بنك القدس
Quds Bank

ANNUAL REPORT 2013

Quds Bank

Firm Steps Towards Distinction…

Quds Bank is amongst the largest local banks operating in Palestine and always aspires to be locally and regionally at the forefront of Palestinian banks, and to advance its slogan

“THE NATION’S & CITIZEN’S BANK”

Contents

Overview

"Quds Bank is one of the most rapidly growing and leading Palestinian financial Institutions, a "Palestinian Bank" which is a client-centered bank."

Quds Bank is regarded as one of the largest leading National Banks in Palestine, and has, during its successful journey in the banking sector, offered and provided the best innovative banking solutions and services to its clients of various types.

The bank has always ensured, in its distinguished expertise, the employment of its financial resources in order to undertake an effective and developmental role for all strata of clients of various types, and that is through sensible and constant management and use of the financial resources to experience the best return on capital employed.

Since its inception, the bank has varied and excelled in its banking services, through adopting the latest technologies and expert staff to help clients manage their financial affairs effectively through a network of extended branches and multiple access points for providing services.

The bank was established in 1995, and is with an existing capital of US$ 50 million. The bank practices its business activities through its general administration which is headquartered in Ramallah - Al Massyoun, as well as its 27 branches and offices spread all over the country.

General Message

Quds Bank always strives to be at the forefront of Palestinian banks and to enhance its slogan "the nation's and citizen's bank", and that is through focusing on the clients and studying their needs and developing them into new banking products and services not only in line with their aspirations but beyond their expectations so that Quds Bank remains the clients' best choice, with working on the growth of return on investment.

Our Vision

We have recognized our vision in the context of escalating growth, for our primary goal seeks to improve society as follows:

We differentiate our self as being a reliable revolutionary institution always seeking to provide innovative financial alternatives in order to enhance the society's lifestyle.

Our Mission

Since our clients are our partners, we have identified our mission as follows:

To be one of the most successful banks locally and regionally through providing new services in line with the clients' aspirations so Quds Bank remains the clients' best choice.

Our Values

Our commitment to our basic values motivates us to apply the highest levels of professionalism and commit to the principle of transparency and rational and sound administration.

We are distinguished by a balanced and fair financial system

The outcomes have, in light of results achieved throughout years 2007-2013 and the resulting successes at various levels therefrom in line with the Palestinian economic reality, indicated the realization of achievements within what had been planned. Some of the most prominent outlines of the outcomes were: maintaining successes in various forms and shapes as an integral part of a sound vision represented in a prudent administration that did not hold back from providing various forms of support in order to create a stable financial and economic environment that opens horizons for this banking institution to focus on its work plans, and has managed to grow and prosper despite the crises in which the nation and the world are undergoing. As a leading financial institution operating in Palestine, Quds Bank has focused on the works strategies in accordance with the region's current economic reality, as it also focused its attention on servicing its clients whether they were individuals, corporations or institutions, regardless of their size; and that is through a diversified portfolio of exceptional banking services and products designed specifically to meet the aspirations and fulfill the needs of all sectors. Moreover, Quds Bank developed plans which focus on administration of the bank's assets through future investments.

Banking Sector Performance

The banking sector has witnessed during the year 2013 significant growth in terms of total assets, whereas the total consolidated balance sheet of operating banks in Palestine has increased 11% as at 31 December 2013 valued at about one billion U.S dollars, and whereas the total balance has reached approximately 11 billion dollars as at 31 December 2013 against 10 billion dollars as at 31 December 2012.

Also, the volume of credit facilities of the banking sector has increased 7%, whereas the total existing credit facilities has reached approximately 4.4 billion dollars as at 31 December 2013 against 4.15 billion dollars as at 31 December 2012, at an increase amounting to approximately 290 million dollars.

Moreover, the volume of deposits of the banking sector has also increased 7%, whereas the total deposits of the banking sector has reached 8 billion dollars as at 31 December 2013 against 7.5 billion dollars as at 31 December 2012, at an increase amounting to approximately 541 million dollars.

In addition, volume of owner's equity of the banking sector has increased 6%, whereas the net owner's equity of the banking sector has reached approximately 1.36 billion dollars as at 31 December 2013 against 1.26 billion dollars as at 31 December 2012, at an increase amounting to approximately 100 million dollars during the year 2013.

Statement	Banking Sector			
	31 December 2012	31 December 2013	Growth	Growth rate
Total assets	10,050	11,195	1,145	11%
Credit facilities	4,154	4,444	290	7%
Client's deposits & Cash Securities	7,484	8,025	541	7%
Net owner's equity	1,258	1,362	104	8%

Economic deceleration in Palestine

The Palestinian economy has witnessed significant changes that affected its growth rates, whereas the growth rate in domestic production has decreased during years 2011-2013 from 12.2% in 2011 to 3.8% according to estimates of year 2013. Also, population growth was faster than the GDP (Gross Domestic Product) growth which has led to a decrease in the individual's share from the GDP, and which has reached (419 USD) during the third quarter of the year 2013 at a decrease estimated at 0.4% of the same quarter of the year 2012, whereas, this indicator has reached (272 USD) in the Gaza Strip and (520 USD) in the West Bank. However, with regards to unemployment rates, they remain at 23% as they were in the year 2012, whereas they had been less (20.9%) during the year 2011.

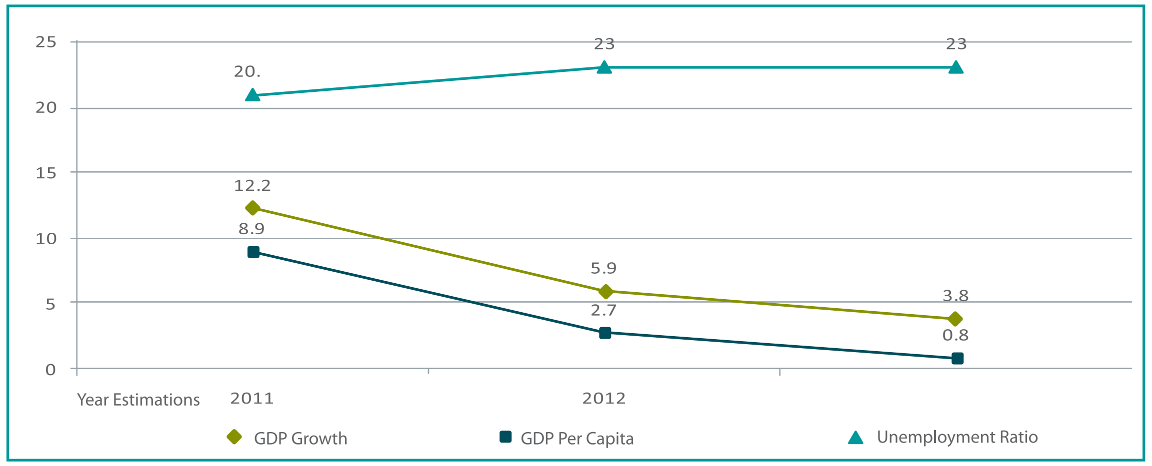
On the other hand, consumer price index at the end of year 2013 has reached 138.76 points at an increase of 1.7% from the year 2012 with an amount of 136.40 points.

The purchasing power of the U.S dollar has registered a decline of 1.59% during the second quarter of the year 2013 compared to the previous quarter, which is a close percentage to the decline of the purchasing power of the Jordanian dinar during the same period.

In terms of investment, the number of registered new companies in the West bank has reached, at the end of 2013, 1,233 companies with an increase estimated at 15% more than the year 2012 (1,071 companies). Also, the number of registered residential units (new and existing) has reached, at the end of the third quarter of 2013, 13,159 residential units at an increase estimated at 18% compared to the same quarter of the previous year.

However, in terms of Palestine Exchange, number of total shares traded has reached 203 million dollars at the end of year 2013, at an increase estimated at 37.8% compared to the year 2012. Also, the traded shares value has increased 24.6% to reach 341 million USD.

Palestine Economy Indexes



Bank's Financial Performance

The bank's financial indicators have witnessed during 2013 significant improvement compared to previous years, whereas the bank has maintained its competitive position among the banks operating in Palestine, and has continued to achieve high growth rates in various work aspects. Below is a summary of the bank's major financial indicators:

First: Financial Position Items (amounts are in million U.S dollars)

- **Total Assets:**

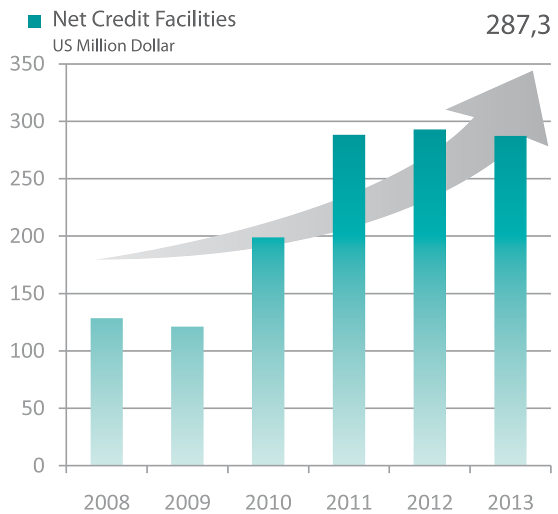
Total assets as at 31 December 2013 have reached 532 million dollars against 481 million dollars as at 31 December 2012, at an increase estimated at 51 million dollars and with a growth rate of 11%.

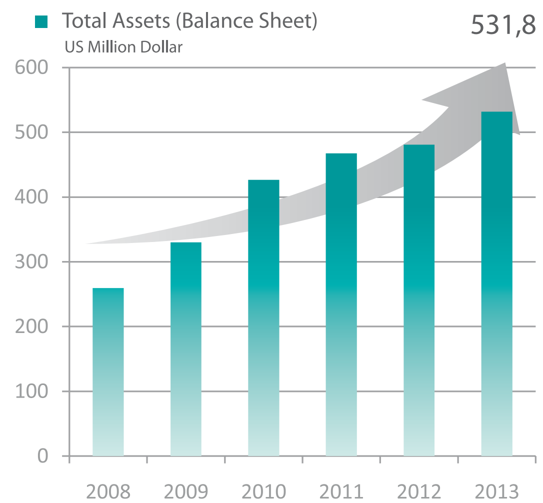
- **Credit Facilities Portfolio**

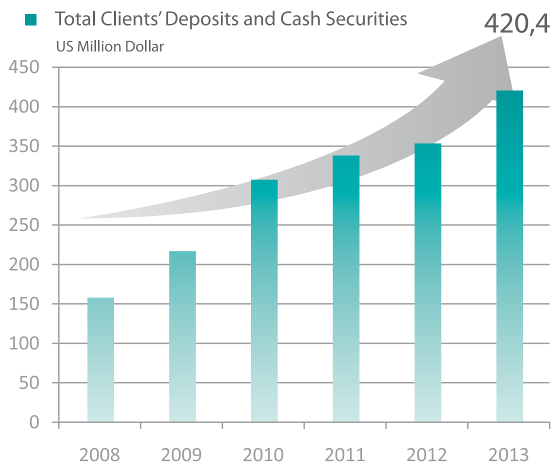
Net credit facilities portfolio as at 31 December 2013 has reached approximately 287 million dollars against 293 million dollars as at 31 December 2012, at a decrease that reached approximately 5 million dollars and a percentage of 2%, whereas the bank's management has re-structured the facilities portfolio during the year 2013 in aim of decreasing risks and achieving the highest possible revenue; whereas the concentration ratio in loans granted for employees of the military sector has been decreased, also, loans granted to the Palestinian Ministry of Finance have been restructured from the dollar currency to that of the shekel. However, the process of restructuring had had a positive effect on the quality of the credit facilities portfolio, whereas the ratio of operating and systematic facilities have increased to reach 93% as at 31 December 2013 against 91% as at 31 December 2012.

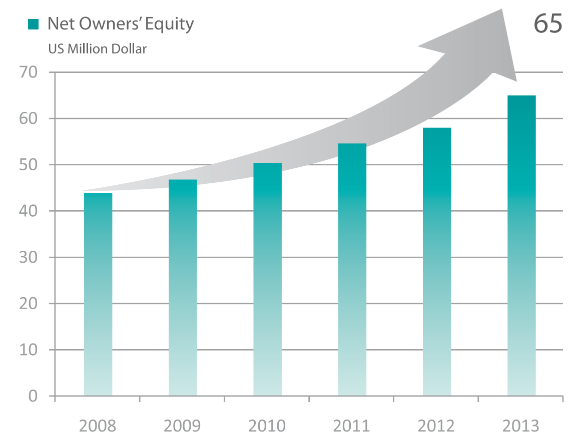
- **Client's Deposits and Cash Securities**

Total client's deposits and cash securities have reached approximately 420.4 million dollars as at 31 December 2013 against 353.6 million dollars as at 31 December 2012, at an increase that reached 66.8 million dollars and a growth rate of 19%.









- **Shareholders' Equity**

Shareholders' Equity as at 31/12/203 has reached approximately 65 million dollars against 58 million dollars as at 31 December 2012 at an increase estimated at 7 million dollars and a growth rate that reached 12%.

Second: Statement of Income Items (amounts are in million U.S dollars)

- **Net profit after Taxes**

Net profit after taxes for the year 2013 has reached approximately 4.7 million dollars against 3.3 million dollars for the year 2012, at an increase estimated at 1.4 million dollars and a growth rate that reached 45%.

- **Net Interest & Commission Income**

Net interest and commission income during the year 2013 have reached approximately 18.6 million dollars against 16.2 million dollars, at an increase that reached approximately 2.4 million dollars and a growth rate of 15%.

