- Cross-selling targeting current customers.
- Selling through attracting new customers.

› Product Design

This refers to developing new products and updating existing ones based on the needs and desires of customers instead of selling readymade products and services.

› Relationship Management

This means the adoption of specialization in establishing relationships with customers. Specialized management units manage and fulfill the needs of those relationships based on a specific classification that enables the Bank to manage its relationships with customers efficiently and enhance its capability to address the needs and requirements of all segments.

› Centralization

This refers to assigning the implementation of non-customer related operations to a central body subordinate to the General Management, thus yielding the following advantages:

- Better investment in and redistribution of human capital resulting in raising productivity in terms of economy of large scale.
- Reduce duplication of work.
- Activate preventive monitoring.
- Standardize procedures.
- Optimum utilization of automated system.
- Focus on selling and marketing activities by branches.
- Facilitate internal audit operations thus saving time and effort in the monitoring process.

› Distinctive Services

This refers to time saving at the front desk jobs in dealing with and receiving customers, and providing them with services that meet their expectations and enhance relationships with them.

› Preventive Monitoring and Control

This refers to designing the Bank's operations in a manner that ensures audit of the operations in terms of their compatibility with the Bank's policies, procedures and instructions and their consistency with the requirements of the monitoring authority prior to implementation.

These principles were taken into consideration in developing Quds Bank's Administrative Organizational Structure and defining the main components as follows:

» Business Orientation

This is represented by the administrative units concerned with developing the Bank's operations and managing its relationships as follows:

- Administrative units tasked with developing and marketing products, as well as providing services to current and targeted customers in the areas of (1) Corporate and SME Banking and (2) Retail Banking.

• Investment function

This comprises all administrative units tasked with currency exchange operations, fund management, shares and bonds vicissitudes, and the placement of funds in local and foreign markets for the benefit of the Bank and customers, and management of relationships with other banks and financial institutions.

» Credit Review

This includes administrative units concerned with studying and analyzing facilities requests relevant to existing and potential customers as well as relevant credit decision-making in line with the mandate approved by the Board of Directors.

» Operations and Support

This comprises all administrative units tasked with providing the needs and requirements for all Bank's units and departments toward the achievement of their objectives including centralized operations, human capital, logistics, procurement, information systems and others.

» Control

This includes administrative units concerned with developing the foundations and standards

necessary for monitoring other work components which is divided into two parts:

- Financial monitoring carried out by the Executive Management.
- Monitoring of internal audit, risk management and compliance to internal instructions and the requirements of the monitoring authorities carried out by the Executive Management.

The project will generate a set of development operations relevant to the tasks and duties of the administrative units in line with the organizational structure. The project will also allow for the design and review of the course of operations and align it with the adopted organizational principles as well as for the redistribution of human capital on the basis of proficiency, qualifications and job requirements.



› Human Capital: The Core of Our Success

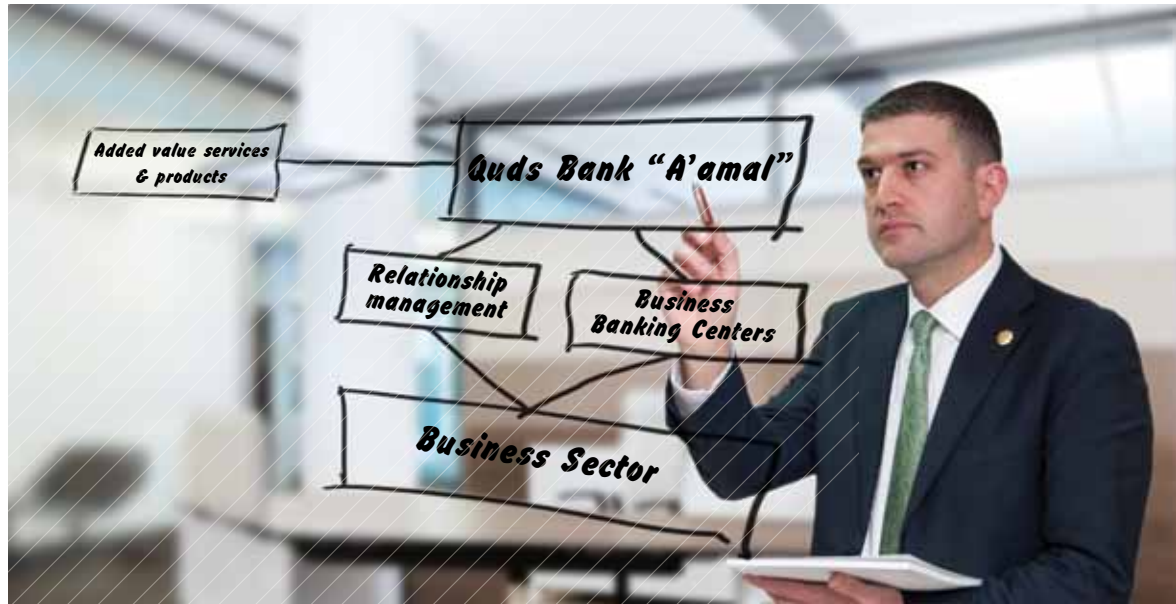
Quds Bank has been keen on establishing a specialized department for handling and managing staff issues and meeting the needs of human capital as our source of success and partners in developing and implementing the Bank's comprehensive strategies. The Human Capital Department has gone beyond the traditional concept of providing administrative services related to personnel such as appointment and resignation procedures and others, to more comprehensive and wider concepts. Quds Bank focuses on investing in human capital aiming to enhance its role and develop its capabilities so that it becomes an even more effective element within the institution. In order to secure the realization of the goals of human capital, the Human Capital Department focused on the recruitment of highly qualified talented professionals and providing them with further development training. Moreover, the Department relied on a set of goals for securing the development of its human resources including:

- Looking for and recruiting talented and qualified professionals to secure sustainable growth and achieve the Quds Bank's strategic goals and orientation. The Bank continues to provide its professionals with training and enhance their efficiency through participating in career days held by local universities and organizations, and attract talented professionals through social interaction networks. Additionally, Quds Bank coordinates with recruitment companies of interest which provide recruitment services and solutions to attract and hire the best and the brightest.
- Changing the dependence of the Human Capital Department to Support and Operations in line with the Bank's current project. This is done through re-organizing the job structure in consonance with the principle of the right person in the right place. Vacancies are advertised internally ensuring transparent and merit-based selection.
- Studying and identifying the needs of branches and departments in terms of human capital, and developing skills through providing training courses to upgrade performance, skills sets and knowledge.
- Activating staff rotation among departments and branches in order to break career stalemate and help staff acquire new skills. Staff rotation is crucial in developing the performance of staff and the organization as a whole, and it is regarded efficient means to career development. In addition to enabling the

management infuse new blood to assume new administrative or technical roles, staff rotation allows employees to exercise a broad line of orientation to gain new skills and abilities.

- Realizing equal opportunities in recruitment, training and development. Training and capacity building aim to expose and instill in employees new knowledge, acquaint them with the latest developments relevant to their work and improve their skills and efficiency. As a result, employees are able to perform their tasks effectively and efficiently, assist the Bank's strategic orientation and realize its vision for the future.
- Incentivizing positive and constructive competitiveness in accordance with a well-prepared system for incentives and honorariums. Believing that any progress and success in business is a positive reflection of the productivity and performance of employees, Quds Bank continues to provide a stimulating work environment in terms of thank you letters, nominations that would push employees to work diligently, professionally, effectively and efficiently.
- Developing channels of communication and increasing its effectiveness both horizontally and vertically. Quds Bank promotes timely exchange of information and problem solving, and believes that effective communication nourishes good relationships and interaction amongst colleagues at work and customers. Moreover, effective communication is an asset for individual capacity-building, self-expression, problem solving and dealing with others.
- Creating a work environment which is an essential ingredient of success for all modern institutions and organizations. Staff satisfaction with the work environment is a main indicator of their performance and productivity, and therefore ongoing assessment of work environment criteria is extremely significant. Quds Bank's continuous assessment of its employees' satisfaction with the work environment is a significant indicator that guides the Bank's management to create a better work environment.

Hence we see that the main goals of the Human Capital Department are to realize the strategic orientation in line with our defined quality standards, efficiency, culture, values and consistency with the current and future needs and code of ethics implemented and practiced by the Bank.



>>> Serving the Business Sector: Establishing Quds Bank "A'amel"

Quds Bank "A'amel" or Business:

In light of the rapid development and growth in banking needs of the business sector in Palestine, Quds Bank felt the necessity for establishing an independent department called 'Quds Bank Business' or "Quds Bank A'amel" in Arabic. The new department seeks to meet the increasingly growing banking needs of the business sector as well as maximizing and diversifying revenue sources, while at the same time mitigating risks resulting from working with a particular sector.

"Quds Bank A'amel" is primarily concerned with the provision of a variety of services to Small and Medium Enterprises (SMEs) which constitute more than 95% of operating enterprises registered in Palestine amounting to more than 110,000 enterprise in addition to being the largest employer of Palestinian labor. This is on top of the corporate sector which is given special attention by "Quds Bank A'amel".

The concept of "Quds Bank A'amel" is founded on the notion of providing an assortment of banking services in a developed environment characterized by excellence and exclusivity in line with the following standards:

- The existence of talented and experienced staff dedicated to the service of the banking sector and meeting its needs.
- Adoption of a specialized management of rela-

tionships with customers.

- Renovating 6 specialized centers concerned with business development provided they are distributed among concentrated areas closest to the business sector throughout Palestine.
- Provision of specialized and professional advisory services to help the business sector manage the activities of the different enterprises professionally and efficiently.

Finally, "Quds Bank A'amel" constitutes a new concept for relationship management with the business sector in Palestine. Exclusivity in providing services to this vital sector embodies a stretch of Quds Bank strategy in terms of innovation, specialization, and strengthening capabilities to establish profitable and valuable relations for all stakeholders.





Branching Strategy

Expansion and reaching out to our customers wherever they are in a justified and rewarding manner continues to be Quds Bank's strategic point of interest. Branching is carried out with a high level of banking, administrative and technical performance that takes into account the latest developments in the market, risks facing banking operations and the area for branching. Branching ensures an increased market share, increasing growth in revenue rates on shareholders' rights and assets, extended outlets that reach customers, deliver outstanding banking services and augment deposits and other banking activities.

Additionally, Quds Bank has devised plans for developing the branches, provide better services to customers and improve the Bank's facilities. In 2011, Quds Bank inaugurated two new branches in the cities of Tulkarem and Jericho as well as an office in the town of Bidya in Salfit Governorate. In 2012, Quds Bank opened a new branch in the city of Qalqilya thus covering all cities in the West Bank and Gaza strip with 22 fully operational branches and offices. Imperative to point out that Quds Bank did also submit several requests to the PMA to open new branches in several Palestinian cities and densely populated areas where banking services are still lacking.

>>> Diversifying income sources through innovation and distinguished products

Marketing Strategy

Strategic planning of services and products at Quds Bank's Marketing Department depends largely on tailoring the Bank's needs to customers' needs. In line with the aspirations of the Board of Directors, the Marketing Department relied on studies conducted by the Market Research and Studies Unit on data and market trends derived from its primary and secondary sources. The studies aimed to formulate work mechanisms for product design that meet – if not surpass – the current and varying needs and expectations of customers. Utilizing effective tools, the Marketing Department promoted new products taking into account adequate level of profitability and keeping risks to the minimum. In fact, this strategy supported effective and efficient management of the planning process and studying of the variables which were incorporated in the Bank's overall strategy hence enabling it to invest in the different resources, realize competitive advantage and attain leadership.



Marketing's Strategic Significance

Marketing is a dynamic activity. In order to highlight the strategic significance of marketing for Quds Bank, the holistic meaning of marketing was underscored so that it criss-crossed with the other activities and functions of the Bank including planning, coordination among relevant departments, implementation, monitoring, measurement of the efficiency and performance of products and centralization. Additionally, the overall vision of marketing as part of the Quds Bank's overall strategy seeks to achieve the following:

- Ensure the significance of planning and follow-up in examining customers' needs and their feedback since they are the main determinant of the marketing strategy.
- Design effective, low-risk and profitable products and services with added value to customers.
- Expand market activities to include all Quds Bank's functions.
- Highlight the main pillars of marketing which include product, pricing, distribution and promotion without disregard to competitors and surrounding environment.
- Consolidate Quds Bank's social and ethical responsibility towards society.

Toward an Effective and Efficient Marketing Strategy

Quds Bank seeks to achieve its goals and overcome the different challenges facing it through the adoption of an effective marketing strategy to be conducted within the framework of its overall strategy. Standards of effectiveness and efficiency revolve around a set of elements including:

- *Supporting and reinforcing Quds Bank's overall*

strategy: Quds Bank's marketing strategy falls within the Bank's overall strategy, and therefore the goals of the marketing strategy must be consistent with the Bank's mission and vision. Market share is a goal that would place the Bank in the *avant garde* of the Palestinian banking market.

- *Adapting with the surrounding banking environment and strategy set up based on capabilities:* This requires primarily examining and identifying the banking environment in Palestine and accurately analyzing factors influencing it. Opportunities must be explored and exploited and internal and external threats must be mitigated. Moreover, strategic options for the adaptation and their implementation must be determined.

The relationship between the Marketing Department and Quds Bank's remaining departments is a complementary relationship of mutual influence. Such a relationship aims to strengthen and consolidate the value and effectiveness of performance toward the achievement of higher strategic goals. Imperative to mention that the centralization of operations will support the overall marketing strategy of Quds Bank, enhance communication with customers and provide them with the best services using efficient modern tools. Quds Bank aims to widen its customers' base and meet their changing needs in a competitive and profitable manner.

Quality Service and Customer Care

Quality service and customer care strategy is one of the main competitive strategies adopted by Quds Bank. It aims to increase and develop the Bank's

capabilities and steadfastness *vis-à-vis* the acute competition in the Palestinian banking market. Quality service is a natural result of overall quality management and customer care which constitute the basis for customer confidence in the Bank. Quds Bank depends on a number of foundational principles including:

- Customers are the main component around whom Quds Bank's strategies revolve.
- The needs and expectations of customers form the basis for the development of Quds Bank's services, functions, processes and systems.
- Quality service and customer care are on top of all priorities.
- Quds Bank seeks to enhance and strengthen the culture of quality service and customer care among its staff.
- Quds Bank adopts the concept of ongoing improvement of all aspects related to customer dealings or experiences with the Bank.
- Quds bank uses advanced IT in designing and providing of services.

The Quality Assurance and Customer Care Unit has conducted several studies and researches assisted by expert researchers who created realistic scenarios using the "Mystery Shopper" program as one of the fundamental elements for the objective evaluation of quality service.

Potential customers may experience Quds Bank quality services as they visit the different delivery channels including their visit to the Bank's branches, centers or even Quds Bank website.

In the context of its commitment to provide customers with high quality services, Quds Bank has constantly monitored phone call service standards as well as those dealing with customers in the

branches and facilitating transactions. Standards are assessed internally by the Quality Assurance and Customer Care Unit. Moreover, the Quds Bank's evaluation system is revised regularly in order to verify its efficiency in evaluating customer satisfaction at any time and shed light on aspects that require immediate action.

In 2012 Quds Bank approved complaint management programs as well as mechanisms and procedures approved by monitoring authorities for the purpose of handling the complaints. The Quality Assurance and Customer Care Unit has also attended to complaints and comments submitted by branches and offices, including toll free numbers, comments and suggestions boxes, and email. The Unit handles complaints and comments within 48 hours of their submittal.

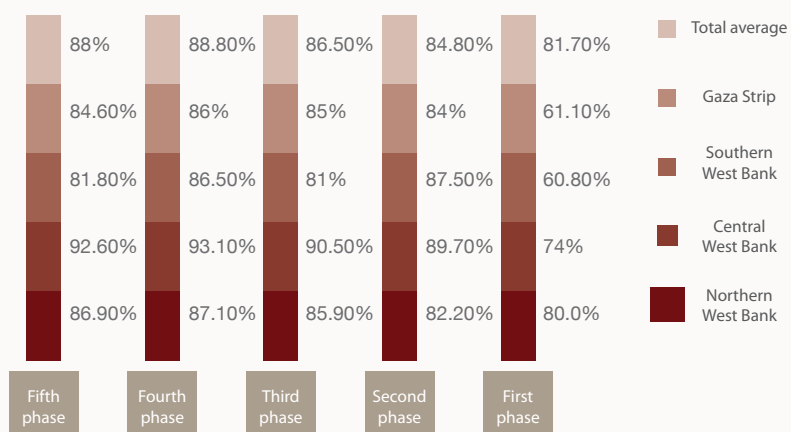
Quds Bank seeks to be the pioneering financial institution in terms of providing high-quality services. This is clearly reflected in the standards the Bank sets for itself with respect to quality service and customer care. The Bank is also keen on intensifying specialized training courses, drawing up comprehensive training plans and enhancing quality service and customer satisfaction in cooperation and coordination with the Human Capital Department.

The Bank constantly seeks new means and channels that bear witness to its commitment to quality service and customer care.

The table below demonstrates the commitment of Quds Bank's management to the highest standards of quality service which are annually revised and updated in order to ensure sustainability and devise suitable courses of action.

Evaluation scores of Quds Bank's branches for the five stages according to geographical location

>>> **Capital Increase**



Strategy

In light of Quds Bank's orientation for development and expansion, and based on the extraordinary General Assembly Decision of June 2011, the Bank's Board of Directors took measures to increase capital in order to strengthen the financial position of the Bank, cope with the increasing demand for banking services, improve capability to develop existing assets, and enhance lending and the granting of credit facilities. In addition, the measures taken by the Board aim to reinforce Quds Bank's competitive position versus foreign and national banks and enter rewarding and promising markets and sectors.

The strategy for raising Quds Bank's capital is based on four factors: (1) supporting the Bank's operations; (2) preparing the bank for expansion; (3) competition and competitiveness; (4) forming a defensive front-line to protect and secure funds of depositors from any challenges or risks the Bank or the financial sector might encounter hence strengthening depositors' trust in the Bank and enabling it to endure and continue to operate.

Reasons for the exercise can be summed up in the following points:

- The desire of Quds Bank to expand and grow its activities which require branching and reaching out, developing means and methods for service provision, enhancing competitiveness and entering markets and sectors that secure the realization of good and stable revenue. This will lead Quds Bank to maintain market share and move on to a larger share.
- Increase the ability to expand and fulfill the needs of credit and lending especially as the increasing operational costs and resulting risks limit Quds Bank's desire and readiness for credit expansion in particular and growth in general. Since capital increase supports this orientation, the Bank's ability to address latest developments and challenges increases and improves. It can be clearly seen in the efficient dealing with these changes hence strengthening the Bank's performance.

In its strategy to raise its capital, Quds Bank relied on the following:

- Attracting strategic investors through contracting a specialized international corporation in Dubai in order to attract national, regional and international investors. Imperative to say that the corporation will complete and present outcomes to the Board of Directors by the end of the first quarter of 2013 for evaluation and decision making. The Board's evaluation of the presentation will be based on taking in investors who enjoy financial strength and have a strategic value. The rights of existing shareholders and achieving rewarding returns to them will be protected and preserved.
- Capitalizing or withholding profits for the next few years to enable Quds Bank continue developing and expanding its operations on a steady basis.





Western Union Services:

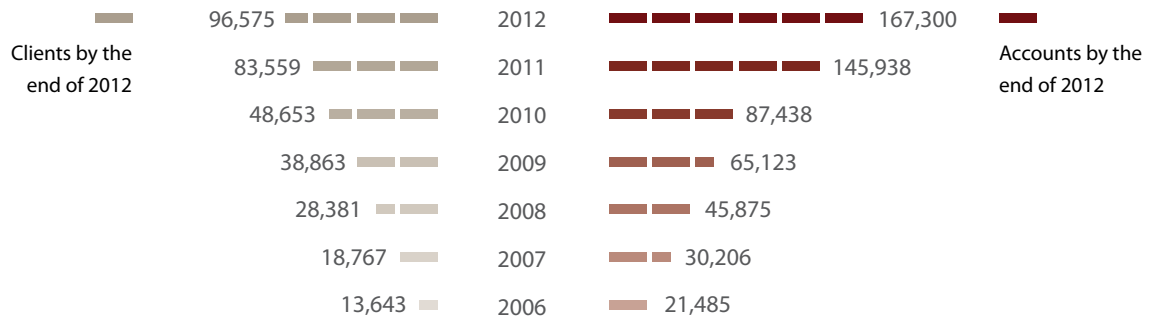
In 2012 Quds Bank, in its capacity as a super-agent, started providing Western Union transfers. The Bank's various branches and offices now fulfill the sending and receiving of money needs of the Palestinian people hence securing distinguished solutions for money transfer and increasing the number of banking services.

Additionally, Quds Bank's website has been upgraded by way of introducing huge improvements that guarantee recording the remarks and responses of customers and facilitating e-banking services. Also in 2012, Quds Bank expanded its communication with customers through social interaction media networks.

