



Annual Report

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quds Bank

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Quds Bank .. Firm Steps Towards Distinction



{ Quds Bank is amongst the largest and fastest growing local banks operating in Palestine. With an eye to materialise its emblem ‘The Bank of the Nation and Citizen,’ Quds Bank relentlessly aspires to be at the forefront of Palestinian banks on local and regional levels }

Quds Bank at a Glance

Quds Bank is amongst the largest and fastest growing local banks operating in Palestine. The Bank provides comprehensive sets of innovative solutions to its customers whether personal / individuals, 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.

Currently and with an existing capital of USD 50 million, Quds Bank was incorporated on the 2nd of April 1995 as a limited public 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 fully fledged commercial bank in Palestine. It focuses on attracting and investing customers' deposits whilst generating innovative and rewarding financing solutions that respond to 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 21 branches and offices across the Palestinian governorates in the West Bank and Gaza.

Mission: Quds Bank – 'Bank of the Nation and Citizen'

With an eye to materialise its emblem 'Bank of the Nation and Citizen,' Quds Bank relentlessly aspires to be at the forefront of Palestinian banks. To this end, the Bank pays special attention to its customers - existing and potential- through its cutting-edge banking services and products that correspond, and even surpass, their expectations. Accordingly, Quds Bank will always be customers' number one preference.

Additionally, the Bank actively operates to maximize shareholders' and overall corporate value whilst contributing to the development and support of the national economy.



Akram Abdul Latif Jerab
Chairman

Dear Shareholders

On behalf of the 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 17th Annual Report re the results of Quds Bank Company operations as of 31 December 2011, in addition to highlighting past year's results and achievements. The Report addresses the Bank's financial performance as to budgeted plan(s), income statement, cash flows, changes in shareholders' equity, and latest developments in the growth and development of the Bank's operations noting that these were prepared in line with the applicable transparency and disclosure requirements, corporate governance and best banking practices and comply with the applicable rules and regulations set by the regulator and control bodies of relevance.

As you know, 2011 was an exceptionally challenging year and a continuation to the prevailing financial crises that impacted and reflected gravely on the international, regional and local arenas. Still, Quds Bank managed to achieve a significant growth in operations, marking solid financial achievements and indicators which convey growing levels of trust and confidence in the Bank's performance and standing.

Having completed its 17th year of operations, the Bank continued to foster its status and develop its operations and plans as a pioneering banking institution in the Palestinian banking sector.

Confidently, Quds Bank pursued the implementation of its Strategic Plan, which by the Board of Directors approved. The Plan was well designed and oriented to accomplish a balanced growth in the various activities and operations of the Bank.

Throughout 2011, Quds Bank attained and maintained ground-breaking results and growth levels



across the various core financial indicators in tandem with our vision and strategic orientation which we have initiated and implemented over the past years. Our Bank has risen to a top position amongst banks operating in Palestine; this success will pave the way towards a major expansion in the near future.

By the end of 2011, Quds Bank's financial position registered an asset growth of USD 467 million compared to USD 427 million in 2010, marking a rise of 9.5%. In comparison to USD 288.4 million in 2010, deposits grew to USD 338.1 million, or by %45. Property rights rose to USD 54.6 million in 2011 in contrast with USD 50.4 million in 2010.

With an increase of %35, total income scored USD 25.2 million in 2011 compared to USD 18.68 million in 2010.

The above attests to an overall growth of major activities across the board. The 2011 financial results are solid evidence of the Bank's consistent investment in expanding its operations through inaugurating new branches, recruiting new qualified cadre, and development of the Bank's managerial roles and functions. It is noteworthy that the aforementioned transpired alongside the taking on of three new branches upon the acquirement of Palestine International Bank's branches including its 80 staff members. This is besides the restructuring and reorganization of the administrative and reporting functions/ structures which in aggregate contributed to increasing expenses by %50 – USD 18.69 million in 2011 compared to USD 12.23 million in 2010. This rise did affect the Bank's bottom-line. In comparison to 2010, the Bank's earnings before tax grew merely by %3 as a result. It is worth mentioning here however that the effects of these investments will manifest into investments targeting human resources and new branches in the coming years.

The above indicators collectively demonstrate Quds Bank's sound strategy of sustained growth, solid financial and credit foundation, endurance and resilience in coping with the various market conditions.

The above success indicators would have not been tenable if it were not for the Bank's ambitious operating plan, which came about as a translation to the budgeted operating plan of 2011 that was prepared and developed under direct supervision of the Board of Directors. This plan transpired since it was based on scientific and realistic measures and indicators that took into account the need to achieve and sustain realistic yet ambitious growth parameters, scale up the Bank's market share, and reconcile risk and profitability without disregarding the conservative policies pertaining to investment or lending and other risks facing the Bank in general. To this avail, the Board of Directors did promote the functions of audit and control by consolidating and appointing qualified staff at the Risk, Compliance and Internal Audit Departments.

The Bank also oversaw the implementation of a set of strategic plans to ensure the business continuity of our

operations fostered in the establishment of the Disaster Recovery Site and contracting with **Grant Thornton**, a major risk management firm, to deliver needed consultancies on risk management.

Quds Bank has been very conscientious to satisfy and meet customer needs in an ever competitive market and on a very personalized basis. In this context, the Bank's Management did provide a wide spectrum of financial services and banking products to both individuals and companies, including SMEs, as well as investment, advisory services, treasury management in a manner that assimilate and sometimes surpass the most up to date banking practices and advanced market measures.

Moreover, and in order to apply the best banking practices, we did focus on expanding our financing solutions to target individuals as well as small and medium enterprises. Through which, we served a larger pool of customers, diversified risks, realized adequate returns, and mitigated credit concentrations which should constitute a solid foundation for further credit exposures, healthy growth of portfolio and the introduction of diversified banking services of interest.

The Board's applied strategy aimed to control and contain operational risks in a strategic banking context. It applied sets of advanced managerial concepts, which are designed to convert the Bank's various units and autonomous departments into an integrated network of connected and responsive operational platform that is monitored and managed on a centralized basis such as the credit processing unit. As such, the Bank should operate in line with clear guiding principles that not only ensure the materialisation of annual targets in terms of profitability, market share, key growth indicators and indicators as such, but should also allow a thorough implementation and follow up of the various financial transactions and operations on a systematic and well informed basis. This should enable the Bank control and mitigate risks to minimal acceptable levels whilst promoting and fostering dual control administration of key processes and operational activities.

The Board also implements well-informed plans to develop the Bank's operations. It ensured the inauguration of more branches in vital geographical areas. In addition to an integrated ATM network, Quds Bank now operates a total of 21 branches and regional offices. The Bank also signed an agreement with the Jordan Business Systems to procure 27 ATMs and dispense them throughout the West Bank and Gaza Strip. Accordingly, a total of 60 ATMs will be run by Quds Bank which will advance further its well stretched network of ATMs to enable its customers carry out their banking transactions effectively and efficiently wherever they are across the country.

As for products and services, Quds Bank continued its efforts to expand and offer inclusive and

competitive banking products and services which proved successful and highly competitive. The Bank launched credit cards to customers in a manner that is very successful and highly satisfactory. The Bank also pursued its commitment to upgrade and promote its website and e-banking services. It has further managed to develop treasury services by introducing innovative and distinguished solutions that serve customers' needs and evolving requirements. Additionally, the Bank launched bankassurance services which aimed to foster the Bank's vision in creating a One-Stop-Shop at which insurance policies of different kinds and types are sold alongside other banking products and services at our branches. We also decided to operate beyond regular working hours and launch an evening-shift at a number of our key branches and offices in addition to opening some branches on Saturdays – a step welcomed and deemed as highly successful by our customers. And finally, and to further promote our Bank's status as a large and leading banking institution, we have launched an unparalleled savings campaign in 2011. Accordingly, the Bank managed to score a noticeable growth in savings deposits and customers and promote its image across the Palestinian Market.

Esteemed Shareholders,

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 upon to the benefit of all parties involved. Towards the end of 2011, the total number of staff members working at Quds Bank reached 448.

Believing in our integral role in corporate social responsibility, 2011 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 centres and organisations. The Bank did also sponsor and support conferences and intellectual seminars that aimed to serve and develop a number of civil society organizations.

Dear Shareholders,

I would like to reiterate my thanks and gratitude for your presence and for your valuable trust and confidence in our valued organization – Quds Bank. I grab this opportunity to also express my sincere thanks and appreciation to the Palestine Monetary Authority for its unlimited cooperation and support of the banking sector as it notably contributed in preserving a sound and stable banking sector. I would also like to thank the Company Controller, Palestine Capital Market

Authority and Palestine Exchange. All gratitude and appreciation is due to our customers, of whose trust and confidence we are immensely proud. I would not miss this opportunity to also pay tribute to and thank all my colleagues at the Board of Directors for their vital role, relentless cooperation and wise orientation throughout the past period. Praise and appreciation are further due to the Bank's Executive Management and all Quds Bank employees for their immense dedication which enabled the Bank to achieve what it has.

Sincerely yours

**Akram Abdul Latif Jerab
Chairman**

Akram Jerab





Azzam Shawwa
General Manager

عَنْ الْمَشْرِقِ



Esteemed Shareholders,

The year 2011 was a distinctively challenging year on the local, regional and international fronts. Due to the ongoing, highly complex political conditions, discretion continued to be the dominant characteristic of most economic activities noting that the Palestinian practical attempt towards independence and self-determination, accompanied by political and regional transformations including the prevalent Arab Spring and the global economic crisis which continued to adversely reflect on Europe and other regions around the world-including the Arab World-most countries witnessed mediocre, if not negative, economic growth rates.

These events have affected the Palestinian National Economy as well. In addition to the declining growth rate, a weakening activity has exerted a negative impact on the various public and private sector economic activities.

In spite of this bleak economic reality, Quds Bank managed to achieve high growth rates in most of its operating activities. Rising by %9.7, Total Assets climbed from USD 427 million in 2010 to USD 468 million in 2011.

Compared to USD 307.5 million in 2010, Customer Deposits also grew to USD 338 million, or by %10, in 2011. Exhibiting a steady growth of %45, Credit Facilities jumped from USD 199 million in 2010 to USD 288.4 million last year. Meantime, Quds Bank did focus on targeting those sectors which are perceived as promising, growing, outperforming, and sustainably developing.

We did also focus our efforts on expanding our customer base through a balanced approach and exposure towards individuals in the form of personal banking products, SMEs and corporate clients on a prudent basis taking into consideration immanent and potential risks versus distant changes and developments, internal and external.

Back to financial results, Quds Bank's Net Profit amounted to USD 4.6 million, or %4, in 2011 in contrast with USD 4.4 million in 2010. Net interest revenues rose by %37, reaching USD 15.7 million in 2011. Scoring USD 5.1 million in 2011, net commission income registered a growth of %50.

Compared to %79.5 in 2010, the combined net and commission income signalled 82.5% of the Bank's total revenues.

The aforementioned come about as a result of a number of dynamics which could be summarized in the consistency of the Bank's development and its operation with the strategy in place, optimized performance on the different levels, in addition to a balanced alignment and utilization of the sources and uses of funds. This all aimed at achieving key financial indicators in line with the best international standards to maximize returns and shareholders' wealth based on a prudent, balanced and clear vision that is characterized as sound and

sustainable in terms of progressive performance and growth.

Imperative to point out that during the course of 2011, Quds Bank launched a number of products and services that were added to that already provided.

The Bank launched MasterCard credit cards which present numerous features and advantages that outstand many similar cards that are offered by our rivals in the Palestinian Market and beyond. We did also introduce a basic package of bancassurance services since we believe and strive to foster the one-stop-shop concept where banking and insurance services are offered under one roof.

Additionally, Quds Bank introduced an evening shift service to open a number of its key branches and offices outside opening hours in addition to opening on Saturdays with a view to serve our valued customers, meet their growing needs, and supersede their expectations in the various Palestinian cities and rural areas.

The Bank has continued to scale up its banking e-services and treasury management operations in line with the best applicable standards and practices. The Bank's strategy continues to be based on developing our existing services and introducing the best, most innovative and rewarding services that emulate and further supersede our clients' needs and wants on our way to distinction and excellence. We also expanded our ATM network to include most key areas throughout the Palestinian Governorates in addition to inaugurating two new branches in the cities of Tulkarem and Jericho as well as two offices at the Ramallah Movenpick Hotel and the town of Biddya in Salfit Governorate to reach out and provide easy access to our banking services to our customers wherever they are on an uninterrupted basis.

Also in 2011, Quds Bank launched a savings mobilization scheme/ campaign – **'Keys to Your Dreams'** to promote saving as a integral habit noting that the Bank offered rewarding and generous prizes (a house and a car) to mobilizers to promote this habit as the pillar of financial planning for both households and individuals and ensure the financial security and stability that cater for their current and prospected endeavours.

The above would not have been possible if it were not for the distinguished human cadre whom I am so proud to lead. Human resources development is always our top priority as it is indispensable to realising our Bank's current and future aspirations. It involves training, development and remuneration in a manner that correspond to mounting responsibilities and growing demands and aspirations.

This is in addition to that fact that Quds Bank has further completed the implementation of the codes of corporate governance and introduced major developments to the Risk and Compliance Departments so that they function in tandem with the best applicable

standards and practices and ensure an optimal performance that correspond with the esteemed Board's vision and desired approach.

Quds Bank derives its distinctive status and role as an effective participant in the Palestinian Society from the various activities introduced and implemented which are designed to improve the ordinary Palestinian's quality of life as they stem from the Bank's active mission and involvement in corporate social responsibility. Our mission is to contribute to making a difference in the lives of people – the mainstay and cornerstone of our society. Introducing a positive change is to cultivate hope in people and achieve the best in and for all, both institutions and individuals.

In the end, I would like to express my greatest thanks and gratitude to Quds Bank's Chairman and Board Members for their invaluable support, trust and confidence in me and in my team over the past period. I would also like to thank all shareholders for their unrelenting support and to our respected customers whom are the core of our success and excellence. I also would like to thank my colleagues at Quds Bank for their diligent work, devotion and commitment. Special thanks are also due to the Palestine Monetary Authority for its continued support and protection of the Palestinian banking sector; thanks to its prudent policies and devoted cadres, our banking sector has attained this distinguished status which we all take pride in.

I remain,

Azzam Shawwa
General Manager

Azzam A Shawwa

{ A Board of Directors, comprised of 13 members, manages Quds Bank. Board members are equipped with extensive experience and high profile qualification(s) to supervise and manage the Bank's operations. The Chairman of the Board is elected by Board members }



Mr.
Akram Abdul Latif Jerab
Chairman of the Board

- * Board Chairman, Arab Company for Science and Technology, Qasyoun University, Syria.
- * Board Chairman, Yamama Agricultural Products Industrial Company Ltd., Jordan.
- * Board Member Chairman, Karmel Company Group, Jordan.
- * Board Member and Executive Committee Member, Aljazeera Sudanese Jordanian Bank, Sudan.
- * Board Member, Dar Al Dawa' Development and Investment Company (Dar Al Dawa'), Jordan.
- * Deputy Chairman, Sawt al Arab Press Company (Al Wahda Newspaper), Jordan.
- * Board Chairman and Owner, Cometa Scientific, UK.
- * Board Chairman and Owner, Cumberland Health Care Ltd., Nottingham, UK.



Mr.
Abdul Rahim Nizar Jardaneh
Deputy Chairman of the Board

- * 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.
- * Board Member, Jordan Drugstore Company, Jordan.



- * 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.
- * Partner and General Manager, Talfit Trading Foundation, Jordan.
- * Partner and General Manager, Al Murjan Trading and Agencies Co., Kuwait.
- * Partner and General Manager, Al-Kamal For Navigation & Customs Clearance, Palestine.
- * Partner, Tamleek Real Estate Investment and Development, Jordan.



- * Engineer, Kuwait Television Station, Kuwait, 1962-1966.
- * Engineer, General Organisation of Radio and TV, Syria, 1966 – 1973.
- * Assistant Technical Advisor, Ministry of Information, United Arab Emirates, 1973 – 1981.
- * General Manager and Partner, Media International Foundation, 1981 – 1992.
- * Board Chairman, Arab Paper Converting and Trading Company Ltd., Jordan.
- * Board Chairman, Model Kitchens Company.
- * Board Chairman, Arab Company for Investment Projects.



Mr.
Jamal Mohammed Fariz
Board Member

- * Chairman, Financial Markets Traders' Association, Jordan, 1995 – 2010.
- * Honorary President, Arab Financial Markets Traders' Union.
- * Secretary General, Treasury of the Arab Financial Markets Traders' Union, 1988 – 2002.
- * Part-time Lecturer, Institute of Banking Studies, Jordan.
- * Deputy Board Chairman, Haya Cultural Centre, Jordan.
- * Deputy Board Chairman, Employment, Technical and Vocational Education Training (E-TVET) Fund, Jordan.
- * Board Member, Jordan Europe Business Association (JEBA), Jordan.
- * Member, Financial Committee of the Jordan Football Association, Jordan.



Mr.
Ziyad Fawzi Barghouthi
Board Member

- * General Manager, Al Barghouthi General Trading and Investment Company, Palestine.
- * Former President of Palestine Pharmaceutical Association, Palestine.
- * Former Board Member, Palestine Plastics Company, Palestine.
- * Co-founder and Deputy Chairman, Palestinian Businessmen Association.



**Engineer
Walid Najib Al Ahmed**
Board Member

- * Board Member and Deputy Board Chairman, Jerusalem Real Estate Investment Company.
- * Electrical Engineer, EMI, Queen Alia International Airport, Jordan 1980 – 1983.
- * Project Manager, Electricity and Mechanics Engineering Group, 1983 – 1989.
- * General Manager and Partner, Yabous Engineering Company, 1989 – 1996.



**Mr.
Louai Kawas**
Board Member

- * Board Chairman, Grand Park Hotel, February 2011.
- * Board Chairman, Tri-Fitness Gym Club, July 2009.
- * Board Member, Bulk Express Transport, June 2009.
- * Board Member, Al Reehan Real Estate Investment Company, February 2011.
- * Board Member, Al Hayat al Jadida Newspaper, August 2010.