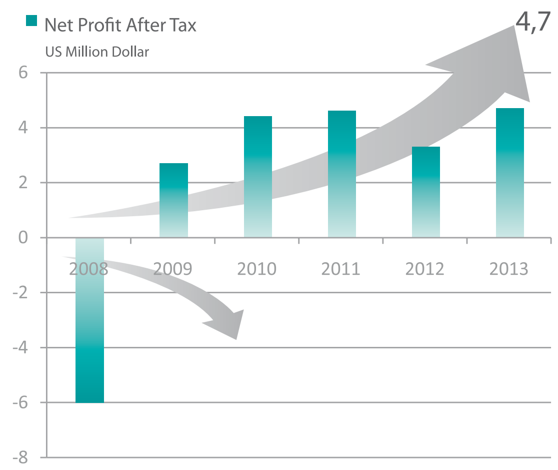
- **Net Income**

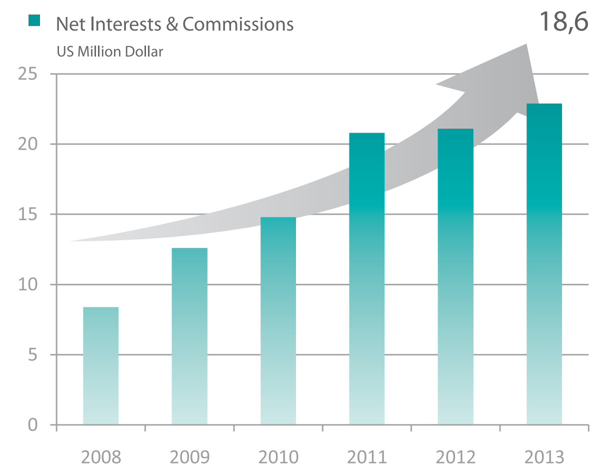
Achieved net income during the year 2013 has reached approximately 27.1 million dollars against 25.3 million dollars, at an increase estimated at 1.8 million dollars and a growth rate that reached 7%.

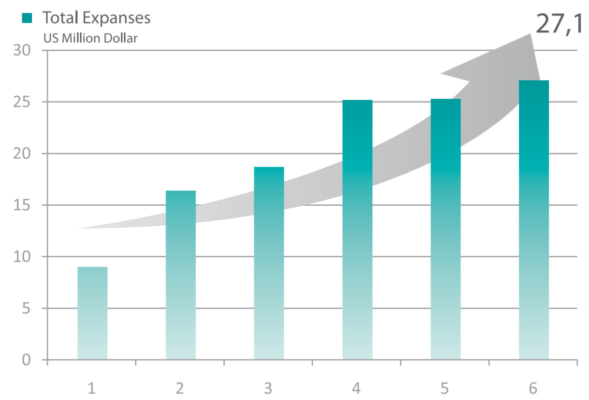
- **Total expenses**

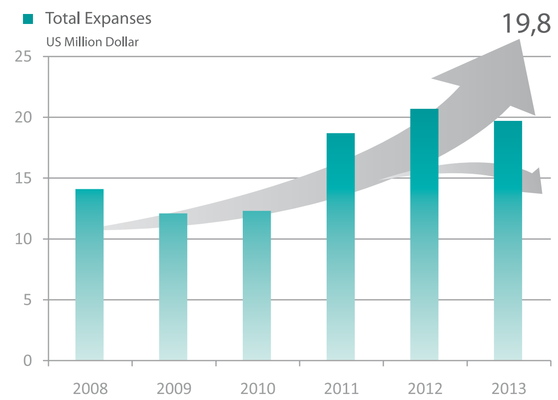
Total expenses for the year 2013 have reached approximately 19.8 million dollars against 20.7 million dollars for the year 2012, at a decrease estimated at 2 million dollars and a saving ratio that reached 5%.

Palestine Economy Indexes









"The existing Board of Directors consists of eleven expert and qualified members who are equipped with extensive experience and high profile qualifications to oversee and supervise the bank's works, and whereas the Board's Chairman is elected from amongst the members of the board".

Board of Directors

Chairman's Statement

Dear Shareholders,

On behalf of Quds Bank Board members, I would like to cordially welcome and thank you for accepting our invitation and attending the General Assembly ordinary meeting in which we will address our 19th Annual Report for the bank's work results as at 31 December 2013 and which had been prepared in accordance with the transparency and disclosure requirements bound by rules of governance. This also included the achieved during the concluded year, in addition to the Bank's budget, statement of income, cash flows and changes in shareholders' equity and the latest developments in terms of the growth and development of the bank's works.

The bank has concluded its nineteenth year continuing to consolidate its advanced position in the banking sector and develop its business as one of the largest leading banking institutions in the Palestine banking sector, whereas the bank continued to execute, with confidence, the strategic plan approved by the Board of Directors and which aims to achieve increasing growth and develop the bank's various businesses. These indicators wouldn't have come to be if it weren't for the ambitious work plan implemented by the bank's management, a translation of the discretionary budget items for the year, approved by the Board of directors, and which had been built on scientific and realistic basis and has taken into account the necessity to achieve realistic and ambitious growth rates.

The bank has achieved growth in the total deposits and client insurances during the year 2013 at an amount of approximately 67 million dollars and at a growth rate that reached 19%, whereas the total deposits and insurances had reached 420 million dollars at the end of the year 2013 compared to an amount of 353 million dollars at the end of the year 2012. Moreover, the bank had been able to achieve growth in its financial position during the year 2013 at an amount of 51 million dollars and a growth rate of 11%, whereas total assets have reached (532) million dollars at the end of 2013 compared to an amount of 481 million dollars at the end of the year 2012.
However, profits before tax have grown significantly at a growth rate that reached 62% and an amount of 2.8 million dollars, whereas profits before tax, during the year 2013, have reached an amount of 7.3 million dollars compared to an amount of 4.5 million dollars during the year 2012. Also, net profit has increased at an amount of 1.5 million dollars and at a rate of 45% compared to the year 2012. Consequently, owner's equity increased at an amount of 7 million dollars and at growth rate of 12%, to reach 65 million dollars at the end of the year 2013 compared to an amount of 58 million dollars at the end of the year 2012.

This development in performance was accompanied with improvement in the quality of the bank's portfolio and the general safety indicators, whereas the non-operating credit facilities ratio decreased to 4% in the year 2013 compared to a ratio of 6.96% in the year 2012 due to the prudent credit policy represented in focusing on sustainable and promising sectors in terms of performance, growth and achieved outcomes. In addition to expanding the clientele base and seeking to devote balanced approach and direction to each of the individuals, SMEs and large new corporations, with giving special attention to risks and other interrelated factors – whether external or internal – of all types with respect to the bank's method in dealing with that orientation.

Moreover, these indicators in their entirety indicate the bank's sound strategy in development, the strength of its credit and financial base and its ability to face any challenges encountered in the future through completing the application of Corporate Governance and occurring development in both the risk management and compliance departments to elevate to the best standards and levels and recruit all that in which these departments can do by working to the fullest, and in accordance with the board's vision and orientation.

The bank has also set its priorities to satisfy and fulfill its clients' needs in line with the new and aggressively competitive markets in accordance to the best standards. Therefore, the bank's management has worked on providing a wide range of financial services and banking products specifically for individuals, corporations, investment activities and the treasury department in accordance with the latest modern technologies in the world of the advanced banking industry.

Furthermore, in application of the best banking policies, our focus has continued to center on expanding in the field of funding of individuals and SMEs in order to serve a wider range of clients in a specialized manner, and to decrease risks and achieve the required revenues, and restrict credit concentration. Such will form a strong and powerful base for the credit portfolio and various other banking services in the future as well.

Additionally, the Board's plan has included operational risk control in a strategic banking context, and that is through a group of modern administrative concepts that aim to transfer various units of the bank from individual independent departments into a central integrated operations system in several fields, including execution of facilities and central banking operations so that the bank shall work within minute mechanisms that not only include achieving its annual targets of increasing profit and growth in its market share, but also in order to execute various transactions within accurate and controlled operations in a methodical and systematic manner in order to control and decrease risks to an acceptable limit, in addition to enhance the principle of dual control.

Also, the Board of Directors follows a well-constructed plan to develop all the bank's businesses and operations, such as opening more branches in vital and suitable regions, whereas the number of offices and branches has reached (22 offices and branches) by the end of 2013. Furthermore, the bank will open, throughout the following year, other branches and offices in Bethlehem, Ras Al-Joura in Hebron, Al-Neserat city, Khan Younes, an office in Silat Al-Dhar and an office in Al-Bireh / Jerusalem Street, bringing the number of branches and offices, during the first half of the year 2014, to a total of (27 offices and branches). Likewise, the ATM network has been expanded to cover more regions in order to enable clients to carry out their banking transactions with ease and effectiveness in all regions, whereas the number of ATMs has become (55 ATMs).

However, in terms of banking services and products, the bank has continued in its efforts to provide and develop all the comprehensive and competitive banking services and products, and has proved its success in this field, whereas the bank has launched, during 2013, a business development center under the name "Quds Bank Businesses" to cover all regions in Palestine and to specialize in the service of SMEs and companies in accordance with the latest banking policies and practices. Such has had a positive effect in improving the quality of those services, and working in much closer proximity with our clients and meeting their demands effectively and with high quality, in addition to improving the quality of the bank's credit portfolio. Also, the bank has introduced (MasterCard) credit cards to its clients with great success that pleased them and enhanced client-transactions. The bank has also begun to grant subsidiary agencies to the Western Union service in their capacity as the super-agent for this service in Palestine. Moreover, the bank has launched and developed a group of packages for the individuals' services programs, such as funding of liberal professions (the project of a lifetime) and programs for the employees of the private and public sectors and universities to fulfill the various needs of individuals.

The bank had also been distinguished in its success in the savings accounts, whereas the bank has launched, in the year 2013, a campaign encouraging saving (save…and count the days) in which the bank had sought to motivate saving with clients through rewarding the savers with profitable and generous prizes (a car each 10 days and 200 thousand shekels each three months). The bank has achieved a significant growth in this field, such adds to the stability of the structure of bank deposits, given that the savings deposits are considered one of the bank's major targets, being a stable and valuable financial resource.

The policy of developing human capital continues to be at the top of our priorities, considering its great value and significance in realizing the bank's current and future aspirations, along with training, development and motivation in line with the bank's great responsibility, whether presently or in the future. This role demonstrates the bank's scale up to its social role through creating job opportunities and hiring the competent and promising youths, and improving the level of existing competencies.

Believing in its role in corporate social responsibility, 2013 has marked numerous initiatives and accomplishments which Quds Bank designed to support national and social activities, whereas, during the concluded year, the bank has provided support and donations to many health, educational, cultural, artistic, social and humanitarian, sports and environmental centers and organizations. Consequently, the bank has generated its role and status being an active agent in the community, and such is derived from the bank's active message in terms of social responsibility in its various types.

Dear Shareholders…

Finally, I would like to reiterate my gratitude and appreciation to our esteemed shareholders for joining us and for your trust in our beloved institution (Quds Bank) and I would also like to take this opportunity to thank the venerable Board members for their fruitful efforts as well as the Executive Management and all staff of Quds Bank for the loyalty, responsibility and sincere efforts exerted for the achievement of these outcomes. I would also like to thank the Palestinian Monetary Authority for its cooperation and support of the banking sector which contributed to maintaining its integrity and stability, as well as offer my extended gratitude to our dear clients who are the basis of our success and distinction.

Akram Abdul-Latif Jerab

اكرم عبداللطيف جراب

Chairman

Members of the Board of Directors

Abdel-Rahim Nizar Jardaneh

(Bachelor of Science Pharmaceutics - Minnesota University, USA)

- Deputy Chairman of the Board, Quds bank
- Board Chairman, Dar Al Dawa' Comapany - Jordan
- Board Chairman, Arab Pharmaceutical Manufacturing Company Ltd.
- Board Member, Investment Bank
- Chairman, Dar Al-Ghidha' Company

Ahed Fayeq Bseiso

(Bachelor of Science in Architecture, Cairo University, Egypt)

- Board Member, Quds Bank
- Board Chairman, Palestine Development Fund
- Executive Committee Member, Arab Architects Critics Association (AACA)
- Executive Committee Member, Banks Association in Palestine
- Representative, Spanish Ulf Palm Foundation - Palestine
- General Assembly Member, Palestine Investment Fund
- Board Member, Palestine International Business Forum
- Board Member, Housing Loans Committee (SAKAN)
- Board Member, Al Karama Orphanage Society
- Board Member, Spanish Palestinian High Training Institute (SPHTI)

Members of the Board of Directors

Akram Abdul-Latif Jerab

(Masters in Business Administration –Durham University, UK)

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

Ruba Mohammad Masrouji

(Masters in Business Administration, Birzeit University, Palestine)

- Board Member, Quds Bank\
- CEO, United Securities Company
- Shareholder and Board Member, Al Masrouji Company
- Board Member, Jerusalem Real Estate Investment Company
- Member, Business Women Forum (BWF)
- Member, in numerous Charitable Societies
- Associate, Aspen Institute

Walid Najib Al Ahmed

(Bachelor of Science in Electrical Engineering)

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

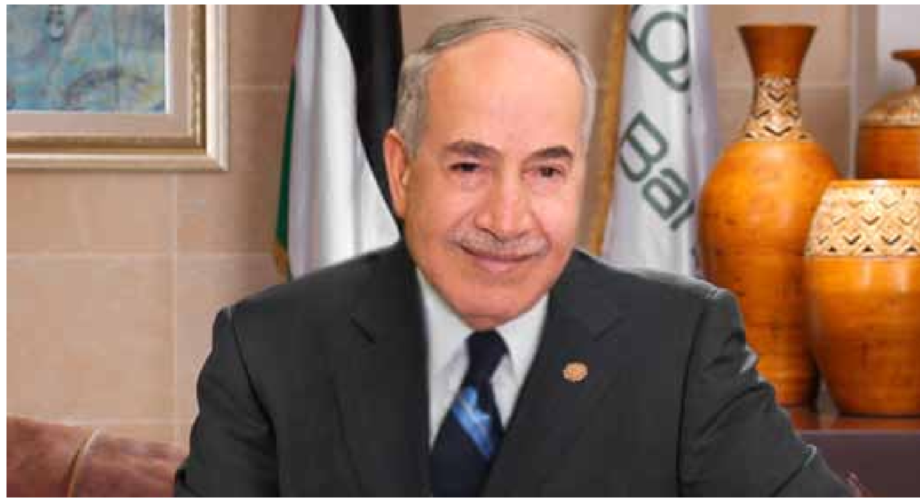
Louai Bishara Kawas

(Palestine Investment Fund Representative)

(Bachelor of Science in Accounting, Bethlehem University, Palestine)

- Board Member, Quds Bank
- Chief Executive, Palestine Commercial Services Company (PCSC)
- Board Chairman, Grand Park Hotel
- Board Member, Bulk Express Transport
- Board Member, Amar Real Estate Group
- Board Member, Al Hayat Newspaper