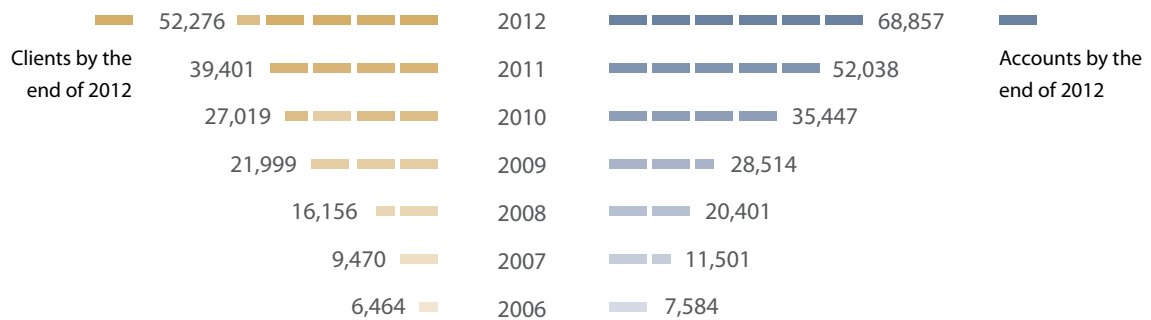


Growing Number of Customers in 2012

Towards the end of December 2012, Quds Bank customers marked a rise of about 15.5% compared to 2011. Accounts also increased by almost 15%.



In contrast with 2012, saving accounts grew by 32% and the number of all accounts by 32% towards late December 2012.



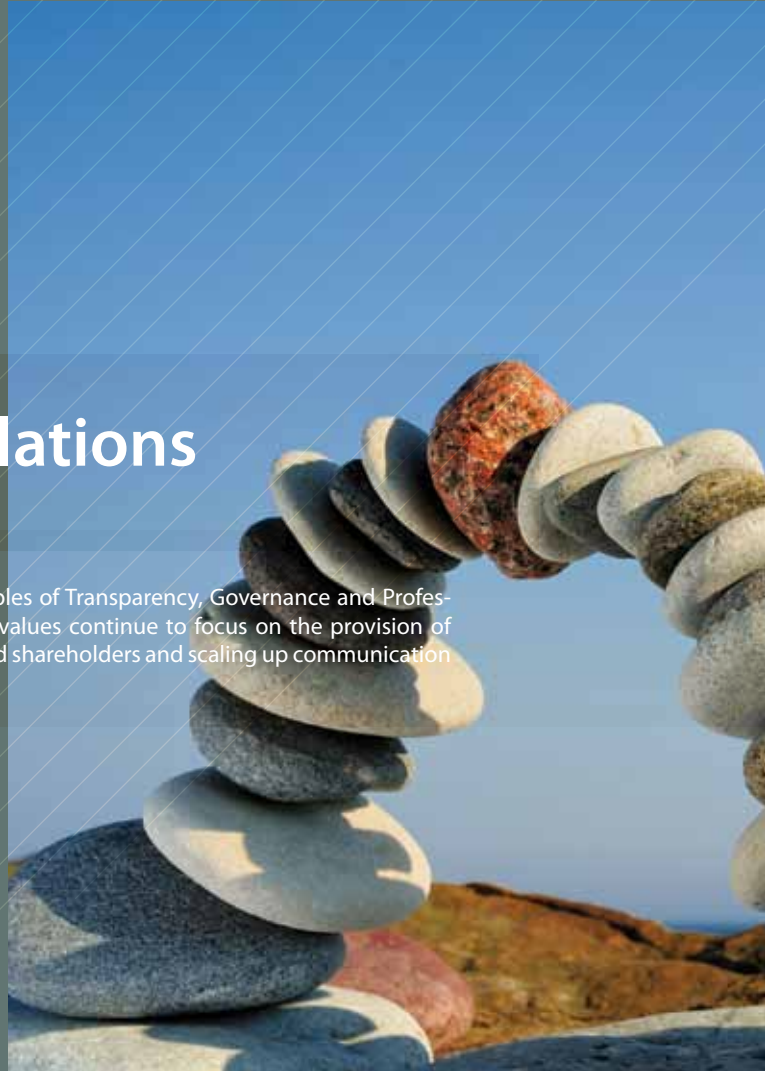
Saving Accounts Prizes for 2013 (Save & Win)

Launched in 2012, Savings mobilization scheme "Save & Win" Campaign was one of the largest savings campaigns in Palestine. It has achieved a marked increase of 35.0% in total savings deposits compared to 2011 and attracted about 20,000 new account. Quds Bank will continue to develop and generate new schemes in order to instigate the habit of saving among the public and bank customers. During the course of 2013, the Bank will continue to develop and produce products that allure to a number of subgroups such as children and youth.



Shareholders' Relations

To ensure the adherence to the principles of Transparency, Governance and Professionalism, Quds Bank's principles and values continue to focus on the provision of equal opportunities for all our esteemed shareholders and scaling up communication with them.





Shareholders



Shareholders have always been the center of our attention as this stems from our vision and values to provide equal opportunities to all. The Bank's bylaws stipulates the right for every shareholder to participate in the General Assembly meetings and in the nomination for the Board of Directors elections provided dues are paid in full and that s/he has completed 25 years of age and possess no less than 30,000 shares in the Bank for the duration of his/her membership. Quds Bank Management has given special attention to have representatives from the various sectors of the Palestinian society on its Board. For example, in 2011 General Assembly meeting, a new Board was elected comprising members from the vocational, commercial, banking and institutional sectors and from all ages. Also for the first time a woman has been elected to the Board thus making representation broader, more comprehensive and more promising.

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Quds Bank spared no effort to maintain regular communication with its shareholders by all means possible. Through our competent Shareholders' Department and branches throughout Palestine, Quds Bank maintained positive relations with shareholders through communicating with them and sharing with them our updated copy of the Annual Report which is sent to every shareholder via registered mail. In fact, Quds Bank encourages shareholders to partake in the annual General Assembly meeting and vote either in person or by proxy in case of their absence.

The following takes place in the Quds Bank's General Assembly meetings:

- Heads of Board's Committees attend the meeting.
- Representatives of external auditors attend the General Assembly Annual meeting and attend to questions relevant to auditing and auditor's Report.
- PMA representatives are also invited to attend the meeting in order to be updated with the latest developments.
- Qualified Board members are elected during the General Assembly Annual Meeting.
- An external auditor is elected whose fees are determined and agreed upon (or the Board of Directors determines the fees).
- All documents, reports and proceedings of all sessions pertaining to the General Assembly Meeting -including results of voting and questions posed by shareholders on their shares- are documented and validated.

To keep pace with recent developments, enhance transparency and reduce risks, Quds Bank webpage has been further developed to include a full version of the Annual Report. The Bank has also created a Facebook account which most recent posts and major news of the Bank and its activities. Shareholders can communicate freely and directly with the Bank's Management.

Summary of Quds Bank share trading throughout 2012:

Trading 2012	Value	Order	Remarks
Number of traded shares	739,229	21	0.50% of total trading
Value of traded shares (USD)	685,372	32	0.25% of total trading
Number of executed transactions	345	21	0.83% of total transactions
Share turnover ratio (%)	1.48 %	42	No. of traded/subscribed shares
No. of share-trading sessions	77	23	30.92% of sessions in 2012
Free float	44.01 %	18	As per PEX calculation parameters/indicators

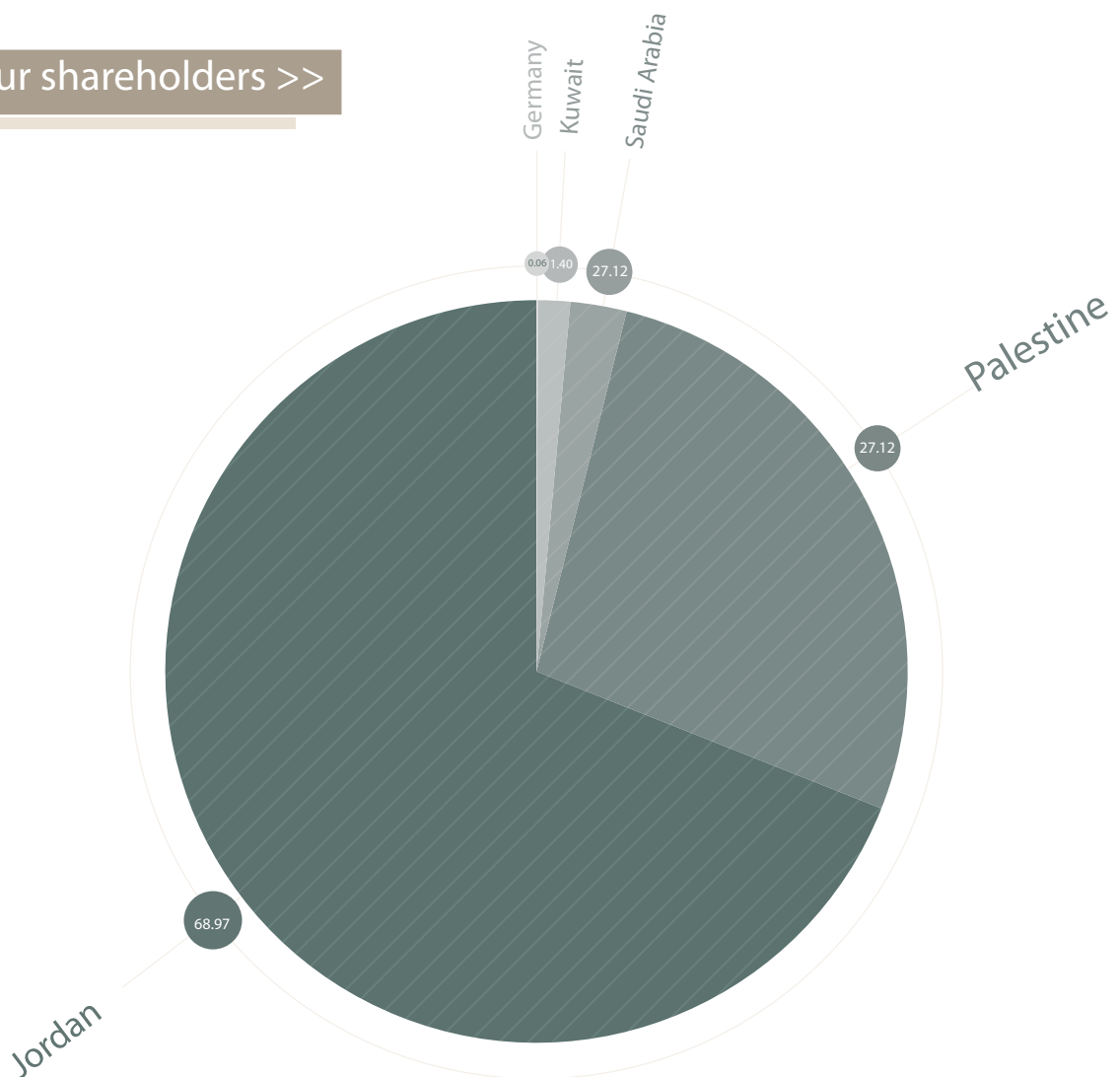
Highest and lowest share price is as follows:

Highest trading price 2012	Lowest trading price 2012	Closing price 2012	Closing price 2011	Change rate
1.04 US\$	0.84 US\$	0.90 US\$	1.02 US\$	-11.76%

Towards the end of 2012, Quds Bank had a total of 365 shareholders compared to 362 shareholders in 2011. Below is a list showing the distribution of shareholders:

Country	(%) Percentage	Shares	Shareholders
Jordan	68.97	34,486,105	84
Palestine	27.12	13,558,095	276
Saudi Arabia	2.45	1,225,000	3
Kuwait	1.40	700,000	1
Germany	0.06	30,800	1

Our shareholders >>



Below is a list of investors with more than 5% ownership as of 31 December 2012:

Name	End of 2012		End of 2011	
	Shares	(%) Subscription	Shares	(%) Subscription
Mr. Akram Abdul Latif Jerab	10,588,202	21.18	10,588,202	21.18
Abdul Rahim Jardanah & Sons Co.	4,000,000	8.00	4,000,000	8.00
Palestine Investment Fund Co.	2,604,977	5.21	2,604,977	5.21
BLOM BANK SAL	2,500,000	5.00	2,500,000	5.00

In comparison to 2011, Board members ownership as of 31 December 2012 is as follows:

Name	Position	Nationality	Number of owned shares	
			End of 2012	End of 2011
Mr. Akram Abdul Latif Jerab	Chairman	Jordanian	10,588,202	10,588,202
Mr. Abdul Rahim Nizar Jardanah	Deputy Chariman	Jordanian	1,337,154	1,337,154
Mr. Louai Bisharah Kawas, PIF Representative	Member	Palestinian	2,604,977	2,604,977
Dr. Hamed Abdul Ghani Jaber	Member	Jordanian	1,500,000	1,500,000
Mr. Duraid Akram Abdul Latif Jerab	Member	Jordanian	1,409,890	1,409,890
Palestinian Banking Corporation	Member	Palestinian	1,300,000	1,300,000
Mr. Saleh Jaber Hmaid	Member	Jordanian	1,349,870	753,250
Mr. Muntaser Dawwas, Investment Bank Representative	Member	Jordanian	1,097,549	1,097,549
Engineer Walid Najib Ahmad	Member	Palestinian	185,100	206,600
Engineer Ahed Fayege Bseiso	Member	Palestinian	74,000	74,000
Ms. Ruba Masrouji	Member	Palestinian	30,000	-

As of 31 December 2012, Board members' relatives possessed the following shares (compared to 31 December 2011):

Relatives	Kinship	Nationality	Number of owned shares	
			End of 2012	End of 2011
Mr. Mohannad Akram Abdul Latif Jerab	Mr. Akram Jerab's son	Jordanian	1,497,832	1,497,832
Mr. Duraid Akram Abdul Latif Jerab	Mr. Akram Jerab's son	Jordanian	1,409,890	1,409,890
Mr. Zaid Akram Abdul Latif Jerab	Mr. Akram Jerab's son	Jordanian	1,368,928	1,368,928
Mr. Yazan Akram Abdul Latif Jerab	Mr. Akram Jerab's son	Jordanian	1,368,929	1,368,929
Ms. Jamileh Mohammad Youssef Mussallam	Mr. Saleh Hmeid's wife	Palestinian	10,000	5,000
Ms. Lina Abdul Rahim Ridda Irsheid	Mr. Saleh Hmeid's wife	Palestinian	10,000	5,000

Executive Management members' ownership as of the end of 2012:

Relatives	Nationality	Number of owned shares	
		End of 2012	End of 2011
Mr. Azzam Abdel Karim Shawwa	Palestinian	123,696	123,696
Mr. Zaher Ahmad Hammouz	Palestinian	115,500	105,000

As of 31 December 2012, Executive Management members' relatives possessed the following shares (compared to 31 December 2011):

Relatives	Kinship	Nationality	Number of owned shares	
			End of 2012	End of 2011
Ms. Amal Fayege Atef Shawwa	Mr Azzam Shawwa's wife	Palestinian	70,000	70,000
Mr. Tamer Azam Shawwa	Mr Azzam Shawwa's son	Palestinian	5,200	5,200
Mr. Nadim Azzam Shawwa	Mr Azzam Shawwa's son	Palestinian	5,000	5,000
Ms. Aida Azzam Shawwa	Mr Azzam Shawwa's daughter	Palestinian	5,000	5,000

Communicating with Shareholders

Information on Quds Bank's development and financial statements is communicated to shareholders through the Quds Bank Annual Report. The Report is sent to every shareholder via registered mail to be reviewed before the ordinary and extraordinary General Assembly meetings are convened. In these meetings, the Bank's results, financial and administrative reports as well as the auditor's report are presented. Copies of the Annual Report are also dispatched to Quds Bank branches throughout the West Bank and Gaza Strip. In addition, a specialized team is available around the clock to assist shareholders and attend to their queries in relation to Quds Bank shares and financial standing.

To keep pace with recent developments, enhance transparency and reduce risks, Quds Bank webpage has been further developed so that it now includes a full version of the Annual Report. We have also created a Facebook account which posts most recent and major news of the Bank. Shareholders can communicate directly with the Bank Management on Facebook.

Board Members' Remuneration and Expenditures

Compared to USD 257,217 in 2011, remuneration and expenditures in the amount of USD 240,483 were disbursed to the Board in 2012.

Executive Management Members' Remuneration

In 2012, Executive Management members received a total sum of USD 756,483 as salaries and remuneration in comparison with USD 975,158 in 2011.

Issues referred to Voting by Shareholders

There were no issues referred to voting by shareholders in 2012.

Financial Statements

Preliminary financial statements disclosed on 14 February 2013 are not different from those audited by the external auditor.

Auditor

Deloitte & Touché ME / Saba & Co. audited Quds Bank 2012 accounts.

General Assembly Convention

The General Assembly is scheduled to convene in May 2013.



Corporate Governance

In line with the Palestine Monetary Authority's course of direction, Quds Bank defines corporate governance as sets of relations, regulations, rules, processes and principles that ensure a prudent management of the Bank's operations to satisfy stakeholders' interests whilst attending and conforming to the applicable banking laws of relevance, instructions and best practices, and hence promote the Bank and its development.





Commitment to Corporate Governance

Quds Bank's Board of Directors believes that steadfast corporate governance sets the foundation for the Bank's future development, enhanced performance, and maintained trust and confidence of depositors and shareholders in its activities and operations. Based on the Bank's strategic vision and its commitment to providing best modern banking services to all the segments of the Palestinian society, the Bank's Board has adopted corporate governance in consistency with the legislations governing the banking operations, directives of the Palestinian Monetary Authority (PMA), and best standards and practices provided for by the Basel Committee on Banking Supervision. The Bank is also committed to the implementation of the corporate governance guide in line with the Palestinian banking environment, legislative and legal frameworks governing the Bank's operations, guiding principles of the Palestine Capital Market Authority (PCMA) and Palestine Exchange (PEX).

Quds Bank reviews, amends and develops this guide regularly in order to keep abreast of the latest developments and relevant instructions. The Bank also incorporates it within its Annual Report and posts it on its official website for public access.

Board Chairman's Role

The Board Chairman's position is subject to the following conditions:

- Full separation in roles between the Chairman

and the General Manager.

- The Chairman should not be related (up to the third degree) to the General Manager.
- Full separation in responsibilities between the Chairman and the General Manager to be documents and verified by the Board of Directors, and reviewed periodically whenever the need for this arises.
- The Board Chairman exercises all tasks and assignments by virtue of the authority vested in him/her under applicable laws applicable in Palestine and the directives of the PMA. The Board Chairman also exercises his/her tasks and duties based on powers vested in him by the Board of Directors.

The Board Chairman carries out the following main duties and responsibilities:

- The Board Chairman supervises all Bank's operations. S/he is responsible before the Board of Directors for materializing the Bank's goals and objectives and following up the Bank's performance, as well as ensuring compliance and adherence to predetermined projections and financial plans. The Board Chairman also monitors and evaluates the general performance of the Bank in line with the strategies, plans, goals, policies and budgets preapproved by the Board of Directors.
- The Board Chairman ensures the application of high-level, effective and efficient corporate governance in the Bank. S/he also builds and maintains good, constructive and corporate

governed relations between the members of the Board of Directors and Executive Management members. In addition, the Board Chairman contributes to promoting a corporate culture within the Board by instilling a feedback exchange mechanism to express constructive criticism, exchange of opinion, and an adequate and timely communication of information to all Board members and shareholders.

Board's Responsibilities

- The Board is responsible for overlooking the Bank's operations, safeguarding its financial position, and approving of the periodic financial statements that are reviewed by the external auditor. The Board also nominates and recommends to the general Assembly the hiring of an external auditor, assures meeting PMA's requirements and guiding principles, and caters for the interests of shareholders, depositors, creditors, staff, and other parties of interest. Furthermore, the Board ensures a prudent Bank management in line with the relevant rules and regulations in force as well as internal Bank policies.
- The Board formulates the Bank's general policy/ orientation, regulations, processes, and regularly reviews the implementation of the Bank's strategies, goals and objectives. The Board also makes sure that the Bank's Executive Management complies with the applicable policies, rules and regulations.
- The Bank's Board is the sole authorized party to approve the organizational structure (or any changes to it) and job descriptions across all levels at the Bank. It also approves the Bank's policy and relevant course of action including assessing risk policy(ies) and its standard operating procedures to ensure that a sound mechanism is in place to gauge and assess. In addition to assessing internal control policies, the Board endorses and approves the Bank's credit, investment, recruitment policy, performance assessment, and internal control policy.
- The Board selects the Bank's Higher Executive Management members as well as the hiring of any experts and advisors/ consultants in line with the recruitment policy approved by the Board. Besides performance measurement and

appraisals, the Board sets and annually reviews the Executive Management members' packages in terms of salaries and remuneration. In this context, the Board ensures a proper succession plan is in place to facilitate a smooth flow of operations and hence avoid any disruptions to the Bank or its operations resulting from the lack of proper substitutes to run the Bank and/or its operations and different functions.