- * Assistant Commercial Manager, Kuwait Airways, Kuwait.
- * Manager, Foreign Relations, Arab Fund for Economic and Social Development.
- * First Deputy Chairman, Kuwait Foreign Trading, Contracting & Investment Co. S.A.K, Kuwait.
- * Worked as the General Manager, Al Quds Newspaper, Jerusalem, Palestine.
- * Deputy Regional Manager, Cairo-Amman Bank, Ramallah, Palestine.
- * Deputy General Manager, Jerusalem Cigarette Company Group, including Arab Investors Company, United International Trade, Jerusalem Investment Company and Azhar Real Estate Development Company.
- * General Manager, Arab Care Medical Services Company.
- * Board Member of Palestine Real Estate Investment Company (PRICO) and Al Mashriq Insurance Company representing Jerusalem Cigarette Company Ltd.



- * President, Federation of Contractors Islamic Countries (FOCIC).
- * Board Member, Aljazeera Bank.
- * Board Member, Building Information Modeling.
- * Board of Trustees Member, Injaz Palestine.



**Engineer
Ahed Fayeḡ Bseiso**
Board Member

- * 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 Centre (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.
Munther Jawdat an Nabilsi**
Board Member

- * Board Member, Transgulf Readymix Concrete Co. Ltd., Abu Dhabi.
- * Deputy Board Chairman, Abu Dhabi & Dubai.
- * Board Member, Green Works Establishment, Dammam Saudi Arabia.
- * Owner and Board Chairman, Golden Works Co., Jordan.

Mr.
Duraïd Akram Jerab
Board Member

- * General Manager of Medical Section, Karmel Company Group, Jordan.
- * Board Member, Dar Al Dawa Development and Investment Company (Dar Al Dawa), Jordan.
- * Board and Strategic Committee Member, Nutridar Company, Jordan.

Quads Bank is led and managed by a group of distinguished, highly skilled, well-experienced and capable individuals. They are highly credible and enjoy extensive experience with academic degrees from prominent and prestigious universities



Mr. Azzam Shawwa
General Manager

Bachelor of Science in Mathematics,
Lemoyne-Owen College, USA



Mr. Samih Sbaih
Deputy General Manager

Masters in Accounting
University of Jordan - Jordan



Mr. Suleiman Sulymeyyeh
Assistant to General Manager
for Banking Operations

Masters in Economics and
Financial Sciences,
Higher Institute of Islamic
Studies, Egypt



Mr. Zaher Hammuz
Assistant to General Manager
for Credit Facilities

Masters in Accounting
Oklahoma City University
USA



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

Masters in Business
Administration, Claremont
Graduate University, USA



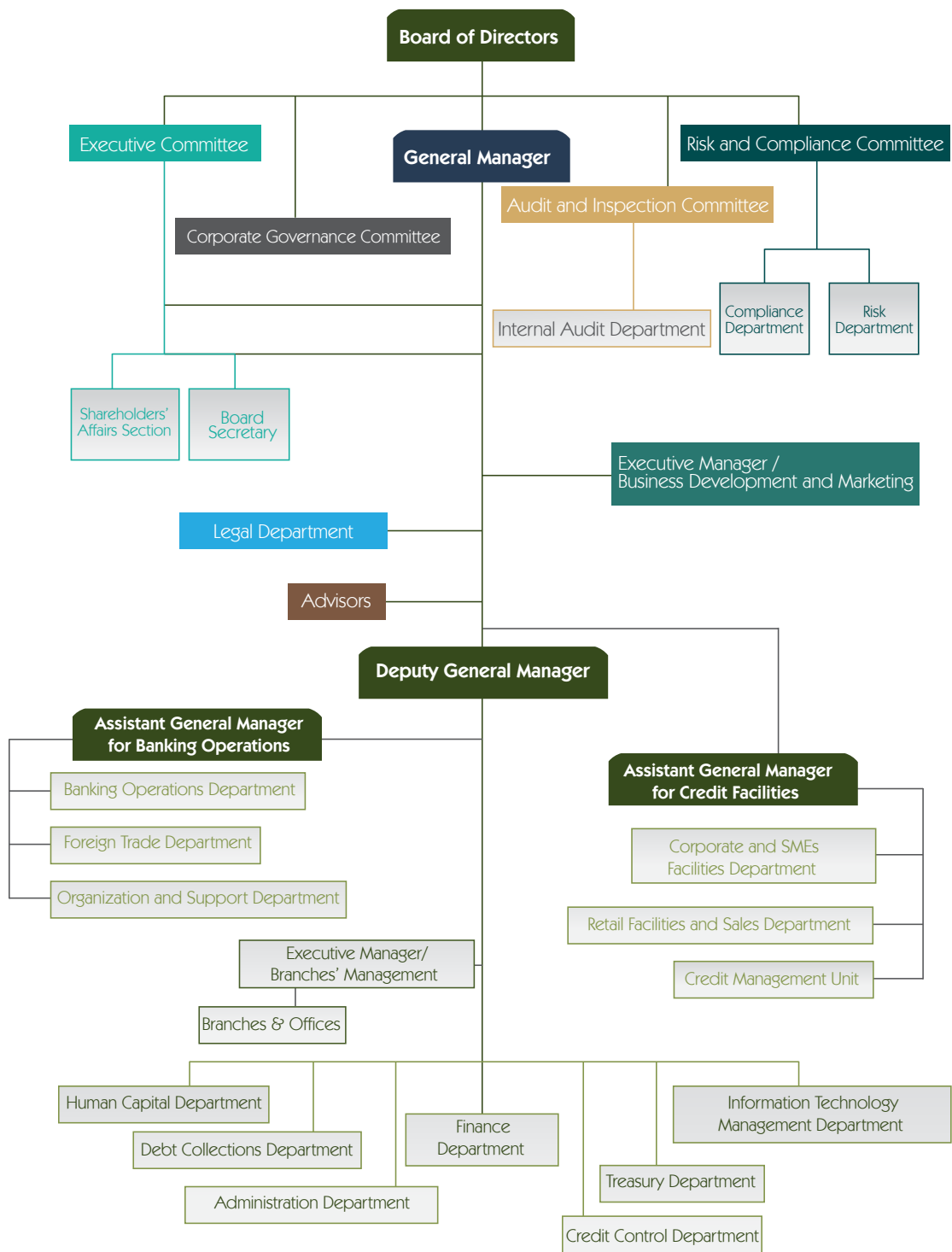
Mr. Raed Najeb
Executive Manager, Branch
and Sales Management

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



Legal Advisors and Consultants:
Messrs Hussam Atteereh and Sharhabeel Za'eem.



Our Banking Products and Services

{ Quds Bank works towards developing its products and services to serve its clients' current and prospective financial needs. The Bank also aims to foster a highly efficient and competitive environment through focusing on the financial and technical strengths of that of its internal structure to sustain growth, advanced banking standards, and a continually attentive banking performance. }

Banking Products and Services

To better devise and develop advanced banking services and products, Quds Bank's policy is based on informed studies that are conducted through the qualitative and quantitative analysis of databanks, primary and secondary. This enables the Bank develop and formulate its products and services to better serve our clientele's current and prospective needs whilst attaining adequately profitable margins. As such, Quds Bank aims to develop and promote services and products that are innovative, advanced, and of added value.

Quds Bank seeks to develop and introduce a major shift to its electronic channels to ensure a responsive, timely and friendly banking processing of transactions via the Bank's website (www.qudsbank.ps). It did introduce telephone banking on top of text messaging (SMS) and a far reaching Automated Teller Machine (ATM) network throughout the Palestinian cities and villages. The aforementioned is periodically reviewed and assessed to reflect, meet and further supersede the needs of our current and prospective customers.

It is in the year 2011 that Quds Bank initiated operating beyond formal business hours through the introduction of evening shifts which enable a number of our branches operate after business hours and also on Saturdays in order to better serve our clients' growing needs and hence differentiate ourselves from other banks operating in the same areas. Through this distinctive initiative, we aim to better serve our customers and facilitate their banking needs whenever and wherever they are.

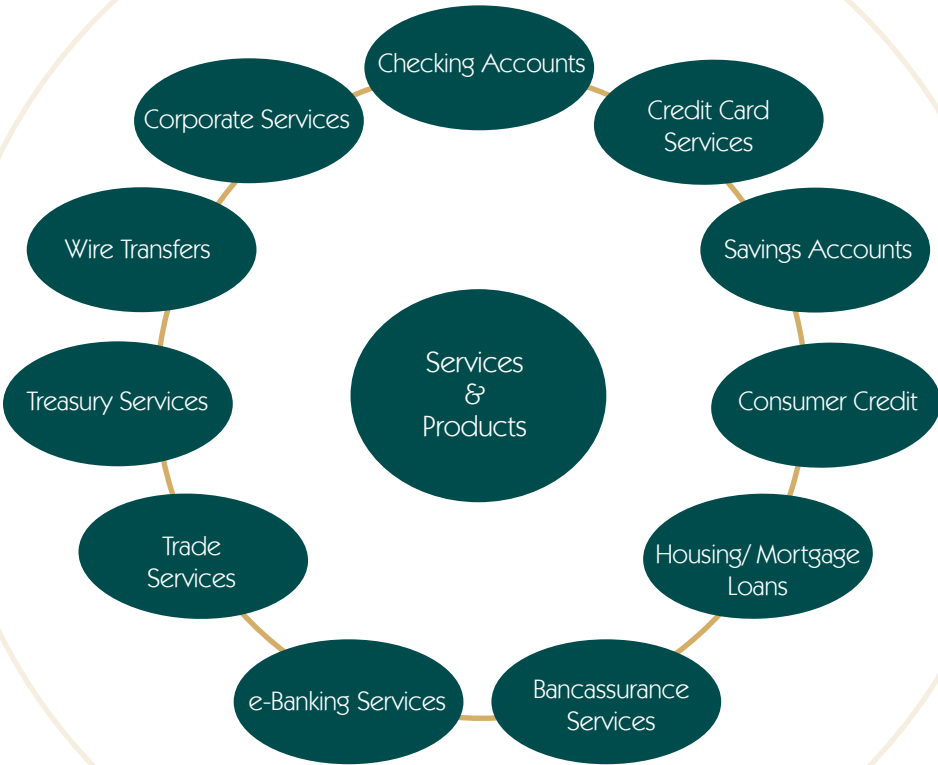


Quds Bank also launched a number of banking insurance services (Bancassurance), including vehicle insurance, safe travel insurance and comprehensive house insurance amongst many intended.

Accordingly, customers can enjoy a One-Stop-Shop banking-insurance experience. Furthermore, Quds Bank did launch MasterCard® which offers many features and valuable benefits. To this end, the Bank assigned highly qualified and specialized teams who are well trained to cater for, receive and respond to customers' inquiries around the clock. This is one additional aspect/ competitive advantage that the bank is aiming to dwell upon and enhance even further over the course of the coming period.

With respect to direct lending products, Quds Bank has launched a package of tailor-made personal loans. These include, but are not limited to, the specialized housing loans Beitak 'Amaar with Quds Bank [Your house flourishes with Quds Bank] which allows customers to receive and finance purchasing a housing unit in the Al Reehan residential quarter in Ramallah. The loan entails a high credit ceiling or limit, competitive interest and convenient repayment schedule. This initiative is added to the Bank's previously approved housing loans packages. Quds Bank also launched Sihhati [My Health] loans for dental works and implants. This program is a prelude to further multi-faceted medical treatment loans. Additionally, the Bank will launch credit products to both individual (personal) and companies, especially benefiting currently untargeted sectors such as women, education, SME loans, and others.

Our Banking Products and Services



Personal Banking Services:

Quds Bank’s Banking Services Department provides a comprehensive set of banking solutions and services to meet customers’ needs and requirements as they are updated on a continuous basis. The Bank’s relation with individual customers is pivotal. It offers advisory services and guidance regarding financial transactions of interest; including financing plans to acquire residential homes/ flats, vehicles, or even plan the trip of their dreams. In addition, the Bank provides savings services and advises its clients regarding their future needs through a well and prudent financial planning schemes that include savings accounts, call deposits and other tools that cater and aim to serve the clients’ current and prospective needs. As for credit facilities, the Bank’s growing and developing policy tailored towards individuals has led to a favourably growing base throughout 2011. These target individuals at both the public and the private sectors.







Corporate Services:

Quds Bank scored a remarkable growth in the volume of credit facilities targeting large corporations with solid financial positions and adequate repayment mechanisms. These facilities which conform to the Bank's lending policy are designed to ensure minimal exposure whilst attaining satisfactory returns for the Bank.

This has positively enhanced Quds Bank's presence in the Palestinian banking market, earning the Bank a leading, promising share that correspond to the variety of its service delivery patterns. Through its International Trade Department, Quds Bank also provides various corporate and commercial services, besides credit and relevant financial planning services.



Small and Medium Enterprises (SMEs) Services:

Quds Bank maintained its entrepreneurial role in delivering a variety of distinctive services to SMEs. It continued to develop and scale up its packages of services that ensure an all-inclusive approach towards SME activities, for both sources as well as uses of funds. These packages target most economical sectors and activities such as agriculture, tourism, industry and those service-oriented. Currently, the Bank is in the process of establishing a designated unit to cater for this major and growing sector, which comprises 94-96% of overall enterprises and establishments operating in Palestine. Upon which, Quds Bank is expected to assume and further grow its market share and business over the course of the coming period.



Treasury Management and Services:

Through the adoption of the most informed and up-to-date financial strategies and solutions, Quds Bank's Treasury Department effectively contributed to the mitigation of risks -existing and potential- through attending to the variable market conditions like exchange and interest rates. The Department covers and manages these risks with the best available tools. It also contributed to the development and expansion of the Bank's network of correspondent banks and the establishment of optimal operational relationships with this network of solid financial institutions which are highly efficient and decidedly liquid.

The treasury department did also expand its financial operations and took a quantum leap in terms of expanding the Bank's operations to include other operational practices/procedures that include an expedited implementation of fund transfer management and integration, hedging, and risk management tools of relevance in line with the best international standards and practices. The Department did also contribute in traversing the liquidity gap and funds/financing management to maintain stable liquidity levels (including current liquidity needs; cash and non-cash) within approving margins in a ever volatile financial environment.

The sound liquidity management also applies to traversing the gap in terms of asset-liability management resulting from dissimilar maturities, investing surplus and adopting the best tools available amidst a turbulent financial environment whilst attaining an optimal return in line with banking standards and parameters of that of the Bank and that of the Palestine Monetary Authority. The Department did mark stable, distinguished and even growing operational performance. Now, the Department is fully equipped and capable of harnessing upcoming opportunities to the best of the Bank's interest while concurrently improving and developing performance on an ongoing basis in a manner that safeguards and serves the Bank's prospective interests.



Credit Cards and e-Channels: Overview

Quds Bank's Credit Card and e-Channels Unit was established in 2011 as an integral subunit of the IT Development Department. Its primary goal was and continues to be the issuance of MasterCard® credit cards as a springboard towards further services and progress in the near future. It is expected that the Unit develop into a department to be responsible for issuing MasterCard® Electron Cards as well as a new set of e-cards which has not been introduced as yet. The Unit will also introduce an e-collection service to merchants and interested parties and promote POS platform of MasterCard® International.





Savings Mobilization, Accounts and Prizes: Keys to Your Dreams:

Launched in 2011, the Quds Bank-offered savings account prize "Is it real that I win... a House and Car together?!" (**Keys to Your Dreams**) is one of the largest prizes allotted to savings accounts in Palestine to incentivize and encourage customers to save. Compared to 2010, the prize has earned the Bank a significant rise of %29.1 of the total savings deposits.

Approximately 17,000 more accounts have been opened. To promote the culture of saving amongst prospective customers, including children and youth, Quds Bank will work towards developing and innovating new saving products in the coming period.

معقول.. أربح بيت وسيارة معاً





Branching Strategy:

Expansion and reaching out to our customers wherever they are in a justified and rewarding manner, branching continued to be Quds Bank's strategic point of interest. It ensures an increased market share and extended outlets that reach customers, deliver outstanding banking services and augment deposits and other banking activities. In 2011, Quds Bank inaugurated two new branches in the cities of Tulkarem and Jericho as well as an office in the town of Biddya in the Salfit Governorate. The attempted inauguration of the Qalqiliya branch in 2012 underscores the importance of this strategy. Imperative to point out that the Bank did also submit several requests to the Palestine Monetary Authority to open new branches in Khan Yunis and Deir al Balah in the Gaza Strip, Silat adh Dhahr in Jenin Governorate, and Al Howouz area in Hebron city.



Future Projections:

The Bank's short-term projections aim to emphasize the year 2012 as the year of excellence. Working in partnership with our customers, Quds Bank strives to stay at the forefront of the banking industry to introduce the best in the field to cater for its clients' needs and aspirations. This goes hand-in-hand with our strategic orientation towards customer quality assurance and excellence in every way or detail that is in line with the Board's vision to promote customers' loyalty and emphasize reaching out, branching, performance excellence and quality assurance.



Research and Development:

The Research and Development (R&D) ongoing plans were of major importance in fostering the Bank's technical and financial strengths on its way to becoming a leading bank in terms of performance, competence, and growth-orientation. It started out by revisiting and assessing the Bank's products and services vis-à-vis that of premium quality and high value in the Palestinian Market and beyond. Furthermore, R&D activities constituted a cornerstone for many actions to come with regard to profitability augmentation, business generation, products and services development and others which are of primary importance for the Bank's success and consistent growth over the coming period.

R&D also focuses on bringing out and highlighting the main challenges at hand and those anticipated in a manner that assesses, responds, develops, and enhances performance and deliverables. These all correspond with the best international operational practices and standards alongside the Banking Law and those of the Palestine Monetary Authority.



Ersal Centre project is a large-scale, multiple-use complex expected to grow into a prosperous business district and a valuable asset for the twin cities of Al-Bireh and Ramallah. The Centre resides on a 51,000sqm land plot located within Al Bireh City.

Ersal Centre enjoys a strategic dynamic location as it resides on the northern front of Al-Bireh City, only 2km north of downtown Ramallah. It intermediates and connects the northern and southern regions of the West Bank.

Ersal Center project will be adjacent to the 150 thousand sqm National Park.

Ersal Center will have approximately 220 thousand sqm.



On the 2nd of January 2011, Quds Bank signed an agreement with the Arduna Real Estate Development Company to purchase development rights of an office tower in the **Ersal Centre** project. The tower will cater as the new Headoffice of Quds Bank. This 19 storey tower will be constructed on a 3,284sqm land plot as Quds Bank did initiate tangible steps to execute this project at the best international engineering standards.