Dr. Hamed Abdul Ghani Jaber



(Doctorate in Electronic Engineering)

- Board Member, Quds Bank
- Chairman, Concorde Construction Company Group Ltd.
- Board Member, Al Jazeera Bank - Sudan
- Board Member, Building Information Modeling
- Former President, Federation of Contractors Islamic Countries (FOCIC)
- Former Board Member, Arab Assurers Company
- Former Member, Jordanian Contractors Union

Members of the Board of Directors

Muntaser Izzat Abu Dawwas

(Investment Bank Representative)

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

- Board Member, Quds Bank
- Chief Executive Officer , Investment Bank
- Certified Public Accountant, USA

Saleh Jaber Ihmaid

(Bachelor of Science in Accounting)

- Board Member, Quds Bank
- Board Chairman and owner, Tea Factory, Sri Lanka
- Owner of Tea Exporting Company, Sri Lanka
- Associate in Companies, Kuwiat, Jordan Palestine
- Board Member, Arab Federation for Freight Forwarders and Logistics (AFFFAL)
- Board of Trustees Member, Qasyoun University, Syria

Members of the Board of Directors

Duried Akram Jerab

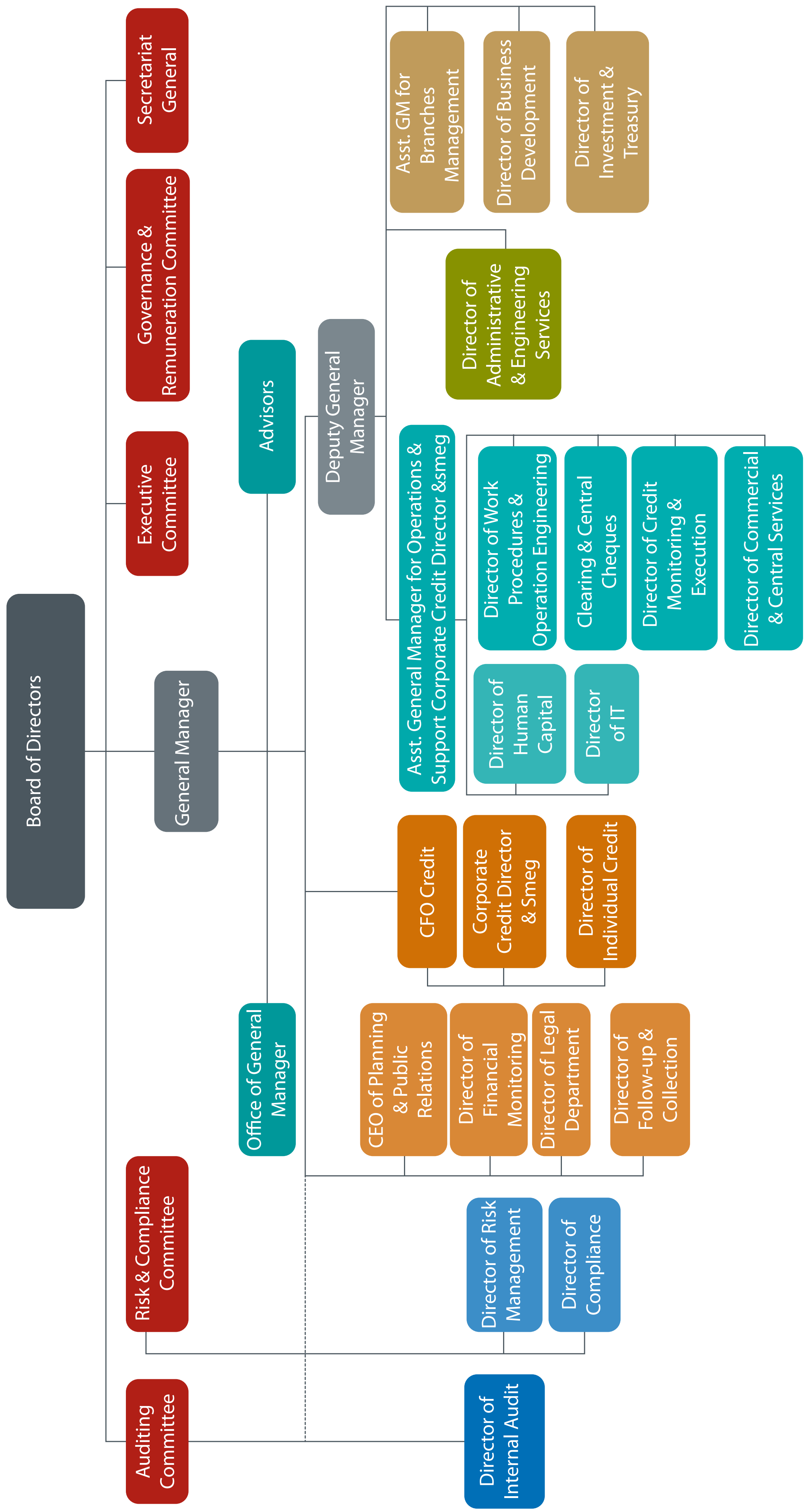
(Masters in Business Administration, Durham University, UK)

- Board Member, Quds Bank
- Medical Department General Manager, Karmel Company Group, Jordan
- Board Member, Dar Al Dawa' Company
- Board Member, Dar Al Ghidha'

Executive Management

Quds 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.

Organizational Structure



Executive Management

Mr. Mohammad Nabil – Hamdan
- General Manager from 01 March 2013 until 31 December 2013

Mr. Samih Sbaih
- Deputy General Manager and Acting General Manager as of 01 December 2013
- Has been appointed General Manager as of 16 February 2014
- Masters in Accounting –University of Jordan

Mr. Zaid Al-Jalad
- Executive Manager Operations and Support
- Has been appointed Deputy General Manager as of 18 February 2014
- Bachelor of science in Banking and Financial Management - Al Ahliyya Amman University – Jordan

Mr. Ghassan Qa'dan
- Branches and Sales Deputy General Manager
- Has resigned from the bank on 02 February 2014
- Masters in Accounting - Oklahoma City University

Mr. Raed Najeb
- Executive Manager Banking Operations
- Masters in Business Administration - Al Najah National University

Mr. Hussein Habbab
- Executive Manager Business Development Marketing and Marketing Research
- Has resigned from the bank on 26 February 2014
- Masters in Business Administration - Claremont Graduate University – USA

Mr. Munther Odeh
- Executive Manager of Credit Affairs
- Masters in Administrative Sciences – University of Jordan

Mr. Mohammad Salman
- Executive Manager of Department of Financial Control
- Masters in Administrative Sciences – University of Jordan

Banking Services and Products

“Quds Bank works toward developing its products and services in line with the needs of clients of various strata, in addition to strengthening the its financial stability and focusing on growth and following-up the banking developments”.

Western Union

Quds Bank began, during 2013, to provide a quick transfer service (Western Union) as a Super-agent, to subsidiary agents, whereas the banks super-agent had opened Al-Mazra'wi Exchange Company which meets the needs of the Palestinian people with regards to sending and receiving money. Thus, the bank has ensured distinctive solutions for transferring money and increasing the number of banking services. The bank will also expand its clientele network to include the cities of the West Bank and Gaza strip during the year 2014.

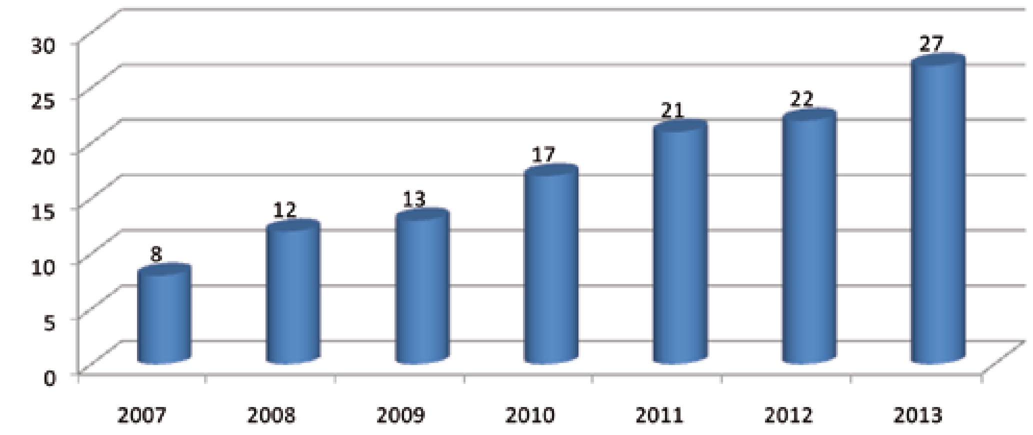
In Palestine

Branching and expanding are regarded to be amongst the palpable strategic goals that are carried out with a high level of banking, administrative and technical performance that takes into account the latest developments in the, any risks facing the banking business in general, and the area for branching in particular, so as to ensure the realization of its goals, which include increasing the market share, achieving increasing growth in revenue rates on shareholders' equity and assets, and contributing in the expansion of client outlets and developing deposits and other banking activities.

In addition to, and in line with the branching strategy, Quds Bank has carried out a branch-updating plan aimed at improving customer services and the bank's facilities as well as existing institutions. In the year 2013 we have opened a branch in Khan Younes and Gaza in addition to rehabilitating Gaza's existing branch. Thus, the bank has covered all cities of the West Bank at a total of 22 branches and offices. Moreover, we shall branch out during the first half of the year 2014 in each of Al-Nsirat city, Gaza Strip and Silat Al-Dhar in Jenin, and Ras Al-Joura, Hebron as well as a branch in Bethlehem and an office in Ramallah – Al-Quds Street, to reach a total of 27 branches and offices.

Quds Bank branches & offices have reached (27 offices and branches) in the year 2013 compared to (8) offices and branches in the year 2007

Quds Bank Branches. 2007-2013



Innovative Banking Services and Products

The bank's policy is based on the development and creation of new services and products based on scientific studies that are built on primary and secondary information and surveys through analyzing them in terms of quantity and quality. This helps the bank develop its products and services in line with the client's present and prospective needs, which can be described as innovative, developed and valuable, in addition to being appropriately profitable.

Moreover, the bank aims to develop its existing electronic channels through making it possible to perform major banking transactions via its website, wherever it were found and with tremendous ease. In addition to providing electronic phone services and short bank statements and the ATMs that are dispersed all over Palestine, noting that ATMs locations are studied in manner which fulfills the needs of present and prospective clients. The bank has also launched, during 2011, evening shifts and some branches have also opened their doors on Saturday mornings given those regions' growing need for banking services at different times from the bank's official working hours, whereas the bank has distinguished itself with such an exclusive step in order to facilitate customer services with all possible means and at all times.

In addition to the MasterCard "Platinum, Gold and Silver" in which the bank had featured with many advantages and provided a trained, specialized and qualified staff to answer client inquiries round the clock.

However, in terms of other direct credit products, the bank has launched a package of specialized liberal professions funding loans (project of a lifetime) which enables clients to get financing for purchasing a house, car or other as such, at a high ceiling, competitive interest and a comfortable period of repayment.

Business Development Centers

In light of the growth and development of the banking needs for the business sector in Palestine, Quds Bank has created an independent department under the name "Quds Bank Businesses" which is aimed at meeting the increasing and developing banking needs for this important sector. So, in addition to increasing revenue sources, the main purpose behind creating "Quds Bank Businesses" was to diversify these sources with reducing risk concentration that originates from working with a specific sector.

This department is concerned with servicing SMEs, which represent more than 95% of registered and operating establishments in Palestine – more than 110,000 establishments, in addition to being the largest employer of Palestinian employees of various types and groups, likewise, the companies' sector which is also considered an axis of "Quds Bank Businesses" interest.

The concept of "Quds Bank Businesses" is based on providing a package of banking services in a developed environment portrayed in distinctiveness and uniqueness in accordance with the following standards:

- The existence of a highly qualified cadre dedicated to serve this sector and fulfill its needs.
- Adopting the principle of Relationship Management with clients, in terms of the existence of a specialized relationship to manage this relationship.
- Specialized centers concerned with business development, whereas such shall be researched in terms of distribution in order to cover places that are highly concentrated and to be closer to the business sector wherever it where and wherever there is a need for it all over Palestine.
- Providing specialized profession consultations in order to help the business sector in managing the various establishments' activities professionally and with high quality.

Finally, the concept of "Quds Bank Businesses" is a new concept to the principle of relationship management with the business sector in Palestine, whereas, the exclusivity in serving this sector is an extension of the bank's strategy in innovation and specialization, and in activation of possibilities to create a profitable and valuable relationship for all parties.

Marketing Strategy 2013

During 2013, the bank set out to intensify its marketing efforts and maintain its position in the Palestine banking market, thus, it did not hold back in inventing a minute marketing strategy, taking into account the present developments in the market of quick dynamics throughout designing a general strategy on the bank level, and an effective marketing strategy on the marketing activity level suitable to deal with this fluctuating environment and to face the competition; whereas, in general, the plan updates and develops services and products and improves marketing through advertising means and tools as well as through the branches in order to ensure their success. Whereas, several of these aspects are related to centralizing operations and creating an effective sale environment which aids (centralization) in supporting the general marketing plan, and that which is related to a specific product. Also, the future plan for the department of marketing and public relations is built on the distribution of products and services to include those related to financial resources and their uses, and the expansion of the exchange base of various types such as:
(Non-lending income), quick transfers and others in order to meet the changing and developing needs of the clients in a competitive manner, and achieve appropriate profit for the bank.

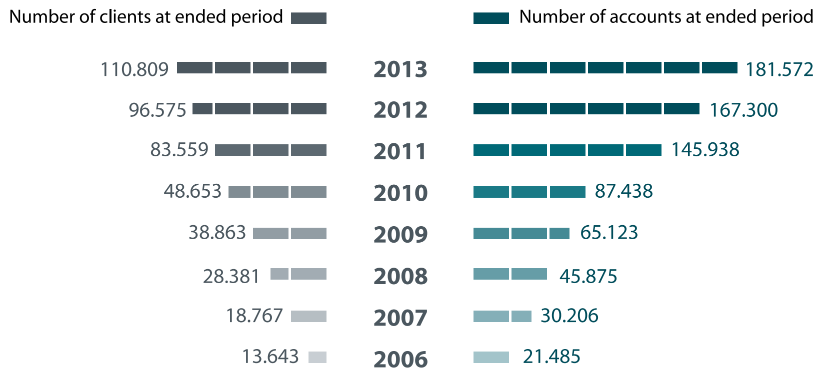
Thus, marketing management has become one of the bank's main functions whose performance has required preparation of plans and programs oriented and aimed at the realization of the bank's major and general goals. Such has led to the necessity to respond to these surrounding changes through the application of the modern marketing methods and concepts as means to interact and adjust with a view to increase revenues by attracting the largest number of clients through using the latest technologies in providing its services and through conducting new activities, as well as inventing developed financial tools.