- The Board supervises and controls the Bank's activities in accordance with applicable laws and bylaws set by the Bank, in addition to the sound corporate governance. Moreover, the Board requests and reviews follow-up reports from the Executive Management on a timely basis.
- The Board develops a guiding framework, including an appropriate organizational structure that sets forth lines of authority, responsibilities and reporting lines across all levels. In addition, the Board compiles integrated regulations on corporate governance, internal control and inspection and risk management, policies of compliance control, anti-money laundering and treasury operations management, code of ethics, and anti-fraud rules and regulations.
- The Board members exercise their duties towards the Bank in good faith whilst exercising their utmost in terms of due diligence and developing mechanisms that ensure a consistent operational flow that adheres with all relevant laws and regulations. The Board members exert all efforts to avoid any conflict of interest when performing their duties. They are also obliged to dedicate the necessary time and efforts to fulfill their assigned duties and responsibilities towards the Bank.
- The Board evaluates its performance at least once a year through the Nomination, Honorarium and Corporate Governance Committee.
- The Board evaluates the performance of the General Manager at least once a year.
- The Board evaluates the Risk and Compliance Department(s) as well as the Internal Audit Department.

Board's Operating Mechanism

- The Board holds periodic meetings in line with applicable laws and instructions at least once every two months. Main topics are identified and outlined in the agenda prior to every meeting.

- The Bank provides adequate information to Board members to assist them make informed and sound decisions. Signed by all Board members, a draft of meeting minutes, including conclusions and decisions, is distributed within seven days as of the date on which the meeting took place. The PMA is also provided with meeting minutes within one month as of the date on which the meeting was convened.
- The Board defines formally and in writing the tasks and responsibilities of the Secretary-General. The appointment or discharge of the Secretary-General takes place by a decision from the Board. In order to perform well and execute assigned tasks efficiently, the Secretary-General must have adequate experience and necessary knowledge. The tasks of the Secretary-General include, but are not restricted to, documenting meeting minutes and decisions taken by the Board and committees.

Board Committees

- The Board bears ultimate responsibility for managing and overlooking the Bank's operations and affairs. To enhance an effective performance and sound management, committees were established to assist the Board perform duties and tasks transparently and competently. Committees submit reports to the Board per applicable rules and regulations. The Board on its part identifies in writing the committees' tasks, obligations, authorities, responsibilities and timelines.
- Members on the Board committees are appointed in a formal, transparent fashion. In addition to the names of committee members, an abstract of relevant responsibilities and tasks is incorporated in the Bank's Annual Report. Each Board committee is entitled to directly communicate with the Bank's Executive Management of interest through the Board Chairman and General Manager.
- The Board established for major committees: Executive Committee, Review and Auditing Committee, Risk Management and Compliance Committee, Nomination, Honorarium and Corporate Governance Committee. To be determined by the Board, each committee carries out tasks in line with applicable laws and instructions. When needed, Board members can form ad hoc committees to deal with specific issues. If appropriate, several committees can be merged.

Executive Committee

This Committee was elected and is comprised of four Board members to ensure the commitment and adherence of the Executive Management to the credit and investment policies in addition to the limits approved earlier by the Board. All committee members possess due qualification, knowledge and expertise. The Committee reports to and submits its recommendations to the Board. It convenes regularly in the presence of the General Manager or the person whom s/he delegates, and meeting minutes are compiled in due form. The duties and responsibilities of this Committee stem from applicable rules and regulations, PMA's directives, Basel Committee on Banking for Banking Supervision guidance, and best practices derived from the code of corporate governance which entitles it the right to call on any executive manager for information or clarifications. Headed by the Board Chairman Mr Abdul Rahim Jardaneh, Engineer Walid Ahmad and Mr Saleh Hmaid are members on the Committee.

The Committee carries out the following major tasks:

- Reviewing and endorsing credit and investment facilities that exceed the executive Management's limits.
- Developing the Bank's credit policy, credit lending procedures, collaterals, credit ceilings, and limits of the Executive Committees in consistence with applicable regulations and PMA's instructions. Upon final approval by the Board, this policy is reviewed and updated periodically in line with recent developments in the economic environment, banking policies and changes in the Bank's position.
- Ensuring the Executive Management Committee's compliance with credit policies and limits set by the Board.
- Examining the status of existing delinquent facilities and non-performing loans (NPLs), devising necessary plans to minimize them, and ensure providing for them adequately per PMA's instructions. The Committee is also in charge of setting relevant recommendations to write-off these facilities.
- Submitting to the Board periodic reports on the status of the Bank's credit portfolio, including its volume, current developments, classified facilities, and provisions set to reflect potential versus actual losses, follow up collection efforts

as well as the Bank's investment portfolios and any other changes occurring to the status of these investments.

Review and Audit Committee

The Review and Audit Committee includes three non-executive Board members, who are well-qualified, knowledgeable and have obtained their academic qualifications and following experience in accounting and financial management. The Committee reports to and submits its recommendations and reports to the Board. It convenes regularly in the presence of the Audit Department Manager, and meeting minutes are compiled in due form. The Committee carries out assigned tasks in line with applicable regulations, PMA's instructions, Basel Committee on Banking Supervision guidance, and best practices derived from the code of corporate governance which entitles it the right to call on any executive manager for information or clarifications of relevance. Headed by the Representative of the Palestinian Banking Corporation Dr. Amin Haddad, the Committee includes Mr. Duraid Akram Jerab and Engineer Ahed Bseiso as members.

The Committee implements the following main tasks:

- Supervises external and internal auditors, monitors the inclusivity of their operations as well as the authenticity and accuracy of their financial findings, and reports to the Board, shareholders, and other users of information.
- Reviews reports and relevant comments made by PMA, the external and internal auditors, and follows up on measures taken in this regard.
- Ensures an adequate, effective and efficient internal control implementation processes within the Bank, verifying Bank's compliance vis-à-vis laws, regulations, PMA instructions, Board recommendations and rules, and legislations in force in Palestine.
- Reviews periodic financial statements and other financial information before they are presented to the Board, ensuring sound preparation in line with applicable accounting principles, PMA requirements, and relevant laws. The Committee further ensures that provisions made are adequate and sufficient to reflect real financial position(s).
- Ensures independence to help the Internal Audit Department carry out assigned tasks. The Committee also approves the nomination of the

Audit Department Manager, termination of his/her service, monitors and evaluates performance, and reviews annual appraisal. To maintain due performance of assigned tasks and responsibilities, the Committee sets forth clear mechanisms to hold the Audit Department to account and approves authorities and relevant responsibilities assigned to the Audit Department.

- Reviews and submits recommendations on financial reports before they are presented to the Board. These include reports on any change introduced to applicable accounting policies or to Bank accounts due to audit inspections and/or relevant recommendations. The Committee also verifies and monitors adherence to applicable accounting principles and decides/ reviews the soundness of these principles and control measures from time to time.
- Nominates to the Board the appointment termination of service or remuneration of the external auditor and auditor selection to be elected by the General Assembly. The Committee makes sure that the auditor meets PMA terms and conditions as well as rules and regulations of relevance.
- Develops disclosure and transparency criteria and submits them to the Board for endorsement.
- Coordinates with the Risk Management Committee, ensuring a full disclosure of the Bank's financial position and performance.
- Examines any issue referred by the Bank's Board or any other issues it deems urgent to scrutinize and report on.

Risk Management and Compliance Committee

This committee is comprised of three Board members, who have the necessary qualifications, knowledge and expertise. The Committee reports to and submits its recommendations and reports to the Board. It convenes regularly in presence of the General Manager or the person whom s/he delegates. Meeting minutes are compiled in due form. The Committee carries out assigned tasks and responsibilities in line with valid regulations and legislations, PMA's instructions, Basel Committee on Banking Supervision guidance, and best practices derived from the code of corporate governance which entitles it the right to call on any executive manager for information and/or clarifications of relevance. The Committee is headed by the Representative of the Palestine Investment Fund, Mr. Louai Kawas and includes Mr. Duraid Akram Jerab

and Investment Bank Representative, Mr. Muntaser Dawwas.

The Risk Management and Compliance Committee is responsible for the following assignments:

- Review the Bank's risk management policies and strategies including, *inter alia*, credit risks, market risks, operational risks, liquidity risks, credit concentrations risks, before they are finally approved by the Board.
- Identify risk mitigation techniques and mechanisms in line with applicable oversight requirements to reduce the impact of risks on the Bank's financial safety and integrity.
- Under the supervision of the Risk Management and Compliance Committee, the Executive Management is tasked with the implementation of policies, strategies and techniques referred to above.
- Obtain proposals from the Bank's Executive Management on Risk Department's structure and its development process. The Committee reviews and amends the proposals, and submits them to the Board for approval.
- Follow up on all developments and increasing complexities affecting risk management within the Bank. The Committee also submits regular reports on this to the Board.
- Obtain all information of relevance to any of its tasks.
- Review reports submitted by the Bank's Compliance Department and ensure its adherence to the work procedures manual. The Committee also ensures the inclusion of all operational aspects in those reports in line with PMA instructions with the view of achieving maximum compliance with the laws, instructions, regulations and sound banking practices.

Corporate Governance, Nominations and Honorariums Committee

The Corporate Governance Committee includes three non-executive Board members, who possess due qualification, skills and expertise that assist them make independent and objective decisions. The Committee reports to and submits its recommendations to the Board. It convenes regularly in the presence of the General Manager or the person whom s/he delegates. Meeting minutes are compiled in due form. The Committee carries out tasks in line with applicable regulations, PMA instructions, Basel Committee on Banking

Supervision Guidance and best practices. The Committee has the right to call on any executive manager for information and/ or clarifications. The Committee has on its membership Mrs. Ruba Al-Masrouji, Mr. Duraid Akram Jerab and Investment Bank Representative Mr. Muntaser Dawwas.

The Committee carries out the following major tasks:

- Develop the Corporate Governance Guidance Manual/Code and Financial Honorarium Policy in accordance with relevant regulations and instructions, and submit them to the Board for approval.
- Reinforce effective corporate governance principles and sound practices of relevance, build a vibrant relationship between the Bank Management and Board members, promote a corporate culture that encourages constructive criticism and exchange of opinions, and define responsibilities as well as make clear lines of communication in terms of reporting references for staff of various levels.
- Ensure the Executive Management carries out assigned duties whilst exercising proper control over the Bank's operations, develop tailored regulations and processes as well as an effective and efficient supervision mechanism in line with PMA instructions and principles and standards set by the Basel Committee on Banking Supervision.
- Conduct an annual review of the Corporate Governance Guidance Manual/Code and Financial Honorarium Policy by independent bodies and ensure that the Executive Management complies with remuneration-related rules and practices as well as with the PMA instructions.
- Ensure that the remuneration policy is adequate to recruit qualified people to work for the Bank and retain those qualified, skilled and experienced employees.
- Recommend to the Board the remuneration and allowances of the Board Chairman and members and senior officials at the Bank.
- Recommend to the Board the appointment of the General Manager provided s/he satisfies the Bank's requirements in terms of qualities sought and preconditions set by the PMA. This also applies to the executive management level.
- Ensure that the remuneration policy takes into account all arising risks and strike a balance between sustained profit and arising risk levels. The Committee liaises with the Risk Committee

and/or Risk Department in assessing proposed incentives.

- Ensure independence of the Risk, Compliance and internal Audit Departments as well as respective structure of financial rewards or incentives.
- Make sure that the Bank Management discloses in the annual financial report the information on financial remuneration/rewards of the Board Chairman, Board members, Senior Executive Management members, Control Departments, and subcontracted staff members.
- Provide information and abstracts to the Board on a continuous basis about the most recent developments in the field of banking operations and industry as a whole.

Internal Control and Inspection Environment System

- The Bank's Internal Control and Inspection System is designed in line with the general framework of the Internal control regulation(s), PMA directives, and relevant operational laws and regulations.
- The structure of the internal control and inspection regulations are reviewed by the internal and external auditors at least once annually.
- The Bank supplements to the Annual Report a statement on the adequacy of the internal control procedures applicable to financial reporting.
- The Board implements relevant responsibilities in accordance with the general framework of internal control to ensure effective and efficient operations, reliable financial reports, and compliance with applicable laws and regulations.
- The Board sets processes that ensure timely delivery of information, including contingency plans, to decision-makers.
- The Board safeguards the independence of the Audit, Compliance and Risk Management Departments.

Internal Audit

Quds Bank believes that an effective and efficient internal audit department contributes to promoting an internal control system. It further supports comprehensive banking control as a frontline defense in relation to the Bank's various activities.

Below are the major goals and assignments of the Internal Audit Department:

- Develop the Internal Audit Charter and submit it

to the Board for approval.

- Set forth internal audit procedures and practices.
- Examine and assess adequate and effective internal controls as well as the mechanism by which tasks of the Bank's departments and sections/units are implemented.
- Develop an annual report on the adequacy of internal control and inspection parameters with a view to reduce potential risks.
- Compile an annual audit plan to be approved by the Control and Inspection Committee.
- The Internal Audit Department submits reports to the Review and Audit Committee.

Compliance Department

The Compliance Department was established to ensure that the Bank's operations are in line with the requirements of Basel Committee on Banking Supervision. It also ensures the compliance of the Bank and internal policies with the laws, regulations, legislations, instructions, resolutions, guidance, Charter of Professional Ethics, and sound banking practices set by local and international regulatory and control bodies. Moreover, the Compliance Committee ensures the Bank employs qualified personnel and invests in the latest international automated systems, namely Filtering and Profiling systems. It also organizes awareness workshops and training sessions on compliance related issues for Bank employees. Furthermore, the Compliance Department develops anti-money laundering policy in line with the Anti-Money Laundering Law No. (9) of 2007.

The Compliance Department exercises operations in line with the following general framework:

- Compile, develop and review regularly the Compliance Policy (at least once annually and whenever the need arises).
- Implement Compliance Policy within the Bank.
- Develop an effective and efficient approach to ensure the Bank's compliance with all operative laws of relevance, regulations and any other relevant guidance manuals.
- Submit periodic (semi-annual) reports on operational outcomes/ results and compliance supervision to the Risk and Compliance Committee/Executive which in turn will submit the reports to the Board's Risk and Compliance Committee.
- The Compliance department is further tasked with following-up everything related to corporate governance within the Bank.

Risk Management

In order to consolidate and enhance the Bank's capability to upgrade its control and monitoring environment and confront all kinds of risks, the Bank's Management gave importance to the requirements of Basel Committee on Banking Supervision and the PMA instructions. Due to the extraordinary, unstable and volatile political and security situation in Palestine, the Bank's Management took practical measures to implement the requirements of Basel Committee and the PMA instructions. Consequently, the Bank's Management established specialized departments staffed with qualified personnel for the management of the various risks including credit risks, operational risks, market risks, and liquidity risks. In addition, the Bank's Management invested in the latest systems and equipment, and set up alternative sites for the management of daily operations in emergency situations. Moreover, plans to encounter risks and deal with emergency situations were developed based on sound and correct principles. The Bank's Management also invested in the CARE system for the management of operational risks, developed the Risk Profile for all the Bank's branches, and established a database for all operational errors.

In this context, the Bank enhanced the frameworks governing credit risks to safeguard separation of roles and responsibilities among corporate credit, SMEs, and individual credit departments. Credit control, follow-up and collection departments were strengthened, and risk management policies and procedures for maintaining the credit portfolio quality and type were developed.

The Bank formed the Risk Management and Compliance Committee on the level of the Executive Management to review and appraise the operations of the various risk departments. The Committee submits periodic reports to the Board's Risk Management and Compliance Committee.

The Risk Management exercises operations in line with the following general framework:

- A. The Bank's Risk Management submits periodic reports to the Risk and Compliance Executive Committee, and liaises with the General Manager for its daily operations.
- B. The Risk management responsibilities include the following:
 - › Develop a risk policy, covering all types of risk, and submit to the Board for approval.

- › Analyze all risks, including credit risks, market risks, liquidity risks and operational risks.
- › Develop- measurement and control methods of each risk type.
- › Submit reports and recommendations on risk ceilings, approvals and Risk Management exceptional cases to the Risk and Compliance Committee/Executive.
- › Provide the Board and Senior Executive Management with sufficient information about risk measurement and risk profiling within the Bank.
- › Devise risk management methods and techniques including
 - i) Self-assessment of risks and developing risk indicators
 - ii) Developing a historic database for losses, identifying their sources and classifying them according to type of risk.
 - iii) Providing necessary equipment and automated systems suitable for risk management within the Bank.
- C. The Bank's committees, including credit committees or assets and liabilities management/treasury and operational risks committees, assist the Risk Management in performing its tasks in accordance with the powers vested in these committees.
- D. Incorporate within the Annual Report adequate information on risk management, particularly risk structure, operations and recent developments.
- E. Provide information on risks within the Bank for the purpose of disclosure and publication.

External Audit

External audit is another level of control to ensure a reliable financial reporting system is produced and generated by the Bank's accounting and IT systems, especially in relation to expressing a clear and transparent perspective of how fair these statements are and how much they reflect the real financial position over a particular period of time. To select one, an external auditor should be certified by the PMA. They should not have received any direct or indirect credit facilities from the Bank. The latter should change the auditor at least once every five years.

External Auditor's Tasks and Responsibilities:

- Audit financial statements and accounting records in line with international Financial reporting Standards (IFRS) and International

- Accounting Standards (IAS).
- Abide by minimum requirements of financial statement disclosure standards issued by the PMA.
 - Adhere to full confidentiality in accordance with the Charter/Code of Professional Ethics.
 - Provide a copy of the auditor's report to the Review and Audit Committee.
 - Take part in the Bank's General Assembly meetings to respond to relevant inquiries raised by shareholders.
 - Provide the PMA with a copy of the Annual Report within two months from expiration of the fiscal year. The Report will include the following:
 - i) Any violations or breaches of laws and directives in force, including the Bank's internal instructions.
 - ii) The auditor's opinion re adequacy of audit regulations, internal control systems, and provisions earmarked in response to arising risks.
 - iii) Verification of fairness of statements provided during the audit process.

Charter of Professional Ethics

Quds Bank has adopted the Charter of Professional Ethics, which the Board duly approved. The Bank's Board members and staff of various administrative positions have undertaken to be committed to this Code. In addition to setting consequences of impingements, the Charter of professional Ethics identifies four major components of professional ethics, values and principles: Integrity, Compliance with Laws, Transparency, and Allegiance to the Bank.

Relations with Shareholders

- Quds Bank continuously develops positive relations with all shareholders. With all possible means, the Bank encourages shareholders, particularly smaller ones, to take part on the annual General Assembly meeting as well as to vote either in person or by proxy in the event they are absent.
- Copies of the Annual Report are sent to shareholders' mail addresses. The Bank also sends to shareholders the invitation and agenda of the General Assembly meeting, together with all relevant information and media materials.
- Representatives of external auditors attend the annual General Assembly meeting in order to answer any questions about auditing and auditor's report.

- The Bank invites PMA representatives to participate and view proceedings of the meeting.
- Board members, who are qualified and meet all terms and conditions, are elected in the annual General Assembly meeting upon the end of the Board's term.
- The external auditor is elected and his/her fees are agreed. Otherwise the Board is authorized to decide on the auditor's fees.
- Proceedings and reports on the annual General Assembly meeting are duly documented. Meeting minutes also include questions raised by shareholders in relation to shares or issues of relevance.

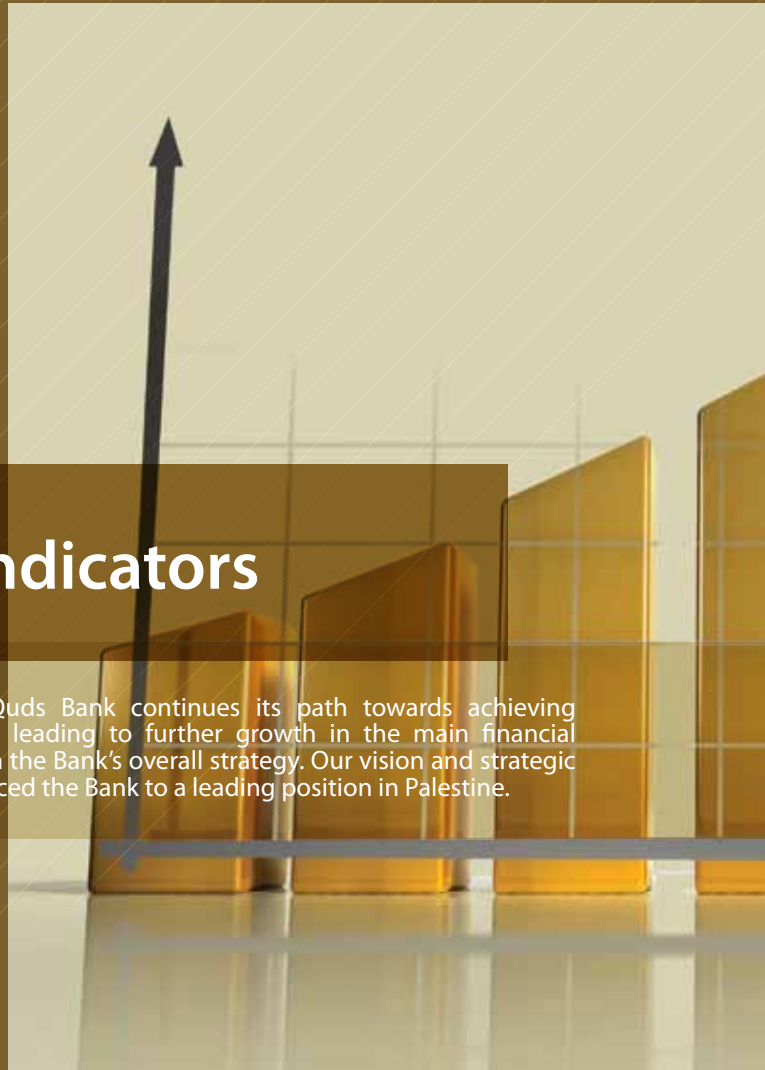
Transparency and Disclosure

Quds Bank's corporate governance is based on impartiality, integrity, trustworthiness and objectivity in regards to decisions made by relevant bodies of the Bank. Corporate governance further implies transparent operations, disclosure, and openness to the society.