On 20 January 2011, the Bank signed an agreement with Consolidated Contractors Company (CCC) to construct the Quds Tower as CCC is a leading contracting company with extensive experience and repute on the regional and international levels.

Preparations of the first phase of the construction project have already started. Final touches are being introduced to engineering schemes so as to conform to the Bank's needs and strategic vision of expansion in the near future. Bringing together all relevant stakeholders, a workshop was organised with a view to devise an internationally recognised design under direct supervision of the Board Chairman and General Manager.

All engineering adjustments are implemented by Consolidated Consultants (CC) – the major designer of the project. Excavation works will be finalised and the site will be ready for construction works within the first five months of the year 2012. An additional two basement floors will be added to the Quds Tower to respond to the Bank's needs, including parking lots and logistic and technical services facilitations. According to the project plan, construction will commence in July 2012.

Ersal Centre project is a large-scale, multiple-use complex expected to grow into a prosperous business district and a



valuable asset for the twin cities of Al-Bireh and Ramallah. The Centre resides on a 51,000sqm land plot located within Al Bireh City. Ersal Centre enjoys a strategic dynamic location as it resides on the northern front of Al-Bireh City, only 2km north of downtown Ramallah. It intermediates and connects the northern and southern regions of the West Bank. Ersal Center project will be adjacent to the 150 thousand sqm National Park.

Ersal Center will have approximately 220 thousand sqm divided between business and office facilities, commercial and retail spaces, libraries, a diplomatic center, restaurants, cafes, a 5-star hotel, in addition to residential flats and gardens. With %65 of the total project built-up-area dedicated for office space, Ersal will have a healthy mix of corporate institutional residents including leading financial institutions and banks, insurance companies, IT and telecommunication companies. Twenty two percent of Ersal Center is envisioned for high-end commercial and retail spaces for the shopping, dining,

and entertainment needs of its visitors. It will be the premier address for shopping and entertainment, and certainly a first of its kind in Palestine.

Ersal will be a modern environment and a pedestrian friendly business community, due in part to the smart planning of entry and exit points, the use of ring-roads to divest and offset traffic jams, and the indoor outdoor parking solutions, coupled with wide pedestrian walkways, green areas, shopping centers and boulevards. Around %13 of the total Ersal Center built-up-area is earmarked for high-end residential units and a hotel tower.

Comprising approximately %66 of the total project, the first stage of the construction plan includes the construction of four office towers and a commercial mall.

The four towers will house the headquarters of several leading Palestinian institutions including and besides Quds Bank The Bank of Palestine, Amaar Group and Consolidated Contractors Company (CCC).



Growing Number of Customers in 2011:

Towards the end of December 2011, Quds Bank customers marked a rise of about %58 compared to 2010. Accounts also increased by almost %60.



In contrast with 2010, savings accounts grew by %69 and the number of all accounts by %68 towards late September 2011.





Quality Service and Customer Care: We Listen and Care

Quds Bank created the Quality Assurance and Customer Care Unit within the Business Development, Marketing and Marketing Research Department. The Unit primarily aims to promote a culture of quality service assurance of all the Bank's products and services. It carries out an informed assessment of service delivery mechanisms, efficiency and timing. Accordingly, the Unit conducts an inclusive review and a meticulous evaluation with a view to update applicable mechanisms and processes, positively reflecting on the Bank's service and overstepping customers' expectations.

This Unit also attends to complaints and comments submitted by branches/ offices, including toll free numbers and comments/complaint boxes. Email communication is also a primary source that helps identify and address any issues in a timely fashion. In this context, the Unit has adopted the "Mystery Shopping Mechanism/ Approach" as a fundamental objective evaluation tool to monitor branch operations and gauge quality service delivery status. In coordination and cooperation with the Human Capital Department, the Unit tailors and recommends training programs of interest and develops comprehensive training plans to promote and consolidate a culture of quality service and customer orientation.

We listen, We Care..!

Quality Assurance and Customer Care Unit



Dear Valued Customer,
We always strive towards Excellence!

Shareholder Relations

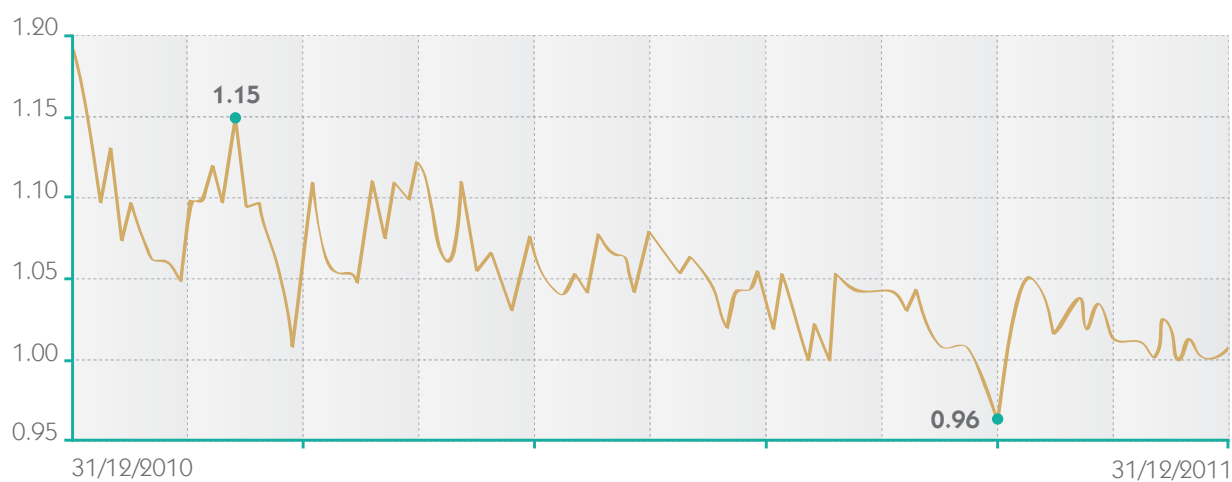
{ To foster further the principles of Transparency, Governance and Professionalism, our goal continues to focus at developing and scaling up communication with our esteemed shareholders }

Quds Bank's authorised and paid-in capital amounts to USD 50 million divided into 50 million shares with a par value of USD 1 per share. The Bank is in the process of raising its capital to USD 100 million to be divided into 100 million shares.

Summary of Quds Bank share trading throughout 2011:

2011 Trading	Value	Order	Remarks
Number of traded shares	6,259,625	10	Incl. 2,738,857 off-market transfers
(Value of traded shares (USD	6,952,034	8	Incl. 3,094,808 off-market transfers
Number of executed transactions	402	21	
Share turnover ratio	%12.52	17	No. of traded/subscribed shares
Company market value as of (31/12/2011 (USD	51,000,000	8	Market value of all listed companies: USD 2,782,469,900 as of 31/12/2012
Free float	% 43.75	19	As per PEX calculation parameters/ Indicators

Highest and lowest share price is as follows:



Highest trading price	Lowest trading price	closure price 2011	closure price 2010	Change rate
1.15	0.96	USD 1.02	USD 1.19	% -14.29

Towards the end of 2011, Quds Bank had a total of 362 shareholders compared to 354 in 2010. Below is a list of investors with more than %5 ownership as of 31 December 2011:

Name	End of 2011		End of 2010	
	Shares	Subscription	Shares	Subscription
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	5,000,000	10.00

In comparison to 2010, Board members' ownership as of 31 December 2011 is as follows:

Name	Position	Nationality	Number of owned shares	
			End of 2011	End of 2010
Mr. Akram Abdul Latif Jerab	Board Chairman	Jordanian	10,588,202	10,588,202
Mr. Abdul Rahim Nizar Jardanah	Deputy Board Chairman	Jordanian	1,337,154	1,337,154
Mr. Louai Bisharah Kawas, PIF Representative	Board Member	Palestinian	2,604,977	2,604,977
Mr. Adel Adib Hijjawi	Board Member	Jordanian	383,817	383,817
Mr. Walid Najib Ahmed	Board Member	Palestinian	206,600	206,600
Mr. Saleh Jaber Ihmaid	Board Member	Jordanian	1,308,250	1,283,250
Mr. Jamal Mohammed Fariz, Investment Bank Representative	Board Member	Jordanian	1,097,549	1,097,549
Mr. Ziyad Fawzi Barghouthi	Board Member	Palestinian	35,000	35,000
Mr. Munther Jawdat Nabils	Board Member	Jordanian	47,562	32,562
Mr. Ahed Fayeeg Bseiso	Board Member	Palestinian	74,000	35,000
Mr. Adnan Adel Abdul Latif, JCC Representative	Board Member	Palestinian	1,010,590	1,169,570
Dr. Hamed Abdul Ghani Jaber	Board Member	Jordanian	1,500,000	1,500,000
Mr. Duraid Akram Jerab	Board Member	Jordanian	1,409,890	159,890

As of 31 December 2011, Board members' relatives possessed the following shares (compared to 31 December 2010):

Name	Kinship	Nationality	Number of owned shares	
			End of 2011	End of 2010
Ms. Ranwa Qadri Mohammed Ahmed	Mr. Walid Ahmed's wife	Palestinian	10,000	10,000
Ms. Jamila Mohammed Yousef Musallam	Mr. Saleh Ihmaid's wife	Palestinian	5,000	20,000
Ms. Lina Abdul Rahim Ridha Irshaid	Mr. Saleh Ihmaid's wife	Palestinian	5,000	-

Executive Management members' ownership as of the end of 2011:

Name	Position	Nationality	Number of owned shares	
			End of 2011	End of 2010
Mr. Azzam Abdul Karim Shawwa	General Manager	Palestinian	123,696	212,500
Mr. Zaher Ahmed Hammouz	Assistant General Manager for Credit Facilities	Palestinian	105,000	20,000

As of 31 December 2011, Executive Management members' relatives possessed the following shares (compared to 31 December 2010):

Relatives	Nationality	Number of owned shares	
		End of 2011	End of 2010
Ms. Amal Fayege Atef Shawwa	Palestinian	70,000	-
Mr. Tamer Azzam Shawwa	Palestinian	5,200	1,500
Mr. Nadim Azzam Shawwa	Palestinian	5,000	1,500
Ms. Aida Azzam Shawwa	Palestinian	5,000	1,500
Ms. Aida Fakhri Shawwa	Palestinian	5,370	-

Communicating Information to and 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, and 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 answer inquiries in relation to the 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 <http://ar-ar.facebook.com/Ps.Quds.Bank>.

Board Members' Remuneration and Expenditures

Compared to USD 352,217 in 2010, remuneration and expenditures in the amount of USD 257,217 were disbursed to Board members in 2011.

Executive Management Members' Remuneration

In 2011, Executive Management members received a total sum of USD 975,158 as salaries and remuneration in comparison to USD 539,003 in 2010.

Issues Referred to Voting by Shareholders

The Extraordinary General Assembly voted for and approved raising Quds Bank's capital to USD 100 million.

Financial Statements

Preliminary financial statements disclosed on 15 February 2012 are not different from those audited by the external auditor.

Auditor

Deloitte & Touché ME / Saba & Co. audited Quds Bank 2011 accounts.

General Assembly Convention

The General Assembly is scheduled to convene in May 2012.



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. Accordingly, the Board has adopted corporate governance in consistence with the best international standards and practices, including that of the Organization for Economic Cooperation and Development (OECD) principles of Corporate Governance, Basel Committee on Banking Supervision, directives of the Palestine Monetary Authority (PMA) - Palestinian Banking Law No. (9) of 2009- and guiding principles of the Palestine Capital Market Authority (PCMA) and Palestine Exchange (PEX). Quds Bank's Board has also developed a Corporate Governance Charter/ Code which identifies the Bank's values and strategic orientation in that regard. The Bank incorporates the Charter within its Annual Report and posts it on its official webpage for public access.

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."



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 documented 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 authority vested in him/ her by the applicable rules and regulations in Palestine and that of the Palestine Monetary Authority. The Board Chairman will also exercise his/ her tasks and duties by powers vested in him by the Board of Directors.



The Board Chairman carries out the following main Duties and Responsibilities:

- Supervise all Bank's operations. S/he is also responsible for materializing the Bank's goals and objectives and following up the Bank's performance as well to ensure compliance and adherence to predetermined projections and financial plans. The Board Chairman also monitors and evaluates general performance of the Bank in line with the Board preapproved strategies, plans, goals, policies, and budgets.
- Ensure applying high-level, effective and efficient corporate governance in the Bank. S/he will also build and maintain good, constructive and corporate governed relations between the Board and Executive Management members. Additionally, s/he will contribute to promoting a corporate culture within the Board by instilling a feedback exchange mechanism to express constructive criticism, opinion exchange, and an adequate and timely communication of information to all Board members and shareholders.



Board's Responsibilities

- The Board will be responsible for overlooking the Bank's operations, safeguard its financial position, and the approval of the periodic financial statements that are reviewed by the external auditor. The Board also nominates and recommends the hiring of an external auditor to the General Assembly, assures meeting PMA's requirements and guiding principles, and caters for the interests of shareholders, depositors, creditors, staff members, and the remaining parties of interest. Furthermore, the Board ensures a prudent Bank management in line with the relevant rules and regulations in force and that of the Bank's.
- The Board formulates the Bank's general policy/ orientation, regulations, processes and regularly reviews the implementation of these related strategies, goals and objectives. The Board also makes sure that the Bank's Executive Management complies with the applicable policies in force.
- The Board is the only authorized party to approve the organizational structure (or any changes to it) and job descriptions across all levels at the Bank. It approves the Bank's policies and relevant courses of action, including the risk policy(ies) and others 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 of the Bank's credit, investment, recruitment and other policies of interest.
- The Board selects the Bank's Higher Executive Management members as well as the hiring of any experts and/ or advisors in line with the recruitment policy approved by the Board. Besides performance measurement and appraisals, the Board sets and reviews the Executive Management members' packages in terms of salaries and remuneration, etc. on an annual basis. In this context, the Board ensures a proper succession plan is in place to ensure 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 the applicable laws and regulations set by the Bank in addition to the sound corporate governance principles. It also 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.
- Quds Bank is managed by a Board of Directors of 13 members, including at least 25% independent members¹, who are elected in line with applicable laws and regulations and the Bank's memorandum of incorporation. The Board members enjoy wealth of expertise and qualifications that enable them independently express their opinions at the Board sessions/ deliberations. The Board Chairman is selected by the Board members.
- 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 interests when performing their duties. They are obliged to dedicate the necessary time and efforts to meet 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(s).
- The Board evaluates the General Manager's performance at least once a year.
- The Board evaluates the Risk and Compliance Department(s) as well as the Internal Audit Department.
- According to the Corporate Governance Guiding Manual, the Board establishes four committees for a safe, sound and effective management of the Bank's operations. For these committees, the Board will define responsibilities, delegate needed authorities, and set reporting mechanism(s). These are the Executive Committee, Review and Auditing Committee, Risk Management Committee, and Corporate Governance Committee.



Board's Operating Mechanism

Board meetings are held regularly and in line with applicable laws and instructions at least once every two months. To ensure addressing all emerging issues, main topics are identified and outlined in the agenda prior to every meeting. Before a meeting convenes, the Bank provides sufficient information to Board members to assist them make informed decisions. Signed by all Board members, draft of meeting minutes, including conclusions and decisions, are distributed within seven days from the date on which a meeting is organized. The PMA is also provided with meeting minutes within one month from the date of the meeting.



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 have been 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 four major committees: Executive Committee, Review and Audit Committee, Risk Management Committee 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.

Either in his or her personal capacity or as a representative of a juridical person, an independent member does not have a relation with the Bank other than his /her membership on the Bank's Board. Accordingly, independent member's judgement should not be influenced by any external considerations. Minimum requirements to be fulfilled by an independent member include:

- To not have worked as a staff member of the Bank during five years prior to his/ her nomination for the Board membership, unless PMA approval is obtained.
- To not have a kinship relation up to the second degree with any administrative staff member at the Bank.
- To not earn any salaries or financial amount from Bank, with the exception of the consideration for his or her membership on the Bank's Board.
- To not be a partner or employee of the external auditor and to not have a relation with the auditor or any respective institutions.
- To not work at an institution that provides advisory, professional or other services to the Bank or to any relevant bodies.
- To be experienced and specialised in financial and banking matters.

Executive Committee:

This committee was elected and is comprised of five 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. The duties and responsibilities of this committee stem from applicable rules and regulations, PMA's directives, 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. Headed by the Board Chairman, Mr. Abdul Rahim Jardaneh, Engineer Walid Ahmad and Mr. Saleh Ihmaid are members on the Committee.

The Committee carries out the following major tasks:

Facilities:

- Reviewing and endorsing credit 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, PMA instructions, and decisions and recommendations of the Risk Management and Banking Standards Committees. Upon final approval by the Board, this policy is reviewed periodically in line with recent developments in the economic environment, banking policies and changes in the Bank's position.
- Approving marketing plans of relevance developed by the Executive Management with a view to grant credit facilities of all kinds.
- Ensuring the Executive Management Committee's compliance with credit policies and limits set by the Board.
- Examining the status of existent delinquent facilities and non-performing loans (NPLs), devise necessary plans to minimize them, and ensure providing for them adequately per PMA's instructions. The Committee is also in charge of setting necessary recommendations to write-off these facilities and recommending relevant courses of action.
- Submitting to the Board periodic reports on the status of the Bank's credit portfolio, including its volume, current developments, those classified, provisions set to reflect potential versus actual losses and follow-up/ collections efforts.

Investments:

- Reviewing and approving investment transactions that exceed the limit(s) of that of Executive Management's.
- Developing the investment policy, investment decision-making mechanism, limits of relevance, and various positions/ ceilings as to be in line with recommendations and decisions of the Risk Management Committee. These are reviewed and updated on a regular basis, ensuring congruence with applicable laws, regulations and banking standards. Accordingly, the investment policy is presented to the Board for approval.
- Endorsing investment and acquisition of various securities in line with the approval limits set by the Board.
- Reviewing all reports and studies on the status of external placements, Bank's investments, status of local and international financial markets, and all relevant reports that enable the Committee make sound and real-time decisions and hence conduct its assignments in an adequate and timely manner.
- Ensuring the Executive Management's compliance with implemented investment policies of relevance, limits and guidelines identified/ set by the Committee.
- Submit periodic reports to the Board on the status of the Bank's investment portfolio(s) as well as on any updates/ changes affecting the positions 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 to the Board. It convenes regularly in presence of the Audit Department Manager. 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 Mr. Ziad Barghouthi, the Committee includes Mr. Duraid Akram and Engineer Ahed Bseiso as members.