Quality Service and Customer Care "We Listen and Care"

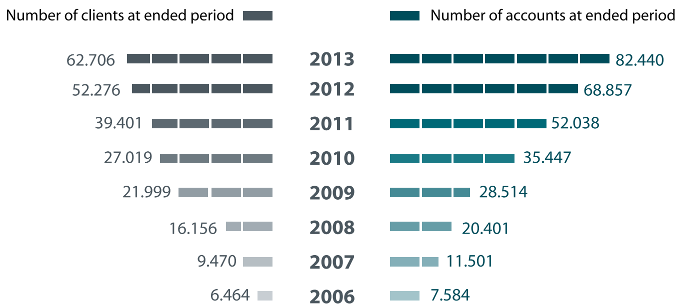
The quality service and customer care unit of the Department of Marketing and Business development and Marketing Research, which aims primarily at devoting the culture of quality of service to all our products and services and researching the service provision mechanism and the extent of its efficiency and time-frame, has subsequently, conducted a comprehensive review and minute evaluation of the applicable procedures and mechanisms in order to update them to reflect positively on the provided services in a manner which not only meets but exceeds the client's expectations.

The unit has also worked on studying incoming complaints and suggestions from branches via the available outlets of various types, such as the free number meant specifically for receiving them and suggestion / complaints boxes, or through e-mail. Also, the unit will use the "Mystery Shopper" program as one of the fundamental elements for the objective evaluation of quality service. In addition to recommending training programs that specialize in cooperation and coordination with the Department of Human Capital and laying out comprehensive training plans of relevance to enhance and strengthen the culture of quality service and fulfillment of the clients.

The increase percent in number of bank's clients at the end of December 2013 is near by 9% over the year 2012 while the increase percent in number of accounts reached approximately 8.7%.



The growth percent in Bank's clients number of saving accounts at the end of December 2013 to the previous year reached approximately 8% while the increase percent in accounts number reached approximately 8%.



Our Social Responsibility

"Our obligation to contribute in various community activities and events is considered deep commitment which comes out of our rationalized approach with highest responsibility and available capabilities in order to support various community segments and aiming at achieving the best and huge impact to targeted segments. Thus, we provide our sponsorship and donations and always humbly taking care for development"

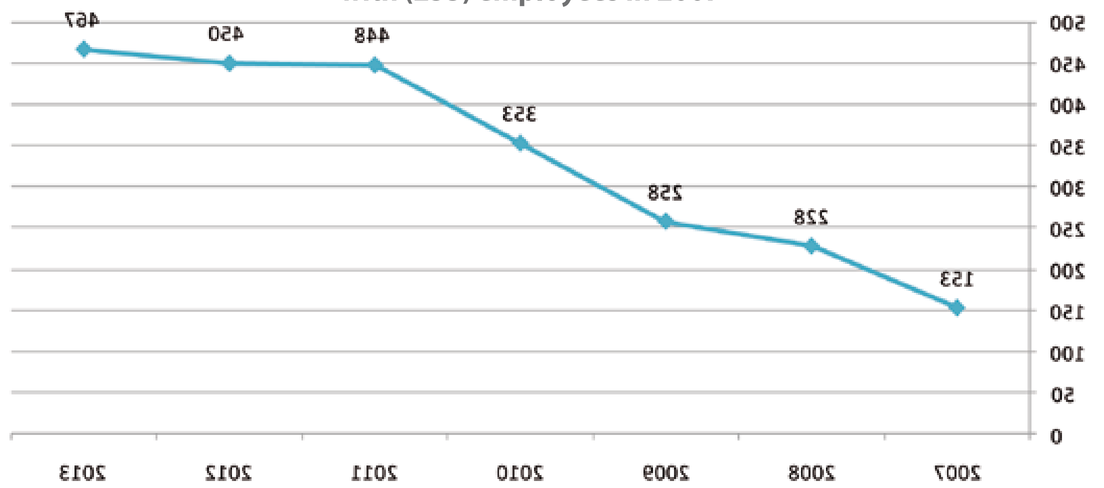
Quds Bank has been keen on establishing a specialized department for handling and managing staff issues and meeting the needs of human capital as our source of success and partners in developing and implementing the bank's comprehensive strategies. The Human Capital Department has gone beyond the traditional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

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

- Activating employee rotations among departments and branches in order to break career stalemate and help staff acquire new skills. Staff rotation is crucial in developing the performance of staff and the organization as a whole, and it is regarded efficient means to career development. In addition to enabling the management infuse new blood to assume new administrative or technical roles, staff rotation allows employees to exercise a broad line of orientation to gain new skills and abilities.
- Realizing equal opportunities in recruitment, training and development. Training and capacity building aim to expose and instill in employees new knowledge, acquaint them with the latest developments relevant to their work and improve their skills and efficiency. As a result, employees are able to perform their tasks effectively and efficiently, assist the Bank's strategic orientation and realize its vision for the future.
- Incentivizing positive and constructive competitiveness in accordance with a well-prepared system for incentives and honorariums. Believing that any progress and success in business is a positive reflection of the productivity and performance of employees, Quds Bank continues to provide a stimulating work environment in terms of thank you letters, nominations that would push employees to work diligently, professionally, effectively and efficiently.
- Developing channels of communication and increasing its effectiveness both horizontally and vertically. Quds Bank promotes timely exchange of information and problem solving, and believes that effective communication nourishes good relationships and interaction amongst colleagues at work and customers. Moreover, effective communication is an asset for individual capacity-building self-expression, problem solving and dealing with others.
- Creating a work environment which is an essential ingredient of success for all modern institutions and organizations. Staff satisfaction with the work environment is a main indicator of their performance and productivity, and therefore ongoing assessment of work environment criteria is extremely significant. Quds Bank's continuous assessment of its employees' satisfaction with the work environment is a significant indicator that guides the Bank's management to create a better work environment.

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

Number of Quds Bank staff in 2013 reached (467) employees compared with (253) employees in 2007



Training time-frame from 01 January 2013 – 31 December 2013

Based on the systematic orientation adopted by the bank on improving the human cadre functional and performance quality, and the strategic orientation in a steadily increasing manner towards a distinguished service of the bank's clients in order to increase Quds Bank market share, Quds Bank has focused on training courses of various types. The training process in Quds Bank is divided into two main sections: external training and internal training.

First: Internal Training

Utilization of the bank's internal capacities had been the main concern of the Human Capital Department, whereas the Department had been able to increase the number and types of trainings during the assigned period through using internal resources.

The Department has conducted, during the assigned period, internal trainings at various levels, most importantly:

- Distinction in Customer Care Training. Branches and sales Deputy General Director has trained all the banks staff on how to provide services and excel in doing such, whereas the bank's branches had been divided according to regions, and 21 hours of training had been conducted over a period of 3 days for each region.
- Training in Anti-Money Laundering and CRSA had been conducted for all Quds Bank staff via the Director of the Risk Management and Compliance Department.
- Also, workshops in bank's products such as MasterCard have been conducted and given priority in trainings, due to their issuance as of 2014.
- In addition, training courses on diverse banking areas have been initiated for the bank's staff at our branches in Gaza via the Branches' Director at Gaza, of which were specialized in customer care and facilitation modules.

External Training

The Human Capital Department focused on following-up developments in the bank's control systems.

The Development and Building-Capacities department has been involved with all the General Administration Departments in all the external trainings, whereas both the Risk Management and Compliance Department and the IT Department have earned the highest ratings in participation in external trainings. Also, our employees at the branches of the Gaza Strip have participated in several external courses, mainly the sales course.

Moreover, Quds Bank has organized a Hebrew Language Course on two levels that targeted the bank's employees and the Department of Banking Operations staff, in agreement with an external trainer.

"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."

Corporate Governance

1. Role of Chairman

The position of Board Chairman shall be subject to the following conditions:

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

The Chairman carries out the following main duties and responsibilities:

- The Board Chairman supervises all Bank's operations. S/he is responsible before the Board of Directors for materializing the Bank's goals and objectives and following up the Bank's performance, as well as ensuring compliance and adherence to predetermined projections and financial plans. The Board Chairman also monitors and evaluates the general performance of the Bank in line with the strategies, plans, goals, policies and budgets preapproved by the Board of Directors.
- The Board Chairman ensures the application of high-level, effective and efficient corporate governance in the Bank. S/he also builds and maintains good, constructive and corporate governed relations between the members of the Board of Directors and Executive Management members. In addition, the Board Chairman contributes to promoting a corporate culture within the Board by instilling a feedback exchange mechanism to express constructive criticism, exchange of opinion, and an adequate and timely communication of information to all Board members and shareholders.

2. Board of Director's Responsibilities

- The Board is responsible for overlooking the Bank's operations, safeguarding its financial position, and approving of the periodic financial statements that are reviewed by the external auditor. The Board also nominates and recommends to the general Assembly the hiring of an external auditor, assures meeting PMA's requirements and guiding principles, and caters for the interests of shareholders, depositors, creditors, staff, and other parties of interest. Furthermore, the Board ensures a prudent Bank management in line with the relevant rules and regulations in force as well as internal Bank policies.
- The Board formulates the Bank's general policy/ orientation, regulations, processes, and regularly reviews the implementation of the Bank's strategies, goals and objectives. The Board also makes sure that the Bank's Executive Management complies with the applicable policies, rules and regulations.
- The Bank's Board is the sole authorized party to approve the organizational structure (or any changes to it) and job descriptions across all levels at the Bank. It also approves the Bank's policy and relevant course of action including assessing risk policy and its standard operating procedures to ensure that a sound mechanism is in place to gauge and assess. In addition to assessing internal control policies, the Board endorses and approves the Bank's credit, investment, recruitment policy, performance assessment, and internal control policy.
- The Board selects the Bank's Higher Executive Management members as well as the hiring of any experts and advisors/ consultants in line with the recruitment policy approved by the Board. Besides performance measurement and appraisals, the Board sets and annually reviews the Executive Management members' packages in terms of salaries and remuneration. In this context, the Board ensures a proper succession plan is in place to facilitate a smooth flow of operations and hence avoid any disruptions to the Bank or its operations resulting from the lack of proper substitutes to run the Bank and/or its operations and different functions.
- The Board supervises and controls the Bank's activities in accordance with applicable laws and bylaws set by the Bank, in addition to the sound corporate governance. Moreover, the Board requests and reviews follow-up reports from the Executive Management on a timely basis.
- The Board develops a guiding framework, including an appropriate organizational structure that sets forth lines of authority, responsibilities and reporting lines across all levels. In addition, the Board compiles integrated regulations on corporate governance, internal control and monitoring and risk management, policies of compliance control, anti-money laundering and treasury operations management, code of ethics, and anti-fraud rules and regulations.
- The Board members exercise their duties towards the Bank in good faith whilst exercising their utmost in terms of due diligence and developing mechanisms that ensure a consistent operational flow that adheres with all relevant laws and regulations. The Board members exert all efforts to avoid any conflict of interest when performing their duties. They are also obliged to dedicate the necessary time and efforts to fulfill their assigned duties and responsibilities towards the Bank.
- The Board evaluates its performance at least once a year through the Nomination, Honorarium and Corporate Governance Committee.
- The Board evaluates the performance of the General Manager at least once a year.
- The Board evaluates the Risk and Compliance Department(s) as well as the Internal Audit Department.

3. Board's Operating Mechanism

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

4. Board's Committees

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

Executive Committee:

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

The Committee carries out the following major tasks:

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

Audit Committee:

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

The Committee assumes the following main tasks:

- Supervises external and internal auditors, monitors the inclusivity of their operations as well as the authenticity and accuracy of their financial findings, and reports to the Board, shareholders, and other users of information.
- Reviews reports and relevant comments made by PMA, the external and internal auditors, and follows up on measures taken in this regard.
- Ensures an adequate, effective and efficient internal control implementation processes within the Bank, verifying Bank's compliance vis-à-vis laws, regulations, PMA instructions, Board recommendations and rules, and legislations in force in Palestine.
- Reviews periodic financial statements and other financial information before they are presented to the Board, ensuring sound preparation in line with applicable accounting principles, PMA requirements, and relevant laws. The Committee further ensures that provisions made are adequate and sufficient to reflect real financial position(s).
- Ensures independence to help the Internal Audit Department carry out assigned tasks. The Committee also approves the nomination of the Audit Department Manager, termination of his/her service, monitors and evaluates performance, and reviews annual appraisal. To maintain due performance of assigned tasks and responsibilities, the Committee sets forth clear mechanisms to hold the Audit Department to account and approves authorities and relevant responsibilities assigned to the Audit Department.
- Reviews and submits recommendations on financial reports before they are presented to the Board. These include reports on any change introduced to applicable accounting policies or to Bank accounts due to audit controls and/or relevant recommendations. The Committee also verifies and monitors adherence to applicable accounting principles and decides/ reviews the soundness of these principles and control measures from time to time.
- Nominates to the Board the appointment termination of service or remuneration of the external auditor and auditor selection to be elected by the General Assembly. The Committee makes sure that the auditor meets PMA terms and conditions as well as rules and regulations of relevance.
- Develops disclosure and transparency criteria and submits them to the Board for endorsement.
- Coordinates with the Risk Management Committee, ensuring a full disclosure of the Bank's financial position and performance.
- Examines any issue referred by the Bank's Board or any other issues it deems urgent to scrutinize and report on.