Transparency, disclosure and openness are indispensable elements of good corporate governance at Quds Bank. To help users attain accurate assessment of the Bank's financial position, achievements, activities and risks, Quds Bank is committed to a general, timely disclosure of information in a reliable fashion. The Bank also works relentlessly to provide regular, accessible and integrated information on its activities and operations to all respective shareholders, including the PMA, shareholders, depositors and general public. In this, the Bank focuses on issues reflecting a substantial effect on the Bank.

Financial Indicators

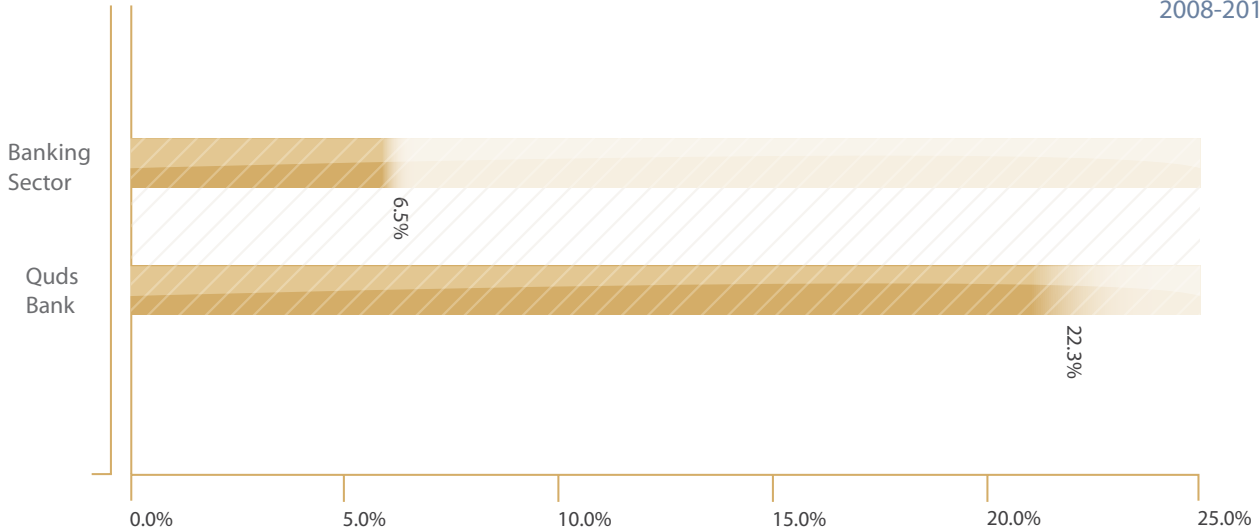
Throughout 2012, Quds Bank continues its path towards achieving distinguished results leading to further growth in the main financial indicators in line with the Bank's overall strategy. Our vision and strategic planning have advanced the Bank to a leading position in Palestine.





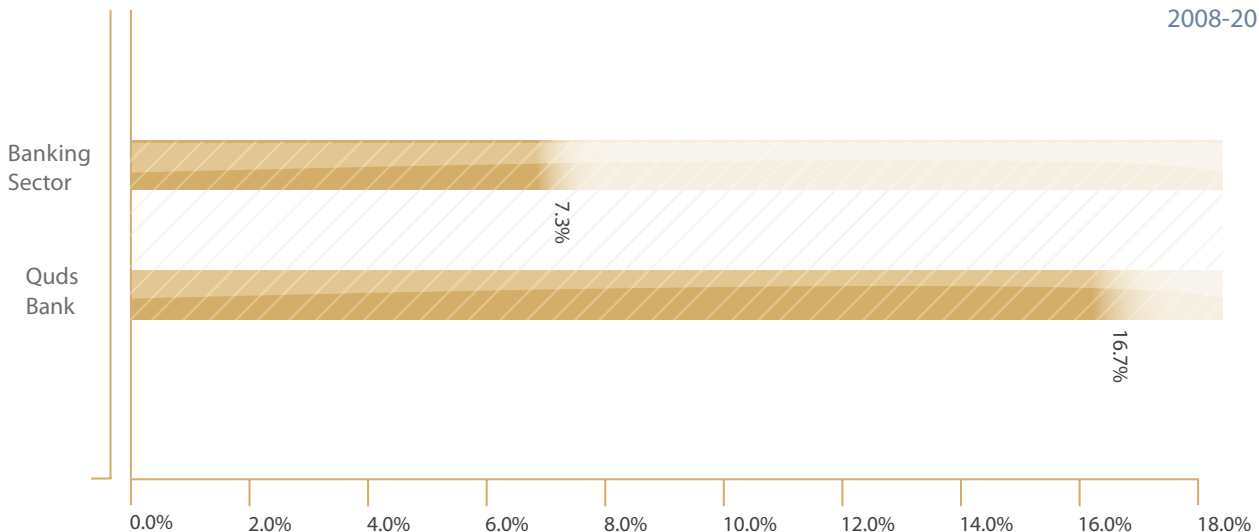
The indicators below reflect the compound annual growth between the years 2008-2012 as well as the comparative figures of the banking sector. The indicators depict the Bank's financial, organizational, systematic development and actualization of its strategic plan adopted by the Board. The Bank is now embarking on initiating the second phase of its strategy as the below Compound Annual Growth Rates (CAGRs) indicate.

Deposits CAGR 2008-2012



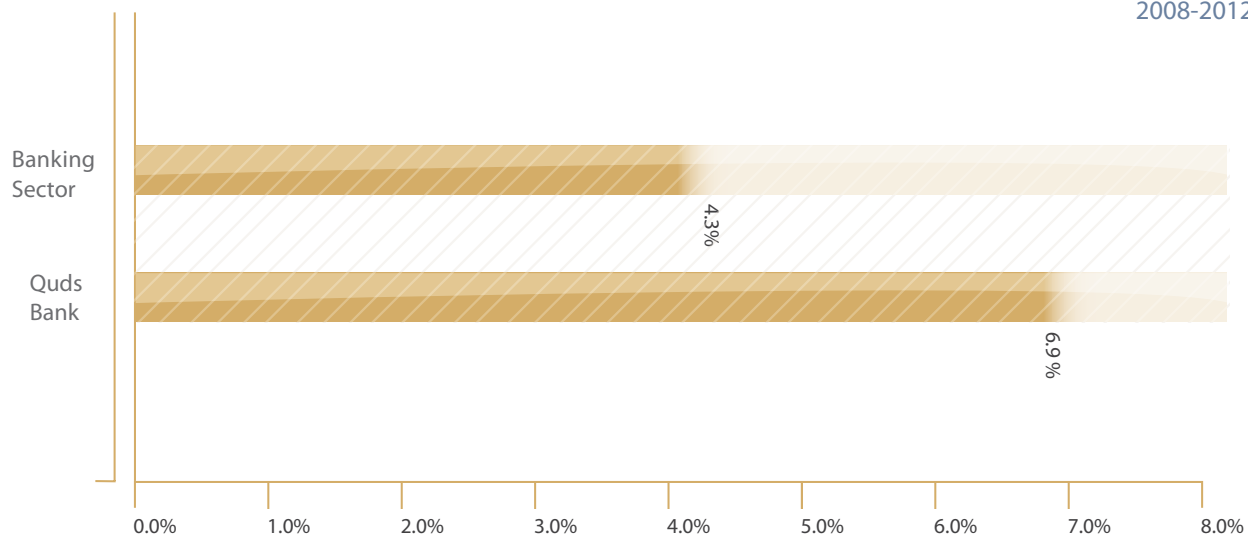
Quds Bank registered a 22.3% annual compound growth in deposits compared to 6.5% for the banking sector for the same period. It should be noted that this rate surpassed that of several other banks operating in Palestine which points to the success of the Bank's strategy in providing customers with products and services that are of added value and live up to their evolving aspirations and conditions.

Assets CAGR 2008-2012

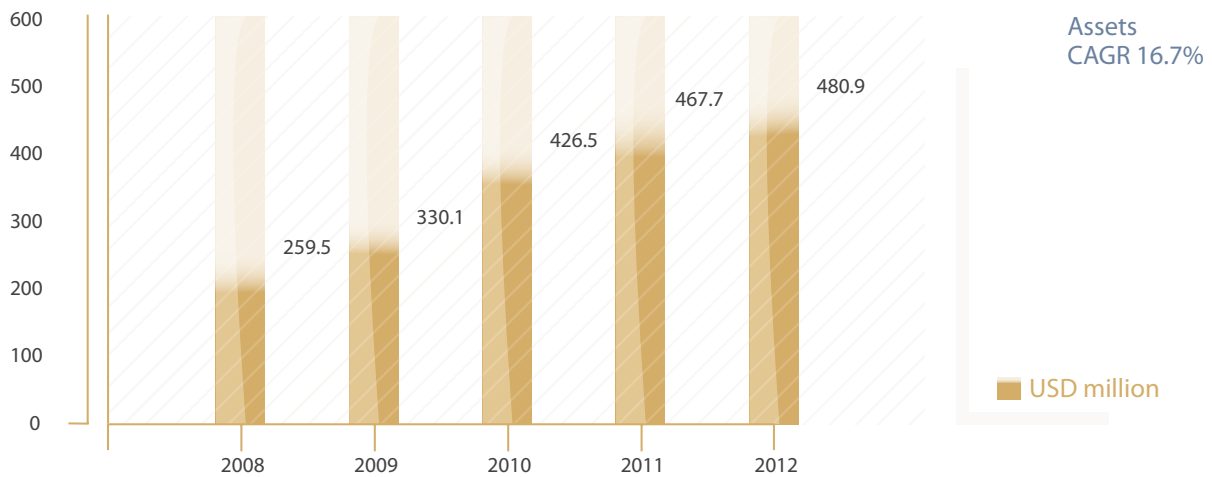


Quds Bank registered a 16.7% annual compound growth in assets compared to 7.3% for the banking sector for the same period. This growth points to the successful growth and expansion strategy over the past few years which made Quds Bank one of the largest Palestinian Banks.

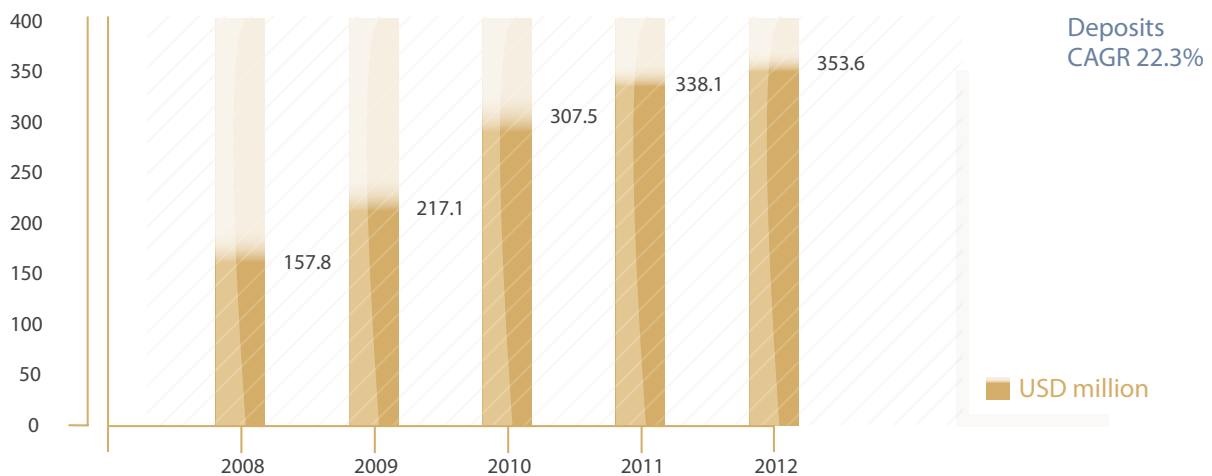
Profits
CAGR
2008-2012



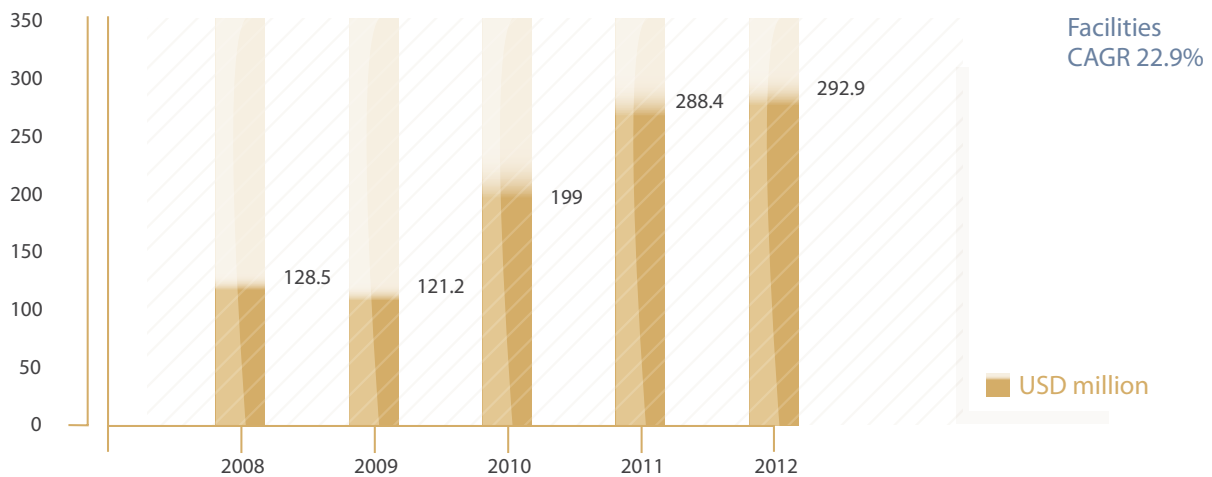
Quds Bank registered a 6.9% annual compound growth in profits compared to 4.3% for the banking sector for the same period. This is an inevitable consequence to the feasible and worthwhile investment in low-risk profitable sectors. The growth will also realize rewarding revenues to shareholders.



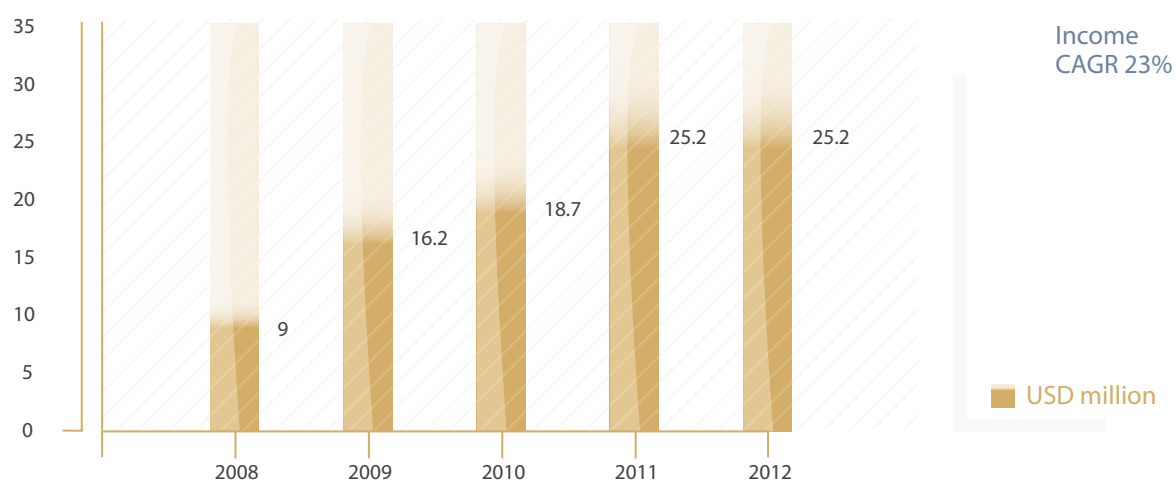
Quds Bank concentrated over the past reporting period on developing and growing its assets through diversification whilst focusing on profitability and prudence (proactive risk management).



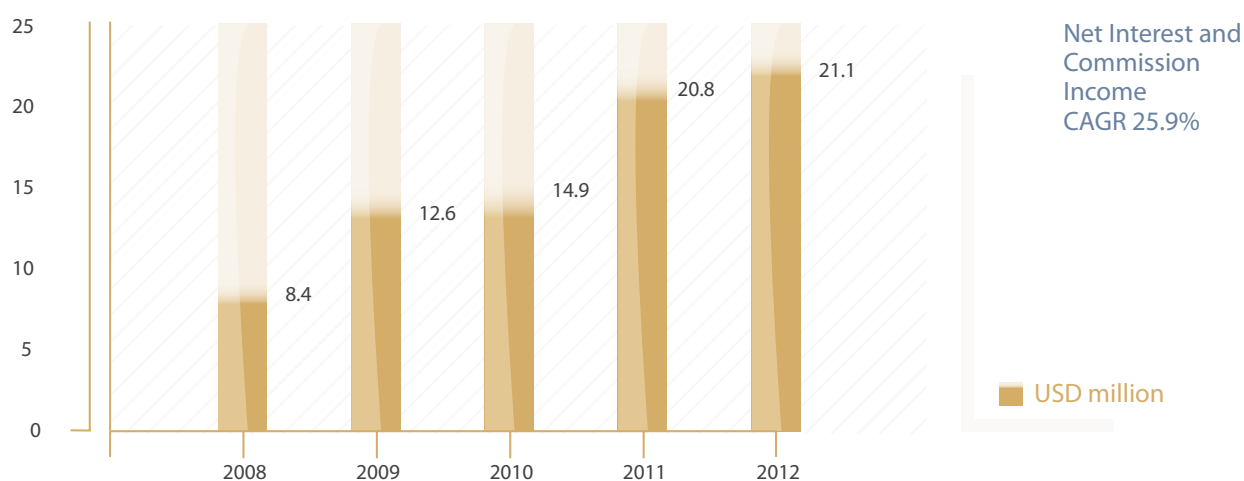
Quds Bank concentrated on developing and growing customers' deposits through diversification thus strengthening the relationship between deposits and facilities and securing a reasonable financing cost thus allowing for re-lending at convenient prices for both customers and the Bank.



Facilities were examined and an action plan pertaining to portfolio management was developed with the view of achieving better revenue.



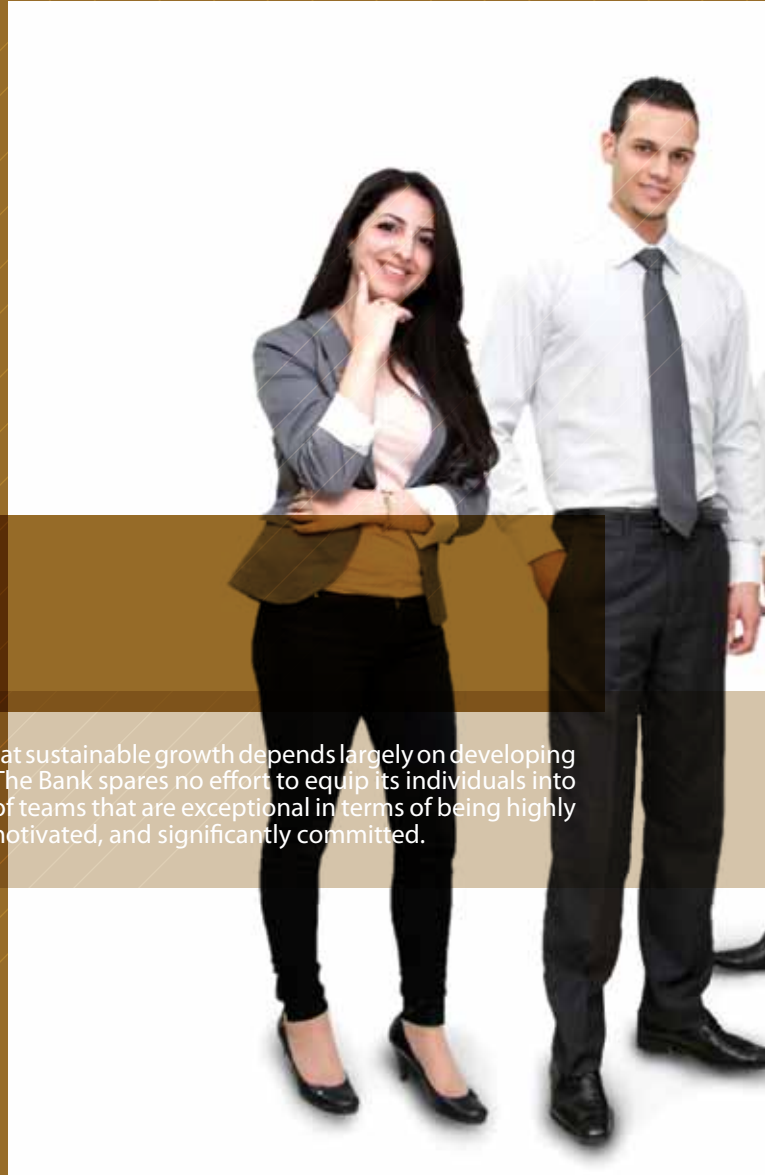
The continuous growth in the net income reflects the growing volume of work and diversification of income sources including operational revenues.