The Committee implements the following main tasks:

- Supervises external and internal auditors, monitor the inclusivity of their operations and reports as well as the authenticity and accurateness of their financial findings/ reporting submitted to the Board, shareholders, and other users of information.
- Reviews reports and relevant comments made by PMA, the external and internal auditors and follow 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 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 the 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 submit them to the Board for endorsement.
- Coordinates with the Risk Management Committee, ensuring a full disclosure of the Bank's financial position and performance.
- Reviews reports of Bank's Compliance Department and follow up on compliance with the Operational Guidance Manual, ensuring that reports cover all operational aspects in line with relevant PMA requirements. In this context, the Committee also seeks optimum compliance with laws, instructions, regulations and sound banking practices.
- Examine any issues referred by the Board or any other issues it deems urgent or appropriate to scrutinize and report on.
- The responsibility assigned to the Review and Audit Committee will not substitute that of the Bank's Board or Executive Management in relation to the monitoring of adequate internal control and inspection regulations of relevance.

Risk Management Committee:

This committee is comprised of five board members for the strict reason of handling and managing risk(s) that faces the Bank. The duties and responsibilities of this committee stem from the corporate governance code in addition to the right to call on any executive manager for information or clarifications. The Committee reports to and submits operational recommendations to the Board. It convenes regularly in presence of the General Manager or the person whom 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. Chaired by Mr. Jamal Fariz, Investment Bank Representative, the Committee includes on its membership Mr. Duraid Akram Jerab, Mr. Ziad Barghouthi, Engineer Ahed Bseiso, and Mr. Louai Kawas, PIF Representative.

The Risk Management Committee is responsible for the following main assignments:

Credit Risks:

- Review the Bank's credit and risk policies and strategies before they are finally approved by the Board.
- Review the Collections Committee's reports on recoveries and rescheduling requests/ applications submitted as well as probing into reasons leading to delinquencies.
- Assess and approve risks associated with new products.
- Review and assess the acceptable risk appetite of the Bank.
- Review and assess the capital adequacy ratio.
- Review and assess the internal credit rating system(s).
- Review periodic reports of various credit departments.
- Regularly review the adequacy of provisions reserved.
- Approve the acceptable concentration level(s) of the various economic sectors for the Bank to engage in.
- Review credit concentrations in line with credit rating(s), economic sectors, geographical areas, credit nature and collaterals provided.
- Review economic fluctuations and changes affecting the structure and nature of portfolio(s) (if any).
- Review early signs and indicators that foretell of upcoming delinquencies.

Market Risks:

- Review the Bank's market risk policy before it is approved by the Board.
- Review the periodic reports re the Market Risk Unit operational results.
- Review the Bank's authorized liquidity levels.
- Review the Bank's investment portfolio, ensuring compliance with the PMA rules and regulations of relevance.
- Assess investment tools.
- Distribute investments per geographical areas and economical sectors.
- Review and assess interest rates risks, exchange rates, shares, Bank bonds, and liquidity.

Operational Risks (Operations):

- Review the Bank's operational risk policy before it is endorsed by the Board.
- Approve the risk profile of the Bank's different units.
- Assess and approve recommendations proposed to reduce operational risk(s).
- Define the acceptable control gap(s) for the different Bank units.
- Review the periodic reports prepared by the Operational Risk Department.
- Review the analysis of the operational deviations' database on a regular (semi-annual basis.)

Additionally, the Risk Management Committee is tasked with identifying and recognizing all other risks, including those associated with liquidity, non-compliance, reputation, etc. It follows up on all developments affecting risk management within the Bank and ensures that the Executive Management complies with risk management policies and achieves set goals and results. The Committee also submits regular and non-regular reports to the Board on a timely basis.

Corporate Governance, Nominations and Honorariums Committee:

The Corporate Governance Committee includes five 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 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 or clarifications. Headed by Mr. Akram Jerab, Board Chairman, the Committee includes on its membership Mr. Abdul Rahim Jardaneh, Jamal Fariz, Investment Bank Representative, Mr. Walid Ahmed, and Mr. Louai Kawas, PIF Representative.

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 that 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 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/ incentives.
- Ensure the independence of 'Independent Members' in line with instructions set by the relevant Guidance Manual.
- 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.



Board Secretariat

The importance of the Meeting Minutes for the Bank and shareholders stems from the fact that they constitute a definite record of the undertakings reached by the Board, decisions of relevance, and that of the relevant Board Committees since they serve as a permanent documentation of the aforementioned and serve towards preventing any confusion or misinterpretations.

And since the Board Secretary plays a significant role, the Board identifies the functions and tasks of the Board Secretary in a formal and written manner. The Secretary is appointed and dismissed upon a decision from the Board. The Secretary is required to enjoy certain qualifications and experience levels to perform the assigned tasks and duties of interest.



The Board-Executive Management Working Relationship

Whereas the Board is tasked with controlling the Bank Management, the Executive Management is responsible for running the Bank's daily operations. The Executive Management is also assigned to:

- Compile operational plans with a view to achieve the Bank's strategy through a comprehensive planning process that targets all Bank's departments.
- Compile and develop risk management policies and procedures and implement relevant strategies approved by the Board.
- Prepare estimate budgets as a planning and control tool.
- Develop and present to the Board financial statements and closing accounts.
- Implement operations and put in place policies endorsed by the Board.
- Devise and develop job descriptions of all positions and tasks within the Bank.
- Verify adequate and vibrant information systems as well as accurate reports produced thereby, ensuring that they are inclusive and meet Bank's needs and control requirements.
- Ensure effective internal control and inspections' processes throughout the Bank's operations.
- Develop the Bank's organizational structure, making clear the reporting lines and administrative hierarchy.
- Provide external and internal bodies, including control authorities, internal and external auditors and other relevant parties with the information and statements required for optimal performance of assigned tasks in a timely manner.
- Include in the Annual Report a statement on the Executive Management's responsibility(ies) for making available internal controls and inspection regulations that ensure high-quality and transparent publications of information and financial statements.
- Draft the Charter/ Code of Professional Ethics, submit it to the Board for approval, and cascade it to all managerial levels within the Bank.
- Develop skills and acceptable professional conduct of the Bank employees so that they conform to most recent developments and emerging practices.
- Submit periodic reports to the Board.
- Carry out any other tasks assigned by the Board.



Internal Control and Inspection Environment and 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 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 internal control procedures applicable to financial reporting.
- The Board implements relevant responsibilities in accordance with the general framework of internal control to ensure an effective and efficient operations, reliable financial reports, and compliance with applicable laws and regulations.
- The Board sets processes that ensure a 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 defence and a general framework for risk management 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 section/ 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

As an independent function, compliance provides guidance, supervision, and reports on noncompliance risks within the Bank. It also ensures the compliance of the Bank and internal policies with the laws, regulations, instructions, resolutions, guidance, Charter of Professional Ethics, and sound banking practices set by local and international control bodies.

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

- Compile, develop and review regularly the Compliance Monitoring Operational Manual, submit to the Board for approval, and distribute to all staff members of the Bank.
- Define and assess potential noncompliance risks and 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.
- Monitor and report on compliance of the Bank's departments and branches by introducing an automated system of compliance, risk management and compliance matrices. With these, the Compliance Monitoring Department will regularly ensure a watertight environment of high level of compliance with applicable laws and regulations.
- Put in place and cascade down professional code of conduct to the Bank employees.
- Make sure that the Bank implements proper banking practices whilst focusing on the rule 'Know Your Customer.' The Department will also ensure compliance with anti-money laundering laws and procedures.
- Follow up on and examine customers' complaints and suggestions, investigate associated circumstances, and devise conducive solutions in direct cooperation with the Service Quality Assurance Unit and relevant bodies.
- Submit periodic reports on operational results and compliance supervision to the Board's Review and Audit Committee.
- Raise awareness and train the Bank staff on compliance related issues.
- The Compliance Department is further tasked with following up everything related to corporate governance within the Bank.

Risk Management:

Potential and arising risks are managed by an independent Risk Department that is affiliated with the Board's Risk Management Committee. Reporting to the said Committee, the Risk Management Department is responsible for the following:

- Develop a risk policy, covering all types of risks, and submit it to the Board for approval.
- Identify, gauge, monitor, control and submit recommendations necessary to mitigate risks that face the Bank within a framework of maximum cooperation with all operational lines in the Bank.
- Devise recommendations to define the magnitude, volume and type of risk appetite needs be endorsed by the Board whilst reconciling existing risks with that predicted.
- Develop measurement and control methods of each risk type.
- Provide to the Board and Senior Executive Management sufficient information about risk measurement and risk profiling within the Bank.
- Incorporate within the Annual Report adequate information on risk management, particularly risk structure, operations and recent developments.
- Raise risk awareness among the Bank employees, including those in relation with the up-to-date risk management methods and techniques to ensure the comprehensive application of risk management.
- Follow up on instructions and recommendations issued by various control bodies, including the Basel Committee on Banking Supervision, and translate them into the plans, policies and processes.
- Apply stress testing with a view to assess the Bank's capability of coping with virtual, difficult and low-probability scenarios. Having assumed certain scenarios relating to credit, market and operational risks, the Department calculates the impact of these risks on the Bank's financial position and capital adequacy.
- Develop and submit semi-annual stress testing reports to Senior Executive Management. These will be used as a reference point in defining and adjusting the Bank's operational policies, risk management, emergency planning.

Within the risk management structure, each unit is assigned to achieve particular targets designed to develop the Bank's risk management. Consistent with applicable PMA instructions and best international practices and standards, these targets are as follows:

Credit Risks:

Quds Bank's credit management is an institutionalised, informed process that is run on the following principles:

- Clear and definite limits of credit risks. These are first identified on the Board level and then cascaded to the various operation units. Credit risk limits are reviewed regularly with necessary adjustments introduced where necessary.
- Credit committees are established to safeguard optimum independence and to ensure that credit-related decisions are committee-based rather than individualistic.
- Progressive credit-related authority lines with respect to risk parameters. These are granted to each credit committee on the regions' level [branches] and General Management.
- Clear criteria of target customers / market and acceptable levels of credit appetite.
- An integrated, in-depth financial and credit analysis that covers various aspects of risks associated with each customer and/or credit operations.
- Reviewing and analyzing the credit portfolio quality in a regular fashion and in accordance with specific performance indicators.
- An ongoing monitoring and evaluation of credit concentrations and strategies set to deal with them.
- Continuous examination of the early warning system efficiency in order to define and detect arising risks.
- Objective, regulated approaches to assess credit worthiness / credit rating. These will be made based on qualitative and quantitative measures as well as on relevant expertise.
- Credit limit management systems to help the Bank exercise effective daily control of credit exposures on the borrowers, sectors, credit rating, and other various credit facilities' levels.
- An effective and efficient management of legal documentation as well as guarantee management, keeping and follow-up. These will ensure coverage of counter liabilities and putting in place proper mechanisms for ongoing monitoring.
- Review, on a regular or need basis, individual credit cases to review whether negative indicators or deteriorations do exist which merits additional precautionary or preventive measures.

Quds Bank continues to improve and scale up all aspects mentioned above. We make due diligence to keep pace with changes and challenges in the banking industry and business environment as well as with growing demands posed by control institutions and bodies. The Bank is particularly attentive to developing skills, qualifications and expertise through tailor-made, concentrated training courses and programs that further equip Bank employees with the necessary tools to conduct their work in an effective and efficient manner.

Market Risks:

Quds Bank adopts unique financial and investment policies with a view to manage risks in line with predetermined strategy(ies). In this context, the Bank's Asset and Liability Committee (ALCO) monitors, controls and provides a cutting-edge strategic distribution of assets and liabilities, including within or beyond the financial position list. In the Risk Management Department, the Bank has incorporated the Market Risk Unit, appointed qualified human cadres, and installed necessary automated systems. The Unit is assigned to manage market risks as follows:

- Develop operational policies and procedures of market risk management.
- Approve relevant policies and submit them to the Board and PMA for approval.
- Develop proper measurement tools and models of market risk management.
- Monitor investment caps.
- Submit periodic investment concentration reports and stop-loss limit reports to the Investment Committee and Risk Management Committee.

Liquidity Risks:

Liquidity risk(s) undermines a bank's ability to provide necessary financing to honor upcoming liabilities as they come due. To prevent this, the Bank Management deals with liquidity risks in line with the following criteria:

- Develop a set of Board-approved policies and procedures that define principles of liquidity risk identification, measurement, controls and monitoring.
- Devise a liquidity crisis management plan that is consistent with PMA requirements, designated liquidity crises management processes, a specialised liquidity crisis management committee and liquidity contingency plan.
- Identify financing sources as well as classifying and analysing them in line with their nature.
- Keep sufficient amounts of liquid assets to cope with potential crises.
- Reconcile assets and liabilities maturities, taking into account all 'in' and 'out' cash flows.
- Submit periodic reports to the Investment Committee, Risk Management Committee, Executive Management and Board.

Operational Risks:

These arise from ineffective or failing international operations, staff and systems or from external factors, including legal risks and risks posed by regulatory authorities. Within the Risk Management Department, the Bank has established the Operational Risk Unit and recruited qualified staff members. The Bank manages operational risks in line with the following principles:

- Develop an operational risk policy, submit it to the Board for approval and apply it on the ground. In addition to assessing risk appetite, the policy includes operational risk identification, measurement, control and monitoring.
- Create a risk profile, including all types of operational risks and mitigation control measures. Risks will be examined periodically to ensure effective and sustainable operation on the level of each unit at the Bank.
- Ensure effective and efficient functioning of control measures to reduce operational risks and the timely upgrade of the risk profile to reflect the actual operational environment.
- Build an operational error database, analyze operational errors/ deviations, and submit regular reports to the Board on the concentration and types of these errors.
- Present to the Risk Management Committee, Board and Executive Management regular statements reflecting the status of control over various units of the Bank.

Strategic Risks:

Quds Bank exercise operations in line with precise, comprehensive strategic planning principles and standards. On a regular basis, the Board and Executive Management examines and analyzes the Bank's major operations and their impact on its strategy, including internal and external operational and working conditions, competition, customers' demand, and changing laws and regulations, instructions, IT systems and current Bank regulations.

To achieve the above, the Bank relies on the following major guiding principles; 'the ability to benefit from its broad and far-reaching network of branches, advance a strong and robust customer base, continually improving and scaling up its banking products and services, and maintaining a solid financial position.'



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:
 - Any violations or breaches of laws and directives in force, including the Bank's internal instructions.
 - The auditor's opinion re adequacy of audit regulations, internal control systems, and provisions earmarked in response to arising risks.
 - 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:** The Charter of Professional Ethics stresses that the Bank employees adhere to the fact that depositors' funds are a trust and responsibility that must be duly preserved. Private interests will not be in conflict with the Bank's interest. In-house information may not be used for personal interests. Staff members should maintain objective operation and not be influenced by personal relationships, nor enter into commercial relations with customers and vendors.
- **Compliance with laws:** According to the Charter of Professional Ethics, the Bank staff must abide by banking confidentiality, Bank's policies and operational manuals. They must pay due diligence to anti-money laundering, not issue dud cheques, and adhere to the Management decisions.
- **Transparency:** The Charter of Professional Ethics prescribes that the Bank staff shall abide by correct, accurate and effective announced figures, statements and reports, ensuring that they are hinged and compatible with applicable standards. The Bank staff must declare personal interests, sound financial position, and personal commercial interests. They should also declare contraventions and damages.
- **Allegiance to the Bank:** This is materialised by achieving the Bank's mission and vision, translating the Bank's emblem into a tangible reality, earning customers' satisfaction, and retaining them. Employees should adopt a positive approach, distinction, responsibility, quality, efficiency, accurateness, and continuing education. They will be punctual, adapt to work pressure, enjoy the team spirit, and take care of personal appearance, conduct and excellent treatment. Staff members will further promote the Bank's reputation and achievements and preserve the Bank's assets and image. They may not disclose secrets and ask permission from the Management before they make any statement relating to the Bank to any media outlet.



Relation 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 in 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 the invitation and agenda of the General Assembly meeting, together with all relevant information and media materials.
- Heads of various committees of the Board attend the annual General Assembly meeting.
- 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.
- The external auditor is elected and its fees are agreed. Otherwise, the Board is authorised 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/ 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 an accurate assessment of the Bank's financial position, achievements, activities and risks, Quds Bank is committed to a general, timely disclosure of all 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 stakeholders, including the PMA, shareholders, depositors and general public. In this, the Bank focuses on issues reflecting a substantial effect on the Bank.

General Framework of Transparency and Disclosure

The Board ensures that the Executive Management of Quds Bank announces disclosure in line with PMA's instructions and IFRS'.

- In agreement with international standards, Quds Bank Management follows up with the latest developments concerning disclosure requirements and reflects them on its financial reports.
- The Bank adheres to maintaining lines of communication with control bodies, shareholders, depositors, other banks and general public.
- The Bank is committed to using its website to consolidate disclosure, transparency and access to updated information in both English and Arabic.

- The Bank publishes financial reports and final accounts in two local newspapers.
- As part of compliance with transparency and full disclosure rules, Quds Bank's Annual Report includes the following information:
 - The Bank's Corporate Governance Guidance Manual and indicators of compliance therewith.
 - Integrated information about the Board members, including qualifications, expertise, capital share, position (executive, independent, or non-executive), membership on Board committees, date of appointment on the Board, and any membership on other Boards. The Report also spells out Board members' honorariums, salaries, loans, any transactions between the Bank and them or their companies or related parties.
 - A summary of responsibilities and tasks assigned to the Board Committees.
 - A summary of the Bank's remuneration policy as well as salaries and remuneration given to Senior Executive Management members.
 - The Board's testimony of efficient internal control and inspection regulations.
 - A description of the structure and activities of the Risk and Compliance Department.
 - Major shareholders in the Bank as well as in corporations that have major shares in the Bank.



Confidentiality and Information Security

Quds Bank Management takes all appropriate procedures and measures to safeguard customers' personal information, ensuring protection against loss, unauthorised access, misuse, or unauthorised adjustment or disclosure. The main measures that the Bank applies to protect customers' personal information include:

* The Bank has intensified processes and measures in place to protect information and IT security to prevent fraudulent operations and unauthorised access to the Bank's system(s).