Risk Management and Compliance Committee:

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

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

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

Corporate Governance, Nominations and Remuneration Committee:

The Corporate Governance Committee includes three non-executive Board members, who possess due qualification, skills and expertise that assist them make independent and objective decisions. The Committee reports to and submits its recommendations to the Board. It convenes regularly in the presence of the General Manager or the person whom s/he delegates. Meeting minutes are compiled in due form. The Committee carries out tasks in line with applicable regulations, PMA instructions, Basel Committee on Banking Supervision Guidance and best practices. The Committee has the right to call on any executive manager for information and/or clarifications. The Committee has on its membership Mrs. Ruba Al-Masrouji, Mr. Duraid Akram Jerab Mr. Muntaser Dawwas / Representative of the Investment Bank.

The Committee carries out the following major tasks:

- Develop the Corporate Governance Guidance Manual/Code and Financial Honorarium Policy in accordance with relevant regulations and instructions and submit them to the Board for approval.

- Reinforce effective corporate governance principles and sound practices of relevance, build a vibrant relationship between the Bank Management and Board members, promote a corporate culture that encourages constructive criticism and exchange of opinions, and define responsibilities as well as make clear lines of communication in terms of reporting references for staff of various levels.
- Ensure the Executive Management carries out assigned duties whilst exercising proper control over the Bank's operations, develop tailored regulations and processes as well as an effective and efficient supervision mechanism in line with PMA instructions and principles and standards set by the Basel Committee on Banking Supervision.
- Conduct an annual review of the Corporate Governance Guidance Manual/Code and Financial Honorarium Policy by independent bodies and ensure that the Executive related rules and practices as well as with the PMA instructions.
- Ensure that the remuneration policy is adequate to recruit qualified people to work for the Bank and retain those qualified, skilled and experienced employees.
- Recommend to the Board the remuneration and allowances of the Board Chairman and members and senior officials at the Bank.
- Recommend to the Board the appointment of the General Manager provided s/he satisfies the Bank's requirements in terms of qualities sought and preconditions set by the PMA. This also applies to the executive management level.
- Ensure that the remuneration policy takes into account all arising risks and strike a balance between sustained profit and arising risk levels. The Committee liaises with the Risk Committee and/or Risk Department in assessing proposed incentives.
- Ensure independence of the Risk, Compliance and internal Audit Departments as well as respective structure of financial rewards or incentives.
- Make sure that the Bank Management discloses in the annual financial report the information on financial remuneration/rewards of the Board Chairman, Board members, Senior Executive Management members, Control Departments, and subcontracted staff members.
- Provide information and abstracts to the Board on a continuous basis about the most recent developments in the field of banking operations and industry as a whole.

5. Internal Control and Monitoring System & Environment

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

6. Internal Audit

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

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

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

Compliance Department:

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

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

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

Risk Management:

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

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

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

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

A. The Bank's Risk Management submits periodic reports to the Risk and Compliance Executive Committee, and liaises with the General Manger for its daily operations.

B. The Risk management responsibilities include the following:

- Develop a risk policy, covering all types of risk, and submit to the Board for approval.
- Analyze all risks, including credit risks, market risks, liquidity risks and operational risks.
- Develop- measurement and control methods of each risk type.
- Submit reports and recommendations on risk ceilings, approvals and Risk Management exceptional cases to the Risk and Compliance Committee/Executive.
- Provide the Board and Senior Executive Management with sufficient information about risk measurement and risk profiling within the Bank.
- Devise risk management methods and techniques including
  - Self-assessment of risks and developing risk indicators
  - Developing a historic database for losses, identifying their sources and classifying them according to type of risk.
  - Providing necessary equipment and automated systems suitable for risk management within the Bank.

C. The Bank's committees, including credit committees or assets and liabilities management/treasury and operational risks committees, assist the Risk Management in performing its tasks in accordance with the powers vested in these committees.

D. Incorporate within the Annual Report adequate information on risk management, particularly risk structure, operations and recent developments.

E. Provide information on risks within the Bank for the purpose of disclosure and publication.

7. External Audit

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

External Auditor's Tasks and Responsibilities:

- Audit financial statements and accounting records in line with international Financial reporting Standards (IFRS) and International Accounting Standards (IAS).
- Abide by minimum requirements of financial statement disclosure standards issued by the PMA.
- Adhere to full confidentiality in accordance with the Charter/Code of Professional Ethics.
- Provide a copy of the auditor's report to the Review and Audit Committee.
- Take part in the Bank's General Assembly meetings to respond to relevant inquiries raised by shareholders.
- Provide the PMA with a copy of the Annual Report within two months from expiration of the fiscal year. The Report will include the following:

i) Any violations or breaches of laws and directives in force, including the Bank's internal instructions.
ii) The auditor's opinion re adequacy of audit regulations, internal control systems, and provisions earmarked in response to arising risks.
iii) Verification of fairness of statements provided during the audit process.

8. Code of Ethics Charter

Quds Bank has adopted the Code of Ethics Charter, 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 Code of Ethics Charter identifies the Bank staff ethics, values and principles in four major components: Integrity, Compliance with Laws, Transparency, and Loyalty to the Bank.

9. Relations with Shareholders

Quds Bank continuously develops positive relations with all shareholders. With all possible means, the Bank encourages shareholders, particularly smaller ones, to take part on the annual General Assembly meeting as well as to vote either in person or by proxy in the event they are absent.
Copies of the Annual Report are sent to shareholders' mail addresses. The Bank also sends to shareholders the invitation and agenda of the General Assembly meeting, together with all relevant information and media materials.
Representatives of external auditors attend the annual General Assembly meeting in order to answer any questions about auditing and auditor's report.
The Bank invites PMA representatives to participate and view proceedings of the meeting.
Board members, who are qualified and meet all terms and conditions, are elected in the annual General Assembly meeting upon the end of the Board's term.
The external auditor is elected and his/her fees are agreed. Otherwise the Board is authorized to decide on the auditor's fees.
Proceedings and reports on the annual General Assembly meeting are duly documented. Meeting minutes also include questions raised by shareholders in relation to shares or issues of relevance.

10. Transparency and Disclosure

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

Shareholders' Relations

"To ensure the adherence to the principles of transparency, governance and professionalism, our goal is to constantly develop and improve communication with our shareholders."

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

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

- Heads of Board's Committees attend the meeting.
- Representatives of external auditors attend the General Assembly Annual meeting and attend to questions relevant to auditing and auditor's Report.
- PMA representatives are also invited to attend the meeting in order to be updated with the latest developments.
- Qualified Board members are elected during the General Assembly Annual Meeting.
- An external auditor is elected whose fees are determined and agreed upon (or the Board of Directors determines the fees).
- All documents, reports and proceedings of all sessions pertaining to the General Assembly Meeting including results of voting and questions posed by shareholders on their shares- are documented and validated.
- To keep pace with recent developments, Quds Bank webpage has been further developed to include a full version of the Annual Report, in addition to communicating round the clock with our shareholders through our Facebook account.

Summary of Quds Bank traded-in shares throughout 2013:

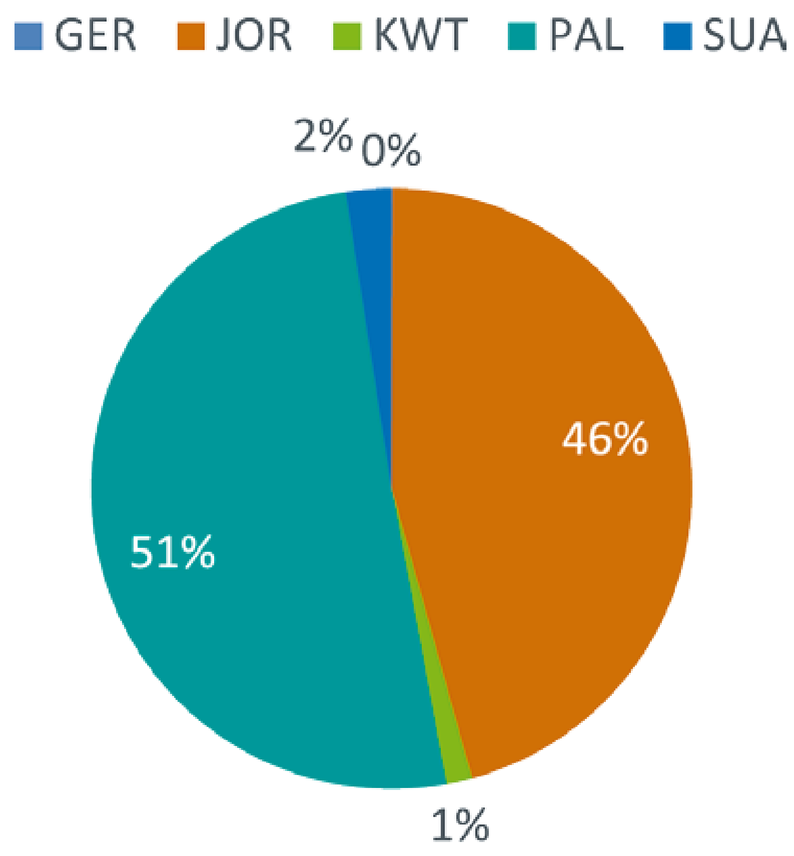
Trade-in 2013	Value	Order	Remarks
No. of Traded Shares	3,157,945	13	1.56% of total trading
Value of Traded Shares (USD)	2,748,989	13	0.81% of total trading
No. of Executed Transactions	604	17	1.36% of total transactions
Share Turnover Ratio (%)	6.32%	24	No. of traded / subscribed shares
No. of share-trading sessions	141	17	58.51% of sessions in 2013
Company Market Value as at 31 December 2013 (USD)	49,500,000	14	1.52% of amount of total market value 3,247,478,385
Free Float	44.22%	17	As per PEX calculation parameters/indicators
No. of shareholders	365	36	Change Rate from 2012 0.83%

Highest and lowest share price is as follows:

Highest Trading Price 2013	Lowest Trading Price 2013	Closing Price 2013	Closing Price 2012	Change Rate
1.06 US$	0.74 US$	0.99 US$	0.90 US$	10.00%

Our Shareholders

Allocation of shareholders according to their geographical area



Below is a list of investors with more than 5% ownership as of 31 December 2013:

Name	End of 2013		End of 2012	
	Shares	(%) Subscription	Shares	(%) Subscription
Akram Abdul Latif Hasan Jerab	10,588,202.00	21.18	10,588,202.00	21.8
Abdul Rahim Jardanah & Sons Co	4,000,000.00	8.00	4,000,000.00	8.00
Palestine Investment Fund Co.	2,604,977.00	5.21	2,604,977.00	5.12
BLOM BANK SAL	2,500,000.00	5.00	2,500,000.00	5.00

In comparison to 2012, Board members' ownership as of 31 December 2013 is as follows:

Name	Position	Nationality	Number of Owned Shares	
			End of 2013	End of 2012
Akram Abdul Latif Hasan Jerab	Chairman	Palestinian	10,588,202.00	10,588,202.00
Abdul Rahim Nizar Abdul Rahim Jardanah	Deputy Chairman	Jordanian	1,337,154.00	1,337,154.00
Palestine Investment Fund Co.	Member	Palestinian	2,604,977.00	2,604,977.00
Hamed Abdul Ghani Mahmoud Jaber	Member	Jordanian	1,500,000.00	1,500,000.00
Duraid Akram Abdul Latif Jerab	Member	Jordanian	1,485,588.00	1,409,890.00
Palestinian Banking Corporation	Member	Palestinian	1,163,000.00	1,300,000.00
Saleh Jaber Ahmad Hmaid	Member	Jordanian	1,349,870.00	1,349,870.00
Investment Bank Co.	Member	Jordanian	1,097,549.00	1,097,549.00
Walid Najib Mustafa Ahmad	Member	Palestinian	137,100.00	185,100.00
Ahed Fayeq A'tef Bseiso	Member	Palestinian	74,000.00	74,000.00
Ruba Mohammad Mahmoud Masrouji	Member	Palestinian	30,000.00	30,000.00

Board members' relatives shares as of 31 December 2013 compared to 31 December 2012:

Name	Kinship	Nationality	Number of Owned Shares	
			End of 2013	End of 2012
Muhanadf Akram Abdul Latif Jerab	Mr. Akram Jerab's son	Jordanian	1,497,832	1,497,832
Duraid Akram Abdul Latif Jerab	Mr. Akram Jerab's son	Jordanian	1,485,588	1,409,890
Zaid Akram Abdul Latif Jerab	Mr. Akram Jerab's son	Jordanian	1,368,928	1,368,928
Yazan Akram Abdul Latif Jerab	Mr. Akram Jerab's son	Jordanian	1,368,929	1,368,929
Jamileh Mohammad Youssef Mussallam	Mr. Saleh Hmeid's Wife	Palestinian	10,000	10,000
Lina Abdul Rahim Ridda Irsheid	Mr. Saleh Hmeid's Wife	Palestinian	10,000	10,000

Executive management members' ownership as of 31 December 2012:

Name	Nationality	Number of Owned Shares	
Samih Mohammad Yousef Sbaih	Palestinian	End of 2013	End of 2012
		5,100	-

Quds Bank is currently working on a design to maintain a fruitful relationship with shareholders and investors, and proceeding from such, we are glad to inform you that we shall create a Relation Management / Shareholders Centered-Department in the year 2014, in order to provide our shareholders with the best services. Such shall be done by responding to their inquiries, maintaining their records and through diligence to meet all their needs.

How we provide shareholders with information:

- Quds Bank Website (www.qudsbank.ps).
- Bank's Account on Facebook (www.facebook.com/qudsbank).
- The Annual Report which is sent each year with the General Assembly invitation via mail.
- The Quds Bank branches diffused all over Palestine with qualified teams to provide services for all clients.

Board Members' Remuneration and Expenditures

Board Members' Remuneration and Expenditures have amounted to 206,724 US dollars for the year 2013 compared to 240,483 US dollars for the year 2012.

Executive Management Members' Salary and Remuneration

Executive Management Members' Salary and Remuneration have amounted to 817,580 US dollars for the year 2013 compared to 756,020 US dollars for the year 2012.

Issues referred to voting by shareholders

There were no issues referred to voting by shareholders in 2013.

Financial Statements

Preliminary financial statements are not different from those audited by the external auditor.

Auditor

Deloitte & Touché ME / Saba & Co. audited Quds Bank 2013 accounts.

General Assembly Convention

The General Assembly is scheduled to convene in April 2014.