Quds Bank grew commission and other non-leading income through developing and improving banking services to customers at competitive prices.

Human Capital

Quds Bank believes that sustainable growth depends largely on developing and training its staff. The Bank spares no effort to equip its individuals into becoming members of teams that are exceptional in terms of being highly performing, greatly motivated, and significantly committed.







Quds Bank strongly believes in its human capital, being the most valuable asset that drives continuous and sustainable growth and success. The Bank invests in its human capital and trains its staff into becoming exceptional in terms of being highly performing, greatly motivated and significantly committed. In 2012, training courses on diverse banking areas were initiated, promoting a viable customer driven culture to ensure that customers' needs are met and that the services are provided with excellence. Also, in line with the PMA's focus on Risk and Management, and in order to ensure that proper financial control systems minimizing risk and fraud are applied, Quds Bank zoomed into developing that area of expertise so as to keep Quds Bank prepared and abreast with all improvements, developments and regulatory measures.

Ongoing training programs executed by Quds Bank team of experts have also witnessed considerable progress in 2012. The training programs addressed several and varied areas that require further development and continuous updates. The Bank abounds in high profile experts who are dedicated to train, coach and well-equip its employees.

Quds Bank also focuses on retaining its skilled talents through utilizing effective performance management where each member is held accountable and is rewarded to his/her contribution to the Bank's results and achievements. This ensures high productivity at all levels and a performance driven culture. The annual performance assessment hand in hand with the comprehensive external and internal training programs contributed to attaining the Human Capital's strategy in applying horizontal and vertical practices and successfully increased the percentage of internal promotions. During the course of 2011/2, Quds Bank designed and applied progressive systems and practices that support the team in continuously delivering unique value and financial expertise to its customers on its own way to becoming the number one financial reference for every family and business in Palestine.

Compared to 448 staff members in 2011, a total of 452 staff members are employed by Quds Bank in 2012:

Academic Degree	Number of Staff
PhD	1
MA	19
BA	287
Diploma	66
High School	29
Below high school	51



Corporate Social Responsibility (CSR)

Our social responsibility guides us to support the different social segments of the Palestinian community. We are ethically committed to contribute to the various community activities and events while advocating for the main pillars of development defined by the World Business Council for Sustainable Development (WBCSD), namely economic development, social progress and environment protection.



In establishing our reputation we do not depend solely on our financial position, but we also seek to adopt the best investment principles and practices. Quds Bank hopes to fulfill its social part by raising environmental awareness, combating poverty, improving services and products, reducing pollution and building stronger relationships with the community.

Our social responsibility has also instigated us to look for the interest of the community through contributing to various community activities and events while advocating for the main pillars of development defined by the World Business Council for Sustainable Development (WBCSD), namely economic development, social progress and environment protection.

› Education

Education is of paramount importance. Education coupled with hard work liberates the community from ignorance, poverty and sickness. Quds Bank continues to focus on education and invests in it. In this line of social activity, Quds Bank made a contribution of USD 4,238 to school activities and cultural events.



Event	Amount (USD)
Sponsoring a study day at Deri Al Ghsoun School – 'Attil'	324
Sponsoring the Internal Twinning Festival for Schools organized by the Ministry of Education in Bethlehem	811
Offering gifts and awards to honor outstanding students at Hajja Nazmiye Daoud Basic School – 'Attil / Tulkarem'	108
Sponsoring a celebration honoring outstanding students at Zenoubia Basic School for Girls - Tulkarem	400
Sponsoring the graduation ceremony at the Islamic Basic School for Boys – Solidarity Association for Social and Cultural Development / Nablus	1000
Sponsoring the closing ceremony for outstanding students at Isra' School – Zakat Fund / Tulkarem	324
Sponsoring a celebration honoring outstanding students at Salfit School for Boys	270
Sponsoring a celebration honoring Tawjihi high school graduates at Anabta Agricultural Society	1000

› Health

Believing that diseases are closely related to life style, lack of physical activity and bad nutrition habits, Quds Bank encourages and supports sports activities and Palestinian sports clubs. Within its modest capabilities, Quds Bank believes that Man should not only enjoy well-being, but also live in a sound and healthcare oriented system. With an eye to healthy society, Quds Bank provided a total of USD 6,270.



Health	Amount (USD)
Providing support for printing booklets including dates for diabetics to visit the clinics at Diabetes Friends Society in Tulkarem	270
Sponsoring the First Conference on Dental Implant in Palestine held and organized by the Palestinian Association of Dental Implantology	5000
Offering a donation to Mr Z. F. for his son's medical treatment	1000

› Childhood

The Palestinian society is a young society. At the end of 2011, the ratio of children between 0-14 years was estimated at 40.8% of the total number of the Palestinian population in the territories. In contrast, the ratio of individuals over 65 was estimated at 2.9% in 2011. Consequently, Quds Bank continues to give special care and attention to children in Palestine and provides them with every possible support and assistance. The Bank contributed a sum of USD 5,516 to implement a variety of activities targeting Palestinian children.



Childhood	Amount (USD)
Sponsoring the Palestinian Orphan's Medical day in Bethlehem	2,405
Sponsoring the summer camp for Al Ghad Palestine Society for Childhood	811
Sponsoring Women's Child Care Society's children summer camp in Beit Jala	300
Sponsoring Filistin Ashabab Exhibit 2012 "Sails of Liberty" – Jerusalem	2,000

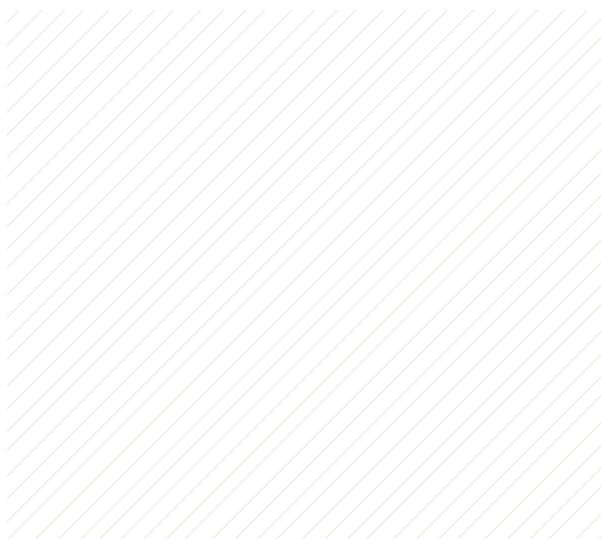
› Environment

The modern world has witnessed an increasing interest in the environment due to the rapid increase in population and the impact solid and liquid waste on the environment. Pollution has greatly affected the environment causing severe damages not only to nature but also to human beings and cycle of life.

Raising environmental awareness and Quds Bank's contribution to the preservation and protection of the environment stems from the World Bank definition of corporate social responsibility: "Corporate Social Responsibility is the commitment of business to contribute to sustainable economic development – working with employees, their

families, the local community and society at large to improve the quality of life, in ways that are both good for business and good for development." This means that businesses must activate and incorporate their mechanisms and tools for the social, economic and environmental development in their institutional culture and decision making mechanism and within the framework of transparency and accountability.

Quds Bank believes that people have the right to enjoy a clean, safe and secure environment, and make optimal use of its assets toward the realization of sustainable development. Quds Bank has also participated in Earth Hour scheduled for the last Saturday of March.



Earth Hour is the largest voluntary environmental campaign in the world. In 2012 the campaign carried the motto 'I Will If You Will' to prove that each one of us has the ability to change the world in which we live. Earth Hour has moved beyond simply switching off the lights to open the door before all people to participate in this universal environmental event.

Earth Hour started in 2007 in only one city. Since then it has become a global sustainability movement with more than 1.8 billion people across 135 countries. 'I Will If You Will' campaign has given each and every individual the opportunity to inspire their friends, families and neighbors and to encourage the adoption of sustainable actions not only during Earth Hour but beyond it as well.

The premise for this campaign revolves around a social contract bringing together two parties – an individual, a corporate or institution and their friends, families and customers become united and bound by a contract or undertaking to achieve one environmental goal. The contract or undertaking can take any form such as commitment to recycling, using energy-saving lights, or disconnecting mobile phone chargers when not in use.

Environment	Amount (USD)
Sponsoring a summer camp on the environment in cooperation with UNDP and Palestinian Youth Association	2000

› Relief

Quds Bank offers a package of instant aid and services to alleviate the suffering of those inflicted by disasters or conflict-stricken areas, individuals or groups. Sensitizing the significance of this role, the Bank contributes to relieve individuals and groups aggrieved by emerging events as such. The Bank provided a total of USD 34,254 to execute a number of relief activities, including providing for the basic needs of those in need, households and individuals.



Relief	Amount (USD)
Holding Iftar ceremony at Dar Al Aytam Al Islamiya Society in Izariya	4054
Donating the value of a day's work wage from Quds Bank's staff for the relief of Palestinians in Gaza – Quds Bank donated a similar amount	30,200

› Development

Development-oriented contributions are designed to introduce, invigorate and invest human capacity in a manner that aims at promoting a higher standard of living and better social welfare. To this avail, Quds Bank contributed a total of USD 98,649 to a significant number of development interventions.



Development	Amount (USD)
Sponsoring a Civil Defense Course held by Anabta Municipality	541
Donating seats and parasols to Qarawa Bani Hassan School	108
Sponsoring Nablus Furniture Exhibit organized by the Chamber of Commerce & Industry - Nablus	10,000
Offering golden sponsorship to the Investment Conference in Tulkarem	20,000
Participating in Tulkarem Chamber of Commerce Marketing Campaign	5,000
Sponsoring Palestinian journalists celebrations titled "World Press Freedom Day" held by the Journalists Syndicate	3,000
Donating the establishment and building of Aziz Shahin Square in Al Masyoun – Ramallah	50,000
Offering golden sponsorship to Guava Festival – Qlaqilya	10,000

› Culture

Quds Bank sponsors and supports cultural institutions and relevant parties. Culture comprises common sets of beliefs, values and norms in a society which is considered a common and connecting factor for individuals residing in that culture and community. To further promote cultural endeavors, Quds Bank contributed a total of USD 7,784.



Culture	Amount (USD)
Sponsoring Mother's Day celebration in the Elderly Home in the town of Aseera	270
Sponsoring Mother's Day celebration at Ramallah Youth Club	500
Sponsoring the Nakba Commemoration celebration organized by the Popular Committee for the Services of Al- Fara refugee camp	270
Sponsoring the Annual Fawanis Ramadan Festival for Culture and Arts held by the popular Theater Society for Performing Arts and Training	5,000
Sponsoring the special celebration on the 5 th commemoration for the establishment of Hebron-France Association for Cultural Exchange	1,000

› People with Special Needs

This category of people has special needs that are unique and rather different from those of others. Including the disabled, talented, ill, elderly, etc., people with special needs require sets of designated programs, services and facilitations. As such, Quds Bank contributed a sum of USD 2,838.



Sponsorship of Persons with Special Needs	Amount (USD)
Donating a computer and printer to Aqaba Society for People with Special Needs	1,000
Sponsoring a summer camp for people with special needs organized and held by Aseera Al Shamaliya Municipality	541
Offering a donation to Mr M. A. for medical treatment	135
Offering hats carrying the Quds Bank logo to participants in a summer camp held by the Palestinian Medical Relief Society for people with special needs in Qafin – 'Attil / Tulkarem	162
Sponsoring a summer camp for the mentally challenged held by the Women Nahda Society	1,000

> Sports

Quds Bank offered a total of USD 2,905 to sports activities organized for the purposes of entertainment, healthy competition and distinction/ skills' development.



Sports Activity	Amount (USD)
Sponsoring Bethlehem Sports Club Week	1,500
Donating sportswear to Deir Istiyya Sports Club	270
Sponsoring the Sports Central Festival at Bidya Basic School for Girls	135
Sponsoring the 11 th anniversary of the establishment of Atlas Sports Network in Gaza	1,000

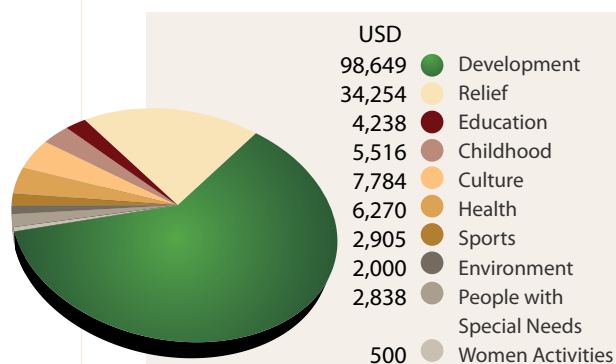
> Women Activities

Quds Bank advocates women participation in activities and promotes the social and voluntary role of women. Quds Bank contributed USD 500 to women activities.

Activity	Amount (USD)
Sponsoring activities at Women Forum Society in Sheikh Jarrah / Jerusalem	500

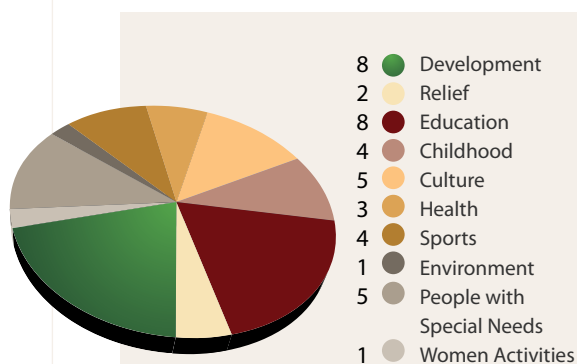
Quds Bank's Activities in Corporate Social Responsibility

Contribution Value



The total amount of Quds Bank contributions in 2012 amounted to USD 164,954.

Number of Partner Institutions



The total number of Quds Bank partner institutions in 2012 was 41.

The background of the slide is a warm, golden-brown color with a subtle diagonal line pattern. On the right side, there is a close-up photograph of a gold coin, likely a US Gold Eagle, showing the eagle emblem and the words "UNITED STATES" and "EAGLE". Above the coin, a document with the number "2378" is visible. A semi-transparent white rectangular box is positioned in the center-left of the slide, containing the title "Financial Statements".

Financial Statements

Financial Statements and Independent Auditor's Report Year
Ended 31 December 2012







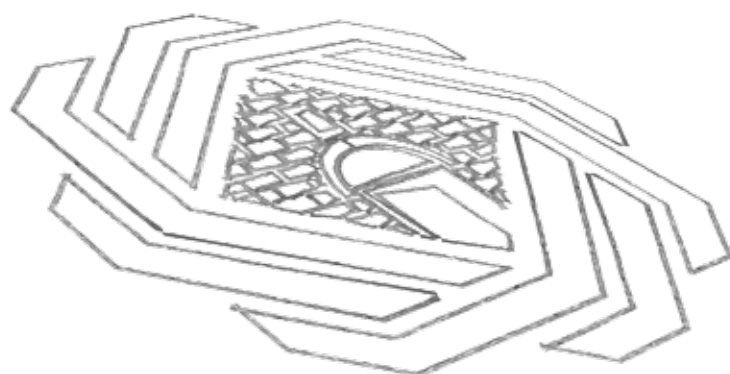
بنك القدس Quds Bank

(Public Shareholding Company, Ltd.)

Ramallah-Palestine

Financial Statements And Independent Auditor's Report

Year Ended December 31, 2012



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85	Notes to Financial Statements



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Independent Auditor's Report

**To the Shareholders 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, 2012, the statement of income, the statement of comprehensive income, the statement of changes in owners' equity and the cash flows statement 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 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, 2012, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Legal and Other Regulatory Matters:

Satisfactory explanations and information have been provided to us by management in response to all of our requests. In our opinion, and to the best of our knowledge and belief, the Bank:

- Has maintained proper accounting records and the financial statements are in agreement thereon,
- No violations of applicable laws including the Banks Law No. (9) of 2010, the instructions issued by the Palestine Monetary Authority, the Company's Law and the Bank's bylaws have occurred during the year that might have any material effect on the financial position of the Bank.

A handwritten signature in blue ink that reads "Saba & Co.".

Saba & Co.
Ramallah - Palestine

March 31, 2013

Quds Bank
(Public Shareholding Company, Ltd.)

Statement of Financial Position
As of December 31, 2012

(Amounts Are Expressed in U.S. Dollar)

	Note	December 31, 2012	December 31, 2011
Assets			
Cash and deposits with Palestine Monetary Authority	4	108,629,228	79,397,834
Deposits with banks	5	35,175,886	60,792,655
Financial assets at fair value through the statement of income	6	138,293	-
Credit facilities, net	7	292,863,010	288,376,020
Financial assets at fair value through other comprehensive income	8	6,696,886	-
Available for sale Securities	9/a	-	6,630,084
Financial assets at amortized cost	10	980,000	-
Investments in subsidiaries	9/b	-	872,708
Property, plant and equipment, Net	11	19,320,344	19,250,122
Deferred tax asset	12	931,727	424,493
Intangible Assets	13	31,296	33,058
Other assets	14	16,140,123	11,903,203
Total assets		480,906,793	467,680,177
Liabilities and Owners' Equity			
Liabilities			
Deposits of Palestine Monetary Authority	15/a	25,000,000	45,651,596
Deposits of Banks and financial institutions	15/b	34,214,897	21,134,551
Customers' deposits	16	334,256,777	315,726,133
Cash margins	17	19,350,334	22,345,206
Sundry provisions	18	2,796,452	2,109,696
Provision for taxes	19	2,586,621	2,585,203
Other credit balances	20	4,716,026	3,549,046
Total liabilities		422,921,107	413,101,431
Owners' Equity			
Paid-in capital	21	50,000,000	50,000,000
Paid in capital in excess of par value		3,000,000	3,000,000
Statutory reserve	22	2,283,922	1,957,129
Optional reserve	22	224,912	224,912
General banking risk reserve	22	4,491,253	4,482,439
Reserve for cyclical fluctuation	22	1,838,081	1,347,892
Fair value reserve	9/c	(1,321,556)	(1,117,385)
Accumulated losses (Statement-D)		(2,530,926)	(5,316,241)
Net Owners' equity		57,985,686	54,578,746
Total liabilities and Owners' equity		480,906,793	467,680,177

The accompanying notes constitute an integral part of these financial statements

Quds Bank
(Public Shareholding Company, Ltd.)

Statement of Income
Year Ended December 31, 2012

(Amounts Are Expressed in U.S. Dollar)

		Year Ended December, 31	
	Note	2012	2011
Interest income	23	20,715,122	18,981,888
Interest expense	24	(4,542,581)	(3,320,237)
Net interest income		16,172,541	15,661,651
Net commission income	25	4,966,521	5,141,115
Net interest and commission income		21,139,062	20,802,766
Gain from foreign currencies exchange		2,117,796	1,791,659
Gain from investments	26	12,384	121,971
Releases from provision for impairment loss in credit facilities	7	1,309,037	1,250,320
Gain from sale of property, plant and equipment		2,432	690,457
Other income	27	669,472	559,339
Gross income		25,250,183	25,216,512
Expenses			
Personnel costs	28	10,304,895	8,991,854
Other operating expenses	29	6,079,164	5,293,072
Provision for impairment loss in credit facilities	7	1,209,991	1,804,727
Sundry provisions	18	878,405	931,252
Depreciation and amortization		2,247,037	1,651,761
Palestine Monetary Authority fines	30	-	12,052
Provision for lawsuits	18	20,000	-
Total expenses		20,739,492	18,684,718
Profit before taxes		4,510,691	6,531,794
Deferred taxes benefits	12	507,234	
Taxes	19	(1,750,000)	(1,950,000)
Net income for the year		3,267,925	4,581,794
Earnings per share	37	0.065	0.092

The accompanying notes constitute an integral part of these financial statements

Quds Bank
(Public Shareholding Company, Ltd.)