* The Bank regularly updates its security measures, procedures and controls that meet and even supersede standards banking practices.

* The Bank employees are duly qualified and trained to respect customer's preference regarding secrecy and the protection of customers' personal information.



Addressing Customers' Suggestions and Complaints

The Bank Management is especially attentive to customers' suggestions and complaints by providing all possible means to customers and interested parties to express their opinions and suggestions by telephone, fax, email, personal communication, or on suggestion forms available throughout the branches and offices. Suggestions and complaints are addressed in a sincere and an optimal manner. Each unit at the Bank contributes effectively to reducing complaints and adopts customers' proposals that contribute to further improving banking products and scaling up the Bank's service quality and control environment.



Financial Indicators

{ Throughout 2011, Quds Bank continued its path towards achieving distinguished results, leading to further growth in the main financial indicators. Our vision and strategic planning have advanced the Bank to a leading position in Palestine }

Return on Shareholder Equity

(%)

The amount of net income returned as a percentage of shareholders equity. Return on shareholder equity is the outcome of dividing after tax net profit by the average net shareholding equity.

2011	% 8.7
2010	% 9.1
2009	% 5.9
2008	% -12.9
2007	% 2

Pre-tax profits

(In USD million)

Pre-tax profits refer to gross profit after deducting the operating expenses.

2011	6.5
2010	6.4
2009	4.3
2008	-5.2
2007	0.8

Total Income

(In USD million)

Compared to 2010, total income rose by %34.8, reaching USD 25.2 million.

2011	25.2
2010	18.7
2009	16.2
2008	9
2007	6.1

Net Interest and Commission Income

(In USD million)

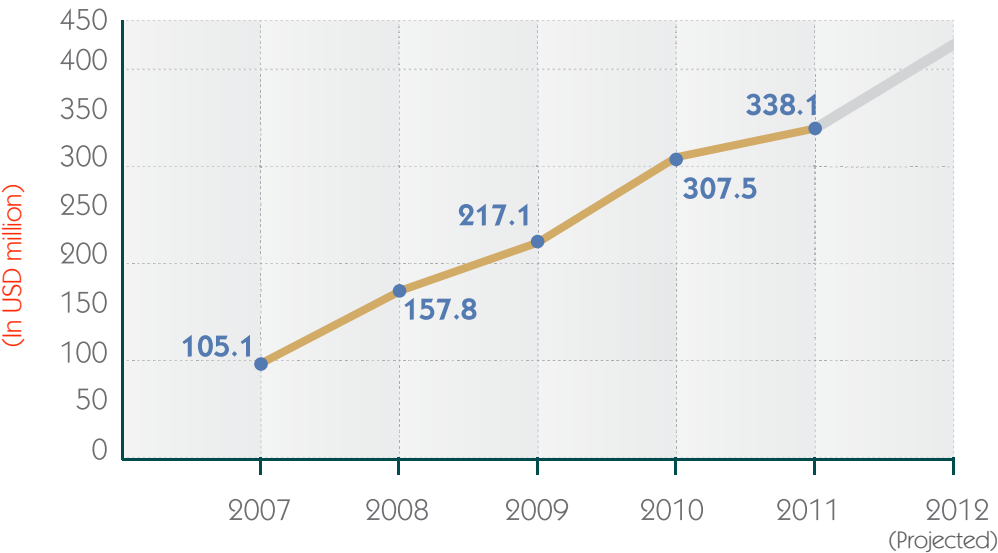
Net interest and commission income comprised %82.5 of the total income figure.

2011	20.8
2010	14.9
2009	12.6
2008	8.4
2007	5.5

Major Financial Indicators
(In USD million)

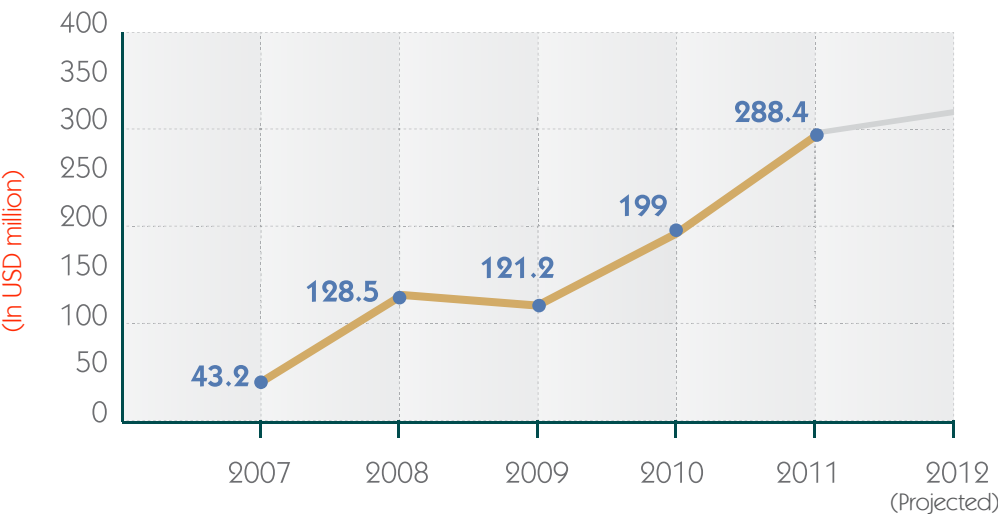
	2007	2008	2009	2010	2011	Growth 2011
Total assets	251.5	259.5	330.1	426.5	467.7	%9.7
Net facilities	43.2	128.5	121.2	199.0	288.4	%44.9
Customer deposits	105.1	157.8	217.1	307.5	338.1	%10.0
Shareholder equity	48.3	44.0	46.8	50.4	54.6	%8.3
Net profit	1.0	(6.0)	2.7	4.4	4.6	%4.5

Deposits



Quds Bank registered an unprecedented growth in customers’ deposits. Surpassing %222 over the past four years, customer deposits’ growth attests to the actual rise in trust and confidence in the Bank and its operations.

Facilities



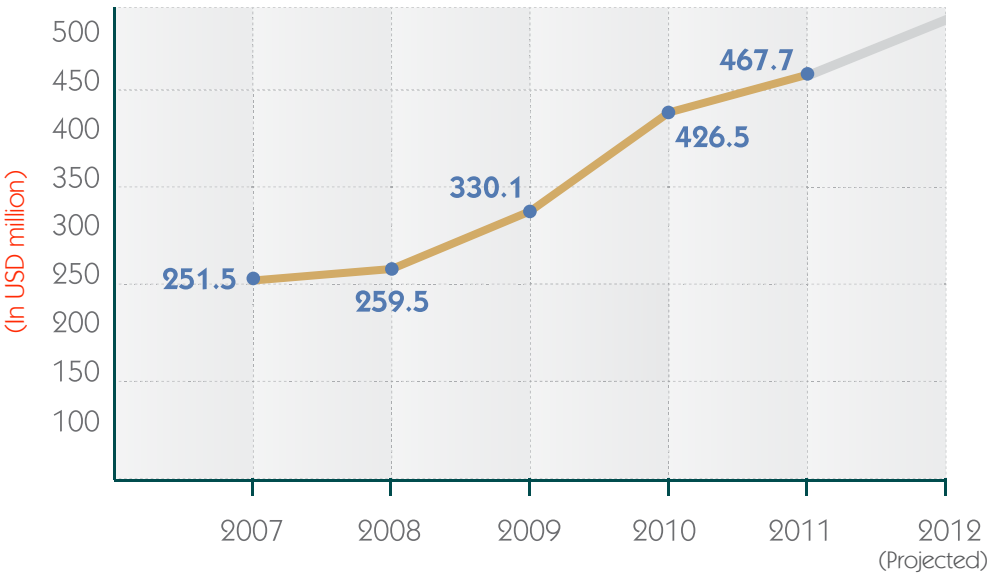
Credit facilities portfolio is distributed into several economic sectors in line with an informed plan that takes into account the market needs, return on investment and risk control. Net facilities grew by over %560 during the past four years.

Major Financial Ratios

(%)

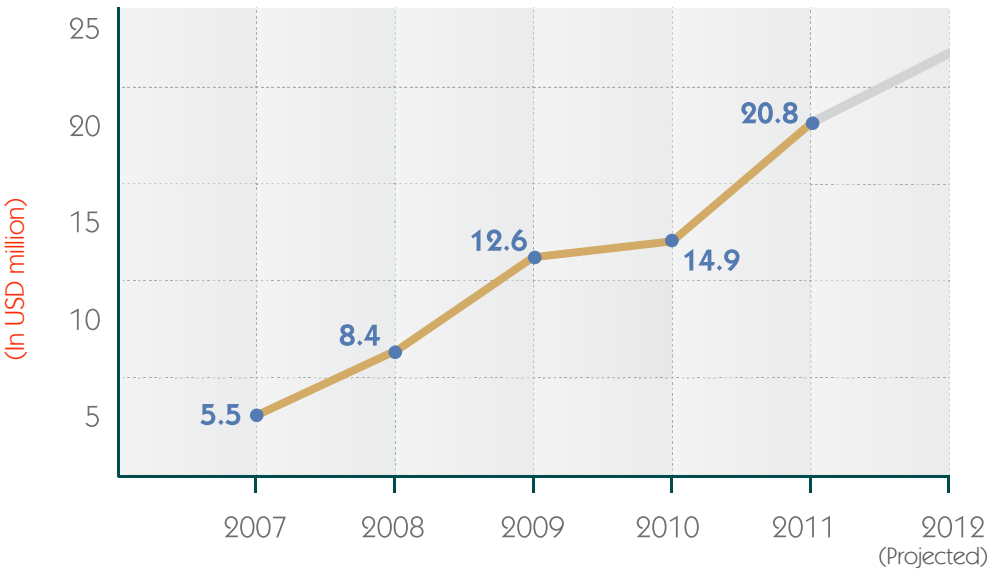
	2007	2008	2009	2010	2011
Net income / total assets	%0.4	%-2.3	%0.8	%1.0	%1.0
Net interest and commission revenues / total revenues	%90.2	%93.3	%77.8	%79.7	%82.5
Net shareholder equity / liabilities	%23.8	%20.4	%16.5	%13.4	%13.2
Net facilities / total assets	%17.2	%49.5	%36.7	%46.7	%61.7
Net facilities / customer deposits	%41.1	%81.4	%55.8	%64.7	%85.3
Capital efficiency	%31	%29.30	%25.70	%23.20	%22

Assets




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

Net Interest and Commission Income



A foreseeable result of sound planning and informed decision-making has been a growing net interest and commission income to over 270% during the past four years, which highlights an ideal utilization of sources and uses of funds.



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Quds Bank abounds in high profile experts who are dedicated to train, coach, and well-equip the Bank’s individuals into becoming members of teams that are exceptional in terms of being highly performing, greatly motivated, and significantly committed.

Besides external and internal training programs, Quds Bank’s all-encompassing annual performance appraisals have focused and guided the human capital strategy towards implementing both bottom-up and top-down human resources development initiatives. The Bank has also expanded its policy of internal promotions.

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Report

Annual Report

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Below is a briefing note about Quds Bank’s Human Capital Department..



Quds Bank strongly believes in its human capital, being the most valuable asset that drives continuous and sustainable growth and success. In the past year, the Bank focused on the recruitment and selection of highly qualified talented professionals through creating a process which ensures transparency and merit-based selection. Hand in hand with that, Quds Bank also created an employment brand, where it positioned itself as an employer by choice, a position that enables the institution to further attract experts with the skill-sets that can successfully lead its future. This was achieved through continuously promoting an open-door policy and providing internal communication mediums so that employees at all levels remain engaged in our decision making processes. Quds Bank encourages its people to express themselves through various channels and platforms such as the corporate Facebook page, website, and internal emails. This enhanced Quds Bank's culture to be one where each team member is given an opportunity to participate and contribute to the success story that Quds Bank takes pride in.

The expansion of Quds Bank is reflected in the growth of its workforce by %40 in 2011, with the average age of 32 years, and remains rich in its seasoned experts who dedicate their leadership skills in mentoring and coaching a specialized team. Quds bank is a young vibrant banking institution which offers sophisticated products and services to its clientele. The unique combination of skills and minds defines Quds Bank's culture, driving it to become the leading bank in Palestine. Quds Bank also focuses on gender equality where females account for %35 of the workforce. The diversity in Quds Bank's talent pool enables it to connect and attend to its wide spectrum of customers.

Recognizing that the sustained growth of Quds Bank is dependent on its people's development and training, it continues to invest in building its skills. **In 2011, comprehensive Sales training was initiated, promoting a viable customer driven culture to ensure that clients' needs are met and that the services are provided with excellence.** Also, in line with the Palestine Monetary Authority's focus on Risk and Compliance, 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 in regulatory measures. The continuous Internal training programs conducted by the team of in-house experts has also progressed in 2011, addressing diverse areas that need to improve and to be periodically updated.

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

Compared to 353 in 2010, a total of 448 staff members are employed by Quds Bank in 2011:

Academic Degree	Number
MA	17
BA	302
Diploma	52
High school	40
Below high school	32

Quds Bank Human Capital Department has paid special attention to capacity building. Staff members have taken part in numerous, multidisciplinary training programmes:

Number of staff members	448
Number of training programs	65
Number of participants in training programs	424

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 The year 2011 was focal with regard to
 the human capital investment process
 }



Our profound commitment to contributing to the various community activities and events is guided by our commitment, sense of responsibility, dedicated approach, and available capacities. We support our community with a view to introduce change and influence outcomes in the best way possible for the targeted groups of interest. We do strive and aim that our corporate social responsibility be sustainably growing and effective to touch upon people and bestow value on the community at large

Corporate Social Responsibility (CSR)

Well aware of its corporate social responsibility, Quds Bank has supported and sponsored a significant number of events and activities that correspond to the Community's needs and aspirations.

Our profound commitment to contributing to the various community activities and events is guided by our commitment, sense of responsibility, dedicated approach, and available capacities. We support our community with a view to introduce change and influence outcomes in the best way possible for the targeted groups of interest. We do strive and aim that our corporate social responsibility be sustainably growing and effective to touch upon people and bestow value on the community at large.

Besides its financial and economic contributions, Quds Bank proudly aims to contribute and take part in a number of humanitarian activities amidst the exceptional and unkind circumstances that the Palestinian people are going through.

We always hope that fulfilling our social part will eventually yield the desired benefits since our sense of commitment and deep-rooted belonging is what makes our social responsibility an integral component of what we do and strive to do in the communities that we operate in.

Quds Bank allocated its social contributions into a variety of categories in line with our assigned finances and desired courses of action to augment effectiveness and drive change. Hence, and in order to reflect our distinctive image and identity, Quds Bank strikes a balance between profitability and corporate social responsibility to drive change and influence outcomes. In this vein, the Bank took part in the 2010 Social Corporate Responsibility Forum through which the Bank in its capacity as an influential member signed a clear general policy framework of corporate social responsibility which commits the Bank along all members to earmark %2 of its net profit to be disbursed and cater for corporate social responsibility matters/ endeavours. Having spent USD 170,000 in 2011, Quds Bank was duly honoured at the Social Corporate Responsibility Forum as a distinctive member.



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Groups targeted by Quds Bank sponsorships, donations and activities:

- Children and youth
- Women
- People with special needs
- Patients in need
- Talented individuals and innovators
- Outstanding students
- Civil society organizations
- Relevant official bodies and national institutions that support the Palestinian society, taking into account that these are not politically and/ or religiously oriented.

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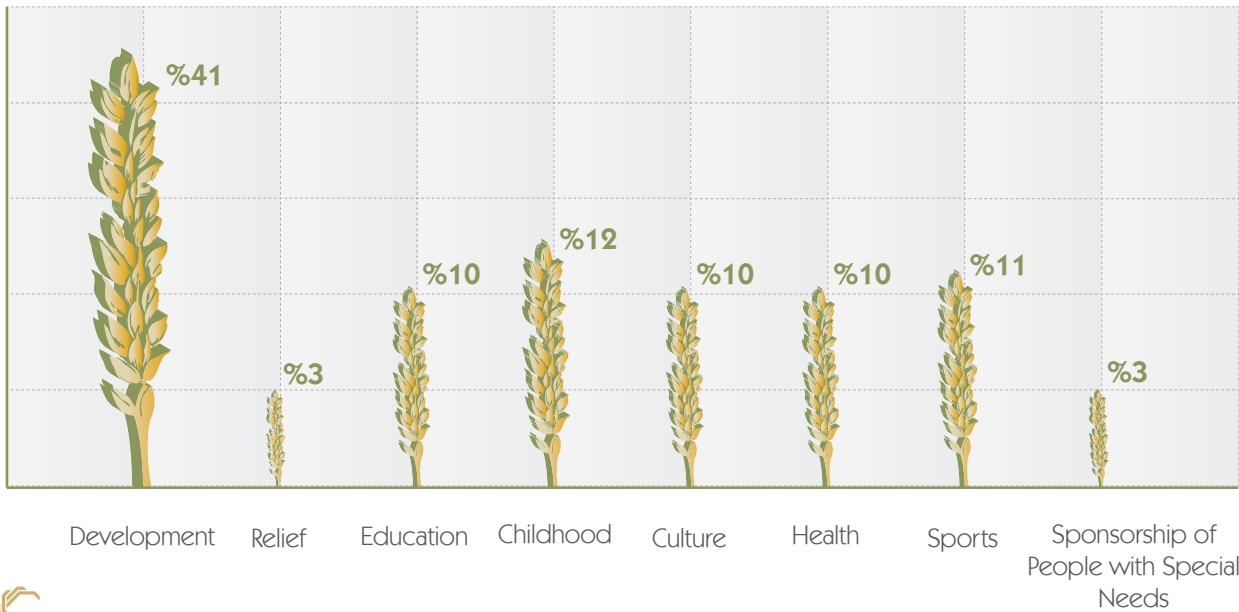
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Our social corporate responsibility is a humanitarian service, a virtuous mission, and a fundamental component of our success and continuity..

Sponsorships

Quds Bank sponsors and contributes to various social and economical activities and events, thereby promoting its involvement and partnership and serving the various community sectors. Sponsorships are designed to promote and market the Quds Bank’s name, services and products. It enables the Bank to dwell on its marketing, publicity and media accompanying activities to further consolidate Quds Bank’s image and promote its products and services.