"Our obligation to contribute in various community activities and events is considered deep commitment which comes out of our rationalized approach with highest responsibility and available capabilities in order to support various community segments and aiming at achieving the best and huge impact to targeted segments. Thus, we provide our sponsorship and donations and always humbly taking care for development"

Corporate Social Responsibility (CSR)

Introduction:

Well aware of its social responsibility, Quds Bank has sought to commit to its role and social responsibility towards the different social segments of the Palestinian community. Hence, Quds Bank has supported various community activities and events tailored to meet the needs of various segments in order to be "The Nation's and Citizen's Bank". 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 undergoing; it provides care and donations to the Palestinian people with utmost modesty and affection.
"The donations provided by the bank within the social responsibility are considered as an investment in the community and fulfillment of its humane and livelihood needs in terms of development and humanitarian relief, such may create new job opportunities or charitable projects of which many shall be able to benefit from. And despite its low marketing and advertising returns, it remains in its essence humanitarian relief".

Major sectors sponsored by the bank in 2013:

1. **Health:** Health is considered to be amongst the most essential areas in all societies, particularly in the Palestinian society. Therefore, the bank seeks to play an active role in this area through providing support and financial aid to local hospitals and healthcare centers, in addition to health awareness campaigns of diverse medical fields, whereas Quds Bank provided a total of approximately 20,737 US dollars, such as:
   - The seventh Pharmacists Conference for the Pharmacists Syndicate.
   - Benches for Jericho Government Hospital.
   - Celebrating the International Day for Older Persons for Hayat Society for Older Persons Care.
   - Sponsoring the Medical Day for Orphans with Palestine Child Care Society.
   - Honoring patients and medical staff in hospitals of the West Bank on the occasion of the New Year.

Corporate Social Responsibility (CSR)

2. **Education:** In its belief in the importance of education and the support of educational institutions in supporting and encouraging outstanding students, Quds Bank is interested in developing and supporting education in particular, due to its great and powerful influence in the building and development of communities and the active role it plays in economic and social development. Especially since Palestine is considered to be amongst the least illiterate countries in the Arab World, whereas the illiteracy rate in the Palestinian Territories has reached 4.1%, at a reality of 1.8% among males and 2.3% among females during 2012. Quds Bank contribution has reached approximately 20,386 US dollars.

   - Sponsoring an open day at Bedia Secondary Boys' School.
   - Financing the purchase of electrical appliances for the Nursery of Al-Najah University.
   - Equipping the Science Lab for Ateel Basic Girls' School.
   - Financing the purchase of electrical appliances for Riyad Al-Saliheen Kindergartens & Schools.
   - Sponsoring an honorary ceremony for Qaffin Municipality.
   - Sponsoring an honorary ceremony for Ateel Municipality.
   - Sponsoring an honorary ceremony for Bedia Municipality.
   - Sponsoring an honorary ceremony for Deir Estia Municipality.
   - Sponsoring an honorary ceremony Al-Jaroushieh Village Council.
   - Sponsoring an honorary ceremony for Deir Al-Ghsoun Municipality.
   - University education donation for the son of Mr. (N/A).
   - Donating computers to Students' Loan Fund.
   - Sponsoring an honorary ceremony for Qalqilya Municipality.
   - Sponsoring an honorary ceremony for Shweiki Sports Club.
   - Restoring Ateel Secondary Boys' School historical building.
   - Sponsoring a Research Exhibit for the students of the Arab American University of Jenin.

3. Development: The bank's interest in the field of development stems from the fact that development is a continuous and comprehensive process to change and move society forward through quantitative and qualitative changes, and structural transformations designed for a higher standard of living for all individuals and continuous improvement of quality of life. To this avail, Quds Bank contributed a total of 12,657 US dollars. Some of the major activities sponsored by the bank were:

- Offering support for Khalil Al-Wazir Institution.
- Supporting a charitable dinner for A'ttaa Charitable Society.
- Supporting a charitable dinner for Princess Basma Center.
- Financing the Civil Defense volunteers.
- Financing the purchase of 4 laptops for General Federation of Palestine Trade Unions.
- Financing the purchase of a computer for Al-Tadamon Charitable Society.
- Financing training for four graduates with the Palestinian Fund for Employment.

4. People with Special Needs: This category of people, the children in particular, are considered as one of Quds Bank major priorities. Therefore, we always seek to sponsor their activities and offer our much needed support, whereas Quds Bank has contributed approximately 12,043 US dollars.

- Donations for people with special needs have been made with Zita Municipality.
- Iftar (Ramadan Breakfast) for people with special needs in cooperation with Local Association for Community Rehabilitation.
- Offering provision for two children with special needs in cooperation with Ramallah Municipality.
- Recreational Day for the children of Al-Nahda Women Society on the occasion of Christmas.
- Recreational Day for children suffering from thalassemia on the fourth day of Eid Al-Fitr, in cooperation with Palestinian Voluntary Work Committee.

5. Sports: Focuses on supporting and developing sport activities in schools, and sport clubs and centers, in addition to sponsoring and supporting local sports teams, whether old or new, and sponsoring the participation of Palestinian sports teams abroad. Whereas amount of contribution has reached approximately 16,143 US dollars.

- Offering support for the basketball team of Al-Samira Club.
- Sponsoring Silwan Sports Club fully in terms of uniform and sports bag.
- Offering support for Birzeit Sports Club representation of the State of Palestine in Italy.

6. Childhood and Youth: The Palestinian society is a young society, whereas individuals between (0-14) years constitute 40.8% of the population. Hence, the bank's interest in this category stems from the fact that children are the future. Therefore, the bank has sponsored summer camps, children activities, and medical days for children, honorary ceremonies and other activities. Whereas, contributions have amounted to a total of 2,314 US dollars.

- Communal Iftar for orphans with cooperation of Beitonia Municipality.
- Recreational Day for children on the second day of Eid in cooperation with the Palestinian Voluntary Work Committee.
- Sponsoring recreation day of children

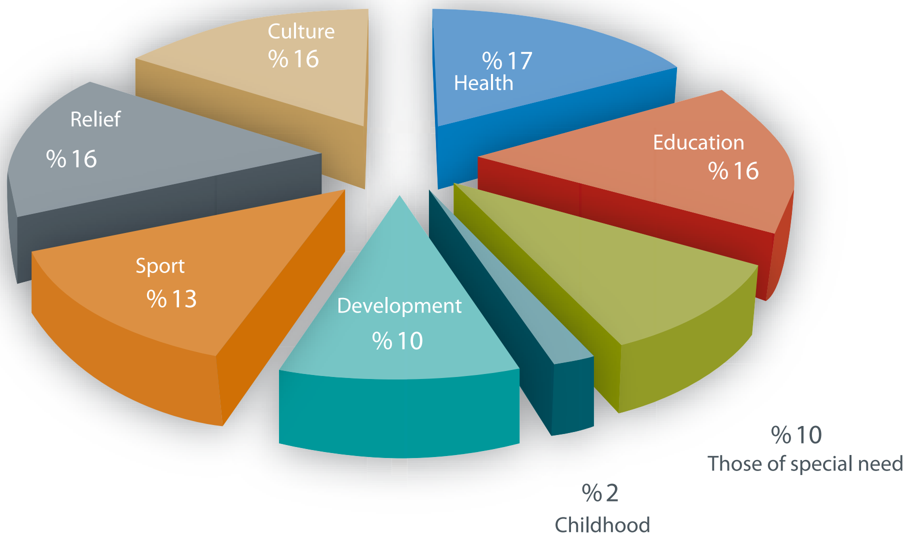
7. Relief: Offering support for families and groups in need within the Palestinian society or offering support to parties and institutions that offer relief, whether it were medical, nutritional, medicinal…etc. such as meals for students in need or poor families, clothing for the needy and other as such.

- Donating to an Islamic Charitable Society, a donation of approximately 19,875 US dollars.
- Providing meals for 150 students in cooperation with Beir Zeit University Friends Association.
- Offering food packages to poor families in cooperation with the Rural Women Society.
- Supporting the Palestinian Food bank.
- Offering financial support for a child whose condition had been published in Al-Quds Newspaper.
- Donating to poor families in cooperation with the Forefathers Orthodox Church.
- Donating to employee (Z.F) to help in his child's treatment.
- Donating to employee (Z.F) to help in her mother's treatment.
- Donating winter clothing to Al-Amal Institution for Orphans in Gaza Strip.

8. Culture: The culture of any society is an expression of the customs and traditions and values inherited from its forefathers or acquired from the changes accompanying the development of any society. Hence, Quds Bank focuses on the cultural aspect in the Palestinian society such as sponsoring cultural festivals and seminars and other such activities, whereas Quds Bank total contribution has amounted to 19,511 US dollars.

- Sponsoring Ibn Amer Cultural Carnival in Jenin.
- Sponsoring Jerusalem Ka'ak Carnival.
- Sponsoring Al-Birch Cultural Carnival.
- Donation to Dar Al-Tifel Al-Arabi Organization.

Sponsorships & Donations classifications of year 2013



"Financial Statements and Independent Auditor's Report as of 31 December 2013"

Quds Bank

(Public Shareholding Company, Ltd.)

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Deloitte.

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Independent Auditor's Report

To the Shareholders of
Quds Bank
Ramallah – Palestine

Introduction

We have audited the accompanying financial statements of Quds Bank **(Public Shareholding Co. Ltd)**, which comprise of the statement of financial position as at 31 December 2013, the statement of income, the statement of comprehensive income, the statement of changes in owners' equity and the cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements:

The management of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the instructions of the PMA. Such includes maintaining internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility:

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

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

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

Opinion:

In our opinion, the financial statements give a true and fair view of the financial position of Quds Bank as at 31 December 2013, its financial performance and it cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Legal and Other Regulatory Matters:

The Bank has maintained proper accounting records and the financial statements are in agreement thereon. No violations of the Banks' applicable laws No. (9) of 2010, the instructions issued by the Palestinian Monetary Authority, the Companies' Laws No. (12) of (1964) and the Bank's bylaws have occurred during the year that might have any material effect on the Bank's businesses or financial position as at 31 December 2013. In addition, satisfactory explanations and information have been provided to us by management in response to all of our requests.

Deloitte & Touche (M.E)
(License No. 2012/208)

Ramallah-Palestine
26 February 2014

Quuds Bank

(Public Shareholding Company, Ltd.)

Statement of Financial Position
Year ended 31 December 2013

(Amounts are expressed in US Dollar)

	Note	31 December 2013	31 December 2012
Assets			
Cash and deposits with PMA	4	84,740,545	108,629,228
Deposits with banks and financial institutions	5	98,396,472	35,175,886
Financial assets at fair value through the statement of income	6	116,043	138,293
Direct credit facilities – net	7	287,349,992	292,863,010
Financial assets through other comprehensive income	8	8,963,469	6,696,886
Financial assets at amortized cost	9	10,857,303	980,000
Property, plant and equipment – net	10	18,927,250	19,320,344
Deferred tax assets	11	1,066,727	931,727
Intangible assets	12	29,533	31,296
Other assets	13	21,426,021	16,140,123
Total assets		**531,873,355**	480,906,793
Liabilities and Owners' Equity			
Liabilities			
Deposits of Palestine Monetary Authority	14/A	10,000,000	25,000,000
Deposits of banks and financial institutions	14/B	24,207,792	34,214,897
Customers' deposits	15	401,177,301	334,256,777
Cash margins	16	19,278,569	19,350,334
Sundry provisions	17	3,157,091	2,796,452
Provision for taxes	18	2,155,462	2,586,621
Other liabilities	19	6,905,220	4,716,026
Total liabilities		**466,881,435**	**422,921,107**
Owners' Equity			
Paid-in capital	20	50,000,000	50,000,000
Paid-in capital in excess of par value		3,000,000	3,000,000
Statutory reserve	21	2,757,887	2,283,922
Optional reserve	21	224,912	224,912
General banking risk reserve	21	5,805,055	4,491,253
Reserve for cyclical fluctuation	21	2,549,028	1,838,081
Fair value reserve	22	945,029	(1,321,556)
Accumulated losses (Statement D)		(289,991)	(2,530,926)
Net Owners' Equity		64,991,920	57,985,686
Total Liabilities and Owners' Equity		**531,873,355**	**480,906,793**

The accompanying notes (1-39) constitute an integral part of these financial statements

Quds Bank

(Public Shareholding Company, Ltd.)

Statement of Income
Year ended 31 December 2013

(Amounts are expressed in US Dollar)

	Note	Year ended 31 December 2013	2012
Interest income	23	24,459,774	20,715,122
Interest Expense	24	(5,872,769)	(4,542,581)
Net Interest Income		**18,587,005**	**16,172,541**
Net commission income	25	4,291,050	4,966,521
Net interest and commission income		**22,878,055**	**21,139,062**
Net gain from foreign currencies exchange		2,067,852	2,117,796
Net gain from financial assets	26	85,355	12,384
Releases from provision for impairment loss in credit facilities	7	1,324,387	1,309,037
Gain from sale of property, plant and equipment		10,836	2,432
Other income	27	755,440	669,472
Gross Income		**27,121,925**	**25,250,183**
Expenses			
Personnel costs	28	10,244,375	10,304,895
Other operating expenses	29	5,901,912	6,079,164
Provision for impairment of loss in credit facilities	7	1,049,276	1,209,991
Provision for end of service indemnity	17	693,880	878,405
Depreciation and amortization	12.10	1,780,260	2,247,037
Provision for lawsuits	17	80,000	20,000
Provision for impairment in Real Estate devolved to the bank against debts	13	87.573	-
Total Expenses		**19,837,276**	**20,739,492**
Profit before taxes		**7,284,649**	**4,510,691**
Deferred taxes benefits	11	135,000	507,234
Due taxes on income	18	(2,500,583)	(1,750,000)
Taxes for previous years	18	(179,417)	-
Net Income for the year		**4,739,649**	**3,267,925**
Basic and dilutive earnings per share of the year profit	**36**	**0.095**	**0.065**

The accompanying notes (1-39) constitute an integral part of these financial statements

Quds Bank
(Public Shareholding Company, Ltd.)

Statement of Comprehensive Income
Year ended 31 December 2013
(Amounts are expressed in US Dollar)

	Year ended 31 December	
	2013	**2012**
Net Income for the year	4,739,649	3,267,925
Add: Items of Other Comprehensive Income non-transferrable to the statement of income		
Net change in fair value of financial assets through other comprehensive income	2,266,585	(32,888)
Gross comprehensive income for the year	7,006,234	3,235,037

The accompanying notes (1-39) constitute an integral part of these financial statements

Quds Bank
(Public Shareholding Company, Ltd.)