Statement of Comprehensive Income
Year Ended December 31, 2012

(Amounts Are Expressed in U.S. Dollar)

	Year ended December 31,	
	2012	2011
Net Income for the year	3,267,925	4,581,794
Add: Items of Other Comprehensive Income		
(Loss) Gain from revaluation of available for sales Investments		(378,462)
(Loss) Gain from revaluation of financial assets through other comprehensive income	(32,888)	
Gross Comprehensive income for the year	3,235,037	4,203,332

The accompanying notes constitute an integral part of these financial statements

Statement (D)

Quds Bank (Public Shareholding Company, Ltd.)

Statement of Comprehensive Income Year Ended December 31, 2012

(Amounts Are Expressed in U.S. Dollar)

December 31, 2012	Paid - in capital	Paid in Capital in Excess of Par Value	Statutory Reserves	Optional Reserve	General Banking Risk Reserve	Reserve for periodic fluctuation	Fair Value Reserve	Accumulated losses	Net Owners' Equity
Balances as of January 1, 2012	50,000,000	3,000,000	1,957,129	224,912	4,482,439	1,347,892	(1,117,385)	(5,316,241)	54,578,746
Change in fair value reserve – June 30, 2012							173,335		173,335
Impact of implementing of international financial reporting standard No. (9)							(344,618)	343,186	(1,432)
Adjusted Balance	50,000,000	3,000,000	1,957,129	224,912	4,482,439	1,347,892	(1,288,668)	(4,973,055)	54,750,649
Net Income for 2012								3,267,925	3,267,925
Change in fair value reserve							(32,888)		(32,888)
Total Comprehensive Income	-	-	-	-	-	-	(32,888)	3,267,925	3,235,037
Appropriation to reserves			326,793		8,814	490,189		(825,796)	--
Balance as of December 31, 2012	50,000,000	3,000,000	2,283,922	224,912	4,491,253	1,838,081	(1,321,556)	(2,530,926)	57,985,686
December 31, 2011									
Balances as of January 1, 2011	50,000,000	3,000,000	1,498,950	224,912	3,105,160	660,623	(681,141)	(7,375,308)	50,433,196
Net income for the year								4,581,794	4,581,794
Change in fair value reserve	-	-	-	-	-	-	(378,462)	-	(378,462)
Total Comprehensive Income	-	-	-	-	-	-	(378,462)	4,581,794	4,203,332
Fair value reserve							(57,782)		(57,782)
Appropriation to reserves			458,179		1,377,279	687,269		(2,522,727)	-
Balance as of December 31, 2011	50,000,000	3,000,000	1,957,129	224,912	4,482,439	1,347,892	(1,117,385)	(5,316,241)	54,578,746

The accompanying notes constitute an integral part of these financial statements

Quds Bank
(Public Shareholding Company, Ltd.)

Statement of Cash Flows
Year Ended December 31, 2012

(Amounts Are Expressed in U.S. Dollar)

	Year Ended December 31,	
	2012	2011
Operating Activities:		
Net income before taxes	4,510,691	6,531,794
Non cash items:		
Depreciation	2,247,037	1,651,761
Provision for impairment loss in credit facilities	1,209,991	1,804,727
Provision for end of service indemnity	878,405	931,252
Provision for lawsuits	20,000	(66,629)
Releases from provision for vacation	(4,226)	(11,850)
Impairment of investments in securities	6,292	38,372
Gain from disposal of property and equipment	(2,432)	(690,457)
	8,865,758	10,188,970
Changes in assets and liabilities:		
Increase in statutory reserve with PMA	157,208	(4,749,805)
Decrease (Increase) in deposit with banks	-	8,916,055
(Increase) Decrease in credit facilities	(5,696,981)	(91,230,082)
Decrease (Increase) in other assets	(4,236,920)	11,246,781
Increase in deposits of banks	7,654	500,000
Increase in customers' deposits	18,530,644	28,510,383
Increase (decrease) in cash margins	(2,994,872)	2,035,419
Increase (Decrease) in other credit balances	1,171,206	(3,489,144)
Cash used in operations	15,803,697	(38,071,423)
Payments toward end of service indemnity	(211,649)	(335,809)
Tax payments	(1,748,582)	(750,000)
Net cash provided by (used in) operations	13,843,466	(39,157,232)
Investment Activities:		
Acquisition of property, plant and equipment	(2,338,290)	(9,127,137)
Proceed from sale of securities	-	804,807
Additions of intangible assets	872,708	-
Investment in securities	(1,052,372)	(364,489)
Proceed from sale of property, plant and equipment	25,225	2,173,618
Net cash used in investing activities	(2,492,729)	(6,513,201)
Net increase (decrease) in cash and cash equivalent	11,350,737	(45,670,433)
Cash and cash equivalent at beginning of the year	43,806,630	89,477,063
Cash and cash equivalent at end of the year (Note 35)	55,157,367	43,806,630

The accompanying notes constitute an integral part of these financial statements

Quds Bank

(Public Shareholding Company, Ltd.)

Notes to Financial Statements Year Ended December 31, 2012

1- General Information:

- » Quds bank was established on April 2, 1995 as a public shareholding company, Ltd. in Gaza under registration No. 563200980 at 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 under a closed subscription, thus, the bank's capital reached U.S. Dollar 25,000,000 at the same par value. On June 26, 2006, the general assembly decided in its extraordinary meeting to raise the capital by U.S. Dollar 25,000,000 to become U.S. Dollar 50,000,000 at the same par value.
- » The bank commenced its operations on January 18, 1997 and is currently working through its main headquarter and seventeen branches in Al-Masyoun, Ramallah, Al Bireh, Eizariya, Nablus, New Nablus, Beit Jala, Salfit, Tubas, Hebron , Jenin , Attil, Tulkarem, Jericho, Gaza and Gaza Al Remal, Qalqilia, in addition to the offices of Beit Lahia, Anabta, Bedia, Movenpick Hotel and Al Najah Univeristy.
- » The bank is engaged in commercial banking and investments through, lending, financing, opening accounts and documentary credits in line with the objectives of the bank. The bank also accepts deposits from the public for medium and long terms, in addition to current accounts.
- » The bank is subject to the Palestinian Banking Law and to the instructions of the Palestine Monetary Authority.
- » The bank shares are listed for trading in Palestine Securities Exchange.
- » The number of bank employees is (450) as of December 31, 2012 and (448) as of December 31, 2011.

2- Financial Statements:

- » The accompanying financial statements include the financial statements of the branches of the bank in addition to its headquarters in Ramallah. The financial data was compiled and organized after excluding the transactions and balances between headquarter and branches. In transit inter-bank accounts between headquarter and branches are included in other assets in the accompanying financial statements.
- » The financial statements were approved by the Board of Directors of the bank on March 21, 2013.

3- Significant Accounting Policies:

Adoption of New and Revised Standards:

- New and revised IFRSs applied with no material effect on the financial statements:

The following new and revised IFRSs have been adopted in the preparation of the financial statements for which they did not have any material impact on the amounts and disclosures of the financial statements; however, they may affect the accounting for future transactions and arrangements.

Amendments to IFRS 1 Severe Hyperinflation (Effective for annual periods beginning on or after 1 July 2011),

The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

Amendments IFRS 1 removal of Fixed Dates for First-time Adopters (Effective for annual periods beginning on or after 1 July 2011)

The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs.

Amendments to IFRS 7 Disclosures – Transfers of Financial assets (effective for annual periods beginning on or after 1 July 2011)

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset.

New and revised IFRSs applied with no material effect on the financial statements – (Continued):

Amendments to IAS 12: Deferred Tax – Recovery of Underlying assets (Effective for annual periods beginning on or after 1 January 2012)

The amendments to IAS 12 provide an exception to the general principle set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40 Investment Property will be recovered entirely through sale. The amendments were issued in response to concerns that application of IAS 12's general approach can be difficult or subjective for investment property measured at fair value because it may be that the entity intends to hold the asset for an indefinite or indeterminate period of time, during which it anticipates both rental income and capital appreciation.

Under the amendments, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset is required to reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. The 'sale' presumption is rebutted if the investment property is depreciable and the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

- New and revised IFRSs applied with no material effect on the financial statements – (Continued):

Amendments to IAS 12: Deferred Tax – Recovery of Underlying assets (Effective for annual periods beginning on or after 1 January 2012)

Following the application of the amendments, entities holding investment property accounted for using the fair value model in accordance with IAS 40 in jurisdictions where tax is not imposed on sale of the investment property will no longer recognise deferred tax on any temporary differences arising from fair value gains or losses (unless the presumption is rebutted). This is because there would be no tax consequences expected to arise from recovering the carrying amount entirely through sale, regardless of whether the entity intends to use the property to generate rental income for a period of time prior to sale.

For depreciable investment property, the application of the amendments will result in a change in accounting policy. When the deferred tax associated with an investment property was previously determined based on expectations that the property would be recovered through use, the measurement basis will need to be changed unless the 'sale' presumption is rebutted. When the amendments result in a change to the basis of measurement and the effect is material, prior year amounts are required to be restated as the amendments require full retrospective application.

New and revised IFRSs issued but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued and are available for early application but are not effective yet:

	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments (as revised in 2010)	1 January 2015.
Amendments to IFRS 9 and IFRS 7 Mandatory Effective date of IFRS 9 and transition Disclosures	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other entities	1 January 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other entities: Transition Guidance	1 January 2013
IAS 27 Separate Financial Statements (as revised in 2011)	1 January 2013
IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013

IAS 19 Employee Benefits (as revised in 2011)	1 January 2013
Amendments to IAS 32 Financial Statements Offsetting Financial Assets and Liabilities	1 January 2014
Amendments to IFRS 1 Government Loans	1 January 2013
Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	1 January 2014
Annual Improvements to IFRSs 2009 – 2011 Cycle	1 January 2013

Management anticipates that each of the above standards and interpretations will be adopted in the financial statements by its date mentioned above without having any material impact on the bank's financial statements.

Basis of Preparation of the Financial Statements

- » The financial statements have been prepared in accordance with the standards issued by the International Accounting Standards Board, and the interpretations issued by the Committee of International Financial Reporting Interpretations emanated from the Council of the International Accounting Standards and in accordance with applicable local laws and the instructions of the Palestine Monetary Authority.
- » The financial statements have been prepared under the historical cost basis, except for investments in securities and bonds which are stated at fair value at the date of the financial statements.
- » The financial statements have been presented in U.S. Dollar which is the Bank's functional currency.

Summary of significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are as set out below.

Financial Assets

Financial assets transactions are measured at the trade date (the date the Bank's commitment to buy or sell financial assets) at fair value net of direct transaction cost except for costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the statement of income. All financial assets are measured at amortized cost or fair value as follows:

a) Financial Assets at Amortized Cost

Debt instruments, including treasury bills and bonds, are measured at amortized cost only if the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are measured at fair value upon purchase plus acquisition expenses. Moreover, the issuing premium \ discount is amortized using the effective interest rate method, and recorded to interest or in its account. Any allocations resulting from the decline in value of these investments leading to the inability to recover the investment or part thereof are recorded, and any impairment is recorded in the statement of income.

b) Financial Assets at Fair Value through Profit or Loss (FVTPL)

Debt instruments that do not meet the amortized cost criteria are measured at FVTPL. In addition,

debt instruments that meet the amortized cost criteria but are designated as at FVTPL by the Bank are measured at FVTPL.

Investments in equity instruments are classified as at FVTPL, unless the Bank designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognized in the statement of income.

Dividend income on investments in equity instruments at FVTPL is recognized in the statement of income when the Bank's right to receive the dividends is established (upon the general assembly resolution).

c) Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCI)

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if it has been acquired principally for the purpose of selling it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to statement of income, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognized in the statement of income when the Bank's right to receive the dividends is established, unless the dividends clearly represent a recovery part of the cost of the investments.

d) Loans and advances and customers financing activities

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. This accounting policy relates to the statement of financial position captions 'Due from Banks and financial institutions' and 'Loans and advances. After initial measurement, those financial assets are subsequently measured at amortized cost less any provision for impairment.

e) Cash and cash equivalent

This consists of cash and balances with the Palestine Monetary Authority, deposits at banks and financial institutions, and is reduced by deposits from banks and financial institutions maturing within three months and restricted balances.

f) Direct credit facilities

Direct credit facilities are financial assets with fixed payments with no market prices in the active markets.

The provision for the decline in the direct credit facilities is calculated if it is determined that the due amounts cannot be collected and when the bank has objective evidence that an event had a negative effect on the future cash flows for the direct credit facilities and when this decline could be estimated. The decline amount is recorded in the statement of income. According to the instructions of PMA, interest and

commissions for non performing credit facilities granted to the customers are suspended.

Credit facilities which has a provision are written off in case the collections procedures is not useful, any surplus in the gross provision—if any— is then transferred to statement of income, collections from the previous debts are included in the revenues.

g) Investments in subsidiaries

The subsidiary is the company that the bank had an impact of effect on the decisions concerning the financial and operational policies and which the bank owns percentage above 50% from voting rights. Investments in subsidiaries is presented in the attached financial statements at cost since these subsidiaries are still under establishment and are not operational.

h) Property, plant and equipment

This item is stated at cost net of accumulated depreciation and any impairment in value. Property and real-estate, except for land, are depreciated according to the straight-line method over their estimated useful lives using rates ranging between 15% and 25%.

Machinery and Equipment	15%
Furniture and Fixture	10%
Cars	20%
Computers and Programs	25%
Decorations and Improvements	15%

When the carrying amounts of the properties exceed their recoverable values, the value is reduced to the recoverable value, and impairment loss is recognized in the statement of income.

The useful lives of property 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 as a change in estimate.

Any item of property is disposed off when there is no future economic benefits are expected from its use. Any gain or loss resulting from the disposal of the property is included within other operating income in the statement of income in the year the asset is disposed.

i) Assets acquired against settlement of customer debts

Assets acquired by the Bank are stated in the statement of financial position under “other assets” and is stated at the lower of acquired value or fair value. Assets are re-assessed on the date of the financial statements at individual fair value; any impairment in the value is recorded in the statement of income. Subsequent increase is included in the statement of income to the extent of the impairment in value which was previously recorded.

In accordance with Palestine Monetary Authority instructions, all properties and real-estates that are acquired as settlement of debts are retained for a period of two years from acquisition date, and this period can be renewed to five years in accordance with the approval of the Palestine Monetary Authority.

j) Provisions

Provisions are recognized when the bank has obligations on the date of the financial position as a result of past events, and it is probable that the bank will settle the obligations, and a reliable estimate can be made for the amount of the obligation. The bank provides in the statement of income for any obligation

or probable commitments in accordance with expected value and probability to be realized on the date of financial position.

k) Provision for end of services indemnity

End-of-service indemnities are provided for in accordance with the labor law in effect in Palestine. Amounts provided for are recorded in the statement of income and the paid amounts for terminated employees are reduced from the provision for end of service indemnity.

l) Taxation

Tax expense represents the accrued income and Value Added Tax net of deferred tax.

Accrued tax expense is calculated on the basis of taxable profit. Taxable profit differs from what is reported in the financial statements, because the reported profit include a non-taxable revenues, or expenses that can't be allowed in the financial year or in subsequent years, or the accumulated losses that are acceptable for tax set off, or items that are non-taxable or can't be allowed for tax purposes.

Taxes are calculated using tax rates that have been enacted according to the prevailing laws and regulations in Palestine.

m) Set off:

Set off is made between the financial assets and liabilities and the net amount is disclosed in the statement of financial position only when there is a legal right to set off.

n) Revenue recognition

Revenue is recognized on an accrual basis. Interest income and expense are recognized using the effective yield method. Interest on default loans are suspended when collection of such interest or the principal amount becomes doubtful.

Management fees and commissions are amortized from the shared loans arrangements over the period of the loan using the effective yield method, if applicable. Other Bank fees and commissions are realized on the date of the transaction that the revenue will occur. Income from dividends is recognized when the right to receive the dividends has been announced.

o) Foreign currencies

Foreign currency transactions are recorded during the year at the rates of exchange prevailing at the date of each transaction.

Balances of financial assets and liabilities denominated in foreign currencies are converted at the average exchange rate prevailing at the date of the financial statements as declared by PMA.

Non-financial assets and liabilities denominated in foreign currencies are presented at fair values and are converted at the date of determining their fair values.

The resultant exchange gain (loss) is reflected in the statement of income.

Exchange differences for non- monetary assets and liabilities denominated in foreign currencies are recorded as part of change in fair value.

p) Related Parties

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

q) Accounting Estimates

The preparation of the financial statements and the application of accounting policies require the Bank's management to perform assessments and assumptions that affect the amount of financial assets and liabilities. Moreover, these estimates and assumptions affect revenues, expenses, provisions and the balance of the fair value reserve stated in the equity. In particular, this requires the Bank's management to issue significant judgments and assessments to assess future cash flows amounts and their timing. Moreover, the mentioned assessments are necessarily based on assumptions and factors with varying degrees of consideration and uncertainty. In addition, actual results may differ from assessments, due to the changes arising from the conditions and circumstances of those assessments in the future.

The management of the bank believes that its assumptions and estimates in the financial statements were reasonable and they are as follows:

- » Tax expense is charged according to applicable rules and regulations in effect in the area,
- » End of service indemnity is calculated according to the labor law applied in Palestine.
- » The management periodically re-assesses the economic useful lives of tangible assets for the purpose of calculating annual depreciation based on the general condition of these assets and the assessment of their useful economic lives expected in the future. Impairment loss (if any) is charged to the statement of income.
- » The management frequently reviews the financial assets stated at fair value or cost to estimate any decline in their values. Impairment loss (if any) is charged to the statement of income.
- » The management periodically reviews the lawsuits raised against the bank, based on a legal study prepared by the bank's attorney.
- » Provision for loans loss is made based on bases and hypotheses approved by the bank's management to estimate the provision that must be made according to International Financial Reporting Standards and the results of these bases and hypotheses is compared to provisions that must be made in accordance with PMA's instructions. The most conservative result is adopted by the bank.

4. Cash and deposits with Palestine Monetary Authority:

Composition:

	December 31, 2012	December 31, 2011
Cash on hands	77,592,976	46,782,642
Balances with PMA:		
Current accounts	1,095,748	2,517,480
Statutory reserve	29,940,504	30,097,712
Total	108,629,228	79,397,834

- » According to PMA instructions (No. 67 / 2010), dated July 5, 2010), the bank is required to keep statutory reserves at 9% of all of customers' deposits. 20% of the statutory reserve is transferred to non-fixed balance and is added to the current accounts with PMA and the remaining 80% is maintained as fixed account. PMA doesn't pay interest on these reserves according to the instructions.
- » Except for the statutory reserve, no balances are restricted as of December 31, 2012 and December 31, 2011.

5. Deposits with Banks:

Composition:

	December 31, 2012	December 31, 2011
Balances at local banks and financial institutions		
Current accounts	6,659	301,781
Deposits maturing within 3 months	14,291,035	9,869,090
	14,297,694	10,170,871
Balances at foreign banks and financial institutions		
Current accounts	7,366,241	9,550,231
Deposits maturing within 3 months	13,511,951	41,071,553
	20,878,192	50,621,784
Total	35,175,886	60,792,655

Non-interest bearing deposits as of 31 December 2012 amounted to USD 7,372,900 compared with USD 9,747,512 as of December 31, 2011.

6. Financial Assets at Fair Value through the Statement of Income:

The details of this item according to international financial reporting standard No. 9 are as follow:

	December 31, 2012	December 31, 2011
Financial assets traded at local markets – stocks	138,293	-
	138,293	-

7. Credit Facilities – Net:

Composition:

	December 31, 2012	December 31, 2011
Loans	261,826,706	199,617,610
Overdraft accounts	34,066,086	90,247,982
Discounted bills	978,364	2,274,797
Total	296,871,156	292,140,389
Interest in suspense	(1,068,268)	(1,048,364)
Provision for impairment losses	(2,939,878)	(2,716,005)
Net direct credit facilities	292,863,010	288,376,020

- » Loans and Advances are stated net of interest and commission received in advance in the amount of U.S Dollar 28,113 as of December 31, 2012 (U.S Dollar 58,186 as of December 31, 2011).
- » The gross non performing direct credit facilities according to PMA instructions as of December 31, 2012 was USD 20,652,492 which represents (6.96%) of the gross credit facilities compared to USD 12,453,386 as of December 31, 2011 which represents (4.26%) of gross credit facilities.
- » The gross non performing direct credit facilities after deducting suspended interest as of December 31, 2012 was USD 19,584,224 which represents (6.69%) of the gross credit facilities compared to USD 11,405,022 as of December 31, 2011 which represents (3.90%) of gross credit facilities.
- » Credit facilities granted to public sector employees was USD 77,331,903 as of December 31, 2012 compared with USD 54,319,515 as of December 31, 2011.
- » Credit facilities granted against real states guarantees was USD 23,304,924 as of December 31, 2012 compared with USD 36,043,676 as of December 31, 2011.
- » Collaterals for the granted credit facilities were USD 62,078,239 as of December 31, 2012. (USD 62,277,909 as of December 31, 2011).
- » Credit facilities in foreign currencies were in the amount of USD 171,514,627 as of December 31, 2012. (USD 114,445,683 as of December 31, 2011).
- » Credit facilities guaranteed by loan guarantee institutions were in the amount of USD 2,198,321 as of December 31, 2012. (USD 9,464,251 as of December 31, 2011).
- » Loans and overdraft accounts granted to PNA and ministries amounted to USD 127,079,273 as of December 31, 2012 which represents (42.81%) of the direct credit facilities compared with USD 122,021,809 as of December 31, 2011 which represents (41.77%) of direct credit facilities.