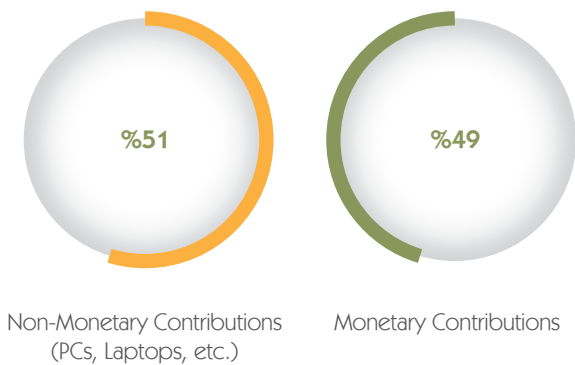
Distribution of sponsorships according to activity:
Classification of sponsorships per the Banks Association in Palestine



Donations

In line with its corporate social responsibility, Quds Bank’s donations are neither an almsgiving nor a charity; these are long-term investment in the society. They respond to emerging humanitarian and developmental needs and help create employment opportunities/projects that empower targeted beneficiaries. In spite of their mediocre publicity and marketing revenue, donations mostly comprise humanitarian aid and contributions.

Distribution of donations according to activity:



1. Development

Development-oriented contributions are designed to introduce, invigorate and invest human and physical 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 75,000 to a significant number of development interventions.

Development	USD
Participating in a wing in Bride & Groom Exhibition, Movenpick Hotel	3,000
Sponsoring Marj Bin 'Amer Festival	5,000
Sponsoring a group wedding in Silwad village	1,000
Sponsoring the Jerusalem 2011 Festival, Yabous Cultural Centre, Jerusalem	5,000
Providing supplies for the summer camp of security personnel's children	580
Sponsoring reception party of newly appointed staff at An Najah University	1,739
Sponsoring a public celebration of the 1 st of May	10,000
Sponsoring a workshop on establishing a union for distributors of agricultural supplies "Palestinian Vegetables Council", Nablus	735
Sponsoring the National Reconciliation party at Ad Dirah Hotel, Gaza	1,739
Sponsoring the open wave of Mother Day celebrations	663
Sponsoring the 15 th anniversary of the Atlas Sports website	1,029
Sponsoring a workshop for the Union of Public Sector Employees	950
Sponsoring 2011 Nablus Development Initiative	10,000
Donating 2 computer sets to Sinjil Municipal Council	1,200
Donating a computer set to Falastin Al-Ghad ("Palestine Tomorrow") Association	600
Donating 2 computer sets to Arab Women for Jerusalem Association	1,200
Donating a computer set and printer to the Directorate General of Civil Defence	1,000
Covering expenses of the Mother Day celebration at the Ramallah Youth Club	588
Offering a grant to the Palestinian Popular Arts Troupe	3,000
Offering a grant to the Consortium of Christian Churches	10,000
Offering a grant to the Palestinian Centre for Growth and Human Development	1,000
Donating a laptop to the Roman Catholic Church	813
Donating 10 laptops to students ranking first in high school	6,925
Donating a computer set to the Society for Prisoner and Community Protection	600
Offering a grant to the Palestine Tomorrow for Social Development Association	441
Offering a grant to the Give Gaza Association – a Ramadan breakfast	1,800
Offering a grant to Haris Women for Social Work Association	588
Offering a grant to Arab Women for Life Association	580
Donating 3 computer sets to the Patient's Friends Society	1,800
Offering a grant to the Palestinian Child Home Club	1,000



Development

2. 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 relieving individuals and groups aggrieved by emerging events as such. The Bank provided a total of USD 5,605 to execute a number of relief activities, including providing for the basic needs of those in need, households and individuals.

Relief	USD
Donating an electricity generator to a mosque	1,105



Relief

3. Education:

Education is of paramount importance. The fact that education, literacy and enrolment in the educational institutions is amongst the highest internationally, Quds Bank continued to focus on education and support it even further in light of the misfortunes brought upon the large sector of students (including potential students) in the form of displacement, land confiscation and property loss. We continue to believe and invest in education as an important factor through assisting those who have lost their sources of income, investments, and social wellbeing. In this line of social activity, Quds Bank made a contribution of USD 26,156 in 2011.



Education	USD
Sponsoring a celebration honoring winners in "Let's Read" competition, Tulkarem Ministry of Education district office	1,500
Sponsoring a party honouring educational advisors, El Bireh	1,000
Sponsoring a party honouring students ranking first in high school	1,000
Sponsoring the Inventions Fair, organised by Al Nayzak Supportive Education and Scientific Innovation	3,000
Sponsoring an academic activity at the Al Quds Open University	500
Sponsoring a celebration honouring outstanding students	1,000
Sponsoring the high school graduation ceremony in Beit Lid town	436
Sponsoring the Best Feasibility Study Competition	1,950
Sponsoring a celebration honouring outstanding students at the Al Quds Open University	725
Sponsoring a celebration honouring outstanding students at the Educational Science College at the An Najah University	1,000
Sponsoring a training course on communication skills, Far'un Girls School	1,000
Contributing to high school graduation ceremonies	434
Offering a grant to the Karamaty Journal of the Al Karamah Mixed Basic School	588
Offering a grant to Houari Boumedienne School	294
Offering grants to 'Attil and Zeita girls basic schools	294
Offering grants to 3 schools to honour outstanding students	435
Purchasing school bags for the 'Anabta Charitable Society	1,000
Offering a grant to the President's Needy Student Assistance Fund, Beirut	10,000

4. Childhood:

At this stage of their life, children are in an absolute need for a caring provider. And since many continue to be marginalized and face considerable challenges of all sorts, responding to their needs through contributing a sum of USD 14,000 to implement a variety of activities targeting Palestinian children was of major importance for us at Quds Bank.

Childhood	USD
(Sponsoring the first children’s musical party (Yamaha	9,593
Sponsoring the Palestinian Child Home Club festival – Golden Sponsor	2,000
Sponsoring the Palestinian Orphan’s Medical Day in Beit Jala	2,353



5. Culture:

Culture comprises common sets of beliefs, values and norms in a society which is considered a common and a connecting factor for individuals residing in that culture and community. To further promote cultural endeavours, Quds Bank contributed a total of USD 34,000.

Culture	USD
Sponsoring the launch of Mawtini Network, including installation of banners on 600 sites of Palestinian villages and towns and broadcasting radio shows for 10 days	3,435
Sponsoring the Conference on Palestinian Media on a Road Juncture	5,000
Sponsoring Portrays of Martyr Yasser Arafat Exhibition	1,500
Sponsoring activities of the El Bireh Youth Foundation	10,000
Sponsoring Ajyal cultural journal	500
Sponsoring the 2011 Nablus Development Initiative	10,000
Offering a grant to Al 'Awdah Troupe of the Friends School	1,470
Offering a grant to the Cultural Affairs Department, El Bireh Municipality	2,000



6. Health:

Quds Bank believes that man should not only enjoy well-being, but also live in a sound and health care oriented system. With an eye to a healthy society, Quds Bank provided a total of USD 25,000.

Health	USD
Sponsoring the International Thalassaemia Day	4,348
Sponsoring the 2 nd International Conference on Dermatology and Venereal Diseases. A special wing of Quds Bank was also installed at the Conference exhibition	5,600
Offering a grant to Donia Specialist Gynecology Centre	14,200
Offering a grant to the National Association to Support Cancer Patients	588



7. Sports:

Quds Bank offered a total of USD 13,053 to sports activities organized for the purposes of entertainment, healthy competition, and distinction/ skills' development.

Sports	USD
Sponsoring sportswear of the Kafr Ni'ma Sports Club	1,000
Sponsoring sportswear of the Al Am'ari Sports Club	1,000
Sponsoring sportswear of the 'Arura Sports Club	1,000
Sponsoring sportswear of the Qarawat Bani Zeid Sports Club	1,000
Sponsoring Al Quds International Championship in Toronto, Canada	1,000
Sponsoring veteran athletes' trip to Amman, Jordan	500
Sponsoring the 4 th Salfit Table Tennis Championship	1,000
Sponsoring the 5 th Sports Cultural Week of the Bethlehem Islamic Club	500
Sponsoring the Basketball Championship of the Samaritan Community Youth	1,176
Sponsoring a sports festival on the Labour Day	436
Sponsoring the Equestrian Championship in Gaza	1,500
Offering a grant to the Al Ansar Sports Club	1,000
Supporting participation of athlete Muhannad al Faqih in International and Arab Bodybuilding Championships	500
Supporting participation Tamir Bakr, administrative staff member at Quds Bank, in the Thai Boxing Championship	1,000
Offering a grant to the Palestinian Association of Veteran Athletes	441



8. 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 5,000.

Sponsorship of Persons with Special Needs	USD
Sponsoring the Al Kheir Marathon, organised by Al Yasmin Association Charity for the Care of Children with Special Needs	3,000
Donating medical devices and equipment to persons with special needs, Social Rehabilitation Society, Qalandiya refugee camp	1,500

Marathon for Charity for them

شارك في ماراثون الخير لأجلهم

\$60,000

إربح المبلغ المقدم من شركة هيونداي وتبرع به فورا
لجمعية الياسمين الخيرية لرعاية الأطفال ذوي الاحتياجات الخاصة

\$3000

وجائزة الترضية للفائز الأول



نقطة التجمع يوم الجمعة ١٨ تشرين ثاني ٢٠١١
امام مهديان محمود درويش - المصيون / رام الله
في تمام الساعة ٩ صباحا



Sponsorship of Persons with Special Needs

2011 Bank quds bank

Report

بنك القدس
Quds Bank



A Main Sponsor

{ Financial Statements And Independent Auditor's Report Year Ended December 31, 2011 }

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Independent Auditor's Report

**To the Shareholders of
 Quds Bank (Public Shareholding Company, LTD.)
 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, 2011, statement of income, statement of comprehensive income, statement of changes in owners' equity and 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.

Member of Deloitte Touche Tohmatsu

***Opinion:***

In our opinion, the financial statements give a true and fair view of the financial position of Quds Bank as of December 31, 2011, 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 with,
- No violations of applicable laws including the Banks Law No. (9) of 2010, the instructions issued by the Palestinian 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 black ink that reads "Saba & Co." with a stylized flourish at the end.

Saba & Co.
Ramallah

February 5, 2012

Quds Bank (Public Shareholding Company, Ltd.)
Statement of Financial Position
As of December 31, 2011

(Amounts Are Expressed in U.S. Dollar)

	Note	31 December 2011	31 December 2010
Assets			
Cash and deposits with Palestinian Monetary Authority	4	79,397,834	68,816,052
Deposits with banks	5	60,792,655	113,483,949
Credit facilities, net	6	288,376,020	198,950,665
Available for sale Securities	7/a	6,630,084	7,545,018
Investments in subsidiaries	7/b	872,708	872,708
Property, plant and equipment, Net	8	19,250,122	13,256,145
Deferred tax asset	9	424,493	424,493
Intangible Assets	10	33,058	34,820
Other assets	11	11,903,203	23,149,984
Total assets		467,680,177	426,533,834
Liabilities and Owners' Equity			
Liabilities			
Deposits of Palestine Monetary Authority	12/a	45,651,596	42,915,150
Deposits of Banks and financial institutions	12/b	21,134,551	15,643,826
Customers' deposits	13	315,726,133	287,215,750
Cash margins	14	22,345,206	20,309,787
Sundry provisions	15	2,109,696	1,580,881
Provision for taxes	16	2,585,203	1,385,203
Other credit balances	17	3,549,046	7,050,041
Total liabilities		413,101,431	376,100,638
Owners' Equity			
Paid-in capital	1	50,000,000	50,000,000
Paid in capital in excess of par value		3,000,000	3,000,000
Statutory reserve	19	1,957,129	1,498,950
Optional reserve	19	224,912	224,912
General banking risk reserve	19	4,482,439	3,105,160
Cumulative change in fair value	7/c	(1,117,385)	(681,141)
Reserve for periodic fluctuation	19	1,347,892	660,623
Accumulated losses (Statement-D)		(5,316,241)	(7,375,308)
Net Owners' equity		54,578,746	50,433,196
Total liabilities and Owners' equity		467,680,177	426,533,834

The accompanying notes constitute an integral part of these financial statements

Quds Bank (Public Shareholding Company, Ltd.)
Statement of Income
Year Ended December 31, 2011

(Amounts Are Expressed in U.S. Dollar)

	Note	Year Ended 31 December	
		2011	2010
Interest income	20	18,981,888	13,881,000
Interest expense	21	(3,320,237)	(2,453,414)
Net interest income		15,661,651	11,427,586
Net commission income	22	5,141,115	3,428,727
Net interest and commission income		20,802,766	14,856,313
Gain from foreign currencies exchange		1,791,659	1,099,426
Gain from investments in available for sale securities	23	121,971	159,820
Releases from provision for impairment losses in credit facilities	6	1,250,320	2,239,581
Gain from sale of property, plant and equipment		690,457	-
Other income	24	559,339	334,018
Gross income		25,216,512	18,689,158
Expenses			
Personnel costs	25	8,991,854	6,439,466
Other operating expenses	26	5,293,072	3,371,511
Provision for impairment losses in credit facilities	6	1,804,727	818,861
Sundry provisions		931,252	419,632
Depreciation and amortization	15	1,651,761	1,243,220
Palestinian Monetary Authority fines	27	12,052	42,313
Total expenses		18,684,718	12,335,003
Profit before taxes		6,531,794	6,354,155
Taxes	16	(1,950,000)	(1,950,000)
Net income for the year		4,581,794	4,404,155
Earnings per share	34	0.092	0.088

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, 2011

(Amounts Are Expressed in U.S. Dollar)

	Year ended 31 December	
	2011	2010
Net Income for the Year	4,581,794	4,404,155
Add: Items of Other Comprehensive Income		
Gain from revaluation of available for sale securities	(378,462)	(748,871)
Total Comprehensive Income	(378,462)	(748,871)
Gross Comprehensive Income for the Year	4,203,332	3,655,284

The accompanying notes constitute an integral part of these financial statements

Quds Bank (Public Shareholding Company, Ltd.)
Statement of Changes in Owners' Equity
Year Ended December 31, 2011

(Amounts Are Expressed in U.S. Dollar)

	Paid - in Capital	Paid In Capital in Excess of Par Value	Statutory Reserves	Optional Reserve	General Banking Risk Reserve	Cumulative Change in Fair Value	Reserve for periodic fluctuation	Accumulated losses	Net Owners' Equity
December 31, 2011									
Balances as of January 1, 2011	50,000,000	3,000,000	1,498,950	224,912	3,105,160	(681,141)	660,623	(7,375,308)	50,433,196
Net income for the year								4,581,794	4,581,794
Change in fair value of investments	-	-	-	-	-	(378,462)	-	-	(378,462)
Total Comprehensive Income	-	-	-	-	-	(378,462)	-	4,581,794	4,203,332
Cumulative change in fair value of investments						(57,782)			(57,782)
Appropriation to reserves			458,179		1,377,979		687,969	(9,592,797)	-
Balance as of December 31, 2011	50,000,000	3,000,000	1,957,129	224,912	4,482,439	(1,117,385)	1,347,892	(5,316,241)	54,578,746
December 31, 2010									
Balances as of January 1, 2010	50,000,000	3,000,000	863,534	224,912	2,068,045	49,296	-	(9,446,309)	46,759,478
Profit for the year	-	-	-	-	-	-	-	4,404,155	4,404,155
Change in fair value of investments	-	-	-	-	-	(748,871)	-	-	(748,871)
Total Comprehensive Income	-	-	-	-	-	(748,871)	-	4,404,155	3,655,284
Cumulative Change in Fair Value of Investments						18,434			18,434
Appropriation to reserves	-	-	635,416	-	1,037,115	-	660,623	(2,333,154)	-
Balance as of December 31, 2010	50,000,000	3,000,000	1,498,950	224,912	3,105,160	(681,141)	660,623	(7,375,308)	50,433,196

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, 2011

(Amounts Are Expressed in U.S. Dollar)

	Year Ended December 31	
	2011	2010
Operating Activities:		
Net income before taxes	6,531,794	6,354,155
Non cash items:		
Depreciation	1,651,761	1,243,220
Provision for impairment losses in credit facilities	1,804,727	818,861
Provision for end of service indemnity	931,252	419,632
Provision for lawsuits	(66,629)	--
Releases from provision for vacation	(11,850)	(53,763)
Provision released from contingent loss	--	--
Impairment of investments in securities	38,372	(82,295)
Gain from disposal of property and equipment	(690,457)	--
	10,188,970	8,699,810
Changes in assets and liabilities:		
Increase in statutory reserve with PMA	(4,749,805)	(7,246,420)
Decrease (Increase) in deposit with banks	8,916,055	(8,916,055)
(Increase) Decrease in credit facilities	(91,230,082)	(78,580,928)
Decrease (Increase) in other assets	11,246,781	(7,681,946)
Increase in Bank Deposits	500,000	--
Increase in customers' deposits	28,510,383	85,410,444
Increase in cash margins	2,035,419	5,040,816
Increase (Decrease) in other credit balances	(3,489,144)	2,931,973
Cash used in operations	(38,071,423)	(342,306)
Payments toward end of service indemnity	(335,809)	(271,744)
Lawsuits paid	--	(8,085)
Tax payments	(750,000)	(1,255,982)
Net cash used in from operations	(39,157,232)	(1,878,117)
Investment Activities:		
Acquisition of property, plant and equipment	(9,127,137)	(2,081,372)
Additions of intangible assets	--	(35,261)
Proceed from sale of securities	804,807	(3,326,074)
Investment in securities	(364,489)	--
Proceed from sale of property, plant and equipment	2,173,618	--
Net cash used in investing activities	(6,513,201)	(5,442,707)
Net decrease in cash and cash equivalent	(45,670,433)	(7,320,824)
Cash and cash equivalent at beginning of the year	89,477,063	96,797,887
Cash and cash equivalent at end of the year (Note 32)	43,806,630	89,477,063

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, 2011

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 sixteen 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, 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 Palestinian Monetary Authority.
- The bank shares are listed for trading in Palestine Securities Exchange.
- The number of bank employees is (448) as of December 31, 2011 and (353) as of December 31, 2010.

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 22, 2012.