Statement of Changes in Owners' Equity
Year ended 31 December 2013
(Amounts are expressed in US Dollar)

	Paid-in Capital	Paid-in Capital in Excess of Par Value	Statutory Reserves	Optional Reserves	General Banking Risk Reserve	Reserve for Periodic Fluctuation	Fair Value Reserve	Accumulated Losses	Net Owners' equity
31 December 2013									
Balance as of 1 January, 2013	**50,000,000**	**3,000,000**	**2,283,922**	**224,912**	**4,491,253**	**1,838,081**	**(1,321,556)**	**(2,530,926)**	**57,985,686**
Net Income for 2013								4,739,649	4,739,649
Net change in fair value of financial assets through other comprehensive income							2,266,585		2,266,585
Total of the other comprehensive income for the year	-	-	-	-	-	-	**2,266,585**	**4,739,649**	**7,006,234**
Transferred to reserves			473,965		1,313,802	710,947		(2,498,714)	-
Balance as at 31 December 2013	**50,000,000**	**3,000,000**	**2,757,887**	**224,912**	**5,805,055**	**2,549,028**	**945,029**	**(289,991)**	**64,991,920**
31 December 2012									
Balance as at 1 January 2012	50,000,000	3,000,000	1,957,129	224,912	4,482,439	1,347,892	(1,117,385)	(5,316,241)	54,578,746
Change in fair value of financial assets available for sale until 30 June 2012							173,335		173,335
Impact of implementing of International Financial Reporting Standard No. (9)							(344,618)	343,186	(1,432)
Amended Balance	**50,000,000**	**3,000,000**	**1,957,129**	**224,912**	**4,482,439**	**1,347,892**	**(1,288,668)**	**(4,973,055)**	**54,750,649**
Net Income for 2012								3,267,925	3,267,925
Net change in fair value of financial assets through other comprehensive income							(32,888)		(32,888)
Total Comprehensive Income for the year	-	-	-	-	-	-	**(32,888)**	**3,267,925**	**3,235,037**
Transferred to Reserves			326,793		8,814	490,189		(825,796)	-
Balance as at 31 December 2012	**50,000,000**	**3,000,000**	**2,283,922**	**224,912**	**4,491,253**	**1,838,081**	**(1,321,556)**	**(2,530,926)**	**57,985,686**

The accompanying notes (1-39) constitute an integral part of these financial statements

Statement (E)

Quds Bank
(Public Shareholding Company, Ltd.)

Statement of Cash Flows
Year ended 31 December 2013
(Amounts are expressed in US Dollar)

	Year ended 31 December	
	2013	**2012**
Cash Flows from Operating Activities		
Net Income before taxes	7,284,649	4,510,691
Adjustments:		
Depreciation and amortization	1,780,260	2,247,038
Provision for impairment loss in direct credit facilities	1,049,276	1,209,991
Provision for end of service indemnity	693,880	878,405
Provision for lawsuits against the Bank	80,000	20,000
Provision for impairment in Real Estate devolved to the bank against debts	87,573	-
Releases from provision for vacation	(23,544)	(4,226)
Assessment losses of financial assets through statement of income	12,250	6,292
Gain from disposal of property, plant and equipment	(10,836)	(2,432)
	10,953,508	**8,865,759**
Changes in Assets and Liabilities		
(Increase) Decrease in statutory reserve with PMA	(6,844,786)	157,208
(Increase) in balance of banks and financial institutions	(2,750,000)	-
(Increase) Decrease in Direct Credit Facilities	4,463,742	(5,696,981)
(Increase) in other asset balances	(5,373,472)	(4,236,920)
Increase of deposits of banks and financial institutions	514,133	7,654
Increase in clients' deposits	66,920,524	18,530,644
(Decrease) in cash margins	(71,765)	(2,994,872)
Net cash flows from operating activities before compensations and paid taxes	**70,024,623**	**15,803,698**
Compensations paid to employees	(413,241)	(211,649)
Paid Taxes	(3,111,159)	(1,748,582)
Net cash flow from operating activities after compensations and paid taxes	**66,500,223**	**13,843,467**
Cash Flows from Investment Activities		
(Purchase) of property, plant and equipment	(1,408,550)	(2,338,290)
(Purchase) of financial assets at amortized cost	(9,877,301)	(980,000)
(Purchase) of financial assets through other comprehensive income	-	(72,372)
Proceeds from sale of financial assets through other comprehensive income	10,000	-
Proceeds from sale of investments in subsidiaries	-	872,708
Proceeds from disposal of property, plant and equipment	33,983	25,225
Net (decrease) in cash from investment activities	**(11,241,868)**	**(2,492,730)**
Net increase in cash and cash equivalent	55,258,355	11,350,737
Cash and cash equivalent at beginning of the year	55,157,367	43,806,630
Cash and cash equivalent at end of the year (Note – 34)	**110,415,722**	**55,157,367**

The accompanying notes (1-39) constitute an integral part of these financial statements

Quds Bank
(Public Shareholding Company, Ltd.)
Notes on Financial Statements
Year ended 31 December 2013
(Amounts are expressed in US Dollar)

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 Extraordinary General Assembly has decided in its meeting, convened on 5 June 2011, to increase the Bank's capital to One-Hundred million dollars and commission the Board to execute such during the following years. The board shall do so after obtaining required approvals from the official authorities of relevance.
- The bank commenced its operations on January 18, 1997 and is currently working through its main headquarter and seventeen branches in Al-Masyoun, Eizariya, Nablus, New Nablus, Beit Jala, Ramallah, Al Bireh, Salfit, Tubas, Hebron, Jenin , Attil, Tulkarem, Jericho, Gaza and Gaza Al Remal, Qalqilia and Khan Younes in addition to the offices of Al Najah Univeristy, Beit Lahia, Anabta and Bedia. The Bank's registered address is (Headquarter and Al-Masyoun Branch) is: Al-Masyoun – Ramallah, P.O Box 2471.
- The bank is engaged in commercial banking and investments through, lending, financing, opening accounts and documentary credits in line with the objectives of the bank. The bank also accepts deposits from the public for medium and long terms, in addition to current accounts.
- The bank is subject to the Palestinian Banking Law and to the instructions of the Palestine Monetary Authority.
- The bank shares are listed for trading in Palestine Securities Exchange.
- The number of bank employees is (447) as at 31 December 2013 and (450) as at 31December 2012.

2. Financial Statement & its Basis of Preparation:

- 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 Standards emanating from the Council of the International Accounting Standards and in accordance with applicable local laws and the instructions of the Palestine Monetary Authority.
- The financial statements have been prepared under the historical cost basis, except for financial assets 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.
- 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. The transit inter-bank accounts between headquarter and branches are included in other assets in the accompanying financial statements.
- The annexed financial statements were approved by the Board of Directors of the bank in session No. (1) of year 2014, dated 26 February 2014. In addition, these financial statements shall be presented to the shareholders' General Assembly in their up-coming ordinary meeting for approval.
- The adopted accounting policies for the year are similar to those adopted in previous years, except for the following:

3. Significant Accounting Policies:

A. New Standards and Interpretations:

During this concluded year, 31 December 2013, new International Financial Reporting Standards and Interpretations have been issued. Some of which are applicable as of 1 January 2013, whereas others shall be in force as of 1 January 2014. Moreover, amendments to some standards have been issued throughout the year, some of which apply to the current year while others shall be in force after 31 December 2013, hence the Bank has adopted and taken into account all new standards and interpretations as well as applicable amendments in preparing its accompanying financial statements. Such did not have an effect on the amounts and notes in these financial statements. On the other hand, the Bank's management expects to respond to all new standards, interpretations and amendments not yet in force and shall adopt their application as of date of effectiveness, whereas the Bank's management does not anticipate that such shall have a material effect on the Bank's financial statements. Details of these standards are listed in Note No. (39).

B. Significant Accounting Policies Adopted in Preparation of Financial Statements:

1. 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 registered at fair values through statement of income.

C. Direct Credit Facilities – Net:

Direct credit facilities are financial assets with fixed prices or payments and a specified life-span in the active markets, and shall not be contracted for short / medium – term purpose of sale.

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 have 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.

D. Financial Assets:

Financial assets transactions are measured at the trade date (the date the Bank's commitment to buy or sell financial assets) at fair value net of direct transaction cost except for costs directly attributable to the acquisition of financial assets at fair value through statement of income, whereas initial recognition shall be at fair value and acquisition costs shall be registered in the statement of income. All financial assets are then measured at amortized cost or fair value.

Financial Assets in accordance with International Financial Reporting Standards No. 9:

Financial assets are subsequently measured at amortized cost or fair value.

Financial Instruments at Amortized Cost:

Debt instruments, including direct credit facilities and bonds, are measured at amortized cost if the following criteria exist:

a. If those financial assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows.
b. If the contractual terms of the financial assets give rise to specified dates on cash flow that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet these criteria are initially measured at fair value after adding transaction costs (unless they were classified as debt instruments at fair value through the statement of income). Subsequently, they are measured at the amortized cost via the effective interest rate method after subtracting any loss impairment in value, and interest revenue is recognized in the statement of income.

In the event that the objectives of the business module change in terms of contradiction with the amortized cost criteria, the Bank shall re-classify the debt instruments previously classified at amortized cost to fair value through the statement of income.

Also, the Bank may choose to classify the debt instruments which meet the above-mentioned amortized cost criteria as debt instruments at fair value through the statement of income if this classification eliminates accounting incompatibilities or significantly reduces from them in the event of measuring financial assets at amortized cost.

Financial Assets at Fair Value through the Statement of Income

Debt instruments that do not meet the above-mentioned criteria of amortized cost or those which do meet such criteria, whereas the Bank has, nonetheless, chosen to classify them at fair value through the statement of income upon initial recognition, shall be measured at fair value through the statement of income.

In the event that the objectives of the business module change in terms of compatibility with the amortized cost and the contractual cash flows of the instrument meet the criteria of amortized cost, the Bank shall then re-classify debt instruments classified at fair value through the statement of income to be classified at amortized cost. Debt instruments classified at fair value through the statement of income upon initial recognition shall not be re-classified.

Investments in equity instruments are classified at fair value through the statement of income, unless the Bank classifies a non-tradable held investment at fair value through other comprehensive income upon initial recognition.

Financial assets are measured at fair value through the statement of income at fair value, and profits and losses resulting from re-measurement are recognized in the statement of income.

Dividends on these investments in equity instruments are recognized at fair value in the statement of income through profits in the statement of income when the Bank's right to receive the dividends is established (shall be approved by the General Assembly).

Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)

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

A financial asset is held for trading if:

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

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

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

2. De-recognition of Financial Assets and Financial Liabilities

a. Financial Assets

Financial assets are derecognized when:

- The expiration of right to receive cash flows from the asset; or
- The Bank has transferred it 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; or
- Either the bank 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.

b. Financial Liabilities

- A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. 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 n exchange or modification is treated as a de-recognition of the original liability and the recognition of a new one, and the difference in the respective carrying amount is recognized in the statement of income.

3. 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-term positions and ask price for short-term positions).

As for all other financial instruments not listed in active financial markets, fair value is determined via appropriate assessment techniques. These techniques include assessment of net current value and comparison to similar financial instruments which possess clear exchange prices or internal modules for pricing and assessment.

4. Settlement of Financial Instruments:

Settlement is made between the financial assets and liabilities provided that the net value is disclosed in the statement of financial position only when there is a legal right to disclose and an intention to settle at net value, or recognize the original and settle the obligation simultaneously.

5. Leases:

Determining whether an agreement is a lease contract or includes rent depends on the subject of the agreement and assessment of whether execution of the agreement depends on use of a specific asset or assets or whether the agreement transfers asset use right is required.

Lease contracts concluded by the Bank do not transfer all the risks and rewards of leased assets equity to the Bank, and are regarded as operating leases and operating lease payments are listed as expenses in the statement of income. Such shall be listed on a fixed installment-basis over the period of leasing.

6. 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.

- Collective Evaluation of Credit Facilities

When value of credited facilities, individually assessed, have been re-estimated or when there is no existing evidence of impairment, the possibility of losses based on risk estimates and change in the loan or market condition are very likely.

Impairment provisions cover losses that may result from individual operating loans whose value has declined on the reporting date of statement of financial position, but has only been particularly recognized as impaired afterwards.

Expected impairment in value is calculated by the Bank's management for each distinctive portfolio in accordance with the PMA's requirements and based on previous experiences, credit classification and expected change in loan conditions. In addition to estimated implied losses which reflects the reality of the economic environment and credit status.

- Investments at Amortized Cost

As for investments at amortized cost, the Bank assesses them on an individual-basis to ensure the existence of objective evidence of permanent impairment. In the event of existence of evidence that the Bank has incurred a loss from impairment, loss shall be determined as the difference between the carrying amount of assets and the current value of prospective-estimated cash flows. Moreover, carrying amount is reduced and impairment is recorded in the statement of income and if, in following years, estimated impairment is reduced due to an event that had occurred after recording impairment, any previously recorded amounts in impairment losses on financial investments shall be added.

7. 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.

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.

8. Property, Plant and Equipment:

This item is stated at cost net of accumulated depreciation (except for land and properties under construction). Net cost includes all costs related to the purchase transaction. These assets are depreciated when they're ready for use according to the straight-line method over their estimated useful lives using the following annual rates:

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

- 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.
- These assets are excluded upon disposal, or when there is no economic benefits expected from their use or disposal.

9. Intangible Assets:

Intangible assets are classified based on their life-span estimates for a specified or non-specified period. Also, intangible assets with a specified life-span are amortized through this life and amortization is recorded in the statement of income. As for intangible assets whose life-span is non-specified, impairment in their value is revised on the reporting date, and any impairment in value is recorded in the statement of income.

Intangible assets resulting from the Bank's works shall not be capitalized and shall be recorded in the statement of income during the same period.

Any indicators on impairment of intangible assets shall be revised at the date of reporting. Also, the estimated life-span of those assets shall be revised, and any amendments shall be made during later periods.

10. 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 and any gain shall not be recorded as revenue. Subsequent increase is included in the statement of income to the extent of the impairment in value which was previously recorded.

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

11. 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.

12. 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.

13. Taxation:

Tax expense represents the amounts of accrued taxes.