» **Direct credit facilities by sector include facilities granted to non-residents as follows:**

	December 31, 2012	December 31, 2011
Companies and Organizations	2,810,747	4,001,352
Others	4,828,676	4,966,479
Total	7,639,423	8,967,831

- Classification of credit facilities according to the economic sector net of interest in suspense are as follows:

	31 كانون الأول 2012	31 كانون الأول 2011
Public Sector		
	127,079,273	122,021,809
Constructions		
	20,226,092	22,150,832
Land		
	787,349	847,443
Industry and Mining		
	10,767,247	22,036,116
General Trading		
	26,936,411	26,354,010
Agriculture		
	4,718,280	5,688,991
Tourism		
	5,940,264	6,792,365
	5,940,264	6,792,365
Transportation		
	1,166,809	2,284,543
	1,166,809	2,284,543
Services		
	17,770,815	23,391,572
Investment and Financial Services		
	-	-
Cars Purchases Financing		
	3,001,253	1,958,421
Others		
	77,409,095	57,565,923
	295,802,888	291,092,025

- Provision for impairment in credit facilities:

The movement in this account is as follows:

	December 31 2012	December 31 2011
Balance at beginning of the year	2,716,005	1,806,246
Addition to the provision during the year	1,209,991	1,762,826
Less: provision transferred to revenue during the year	(736,207)	(663,119)
Less: written off during the year	(17,010)	--
Less: provision on delinquent credit facilities exceeding six years	(271,655)	(123,603)
Currency variance	38,754	(66,345)
Balance at end of the year	2,939,878	2,716,005

> Interest in suspense:

The movement in interest in suspense is as follows:

	December 31 2012	December 31 2011
Balance at beginning of the year	1,048,364	835,071
Suspended interest during the year	270,660	497,197
Less: interest transferred to revenues during the year	-	(144,871)
Less: write off during the year	(47,341)	(43,190)
Less: suspended interest on facilities delinquent for more than 6 years	(203,415)	(95,843)
Balance at end of the year	1,068,268	1,048,364

Movement in provisions on non-performing credit facilities for a period more than 6 years are as follows:

	December 31 2012	December 31 2011
Balance at beginning of the year	9,770,265	10,850,250
Provisions transferred for delinquent credit facilities exceeding six years	271,655	123,603
Bad debts	(165,062)	(333,244)
Currency variance	74,776	(325,007)
Disposals / Settlements during the year	(572,830)	(587,238)
Balance at end of the year	9,378,804	9,770,265

8. Financial Assets at Fair Value through other Comprehensive Income:

The details of this item according to international financial reporting standard No. 9 are as follow:

	December 31 2012	December 31 2011
Financial assets traded at local markets – stocks	6,696,886	-
Total	6,696,886	-

9. Available for Sale Securities:

A. Details of available for sales securities at fair value according to IFRS No. 39:

	December 31 2012	December 31 2011
Investments in listed local companies	--	6,630,084
Total	--	6,630,084

B. Investments in subsidiaries:

This comprises from investments in shares of companies that are still not operational until the date of the financial statements:

	December 31 2012	December 31 2011
AI – Ofoq Financial Instruments Company, paid with 25% of capital which is JD 2,000,000.	--	698,166
AI – Nisir Investment Company, paid with 25% of capital which is JD 500,000.	--	174,542
Balance at end of the year	--	872,708

During 2012, the above investments were liquidated and paid investments were recollected.

C. Change in fair value of available for sales securities:

The movement in the account is as the following:

	December 31 2012	December 31 2011
Balance at beginning of the year	(1,117,385)	(681,141)
Change in fair value of available for sales investments – June 30, 2012,	173,335	-
Change in fair value for available for sales investments		(378,462)
Recoveries from impairment	--	(96,154)
Transferred to the statement of income	--	38,372
Impact of implementing international financial reporting standard No. (9)	(344,618)	
Change in fair value for the period from July 1 till December 31, 2012	(32,888)	
	(204,171)	(436,244)
Balance at end of the year	(1,321,556)	(1,117,385)

10. Financial Assets at Amortized Cost:

	December 31 2012	December 31 2011
Local debt financial assets	980,000	-
Total	980,000	-

11. Property, Plant and Equipment-Net:

Composition:

	Furniture	Computers and programs	Vehicles	Leasehold Improvements	Building	Total
December 31, 2012						
Cost:						
Balance at beginning of the year	2,181,177	7,160,384	442,697	5,741,771	9,572,253	25,098,282
Additions	264,141	580,300	297,341	1,196,508	--	2,338,290
Disposals	(4,021)	(2,015)	(33,500)	(93,186)	--	(132,722)
Balance at end of the year	2,441,297	7,738,669	706,538	6,845,093	9,572,253	27,303,850
Accumulated depreciation:						
Balance at beginning of the year	677,584	3,091,340	90,990	1,752,344	235,902	5,848,160
Depreciation for the year	200,567	1,061,162	90,539	811,826	81,181	2,245,275
Disposals	(4,007)	(818)	(20,937)	(84,167)	--	(109,929)
End of the year	874,144	4,151,684	160,592	2,480,003	317,083	7,983,506
Net book value	1,567,153	3,586,985	545,946	4,365,090	9,255,170	19,320,344
December 31, 2011						
Cost:						
Balance at beginning of the year	1,706,152	5,227,575	146,929	3,587,379	6,786,272	17,454,307
Additions	475,025	1,932,809	295,768	2,154,392	4,269,199	9,127,193
Disposals	-	-	-	-	(1,483,218)	(1,483,218)
Balance at end of the year	2,181,177	7,160,384	442,697	5,741,771	9,572,253	25,098,282
Accumulated depreciation:						
Balance at beginning of the year	513,278	2,248,746	43,524	1,237,894	154,720	4,198,162
Depreciation for the year	164,306	842,594	47,466	514,450	81,182	1,649,998
Disposals	-	-	-	-	-	-
End of the year	677,584	3,091,340	90,990	1,752,344	235,902	5,848,160
Net book value	1,503,593	4,069,044	351,707	3,989,427	9,336,351	19,250,122

12. Deferred Tax Asset:

December 31, 2012

	Balance at Beginning of year	Releases	Additions	Ending Balance
End of service indemnity	696,307	(71,325)	290,225	915,207
Lawsuits Provision	9,912	-	6,608	16,520
	706,219	(71,325)	296,833	931,727
December 31, 2011				424,493

The effective tax rate applied in the calculation of deferred tax asset is 33.04%.

13. Intangible Assets

This balance represents the amount paid in lieu of key money right paid for renting Tulkarem branch in the amount of USD 35,262 and is presented net of accumulated amortization of U.S \$ 3,966 as of December 31, 2012.

14. Other Assets:

Composition:

	December 31 2012	December 31 2011
Prepaid expenses	3,045,651	2,362,608
Stationery and printing	35,093	45,834
Interest receivable	943,287	652,441
In transit transactions between headquarters and branches	7,070	6,475,691
Checks under clearance	9,825,993	515,012
Assets acquired in settlement of debt (*)	1,519,053	1,519,053
Advances paid on future investments	417,087	-
Reimbursable legal fees	346,889	332,564
Total	16,140,123	11,903,203

(*) The bank acquired a real estate from one of its customers on September 14, 2009 as settlement of debt. The real estate was valued at the amount of U.S \$ 1,502,500. Other related costs in the amount of USD 16,553 are included in this balance.

15. Deposits of Palestine Monetary Authority, Banks and Financial Institutions:

Composition:

A- Deposits of PMA:

	December 31 2012	December 31 2011
Time deposits due within three months	25,000,000	45,651,596
Total	25,000,000	45,651,596

B- Deposits of Banks and other financial institutions:

	December 31 2012	December 31 2011
Current accounts – local banks	276,714	110,757
Time deposits – local banks due within 3 months	31,780,529	15,523,794
Time deposits – local banks due after 3 months	507,654	500,000
Time deposits – foreign banks due within 3 months	1,650,000	5,000,000
	34,214,897	21,134,551

16. Customers' Deposits:

Composition:

	December 31 2012	December 31 2011
Current accounts	133,655,679	121,144,187
Saving accounts	112,232,727	83,108,497
Time deposits	88,368,371	111,473,449
Total	334,256,777	315,726,133

- » Deposits of the public sector amounted to U.S Dollar 12,586,716 as of December 31, 2012 representing (3.77%) of total deposits against U.S Dollar 27,386,487 as of December 31, 2011 representing (8.67%) of total deposits.
- » Non-interest bearing deposits amounted to U.S Dollar 141,887,617 as of December 31, 2012 representing (42.45%) of total deposits against U.S Dollar 123,008,646 as of December 31, 2011 representing (38.96%) of total deposits.
- » Restricted/pledged deposits amounted to U.S Dollar 3,587,525 as of December 31, 2012 representing (1.07 %) of total deposits against U.S Dollar 1,612,359 as of December 31, 2011 representing (0.51 %) of total deposits.
- » Dormant deposits amounted to U.S Dollar 6,500,588 as of December 31, 2012 representing (1.95%) of total deposits against U.S Dollar 7,062,282 as of December 31, 2011 representing (2.23%) of total deposits.
- » Customer's accounts in foreign currencies amounted to U.S Dollar 217,202,375 as of December 31, 2012 against U.S Dollar 209,502,600 as of December 31, 2011.
- » Non-resident customer's accounts amounted to U.S Dollar 4,931,461 as of December 31, 2012 against U.S Dollar 4,254,918 as of December 31, 2011.

17. Cash Margins:

Composition:

	December 31 2012	December 31 2011
Cash margins against direct facilities	13,498,171	15,276,114
Cash margins against indirect facilities	3,431,170	5,137,093
Others	2,420,993	1,931,999
	19,350,334	22,345,206

18. Sundry Provisions:

Composition:

	December 31 2012	December 31 2011
Provision for end of service indemnity	2,746,452	2,079,696
Provision for lawsuits against the bank	50,000	30,000
	2,796,452	2,109,696

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

	December 31 2012	December 31 2011
Balance at beginning of the year	2,079,696	1,484,252
Provision during the year	878,405	931,252
Payments during the year	(211,649)	(335,808)
Balance at end of the year	2,746,452	2,079,696

The movement in the provision for lawsuits is as follows:

	December 31 2012	December 31 2011
Balance at beginning of the year	30,000	96,629
Provision during the year	20,000	-
Released from provision	-	(66,629)
Balance at end of the year	50,000	30,000

19. Provision for Taxes

The movement in the provision for taxes is as follows:

	December 31 2012	December 31 2011
Balance at beginning of the year	2,585,203	1,385,203
Tax payments during the year	(1,748,582)	(750,000)
Current year taxes	1,750,000	1,950,000
Balance at end of the year	2,586,621	2,585,203

The bank obtained the final clearance from the tax authorities for the years ended December 31, 2007 and is currently negotiating to obtain the clearance for the years 2008 to 2011.

20. Other Credit Balances:

Composition:

	December 31 2012	December 31 2011
Interest payable	722,389	426,593
Accrued expenses	294,699	237,549
Post-dated checks and remittances payable	2,444,336	1,734,286
Temporary margins	577,367	646,250
Board of Directors remuneration	23,544	27,770
Accounts payable	155,148	183,357
Creditors	315,135	44,152
Tax withheld from wages	141,926	144,775
Others	41,482	104,314
Total	4,716,026	3,549,046

21. Paid-in Capital:

Capital Adequacy:

According to PMA regulations, the bank should maintain a minimum capital adequacy ratio of 12%. As of December 31, 2012 and 2011, the bank was compliant with the required ratio. Particulars of capital ratios are as follows:

	December 31, 2012			December 31, 2011		
	Amount U.S Dollar	Ratio to Assets	Ratio to assets by weighted risk	Amount U.S Dollar	Ratio to Assets	Ratio to assets by weighted risk
Core (primary) capital	53,860,539	%11.20	%25.49	50,756,142	10.85%	23.96%
Regulatory capital	47,977,802	%9.98	%22.22	46,618,404	%9.97	%21.98

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 owners value.

As of December 31, 2012, the owners' equity in the amount of U.S Dollar 57,985,686, net of accumulated losses is composed of paid in capital, statutory reserves, and paid in capital in excess of par value which constitute 12% of the total assets of the bank as of that date.

22. Reserves:

Statutory Reserve:

In accordance with the Bank's Bylaws, the company's law and the banks' laws, 10% of the Bank's annual net income should be appropriated to the statutory 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 to the optional reserve. This reserve is distributable to the owners after the approval of the General Assembly of the bank.

General Banking Risk Reserve:

According to PMA regulations, the general banking risks reserve on credit facilities is calculated at 1.5% of the performing direct credit facilities and 0.5% of the indirect credit facilities. This reserve cannot be reduced without PMA pre-approval.

Reserve for Cyclical Fluctuation:

According to PMA regulations, this reserve is to be provided for at 15% of annual net income and to be accumulated up to 20% of paid capital.

23. Interest income:

Composition:

	December 31 2012	December 31 2011
Credit Facilities:		
Loans and advances	14,045,688	11,139,322
Overdraft and overdrawn accounts	6,035,938	6,807,923
Discounted bills	165,434	318,009
Credit cards	89,165	1,417
Deposits with PMA	583	333
Deposits with banks	326,065	714,884
Investments at amortized cost	52,249	--
Total	20,715,122	18,981,888

24- Interest expense:

Composition:

	December 31 2012	December 31 2011
Deposits of Banks and Financial Institutions	1,210,242	857,718
Customer's Deposits:		
Current accounts	71,043	46,089
Saving Accounts	681,849	509,971
Time Deposits	2,113,006	1,692,450
Cash Margins	184,025	104,052
Others	282,416	109,957
Total	4,542,581	3,320,237

25. Net Commission income:

Composition:

	December 31 2012	December 31 2011
Commission income:		
Commission from direct credit facilities	2,493,708	2,779,184
Commission from indirect credit facilities	346,933	441,097
Other commissions	2,459,487	2,211,516
Less :Commission expense	(333,607)	(290,682)
Net commission income	4,966,521	5,141,115

26. Gain from Investments:

	Gain (loss) from Sales of Investments	Recovery (Impairment) in Fair Value	Dividends	Total
Year end 31 December 2012:				
Investment in listed companies	--	(6,292)	18,676	12,384
Year end 31 December 2011:				
Investment in listed companies	96,154	(38,372)	64,189	121,971

27. Other Income:

Composition:

	December 31 2012	December 31 2011
Checks books	275,051	237,579
Swift, postage and telephone	22,187	13,524
Miscellaneous income	372,234	308,236
	669,472	559,339

28. Personnel Costs:

Composition:

	December 31 2012	December 31 2011
Salaries, benefits and related costs	7,788,213	6,749,167
Provident fund	316,473	276,807
Value added tax on salaries	984,177	834,529
Board of directors costs and remuneration	240,483	257,217
Travel and transportation	94,535	116,776
Medical	580,022	442,735
Training	106,620	148,668
Vacation	43,874	70,966
Uniforms	150,498	94,989
	10,304,895	8,991,854

29. Other Operating Expenses:

Composition:

	December 31 2012	December 31 2011
Rent	1,018,216	778,503
Stationery and printing	442,829	559,885
Swift, postage and telephone	872,141	638,305
Cleaning and maintenance	683,965	624,936
Subscriptions, fees and licenses	483,642	499,901
Insurance	150,983	95,915
Water and electricity	446,343	378,514
Computer software	64,689	123,205
Hospitality	94,626	78,872
Professional fees	517,937	130,678
Meetings and activities expenses	45,125	45,849
Car rental	168,244	139,243
Advertisement	642,096	848,755
Others	183,174	83,815
Transportation of cash	243,311	197,307
Donations	21,843	69,389
	6,079,164	5,293,072

30. Palestine Monetary Authority fines:

The amount of fines charged to the bank was in the amount of U.S. Dollar 12,052 during the year ended December 31, 2011. Particulars of these fines were as follows:

	2011
Fine for not complying with PMA instructions in relation to Automatic returned checks system	7,052
Fine for not complying with PMA instructions in relation to the General Assembly Ordinary and extra-ordinary meeting	5,000
	12,052

31. Information about bank operations segments:

The Bank is organized, for managerial purposes, from major sectors; the individual, corporate accounts and treasury. Individual accounts include following up on individual customers accounts, granting them loans, credit, credit cards, and other services. Corporate accounts include following up deposits, credit facilities, and other banking services related to customers. Treasury includes providing dealing services and management of the Bank's funds.

	Individuals	Corporate	Treasury	Others	2012	2011
Gross income	14,727,872	4,475,212	2,496,693	7,117,557	28,817,334	27,577,111
Provision for credit facilities	116,966	(17,920)			99,046	(554,407)
Gross profit	14,844,838	4,457,292	2,496,693	7,117,557	28,916,380	27,022,704
Undistributed expenditures	(3,181,356)	(150,983)	(1,210,242)	(19,863,108)	(24,405,689)	(20,490,910)
Profit before taxes	11,663,482	4,306,309	1,286,451	(12,745,551)	4,510,691	6,531,794
Taxes				(1,242,766)	(1,242,766)	(1,950,000)
Profit after taxes	11,663,482	4,306,309	1,286,451	(13,988,317)	3,267,925	4,581,794
Additional Information:						
Sector's Assets	115,928,355	39,320,453	66,212,138	259,445,847	480,906,793	467,680,177
Elimination of sector assets and Liabilities	249,478,676	91,547,996	59,214,897	22,679,538	422,921,107	413,101,431
Capital Expenditures					2,338,290	9,127,137
Depreciation and amortization					2,247,037	1,651,761

32. Concentration in Credit Exposures According to Sector:

	Inside Palestine		Outside Palestine		Total	
	2012	2011	2012	2011	2012	2011
Net income for the year	3,073,164	4,034,868	194,761	546,926	3,267,925	4,581,794
Assets	460,028,601	408,090,562	20,878,192	59,589,615	480,906,793	467,680,177

2012	Palestine	Jordan	Israel	Other	Total
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Assets

Deposits with PMA and financial institutions	122,926,922	2,316,921	5,784,244	12,777,027	143,805,114
Financial assets at fair value through the statement of income	138,293				138,293
Credit facilities, Net	292,863,010				292,863,010
Financial assets at fair value through other comprehensive income	6,696,886				6,696,886
Investments in subsidiaries	980,000				980,000
Property, plant and equipment, Net	19,320,344	--	--	--	19,320,344
Deferred tax asset	931,727	--	--	--	931,727
Intangible assets	31,296	--	--	--	31,296
Other assets	16,140,123	--	--	--	16,140,123
	460,028,601	2,316,921	5,784,244	12,777,027	480,906,793
Letter of credits	1,849,606	--	--	--	1,849,606
Acceptances	2,905,841	--	--	--	2,905,841
Guarantees	8,648,192	--	--	--	8,648,192
Unutilized direct facilities	9,163,813	--	--	--	9,163,813
	22,567,452	--	--	--	22,567,452

2011	Palestine	Jordan	Israel	Other	Total
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Assets

Deposits with PMA and financial institutions	89,568,705	10,560,586	16,429,704	23,631,494	140,190,489
Credit facilities, Net	288,376,020				288,376,020
Available for sale securities	6,630,084	--	--	--	6,630,084
Investments in subsidiaries	872,708	--	--	--	872,708
Property, plant and equipment, Net	19,250,122	--	--	--	19,250,122
Deferred tax asset	424,493	--	--	--	424,493
Intangible assets	33,058	--	--	--	33,058
Other assets	11,903,203	--	--	--	11,903,203
	417,058,393	10,560,586	16,429,704	23,631,494	467,680,177
Letters of credit	2,679,962	--	--	--	2,679,962
Acceptances	1,209,313	--	--	--	1,209,313
Guarantees	15,856,518	--	--	--	15,856,518
Unutilized direct facilities	12,823,342	--	--	--	12,823,342
	32,569,135	--	--	--	32,569,135

33. Contra Accounts:

Composition:

	2012	2011
Letter of credits	9,163,813	12,823,342
Acceptances	8,648,192	15,856,518
Guarantee	1,849,606	2,679,962
Unutilized credit limits	2,905,841	1,209,313
Total	22,567,452	32,569,135

34. Related Parties:

Details as follows:

	Executive Management	Board of Directors	Other Related Parties	Total
Year Ended 31 December 2012:				
Financial Position items:				
Direct credit facilities	1,765,163	2,989,792	1,587,766	6,342,721
Deposits	-	7,523	635,515	643,038
Cash margins	22,570	-	258,189	280,759
Off balance sheet items:				
Guarantees	439,445	-	948,339	1,387,784
Statement of Income:				
Interest and commission income	39,281	230,420	338,182	607,883
Interest and commission expense	-	(15)	(6,852)	(6,867)

	Executive Management	Board of Directors	Other Related Parties	Total
Year Ended 31 December 2012:				
Financial Position items:				
Direct credit facilities	510,662	2,694,592	2,863,271	6,068,525
Deposits		5,320	450,822	456,142
Cash margins			423,833	423,833
Off balance sheet items:				
Guarantees			935,349	935,349
Statement of Income:				
Interest and commission income	37,583	220,459	323,562	581,604
Interest and commission expense		(10)	(4,861)	(4,871)

Related parties/Facilities

	2012			
	Percentage to Net Facilities	Percentage to capital	Classified	Provision for impairment
Related Companies				
BOD Members and Executive Management	%1.62	%9.51	--	--
Other Related Parties	%0.5	%3.17	--	--
Total			--	--

	2011			
	Percentage to Net Facilities	Percentage to capital	Classified	Provision for impairment
Related Companies				
BOD Members and Executive Management	%1.10	%6.9	--	--
Other Related Parties	%1	%6.1	--	--
Total			--	--

35. Cash and Cash Equivalent:

This balance is composed of the following:

	December 31 2012	December 31 2011
Deposits with Palestine Monetary Authority	108,629,228	79,397,834
Deposits with banks due within three months	35,175,886	60,792,655
Less:		
Deposits of PMA and banks due within three months	(58,707,243)	(66,286,147)
Statutory reserve with PMA	(29,940,504)	(30,097,712)
	55,157,367	43,806,630

36. Lawsuits against the Bank:

There are lawsuits held against the bank to abolish the bank's claims on others and /or damage claims and / or labor claims. The total amount of the reserve established for any potential loss was in the amount of U.S Dollar 50,000 as of 31 December 2012.