3- Significant Accounting Policies:

New Standards, Amendments and Interpretations:

New Standards, Amendments and Interpretations Effective from 1 January 2011

* **IAS 24, Related Party Disclosures (revised)**, the revised standard clarifies and simplifies the definition of related party and reduces the requirement for government related entities to disclose details of all transactions with the government and other government-related entities.

* **IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments**, the interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.

* Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. Improvements to IFRS comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2011 with earlier adoption permitted. No changes to accounting policies are made as a result of these amendments.

New Standards, Amendments and Interpretations that are not yet Effective for the Year Ended 31 December 2011 and not yet adopted

A number of new standards, amendments to standards and interpretations have been issued that are not yet effective for the year ended 31 December 2011 and have not been applied in preparing these consolidated financial statements.

-IFRS 9, Financial Instruments, is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized costs and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after 1 January 2015.

-IFRS 10, Consolidated Financial Statements.

-IFRS 11, Joint Arrangements.

-IFRS 12, Disclosure of Interest in Other Entities.

-IFRS 13, Fair Value Measurement.

The above standards are effective for annual periods beginning on or after 1 January 2013. The bank is currently assessing the impact of these standards on future periods.

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 Palestinian Monetary Authority.
- The financial statements have been prepared under the historical cost basis, except for available-for-sale investments 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 instruments

a) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place are recognized on the settlement date. Deposits, amounts due to banks and customers and loans are recognized when the cash is received by the Bank or advanced to the customers.

b) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair values in addition to any directly attributable incremental costs of acquisition or issue in the case of financial assets and financial liabilities not at fair values through profit or loss.

c) 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.

d) Financial assets

Financial instruments represent all financial assets and liabilities of the Bank. Financial assets include cash balances, on demand balances and deposits with banks and other financial institutions, investments, loans and advances to customers and banks. Financial liabilities include customer deposits and due to banks. Financial instruments also include contingent liabilities and commitments that are inserted out of the financial position items.

Cash and cash equivalent

This consists of cash and balances with the Palestinian 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.

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.

Available-for-sale financial assets

Available-for-sale financial investments are those which are designated “Available-for-Sale” do not qualify to appear as investments at fair value through profit or loss, held-to-maturity or loans and advances. They may be sold in response to liquidity needs or changes in market conditions. They include both equity and debt instruments.

After initial measurement, available-for sale financial investments are subsequently measured at fair value on an individual basis. Unrealized gains and losses are recognized directly in the other comprehensive income and accumulated in equity under the ‘Change in Fair Value Reserve’. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When the security is disposed off, the cumulative gain or loss previously accumulated in equity is recognized in the statement of income in ‘Net gain on sale of financial investments’. Interest earned whilst holding available-for-sale financial investments are reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognized in the statement of income as ‘dividend income’.

Determination of fair value

The fair value of financial instruments traded in active financial markets is determined with reference to quoted market prices on closing date (bid price for long positions and ask price for short positions) at the close of business on the date of the statement of financial position.

Impairment of financial assets

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

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.

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.

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 Palestinian 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 Palestinian Monetary Authority.

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.

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.

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.

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.

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.

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.

Related Parties

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

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 cumulative change in fair values 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 Palestinian Monetary Authority:
Composition:

	December 31	December 31
	2011	2010
Cash on hands	46,782,642	28,807,022
Balances with PMA:		
Current accounts	2,517,480	14,661,123
Statutory reserve	30,097,712	25,347,907
Total	79,397,834	68,816,052

- 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, 2011 and December 31, 2010.

5- Deposits with Banks:
Composition:

	December 31	December 31
	2011	2010
Balances at local banks and financial institutions		
Current accounts	301,781	385,424
Deposits maturing within 3 months	9,869,090	43,321,781
Deposits maturing after 3 months	--	4,595,230
	10,170,871	48,302,435
Balances at foreign banks and financial institutions		
Current accounts	9,550,231	18,937,317
Deposits maturing within 3 months	41,071,553	41,923,372
Deposits maturing after 3 months	--	4,320,825
	50,621,784	65,181,514
Total	60,792,655	113,483,949

Non-interest bearing deposits as of 31 December 2011 amounted to USD 9,747,512 compared with USD 8,868,703 as of December 31, 2010.

6- Credit Facilities – Net: Composition:

	December 31 2011	December 31 2010
Loans	199,617,610	132,968,710
Overdrafts accounts	90,247,982	65,983,619
Discounted bills	2,274,797	2,639,653
Total	292,140,389	201,591,982
Interest in suspense	(1,048,364)	(835,071)
Provision for impairment losses	(2,716,005)	(1,806,246)
Net direct credit facilities	288,376,020	198,950,665

- Loans and Advances are stated net of interest and commission received in advance in the amount of U.S Dollar 58,186 as of December 31, 2011 (U.S Dollar 212,071 as of December 31, 2010).
- The gross non performing direct credit facilities according to PMA instructions as of December 31, 2011 was USD 12,453,386 which represents (4.26%) of the gross credit facilities compared to USD 5,405,969 as of December 31, 2010 which represents (2.68%) of gross credit facilities.
- The gross non performing direct credit facilities after deducting suspended interest as of December 31, 2011 was USD 11,405,023 which represents (3.90%) of the gross credit facilities compared to USD 4,570,898 as of December 31, 2010 which represents (2.26%) of gross credit facilities.
- Credit facilities granted to public sector employees was USD 54,319,515 as of December 31, 2011 compared with USD 33,538,527 as of December 31, 2010.
- Credit facilities granted against real states guarantees was USD 36,043,676 as of December 31, 2011 compared with USD 38,964,196 as of December 31, 2010.
- Guarantees for the granted credit facilities were USD 59,277,909 as of December 31, 2011. (USD 52,985,533 as of December 31, 2010).
- Credit facilities in foreign currencies were in the amount of USD 114,445,683 as of December 31, 2011. (USD 80,507,845 as of December 31, 2010).
- Loans and overdraft accounts granted to the PNA and ministries amounted to USD 122,021,809 as of December 31, 2011 which represents 41.77% of the direct credit facilities compared with USD 81,588,913 as of December 31, 2010 which represents 40.47% of direct credit facilities.

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

	December 31 2011	December 31 2010
Companies asnd Organizations	4,001,352	5,612,840
Others	4,966,479	4,056,978
Total	8,967,831	9,669,818

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

	December 31 2011	December 31 2010
Public Sector	122,021,809	81,588,913
Constructions	22,150,832	7,306,832
Land	847,443	785,014
Industry and mining	22,036,116	4,116,909
General Trading	26,354,010	13,010,361
Agriculture	5,688,991	5,603,823
Tourism	6,792,365	3,896,521
Transportation	2,284,543	854,217
Services	23,391,572	44,684,851
Investment and financial services	-	17,655,349
Cars Purchases Financing	1,958,421	5,412,541
Others	57,565,923	15,841,580
Total	291,092,025	200,756,911

- **Provision for impairment in credit facilities:**

The Movements in this account is as follows:

	December 31 2011	December 31 2010
Balance at beginning of the year	1,806,246	8,418,085
Addition to the provision during the year	1,762,826	818,861
Less: provision transferred to revenues during the year	(663,119)	(2,065,976)
Less: written off provision against written off facilities	--	(9,348)
Less: provision on delinquent credit facilities exceeding six years	(123,603)	(5,355,376)
Currency variance	(66,345)	--
Balance at end of the year	2,716,005	1,806,246

- **Interest in suspense:**

The movements in interest in suspense are as follows:

	December 31	December 31
	2011	2010
Balance at beginning of the year	835,071	6,058,791
Suspended interest during the year	497,197	1,213,736
Less: interest transferred to revenues during the year	(144,871)	(28,126)
Less: write off of the suspended interest during the year	(43,190)	-
Less: suspended interest on facilities delinquent for more than 6 years	(95,843)	(6,409,330)
Balance at end of the year	1,048,364	835,071

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

	December 31	December 31
	2011	2010
Balance at beginning of the year	10,850,250	5,668,479
Additions	41,901	-
Provisions transferred for delinquent credit facilities exceeding six years	123,603	5,355,376
Bad Debts	(333,244)	-
Currency variance	(325,007)	-
Disposals / Settlements during the year	(587,238)	(173,605)
Balance at end of the year	9,770,265	10,850,250

7- Available for sale Securities:

A. Details of available for sales securities at fair value:

	December 31	December 31
	2011	2010
Investments in listed local companies	6,630,084	7,295,018
	6,630,084	7,295,018
Investments in unlisted local companies	--	250,000
	--	250,000
Total	6,630,084	7,545,018

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 2011	December 31 2010
AI – Ofoq Financial Instruments Company, paid with %25 of capital which is JD 2,000,000.	698,166	698,166
AI – Nisir Investment Company, paid with %25 of capital which is JD 500,000.	174,542	174,542
	872,708	872,708

C. Cumulative change in fair value of available for sales securities:

The movement in the account is as the following:

	December 31 2011	December 31 2010
Balance at beginning of the year	(681,141)	49,296
Change during the year	(378,462)	(748,871)
Recoveries from impairment	(96,154)	(63,865)
Transferred to the statement of income	38,372	82,299
	(436,244)	(730,437)
Balance at end of the year	(1,117,385)	(681,141)

D. The movements in available for sales securities is as follows:

	December 31 2011	December 31 2010
Balance at beginning of the year	7,545,018	4,867,086
Net (purchasing) selling of financial securities	(478,690)	3,408,369
Net change in fair value for the year	(436,244)	(730,437)
Balance at end of year	6,630,084	7,545,018

8- Property, Plant and Equipment-Net:

Composition:

	Furniture	Computers and programs	Vehicles	Decorations to Leasehold	Building	Total
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

	Furniture	Computers and programs	Vehicles	Decorations to Leasehold	Building	Total
December 31, 2010						
Cost:						
Balance at beginning of the year	1,296,166	4,248,793	96,929	2,948,485	6,783,645	15,374,018
Additions	409,986	979,865	50,000	638,894	2,627	2,081,372
Disposals	--	(1,083)	--	--	--	(1,083)
Balance at end of the year	1,706,152	5,227,575	146,929	3,587,379	6,786,272	17,454,307
Accumulated depreciation:						
Balance at beginning of the year	398,232	1,615,467	22,735	846,466	73,566	2,956,466
Depreciation for the year	115,046	634,362	20,789	391,428	81,154	1,242,779
Disposals	--	(1,083)	--	--	--	(1,083)
End of the year	513,278	2,248,746	43,524	1,237,894	154,720	4,198,162
Net book value	1,192,874	2,978,829	103,405	2,349,485	6,631,552	13,256,145

9- Deferred Tax Asset:

December 31, 2011

	Balance at Beginning of year	Releases	Additions	Ending Balance
End of service indemnity	1,523,873	(347,660)	931,252	2,107,465
Courts Provision	96,629	(66,629)	-	30,000
	1,620,502	(414,289)	931,252	2,137,465
Deferred Tax				424,493

December 31, 2010

	Balance at Beginning of year	Releases	Additions	Ending Balance
End of service indemnity	1,429,748	(325,507)	419,632	1,523,873
Courts Provision	104,714	(8,085)	-	96,629
	1,534,462	(333,592)	419,632	1,620,502
Deferred Tax				424,493

The effective tax rate applied in the calculation of deferred tax asset is %27.664.

10- Intangible Assets

The 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 \$ 2,204.

11- Other Assets:

Composition:

	December 31 2011	December 31 2010
Prepaid expenses	2,362,608	1,738,814
Stationery and printing	45,834	27,415
Interest receivable	652,441	797,155
In transit transactions between headquarters and branches	6,475,691	17,228,017
Checks under clearance	515,012	1,537,631
Assets acquired in settlement of debt(*)	1,519,053	1,502,500
Reimbursable legal fees	332,564	318,452
Total	11,903,203	23,149,984

(*): 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 is included in this balance.

12- Deposits of Palestine Monetary Authority, Banks and Financial Institutions:

Composition:

a- Deposits of PMA:

	December 31	December 31
	2011	2010
Time deposits due within three months	45,651,596	42,915,150
Total	45,651,596	42,915,150

b- Deposits of Banks and other financial institutions:

	December 31	December 31
	2011	2010
Current accounts – local banks	110,757	1,600,148
Time deposits – local banks due within 3 months	15,523,794	14,043,678
Time deposits – local banks due within more than 3 months	500,000	--
Time deposits – foreign banks due within 3 months	5,000,000	--
	21,134,551	15,643,826

13- Customers' Deposits:

Composition:

	December 31	December 31
	2011	2010
Current accounts	121,144,187	122,465,467
Saving accounts	83,108,497	64,368,542
Time deposits	111,473,449	100,381,741
Total	315,726,133	287,215,750

- Deposits of the public sector amounted to U.S Dollar 27,386,487 as of December 31, 2011 representing (8.67%) of total deposits against U.S Dollar 20,110,407 as of December 31, 2010 representing (7%) of total deposits.
- Non-interest bearing deposits amounted to U.S Dollar 123,008,646 as of December 31, 2011 representing (38.96%) of total deposit against U.S Dollar 123,442,308 as of December 31, 2010 representing (43 %) of total deposits.
- Restricted/pledged deposits amounted to U.S Dollar 1,612,359 as of December 31, 2011 representing (0.51 %) of total deposits against U.S Dollar 4,086,026 as of December 31, 2010 representing (1.42%) of total deposits.
- Dormant deposits amounted to U.S 7,062,282 as of December 31, 2011 representing (2.23%) of total deposits against U.S Dollar 1,567,466 as of December 31, 2010 representing (0.55%) of total deposits.

- Customer's accounts in foreign currencies amounted to U.S Dollar 209,502,600 as of December 31, 2011 against U.S Dollar 170,003,711 as of December 31, 2010.
- Non-resident customer's accounts amounted to U.S Dollar 4,254,918 as of December 31, 2011 against U.S Dollar 2,868,952 as of December 31, 2010.

14- Cash Margins:

Composition:

	December 31	December 31
	2011	2010
Cash margins against direct facilities	15,276,114	14,523,987
Cash margins against indirect facilities	5,137,093	3,842,385
Others	1,931,999	1,943,415
	22,345,206	20,309,787

15- Sundry Provisions:

Composition:

	December 31	December 31
	2011	2010
Provision for end of service indemnity	2,079,696	1,484,252
Provision for lawsuits against the bank	30,000	96,629
	2,109,696	1,580,881

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

	December 31	December 31
	2011	2010
Balance at beginning of the year	1,484,252	1,336,364
Provisions during the year	931,252	419,632
Payments during the year	(335,808)	(271,744)
Balance at end of the year	2,079,696	1,484,252

The movement in the provision for lawsuits is as follows:

	December 31	December 31
	2011	2010
Balance at beginning of the year	96,629	104,714
Provisions during the year	-	-
Released from Provision	(66,629)	-
Payments during the year	-	(8,085)
Balance at end of the year	30,000	96,629

16- Provision for Taxes

The movement in the provision for taxes is as follows:

	December 31	December 31
	2011	2010
Balance at beginning of the year	1,385,203	691,185
Paid during the year	(750,000)	(1,255,982)
Current year taxes	1,950,000	1,950,000
Balance at end of the year	2,585,203	1,385,203

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, 2009 and 2010.

17- Other Credit Balances:

Composition:

	December 31	December 31
	2011	2010
Interest payable	426,593	438,427
Accrued expenses	237,549	187,140
Post-dated checks and remittances payable	1,718,968	4,532,348
Temporary margins	646,250	1,478,849
Board of Directors Remuneration	27,770	169,252
Accounts payable	183,357	95,302
Provision for vacations	163,784	39,621
Tax withheld from wages	144,775	109,102
Total	3,549,046	7,050,041

18- Paid-in Capital:

Capital Adequacy:

According to PMA regulations, the bank should maintain a minimum capital adequacy ratio of 12%. As of December 31, 2011 and 2010, the bank was compliant with the required ratio. Particulars of capital ratio are as follows:

	December 31 2011			December 31, 2010		
	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	50,756,142	%10.85	%23.96	51,114,337	%11.15	%26.46
Regulatory capital	46,618,404	%9.97	%21.98	41,556,161	%9.74	%23.13

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, 2011, the owners' equity in the amount of U.S Dollar 54,578,746, net of accumulated losses is composed of paid in capital, statutory reserves, and paid in capital in excess of par value and land revaluation which constitute 12% of the total assets of the bank as of that date.

19- 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 and this reserve cannot be reduced without PMA pre-approval.

Reserve for Periodic 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.