37. Earnings per Share:

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

	للسنة المنتهية في 31 كانون الأول 2012	2011
Net income for the year	3,267,925	4,581,794
Weighted average of outstanding shares	50,000,000	50,000,000
Earnings per share	0.065	0.092

38. Comparative Figures:

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

39. Financial Instruments and Risk Management:

Financial assets

A financial asset is derecognized when the expiration of right to receive cash flows from the asset, or the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset and has transferred control of the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in the statement of income.

Fair value measurement

The following table provides an analysis of the financial instruments that are measured after the initial recognition at fair values, grouped into Levels 1 to 3 based on the degree to which the fair value is measurable.

Level 1: Fair value measurement is derived from quoted prices (unadjusted) at active financial markets for identical assets or liabilities.

Level 2: Fair value measurements is derived from sources other than quoted prices included within Level 1 that are measurable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Fair value measurements are derived from valuation techniques that include information about the assets or liabilities that are not based on obtainable market information.

	Level 1	Level 2	Level 3	Total
Financial Assets:				
Stocks traded at Palestinian securities exchange	6,835,179	-	-	6,835,179
Stocks not traded in any securities exchange	-	-	980,000	980,000

Risk Management Framework

Inherent Risks of the Bank activities are managed, measured and monitored continuously, to be within the authorized limits, considering the importance of risk management process affecting the bank's revenue, the functions and regulatory responsibilities that relates to risks are handled by the employees of the banks. The Bank is exposed to credit risk, liquidity risk, operating risk and market risk, which represent trading and hedging risks and operating risks. Risks relevant to the change of factors, the effect of technological factors and the industrial sector through the process of strategic planning is managed, but not through the usual process of risks management.

> Risk management process

The Board of Directors is responsible for identifying and controlling risks; in addition, there are

several bodies responsible for managing and monitoring the bank risks.

> Risks Committee

Risks committee is the responsible body for developing risk strategies and applying the principles, general frame and allowed limit.

> Risk Measurement and Reporting Systems

Risks are monitored and controlled through the control of authorized limits for each type of risk. These limits reflect the strategy of the Bank and the surrounding various market factors, in addition to the acceptable level of risk with a focus on certain financial sectors. Information is collected from different departments and is analyzed to get early identification of potential risks that may result from them. This information is presented to the Board of Directors and the audit committee and the direct manager of each department of the bank.

> Internal Audit

Processes of risk management that are audited annually through internal audit department by testing all procedures and the compliance of required procedures. Internal audit department discusses audit results with the bank's management and respective department.

> Risk Reduction

As part of risk management process, the bank uses derivatives and other financial instruments to manage the results from changes in the interest prices, foreign currencies, capital risks and credit. The risks are evaluated before hedging, and the risks department controls the effectiveness of the hedging process on monthly basis, in case of non-effective hedging is found; the bank performs suitable hedges to reduce the effect of these non-effective hedges.

Credit Risk and Concentration of Assets and Liabilities

Credit risk is the risk that may result from the failure or inability of the other party of the financial instrument for the fulfillment of its obligations towards the bank, which leads to a loss. The Bank works on credit risk management through putting limits and ceilings for the amounts of direct credit facilities (individual or institution) and the total loans and debt granted to each sector and each geographical area, as well as controlling credit risk and works continuously to evaluate the credit case of customers, in addition to that, the bank have an appropriate collaterals from customers.

The granting of credit facilities is the responsibility of the credit facility committee in the bank and it conducts its work in accordance with the requirements of the credit policy which agrees with limits of applicable authorization. The committee studies each credit request separately from the reality of data provided by the client requesting the facility such as the audited financial statements, the statements of other explanations on the financial solvency of the client, guarantees which is attainable, economic feasibility studies for projects subject for financing and the size of required credit.

The credit committee and department follow-up credit in collaboration with the staff of audit and internal inspection to monitor the credit facilities granted to customers on a regular basis to identify any deviations that would expose the bank to the risk of non-fulfillment of obligations undertaken by the customer, and thus take the necessary procedures to protect the funds of the bank.

Balances with banks and banking institutions and investment in securities are the result of decisions taken by the bank for investing the cash surpluses with banks and financial institutions according to a system of policies and procedures that define the terms of definition and measurement and risk management that the Bank is possibly exposed to, which includes adoption of credit rating system for banks, credit concentrations and determine the level of credit and the economic sector, geographical region, and analysis of economic fluctuations and according to study of the supposed harsh scenarios.

A\1. The credit exposures for the credit facilities are distributed according to risks degrees as follows:

2012	Individuals	Companies			Public	Total
		Mortgage Loans	Large Companies	Small, Middle Institutes		
Low Risks	2,534,147	1,820,696	5,643,306	2,137,340	127,079,273	139,214,762
Acceptable Risks	113,394,208	3,813,520	33,677,147	6,771,519	--	157,656,394
Owed (*):						
Within 30 Days						--
31 to 60 Days						--
Under Control	167,173	--	1,523,650	--	--	1,690,823
Non – Functional:						
Below the Level	258,636	--	71,590	--	--	330,226
A doubted	375,696	--	318,565	--	--	694,261
Total	115,928,355	5,634,216	39,320,453	8,908,859	127,079,273	296,871,156
Less: Suspense Interest	(711,047)	--	(357,221)	--	--	(1,068,268)
Decline Provision	(1,787,361)	--	(1,152,517)	--	--	(2,939,878)
Net	113,429,947	5,634,216	37,810,715	8,908,859	127,079,273	292,863,010

2011	Individuals	Companies			Public	Total
		Mortgage Loans	Large Companies	Small, Middle Institutes		
Low Risks	1,887,551	1,253,658	5,010,291	1,475,253	122,021,809	131,648,562
Acceptable Risks	95,529,554	3,698,806	58,549,222	2,714,245	--	160,491,827
Owed (*):						
Within 30 Days						
31 to 60 Days						
Under Control						
Non – Functional:						
Below the Level	232,142	--	86,325	118,044	--	436,511
A doubted	3,820,375	--	--	120,813	--	3,941,188
A doubted	1,406,509	--	--	1,040,667	--	2,447,176
Total	97,417,105	4,952,464	63,559,513	4,189,498	122,021,809	292,140,389
Less: Suspense Interest	(802,305)	--	--	(246,059)	--	(1,048,364)
Decline Provision	(1,816,127)	--	--	(899,878)	--	(2,716,005)
Net	94,798,673	4,952,464	63,559,513	3,043,561	122,021,809	288,376,020

A\2. The following is the distribution of the guarantees for facilities at their fair values:

2012	Individuals	Mortgage Loans	Large Companies	Public	Total
Low Risks	2,534,147	1,820,696	5,643,306	--	9,998,149
Acceptable Risks	29,834,767	784,566	18,745,447	--	49,364,780
Under Control	167,173	--	1,523,650	--	1,690,823
Non – Functional:					
Below the Level	258,636	--	71,590	--	330,226
Doubtful	375,696	--	318,565	--	694,261
Total	33,170,419	2,605,262	26,302,558	--	62,078,239
Includes:					
Cash Margins	6,487,421	817,927	6,192,823	--	13,498,171
Mortgages	23,280,407	1,787,335	13,680,513	--	38,748,255
Shared Stocks	3,402,591	--	6,429,222	--	9,831,813
Total	33,170,419	2,605,262	26,302,558	--	62,078,239

2011	Individuals	Mortgage Loans	Large Companies	Public	Total
Low Risks	1,563,589	1,253,658	6,352,656		9,169,903
Acceptable Risks	25,578,254	672,525	20,032,352	--	46,283,131
Under Control	232,142	--	204,369	--	436,511
Non – Functional:					
Below the Level	3,820,375	--	120,813	--	3,941,188
Doubtful	1,406,509	--	1,040,667	--	2,447,176
Total	32,600,869	1,926,183	27,750,857	--	62,277,909
Includes:					
Cash Margins	6,407,421	802,927	6,138,445	--	13,348,793
Mortgages	22,740,407	1,123,256	12,180,013	--	36,043,676
Shared Stocks	3,453,041	--	9,432,399	--	12,885,440
Total	32,600,869	1,926,183	27,750,857	--	62,277,909

Liquidity risk

Liquidity risk is the inability of the bank to provide the funding necessary to carry out its obligations in the due dates with lower costs. Liquidity management requires to keep a large and diversified ability to fund, and availability of liquid assets and other sources of cash in order to protect the bank from fluctuations in the levels of assets and liabilities resulting from events or unexpected turbulence in the market.

Liquidity risk management aims primarily to provide a plan and find mechanisms to deal with unexpected changes while the request or requirement of liquidity resulting from the actions of customers or market conditions that is not natural. The Bank's management is committed to achieve the maximum level of customers' deposits and other funding sources and conserving them. This committee monitors the bank deposits rates, levels, trends, significant changes and plans for marketing

the deposits which is constantly monitored to ensure consistency with the requirements of the liquidity policy. On the other hand, the committee emphasizes on the commitment of the Palestine Monetary Authority's instructions on the limits of cash to be kept, and emphasizes on the commitment about the legal liquidity minimum level as instructed by the Palestine Monetary Authority. The following schedules depict the liquidity status as of 31 December 2012 and 2011.

Liquidity risk:

B\1 The table below shows the maturity of the Bank's major assets and liabilities as of December 31, 2012 compared to December 31, 2011 based on the contractual repayment arrangements on the date of the financial statements:



December 31, 2012	Within one Month	One to three Months	Three to six months	Six months to one year	One to Three Years	More than Three Years	No specific maturity	Total
Assets								
Cash and deposits with PMA	78,688,724	--	--	--	--	--	29,940,504	108,629,228
Deposits with banks	7,372,900	27,802,986	--	--	--	--	--	35,175,886
Financial assets at fair value through the statement of income		138,293						138,293
Credit facilities, Net	23,312,357	2,205,314	1,951,142	8,258,152	112,840,741	144,295,304	--	292,863,010
Financial assets at fair value through other comprehensive income	--	--	--	--	--	--	6,696,886	6,696,886
Financial assets at amortized cost	--	--				980,000		980,000
Property, plant and equipment, Net	--	--	--	--	--	--	19,320,344	19,320,344
Deferred tax asset	--	--	--	--	--	931,727	--	931,727
Intangible assets	--	--	--	--	--	--	31,296	31,296
Other assets	--	12,643,526	--	--	1,865,942	--	1,630,655	16,140,123
Total Assets	109,373,981	42,790,119	1,951,142	8,258,152	114,706,683	146,207,031	57,619,685	480,906,793
Liabilities and Equity Liabilities								
Deposits of banks and financial institutions and Palestine Monetary Authority	57,296,806	1,410,437	507,654	--	--	--	--	59,214,897
Customers' deposits	292,423,284	16,509,478	18,083,537	6,985,161	255,317	--	--	334,256,777
Cash margins	19,350,334	--	--	--	--	--	--	19,350,334
Sundry provisions	--	--	--	--	--	2,796,452	--	2,796,452
Provision for taxes	--	--	--	2,586,621	--	--	--	2,586,621
Other credit balances	--	4,716,026	--	--	--	--	--	4,716,026
Owners' equity	--	--	--	--	--	--	57,985,686	57,985,686
Total Liabilities and equity	369,070,424	22,635,941	18,591,191	9,571,782	3,051,769	--	57,985,686	480,906,793
Net liquidity gap	(259,696,443)	20,154,178	(16,640,049)	(1,313,630)	111,654,914	146,207,031	(366,001)	--
Cumulative liquidity gap	(259,696,443)	(239,542,265)	(256,182,314)	(257,495,944)	(145,841,030)	366,001	--	--

December 31, 2011	Within one Month	One to three Months	Three to six months	Six months to one year	One to 3 Years	More than 3 Years	No specific maturity	Total
Assets								
Cash and deposits with PMA	49,300,122	--	--	--	--	--	30,097,712	79,397,834
Deposits with banks	9,852,012	50,940,643	--	--	--	--	--	60,792,655
Credit facilities, Net	78,935,618	6,688,149	2,957,306	4,311,572	47,775,293	147,708,082	--	288,376,020
Available for sale Securities and Investments in subsidiaries	--	--	--	--	6,630,084	--	872,708	7,502,792
Property, plant and equipment, Net	--	--	--	--	--	--	19,250,122	19,250,122
Deferred tax asset	--	--	--	--	--	424,493	--	424,493
Intangible assets	--	--	--	--	--	--	33,058	33,058
Other assets	--	10,384,150	--	--	1,519,053	--	--	11,903,203
Total Assets	138,087,752	68,012,942	2,957,306	4,311,572	55,924,430	148,132,575	50,253,600	467,680,177
Liabilities and Equity Liabilities								
Deposits of banks, financial institutions and Palestine Monetary Authority	16,646,750	49,639,397	500,000	--	--	--	--	66,786,147
Customers' deposits	61,637,945	48,041,691	29,770,330	19,028,645	12,297,157	3,062,748	141,887,617	315,726,133
Cash margins	22,345,206	--	--	--	--	--	--	22,345,206
Sundry provisions	--	--	--	--	2,109,696	--	--	2,109,696
Provision for tax	--	--	--	2,585,203	--	--	--	2,585,203
Other credit balances	--	3,549,046	--	--	--	--	--	3,549,046
Owners' equity	--	--	--	--	--	--	54,578,746	54,578,746
Total Liabilities and equity	100,629,901	101,230,134	30,270,330	21,613,848	14,406,853	3,062,748	196,466,363	467,680,177
Net liquidity gap	37,457,851	(33,217,132)	(27,313,024)	(17,302,276)	41,517,577	145,069,827	(146,212,763)	--
Cumulative liquidity gap	37,457,851	4,240,659	(23,072,365)	(40,374,641)	1,142,936	146,212,763	--	--

Market risk

The nature of the bank's activities is mainly exposed to the risk of fluctuation in foreign exchange rates, and also the risk of fluctuation in interest prices. The Bank works to diversify its investments to control the level of exposure to the risk of foreign currency exchange rates fluctuation and the risk of interest rates fluctuation.

Interest rate risks

These risks arise from the likely changes in interest rates which may affect the value of financial assets or bank cash flows. The Bank is exposed to interest rate risk as a result of the differences in the values of assets and liabilities and off-financial position instruments that mature or re-priced in a given period.

The Bank measures interest rate risk by putting levels for this risk by setting minimum and maximum limits to the interest rate differences for stipulated periods, and matching the re-pricing of assets and liabilities through risk management strategies including the use of various off-financial position instruments. The following schedules depict the sensitivity analysis of interest rates:

Sensitivity of Interest Rates- December 31, 2012:

Assets	Up to one month	One to three months	Three to six months	Six months to one year	One year to 3 years	More than 3 Years	Non-interest bearing	Total
Cash and deposits with PMA	--	--	--	--	--	--	108,629,228	108,629,228
Deposits with banks	27,802,986	--	--	--	--	--	7,372,900	35,175,886
Financial assets at fair value through the statement of income	--	--	--	--	--	--	138,293	138,293
Credit facilities, Net	144,295,304	112,840,741	8,258,152	1,951,142	25,517,671	--	--	292,863,010
Financial assets at fair value through other comprehensive income	--	--	--	--	--	--	6,696,886	6,696,886
Financial assets at amortized cost	--	--	--	--	--	980,000	--	980,000
Property, plant and equipment, Net	--	--	--	--	--	--	19,320,344	19,320,344
Deferred tax asset	--	--	--	--	--	--	931,727	931,727
Intangible assets	--	--	--	--	--	--	31,296	31,296
Other assets	--	--	--	--	--	--	16,140,123	16,140,123
Total assets	172,098,290	112,840,741	8,258,152	1,951,142	25,517,671	980,000	159,260,797	480,906,793
Liabilities and Owners' equity								
Deposits of banks, financial institutions and Palestine Monetary Authority	57,296,806	1,410,437	507,654	--	--	--	--	59,214,897
Customers' deposits	150,535,666	16,509,478	18,083,537	6,985,161	255,318	--	141,887,617	334,256,777
Cash margins	19,350,334	--	--	--	--	--	--	19,350,334
Sundry provisions	--	--	--	--	--	--	2,796,452	2,796,452
Income Tax Provision	--	--	--	--	--	--	2,586,621	2,586,621
Other credit balances	--	--	--	--	--	--	4,716,026	4,716,026
Owners' equity	--	--	--	--	--	--	57,985,686	57,985,686
Total liabilities and Owners' equity	227,182,806	17,919,915	18,591,191	6,985,161	255,318	--	209,972,402	480,906,793
Interest rate sensitivity gap	(55,084,516)	94,920,826	(10,333,039)	(5,034,019)	25,262,353	980,000	(50,711,605)	--
Cumulative interest rate sensitivity gap	(55,084,516)	39,836,310	29,503,271	24,469,252	49,731,605	50,711,605	--	--

Sensitivity of Interest Rates- December 31, 2011:

Assets	Up to one month	One to three months	Three to six months	Six months to one year	One year to 3 years	Noninterest bearing	Total
	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar	U.S Dollar
Cash and deposits with PMA	-	-	-	-	-	79,397,834	79,397,834
Deposits with banks	49,092,901	1,952,242	--	--	-	9,747,512	60,792,655
Credit facilities, Net	78,935,618	6,688,149	2,957,306	4,311,572	195,483,375	-	288,376,020
Available for sale Securities and Investments in subsidiaries	-	-	-	-	-	7,502,792	7,502,792
Property, plant and equipment, Net	-	-	-	-	-	19,250,122	19,250,122
Deferred tax asset	-	-	-	-	-	424,493	424,493
Intangible assets	-	-	-	-	-	33,058	33,058
Other assets	-	-	-	-	-	11,903,203	11,903,203
Total assets	128,028,519	8,640,391	2,957,306	4,311,572	195,483,375	128,259,014	467,680,177
Liabilities and Owners' equity							
Deposits of banks, financial institutions and Palestine Monetary Authority	16,646,750	49,639,397	500,000	-	-	-	66,786,147
Customers' deposits	95,876,821	48,041,691	29,770,330	19,028,645	-	123,008,646	315,726,133
Cash margins	22,345,206	-	-	-	-	-	22,345,206
Sundry provisions	-	-	-	-	-	2,109,696	2,109,696
Tax provision	-	-	-	-	-	2,585,203	2,585,203
Other credit balances	-	-	-	-	-	3,549,046	3,549,046
Owners' equity	-	-	-	-	-	54,578,746	54,578,746
Total liabilities and Owners' equity	134,868,777	97,681,088	30,270,330	19,028,645	-	185,831,337	467,680,177
Interest rate sensitivity gap	(6,840,258)	(89,040,697)	(27,313,024)	(14,717,073)	195,483,375	(57,572,323)	-
Cumulative interest rate sensitivity gap	(6,840,258)	(95,880,955)	(123,193,979)	(137,911,052)	57,572,323	-	-

Foreign currency risks

The foreign currency transactions of the Bank are made in a specific way, and the treasury department focuses to meet the requirements of the bank's customers to manage their own foreign currency accounts, the transactions of the bank in the financial markets, if any, are covered by similar transactions to customers.

Risks of Stocks prices

Risk of stocks prices is resulting from the change in the fair value of investments in those stocks. The Bank manages this risk by diversifying investments in several geographic regions and economic segments.

The effect on the comprehensive income and owners' equity when there is a possibility for change in the prices of listed investments, assuming all other factors remaining unchanged is as follows:

	2012		
	Change in index	Effect on Income Statement	Effect on Ownership Equity
Shares Listed at PSE	10 %	--	669,689
Shares Listed at PSE	10 %	13,829	--

	2011		
	Change in index	Effect on Income Statement	Effect on Ownership Equity
Shares Listed at PSE	10 %	--	663,084