20- Interest income:

Composition:

	2011	2010
Credit Facilities:		
Loans and advances	11,140,739	7,347,115
Overdraft and overdrawn accounts	6,807,923	5,111,061
Discounted bills	318,009	327,044
Deposits with PMA	333	13,442
Deposits with banks	714,884	1,082,338
Total	18,981,888	13,881,000

21- Interest expense:

Composition:

	2011	2010
Deposits of Banks and Financial Institutions	857,718	578,197
Customer's Deposits:		
Current accounts	46,089	21,230
Saving Accounts	509,971	516,681
Time Deposits	1,692,450	1,262,407
Cash Margins	104,052	67,963
Others	109,957	6,936
	3,320,237	2,453,414

22- Net Commission income:

Composition:

	2011	2010
Commission income:		
Commission from direct credit facilities	2,779,184	1,645,118
Commission from indirect credit facilities	441,097	345,202
Other commissions	2,211,516	1,671,826
Less :Commission expenses	(290,682)	(233,419)
Net commission income	5,141,115	3,428,727

23- Gain from investments in available for sale securities:

	Gain (loss) on sale of Available for Sale Investments	Recovery (Impairment) on Fair Value	Dividends	Total
Year end 31 December 2011:				
Investment in listed companies	96,154	(38,372)	64,189	121,971
Year end 31 December 2010:				
Investment in listed companies	63,865	82,295	13,660	159,820

24- Other Income:

Composition:

	2011	2010
Checks books	237,579	167,925
Swift, postage and telephone	13,524	34,978
Miscellaneous income	308,236	131,115
	559,339	334,018

25- Personnel Costs:

Composition:

	2011	2010
Salaries, benefits and related costs	6,749,167	4,683,629
Provident fund	276,807	200,662
Value added tax on salaries	834,529	590,101
Board of directors costs and remuneration	257,217	352,217
Travel and transportation	116,776	120,745
Medical	442,735	291,647
Training	148,668	67,067
Vacation allowance	70,966	10,855
Clothes for employees	94,989	65,542
	8,991,854	6,382,465

26- Other Expenses:

Composition:

	2011	2010
Rent	778,503	416,739
Stationery and printing	559,885	356,603
Swift, postage and telephone	638,305	517,830
Cleaning and maintenance	624,936	361,955
Subscriptions, fees and licenses	499,901	296,920
Insurance	95,915	53,741
Water and electricity	378,514	248,834
Computer software	123,205	44,621
Hospitality	78,872	64,176
Professional fees	130,678	200,553
Meetings and activities expenses	45,849	30,073
Car rental	139,243	91,423
Advertisement	848,755	571,068
Others	83,815	44,944
Transportation of cash	197,307	57,001
Donations	69,389	72,031
	5,293,072	3,428,512

27- Palestinian 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 compared to U.S Dollar 42,313 for year 2010. Particulars of these fines for the current year are as follows:

	Dollar
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 un-ordinary Meeting	5,000
	12,052

28- 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	2011	2010
Gross income	12,797,569	4,988,392	2,506,876	7,284,344	27,577,111	19,136,410
Provision for credit facilities	(112,752)	(441,655)	--	--	(554,407)	1,420,720
Gross profit	12,684,817	4,546,667	2,506,876	7,284,344	27,022,704	20,557,130
Undistributed expenditures	(2,351,592)	(96,697)	(857,716)	(17,184,905)	(20,490,910)	(14,202,975)
Profit before taxes	10,333,225	4,449,970	1,649,160	(9,900,561)	6,531,794	6,354,155
Taxes	--	--	--	(1,950,000)	(1,950,000)	(1,950,000)
Profit after taxes	10,333,225	4,449,970	1,649,160	(11,850,561)	4,581,794	4,404,155
Additional Information:						
Sector's Assets	97,417,105	63,559,513	93,407,847	213,295,712	467,680,177	426,533,834
Elimination of sector assets and Liabilities	201,921,622	108,763,228	66,786,147	35,630,434	413,101,431	376,100,638
Capital Expenditures					9,127,137	2,081,372
Depreciation and amortization					1,651,761	1,243,220

29. Concentration in Credit Exposures According to Sector:

	Inside Palestine		Outside Palestine		Total	
	2011	2010	2011	2010	2011	2010
Net income for the year	4,034,868	827,590	546,926	3,576,565	4,581,794	4,404,155
Assets	408,090,562	351,682,502	59,589,615	74,851,332	467,680,177	426,533,834

2011	Palestine	Jordan	Israel	Other	Total
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 a	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
Letter of credits	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

2010	Palestine	Jordan	Israel	Other	Total
Assets					
Deposits with PMA	117,118,487	27,082,850	6,245,520	31,853,144	182,300,001
Credit facilities, Net	198,950,665				198,950,665
Available for sale securities	7,545,018				7,545,018
Investments subsidiary companies	872,708				872,708
Property, plant and equipment, Net	13,256,145				13,256,145
Deferred tax asset	424,493				424,493
Intangible assets	34,820				34,820
Other assets	23,149,984				23,149,984
	361,352,320	27,082,850	6,245,520	31,853,144	426,533,834
Letters of credit	2,555,591				2,555,591
Acceptances	831,606				831,606
Guarantees	14,198,014				14,198,014
Unutilized direct facilities	7,414,786				7,414,786
Others	11,706				11,706
	25,011,703	--	--	--	25,011,703

30- Contra Accounts:

Composition:

	December 31	December 31
	2011	2010
Letter of credits	12,823,342	7,414,786
Acceptances	15,856,518	14,198,014
Guarantee	2,679,962	2,555,591
Unutilized credit limits	1,209,313	831,606
Others	--	11,706
Total	32,569,135	25,011,703

31- Related Parties:

Details as follows:

	Executive Management	Board of Directors	Other Related Parties	Total
Year Ended 31 December 2011:				
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:				
Guarantee			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)

Year Ended 31 December 2010:

Financial Position items:				
Direct credit facilities	474,828	3,291,338	5,706,431	9,472,597
Deposits	11,583	11,609	364,683	387,875
Cash margins	--	--	506,770	506,770
Off balance sheet items:				
Guarantee	--	--	81,066	81,066
Statement of Income:				
Interest and commission income	27,070	48,490	423,585	499,145
Interest and commission expense	--	--	(13,441)	(13,441)

Related parties/Facilities

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

2010	Percentage to Net Facilities	Percentage to capital	Classified	Provision against it
Related Companies	--	--	--	--
BOD Members and Executive Management	%1.89	%8.96	--	--
Other Related Parties	%2.87	%13.58	--	--
Total			--	--

32- Cash and Cash Equivalent:

The balance is composed of the following:

	For the Period Ended December 31	
	2011	2010
Deposits with Palestinian Monetary Authority	79,397,834	68,816,052
Deposits with banks due within three months	60,792,655	104,567,894
Less:		
Deposits of PMA and banks due within three months	(66,286,147)	(58,558,976)
Statutory reserve with PMA	(30,097,712)	(25,347,907)
	43,806,630	89,477,063

33- 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 30,000 as of 31 December 2011.

34- Earnings per Share:

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

	2011	2010
Net income for the year	4,581,794	4,404,155
Weighted average of outstanding shares	50,000,000	50,000,000
Earnings per share	.0920	0.088

35- Comparative Figures:

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

36- 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
Available for sales financial assets:				
Stocks traded at Palestinian securities exchange.	6,630,084	--	--	6,630,084
Stocks not traded in any securities exchange.	--	--	--	--

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 is 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:

		Companies				
2011	Individuals	Mortgage Loans	Large Companies	Small, Middle Institutes	Public	Total
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:	232,142	--	86,325	118,044	--	436,511
Below the Level	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

		Companies				
2010	Individuals	Mortgage Loans	Large Companies	Small, Middle Institutes	Public	Total
Low Risks	7,548,556	953,668	2,965,887	1,253,669	81,588,913	94,310,693
Acceptable Risks	73,817,325	963,694	31,448,281	1,051,989	--	107,461,266
Owed (*):						
Within 30 Days	325,665	--	234,147	12,353	--	572,165
31 to 60 Days	935,227	--	1,025,333	625,301	--	2,585,861
Under Control	289,734	--	--	--	--	289,734
Non – Functional:	729,086	14,225	141,274	87,823	--	972,408
Below the Level	163,809	--	--	220,312	--	384,121
A doubted	2,727,949	--	948,006	--	--	3,675,955
Total	81,365,881	1,917,362	34,414,168	2,305,658	81,588,913	201,771,959
Less: Suspense Interest	(781,467)	--	--	(53,604)	--	(835,071)
Decline Provision	(1,794,277)	--	--	(11,969)	--	(1,806,246)
Net	78,790,137	1,917,362	34,414,168	2,240,085	81,588,913	198,950,665

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

2011	Individuals	Mortgage Loans	Large Companies	Small, Middle Institutes	Public	Total
Low Risks	1,563,589	1,253,658	5,010,291	1,242,365	122,021,809	131,091,712
Acceptable Risks	90,394,490	3,698,806	58,462,897	1,667,609	--	154,223,802
Under Control						
Non – Functional:	232,142	--	86,325	118,044	--	436,511
Below the Level	3,820,375	--	--	120,813	--	3,941,188
Doubtful	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

Includes:

Cash Margins	6,407,421	802,927	5,606,493	531,952	--	13,348,793
Mortgages	22,740,407	1,123,256	12,180,013	--	--	36,043,676
Shared Stocks	3,453,041	--	6,208,563	223,836	--	9,885,440

2010	Individuals	Mortgage Loans	Large Companies	Small, Middle Institutes	Public	Total
Low Risks	7,069,842	946,593	2,763,466	739,410	81,588,913	93,108,224
Acceptable Risks	69,124,569	956,544	29,301,942	620,459	--	100,003,514
Under Control	1,550,626	--	1,259,480	637,654	--	3,447,760
Non – Functional:	729,086	14,225	141,274	87,823	--	972,408
Below the Level	163,809	--	--	220,312	--	384,121
Doubtful	2,727,949	--	948,006	--	--	3,675,955
Total	81,365,881	1,917,362	34,414,168	2,305,658	81,588,913	201,591,982

Includes:

Cash Margins	4,485,006	632,354	3,521,156	268,353	--	8,906,869
Mortgages	21,767,994	1,322,563	15,854,114	19,525	--	38,964,196
Shared Stocks	2,789,169	42,556	2,282,743	--	--	5,114,468

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 Palestinian 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 Palestinian Monetary Authority. The following schedules depict the liquidity status as of 31 December 2011 and 2010.

Financial Statements

Liquidity risk:

B \ 1 The table below shows the maturity of the Bank's major assets and liabilities as of December 31, 2011 compared to December 31, 2010 based on the contractual repayment arrangements on the date of the financial statements:

December 31, 2011

Assets	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
Cash and deposits with Palestinian Monetary Authority	49,300,122				--	--	30,097,712	79,397,834
Deposits with banks	58,840,413	1,952,242	--	--	--	--	--	60,792,655
Credit facilities, Net	78,935,618	6,688,149	2,957,306	4,311,572	47,775,993	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	187,076,153	19,024,541	2,957,306	4,311,572	56,348,923	147,708,082	50,253,600	467,680,177

Liabilities and Equity**Liabilities -**

Deposits of banks and financial institutions and Palestine Monetary Authority	16,646,750	49,639,397	500,000	--	--	--	--	66,786,147
Customers' deposits	120,417,065	48,041,691	29,770,330	19,028,645	12,297,157	3,062,748	83,108,497	315,726,133
Cash margins	22,345,206	--	--	--	--	--	--	22,345,206
Sundry provisions	--	--	--	--	2,109,696	--	--	2,109,696
Provision for taxes	--	--	--	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	159,409,021	101,230,134	30,270,330	21,613,848	14,406,853	3,062,748	137,687,243	467,680,177
Net liquidity gap	27,667,132	(82,205,593)	(27,313,024)	(17,302,276)	41,942,070	144,645,334	(87,433,643)	--
Cumulative liquidity gap	27,667,132	(54,538,461)	(81,851,485)	(99,153,761)	(57,211,691)	87,433,643	--	--

December 31, 2010									
Assets	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	
Cash and deposits with Palestinian Monetary Authority	43,468,145						25,347,907	68,816,052	
Deposits with banks	38,035,876	66,532,018	2,715,193	6,200,862				113,483,949	
Credit facilities, Net	52,308,723	4,332,343	8,991,476	5,294,766	38,575,182	89,448,175		198,950,665	
Available for sale Securities and Investments in subsidiaries					7,545,018		872,708	8,417,726	
Property, plant and equipment, Net						13,256,145		13,256,145	
Deferred tax asset					424,493			424,493	
Intangible assets							34,820	34,820	
Other assets		21,647,484			1,502,500			23,149,984	
Total Assets	133,812,744	92,511,845	11,706,669	11,495,628	48,047,193	89,448,175	39,511,580	426,533,834	
Liabilities and Equity									
Liabilities-									
Deposits of banks, financial institutions and Palestine Monetary Authority	25,816,915	32,742,061						58,558,976	
Customers' deposits	125,710,392	40,950,318	23,568,519	16,365,866	15,075,408	1,176,706	64,368,541	287,215,750	
Cash margins	20,309,787							20,309,787	
Sundry provisions					1,580,881			1,580,881	
Provision for tax				1,385,203				1,385,203	
Other credit balances		7,050,041						7,050,041	
Owners' equity							50,433,196	50,433,196	
Total Liabilities and equity	171,837,094	80,742,420	23,568,519	17,751,069	16,656,289	1,176,706	114,801,737	426,533,834	
Net liquidity gap	(38,024,350)	11,769,425	(11,861,850)	(6,255,441)	31,390,904	88,271,469	(75,290,157)	-	
Cumulative liquidity gap	(38,024,350)	(26,254,925)	(38,116,775)	(44,372,216)	(12,981,312)	75,290,157	-	-	

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 2011:

Assets	Up to one month	One to three months	Three to six months	Six months to one year	One year to 3 years	Non-interest bearing	Total
Cash and deposits with Palestinian Monetary Authority	-	-	-	-	-	79,397,834	79,397,834
Deposits with banks	49,092,901	1,952,942	--	--	-	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
Income 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	-	-

Sensitivity of Interest Rates- December 31 2010:

Assets	Up to one month U.S Dollar	One to three months U.S Dollar	Three to six months U.S Dollar	Six months to one year U.S Dollar	One year to 3 years	Noninterest bearing U.S Dollar	Total U.S Dollar
Cash and deposits with Palestinian Monetary Authority						68,816,052	68,816,052
Deposits with banks	30,526,375	66,532,018	2,715,193	6,200,862		7,509,501	113,483,949
Credit facilities, Net	52,308,723	4,332,343	8,991,476	5,294,766	128,023,357	-	198,950,665
Available for sale Securities and Investments in subsidiaries						8,417,726	8,417,726
Property, plant and equipment, Net						13,256,145	13,256,145
Deferred tax asset						424,493	424,493
Intangible assets						34,820	34,820
Other assets						23,149,984	23,149,984
Total assets	82,835,098	70,864,361	11,706,669	11,495,628	128,023,357	121,608,721	426,533,834
Liabilities and Owners' equity							
Deposits of banks, financial institutions and Palestine Monetary Authority	25,816,915	32,742,061					58,558,976
Customers' deposits	82,888,740	40,950,318	23,568,519	16,365,866		123,442,307	287,215,750
Cash margins	20,309,787						20,309,787
Sundry provisions						1,580,881	1,580,881
Tax provision						1,385,203	1,385,203
Other credit balances						7,050,041	7,050,041
Owners' equity						50,433,196	50,433,196
Total liabilities and Owners' equity	129,015,442	73,692,379	23,568,519	16,365,866	--	183,891,628	426,533,834
Interest rate sensitivity gap	(46,180,344)	(2,828,018)	(11,861,850)	(4,870,238)	128,023,357	(62,282,907)	--
Cumulative interest rate sensitivity gap	(46,180,344)	(49,008,362)	(60,870,212)	(65,740,450)	62,282,907	--	--

- **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:

	Change in index	Effect on Ownership Equity
Shares Listed at PSE	%+ 10	663,084
Shares Listed at PSE	% - 10	(663,084)

Branches

Ramallah

General Administration

+970 2 2979555
Al-Quds Str. - Massyoun

Ramallah

+970 2 2961750
Main Str.

Massyoun

+970 2 2970014
Al-Quds Str.

Al-Bireh

+970 2 2983391
Altahona Str.

Movinpick

+970 2 2986665
Movinpick Hotel

Nablus

+970 9 2359741
Omar Al-Mokhtar St. - Commercial Center

New Nablus

0970 9 2397782
Sufian Str.

An-Najah National University

+970 9 2342864
An-Najah National University

Tulkarem

+970 9 2675858
Al - Aser Str.

Anabta

+970 9 2680437
Badran Building - Main Street

Attel

+970 9 2662402
Main Str.

Salfeet

+970 9 2515981
Al-Shohda'a Str.

Bedya Office

+970 9 2991818
Main Str. - Near Al-Hasan Hall

Tubas

+970 9 2573140
Main Str.

Jenin

+970 4 2502951
Abo Baker Str. - Municipal Building

Hebron

+970 2 2211357
Ibn Roshd Str

Jericho

+970 2 2323230
E'an Al -Sultan Str.

Azaria

+970 2 2798803
Main Str.

Beit Jala

+970 2 2765071
Al-Sahel Str. - Alshaaer Building

Gaza

+970 8 286176
Omar Almokhatr Str.

AL-Remal

+0970 8 2844333
Omar Al-Mokhtar Str. - Facing Legislative Council

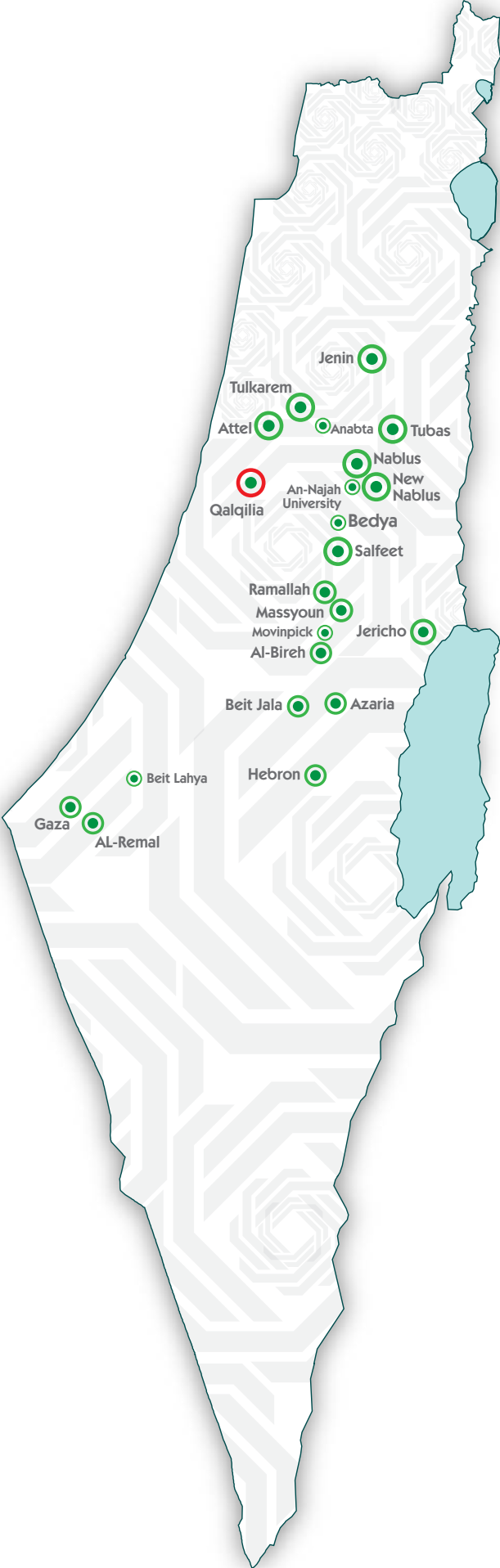
Beit Lahya

+970 8 2471420
Main Street

Branches of work is underway to open

Qalqilia

+970 9 2930566
Downtown - Roundabout Shaimaa





Handwriting practice lines consisting of 30 horizontal gold lines.



Blank lined area for writing.