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 but 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.
- Deferred taxes are those which the bank expects to benefit from or incur as a result of the provisional time difference between the value of assets and liabilities in the financial statements and the value in which tax value is calculated.

14. 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 (such as shares) are recorded as part of change in fair value.

15. Related Parties:

The Board of Directors and head administrative officers are considered as related parties.

16. Cash and Cash Equivalent:

This consists of cash and cash balances maturing within three months, such includes: 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 including the statutory reserve with the PMA.

17. 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, and the fair value reserve as well as disclosure on possible obligations. Moreover, these estimates and assumptions affect revenues, expenses, provisions and the balance of the fair value reserve stated in the statement of income and owners' 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 and accounting standards in effect in the area, deferred taxes on assets and liabilities and the required taxation provision are calculated.
- 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 and amortization 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 cost to estimate any decline in their values. Impairment loss (if any) is charged to the statement of income.
- The Bank's management estimates provision for credit facilities losses which comprise impairment in counter-values for collection in accordance with the instructions of the PMA and relevant International Financial Reporting Standards, and adopts the most conservative outcomes in line with International Financial Reporting Standards.
- Impairment on completed property is recorded based on modern property assessments adopted by approved assessors for impairment calculation purposes. Periodical re-considerations shall be made on that impairment.
- Bank's management estimates impairment in fair value when market prices reach a specific limit considered as an indicator to determine impairment, and in line with PMA's instructions and International Financial reporting Standards.
- Provision for lawsuits raised against the Bank shall be formed based on a legal study prepared by the Bank's attorney and consultants. Such shall determine prospective possible risks. Periodic re-assessments of these studies shall be conducted.

18. Sectors' Information:

Statements of operating sectors are presented in a manner consistent with internal reports submitted to the official in charge of making decisions, i.e. the Board of Directors, which is also the authority responsible for allocating resources to operating sectors and assessing performance therein.
Revenues and resources directly related to each sector are used to determine the performance of operating sectors. Moreover, internal reports are concerned with credit concentration and outcomes' analysis according to business, economic and geographic sectors.

Levels of Fair Value:

International Financial Reporting Standards require the determination and disclosure of the level in the fair value sequence in which complete fair value measurements are subject to, and separation of fair value measurements according to the levels specified in International Financial Reporting Standards. The difference between levels (1) and (3) of fair value measurements means assessing whether information or inputs can be observed and the extent of the importance of information which cannot be observed. Such requires setting provisions and minute analysis of inputs used to measure fair value, including taking into account all factors pertaining to the original or to the obligation.

19. 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 or when they are settled on a set off basis, or upon simultaneous realization of assets and settlement of liabilities.

20. Financial Instruments and Risk Management:

a. Definition and Classification of Financial Instruments

Financial instruments represent all financial assets and liabilities of the Bank. Financial assets include cash balances, current accounts, deposits with the PMA, banks and financial institutions as well as loans and advances to customers and banks. However, financial liabilities include customer deposits and due to banks, as well as, contingent liabilities and commitments that are inserted out of the financial position items.

Fair value of financial assets and liabilities not displayed at fair value in the financial statements do not materially differ from their carrying value.

Below is a description of the methods and assumptions used in determining fair value of financial instruments not disclosed at fair value in the financial statements:

Financial instruments whose fair value is close to the carrying value:

Such are monetary or of short maturity period (less than three months) financial assets and liabilities whose fair value is close to the carrying value.

Financial instruments with fixed interest rate:

Fair value of financial assets and liabilities with fixed interest rate are estimated via comparing market interest rates when inserted for the first time with current market prices of similar financial instruments.

b. Fair Value Measurement

Fair value of financial instruments has been measured after initial date of recognition as follows:

Level 1: Fair value measurement is derived from quoted prices (un-fair) at the active financial markets of similar assets and liabilities.

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

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

4. Cash and deposits with Palestine Monetary Authority:

Composition:

	31 December 2013	31 December 2012
Cash on hands	46,509,133	77,592,976
Balances with PMA:		
Current accounts	1,446,122	1,095,748
Statutory reserve	36,785,290	29,940,504
Total	**84,740,545**	**108,629,228**

- According to PMA instructions (No. 2010 / 67), dated 5 July 2010, and issued to all banks operating in Palestine, 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 31 December 2013 and 31 December 2012.
- In accordance with PMA instructions (No. 02 / 2012), issued on 21 March 2012, the statutory reserve shall be reduced at the value of the existing balance of facilities granted to some sectors in Jerusalem. These sectors include real estate and constructions, lands, industry and mining, agriculture and livestock and tourism, restaurants and hotels.

5. Deposits with Banks and Financial Institutions:

Composition:

	31 December 2013	31 December 2012
Local banks and financial institutions		
Current accounts	-	6,659
Deposits maturing within 3 months	22,270,097	14,291,035
	22,270,097	**14,297,649**
Foreign banks and financial institutions		
Current accounts	14,389,212	7,366,241
Deposits maturing within 3 months	58,987,163	13,511,951
Deposits maturing within more than 3 months	2,750,000	-
	76,126,375	20,878,192
	98,396,472	**35,175,886**

Non-interest bearing deposits with banks and financial institutions have reached 14,389,211 U.S dollars as at 31 December 2013 and 7,372,900 U.S dollars as at 31 December 2012.

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

Composition:

	31 December 2013	31 December 2012
Securities traded at local markets – stocks	116,043	138,293
	116,043	**138,293**

7. Direct Credit Facilities – Net:

Composition:

	31 December 2013	31 December 2012
Loans and Advances	254,472,291	261,826,706
Overdraft accounts	35,140,366	34,066,086
Discounted bills	2,000,385	978,364
Total	**291,613,672**	**296,871,156**
Less: Interest in suspense	(1,110,004)	(1,068,268)
Less: Provision for impairment of direct credit facilities	(3,153,676)	(2,939,878)
Net direct credit facilities	**287,349,992**	**292,863,010**

- Loans and Bills represent the net amount after deducting net of interest and commission received in advance in the amount of 32,211 U.S Dollars as at 31 December 2013 (28,113 U.S Dollars as at 31 December 2012).
- The gross non performing direct credit facilities according to PMA instructions as of 31 December 2013 was 13,035,561 U.S dollars, which represents (4.47%) of the gross credit facilities compared to 20,652,492 U.S dollars as at 31 December 2012, which represents (6.69%) of gross credit facilities.
- The gross non performing direct credit facilities after deducting suspended interest as at 31 December 2013 was 11,925,556 U.S dollars, which represents (4.09%) of the gross credit facilities compared to 19,584,224 U.S dollarsas at 31 December 2012, which represents (6.60%) of gross credit facilities.
- Bad debts as at 31 December 2013 have reached 11,042,048 U.S dollars compared to 11,084,663 U.S dollars as at 31 December 2012.
- Credit facilities granted to public sector employees have reached an amount of 67,107,681 U.S dollars as at 31 December 2013 compared to an amount of 77,331,903 U.S dollars as at 31 December 2012.
- Direct credit facilities granted against real estate guarantees was 23,987,762 U.S dollars as at 31 December 2013 compared to 23,304,924 U.S dollars as at 31 December 2012.
- Fair value of guarantees against credit facilities has reached 51,480,180 U.S dollars as at 31 December 2013 compared to 62,078,239 U.S dollars as at 31 December 2012.
- Credit facilities in foreign currencies have reached 184,772,995 U.S dollars as at 31 December 2013 compared to 171,514,627 U.S dollars as at 31 December 2012.
- Credit facilities guaranteed by loan guarantee institutions have reached 1,677,640 U.S dollars as at 31 December 2013 compared to 2,198,321 U.S dollars as at 31 December 2012.

• Loans and overdraft accounts granted to PNA and ministries have reached 137,992,987 U.S dollars as at 31 December 2013, which represents (47.32%) of the direct credit facilities compared to 127,067,211 U.S dollars as at 31 December 2012, which represents (81.42%) of direct credit facilities.

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

	31 December 2013	31 December 2012
Companies and Organizations	2,320,813	2,810,747
Others	3,483,734	4,828,676
	5,804,547	7,639,423

• **Distribution of credit facilities (after deducting impairment provision) to the economic sectors:**

	31 December 2013	31 December 2012
Public Sector		
Palestinian National Authority	137,992,987	127,067,211
Local Palestinian Authorities	19,465	8,340
Public Sector non-financial institutions	48,265	3,722
	138,060,717	127,079,273
Private Sector		
Real estate and constructions		
Constructions	8,729,730	7,795,814
Houses and improvements on housing conditions	3,519,820	4,846,867
Commercial and investment real estate	2,284,106	7,583,411
	14,533,656	20,226,092
Land		
For personal possession	-	28,657
For investment	-	758,692
	-	787,349
Industry and Mining		
Industry	5,217,673	7,801,395
Mines and Mining	2,350,263	2,965,852
	7,567,936	10,767,247
General Trading		
Internal trading	26,644,624	26,936,411
	26,644,624	26,936,411
Agriculture and Livestock		
Agriculture	1,197,424	4,718,280
	1,197,424	4,718,280
Tourism, Restaurants and Hotels	2,614,064	5,940,264
	2,614,064	5,940,264
Transportation	2,338,427	1,166,809
	2,338,427	1,166,809
Services		
Financial services	8,998,463	9,834,780
Public facilities	7,927,538	5,994,762
Communication	286,835	373,020
Professional classes	-	1,568,253
	17,212,836	17,770,815
Vehicle purchase financing	1,925,000	3,001,253
Others	74,051,189	68,860,438
Others in the Private Sector	4,357,795	8,548,657
	290,503,668	295,802,888

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

The movement in this account is as follows:

	31 December 2013	31 December 2012
Balance at beginning of the year	2,939,878	2,716,005
Addition to the provision during the year	1,049,276	1,209,991
Less: provision transferred to revenue during the year	(816,589)	(736,207)
Less: written off provision against written off facilities	(16,215)	(17,010)
Less: provision on delinquent facilities exceeding six years	(84,629)	(271,655)
Currency variance	81,955	38,754
Balance at end of the year	**3,153,676**	**2,939,878**

• **Interest in suspense:**

Movement in interest in suspense is as follows:

	31 December 2013	31 December 2012
Balance at beginning of the year	1,068,268	1,048,364
Add: suspended interest during the year	169,755	270,660
Less: provision transferred to revenue	(51,030)	-
Less: bad debt interest during the year	(5,948)	-
Less: debt rescheduled and written off during the year	(41,727)	(47,341)
Less: provision on delinquent facilities exceeding six years	(29,314)	(203,415)
Balance at end of the year	**1,110,004**	**1,068,268**

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

	31 December 2013	31 December 2012
Balance at beginning of the year	9,378,804	9,770,265
provision transferred for delinquent facilities exceeding six years	84,629	271,655
Bad debt	(849,023)	(165,062)
Currency variance	328,203	74,776
Disposals / Settlements during the year	(507,798)	(572,830)
Balance at end of the year	**8,434,815**	**9,378,804**

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

Composition:

	31 December 2013	31 December 2012
Securities traded at local markets – stocks	8,963,469	6,696,886
	8,963,469	**6,696,886**

9. Financial Assets at Amortized Cost:

Composition:

	31 December 2013	31 December 2012
Local debt financial assets	980,000	980,000
Foreign debt financial assets	9,877,303	-
Total	**10,857,303**	**980,000**

10. Property, plant and Equipment – Net:

Composition:

	Furniture	Computers and Programs	Vehicles	Leasehold improvements	Building	total
31 December 2013						
Cost:						
Balance at the beginning of the year	2,441,297	7,738,669	706,538	6,845,093	9,572,253	27,303,850
Additions	105,493	606,431	144,978	551,702		1,408,550
Disposals		(10,627)	(63,428)			(74,055)
Balance at end of the year	2,546,736	8,334,473	788,088	7,396,795	9,572,253	28,638,345
Accumulated Depreciation:						
Balance at the beginning of the year	874,144	4,151,684	160,592	2,480,003	317,083	7,983,506
Depreciation for the year	218,064	725,245	81,677	672,330	81,181	1,778,497
Disposals		(4,396)	(46,512)			(50,908)
End of the year	1,092,208	4,872,533	195,757	3,152,333	398,264	9,711,095
Net Book Value	1,454,528	3,461,940	592,331	4,244,462	9,173,989	18,927,250
31 December 2012						
Cost:						
Balance at the beginning of the year	2,181,177	7,160,384	442,697	5,741,771	9,572,253	25,098,282
Additions	264,141	580,300	297,341	1,196,508	-	2,338,290
Disposals	(4,021)	(2,015)	(33,500)	(93,186)	-	(132,722)
Balance at end of the year	2,441,297	7,738,669	706,538	6,845,093	9,572,253	27,303,850
Accumulated Depreciation:						
Balance at the beginning of the year	677,584	3,091,340	90,990	1,752,344	235,902	5,848,160
Depreciation for the year	200,567	1,061,162	90,539	811,826	81,181	2,245,275
Disposals	(4,007)	(818)	(20,937)	(84,167)	-	(109,929)
End of the year	874,144	4,151,684	160,592	2,480,003	317,083	7,983,506
Net Book Value	1,567,153	3,586,985	545,946	4,365,090	9,255,170	19,320,344

11. Deferred Tax Assets:

Composition:

	Balance at beginning of year	Releases	Additions	Ending Balance 2013	Ending Balance 2012
Included Accounts					
End of service indemnity	928,026	(139,634)	234,414	1,022,806	915,207
Lawsuits provision	16,895	-	27,026	43,921	16,520
	944,921	(139,634)	261,440	1,066,727	931,727

The effective tax rate applied in the calculation of deferred tax asset is 33.79% as at 31 December 2013 compared to 33.04% as at 31 December 2012.

12. Intangible Assets:

Composition:

	31 December 2013	31 December 2012
Balance at beginning of the year	31,296	33,059
Amortization during the year	(1,763)	(1,763)
Balance at end of the year	29,533	31,296

13. Other Assets:

Composition:

	31 December 2013	31 December 2012
Prepaid expenses	2,132,182	1,832,083
Projects in progress (*)	2,584,102	1,213,568
Stationery and printing	94,472	35,093
Interest receivable	1,001,911	943,287
In transit transactions between headquarters and branches	-	7,070
Checks under clearance	12,487,619	9,825,993
Assets acquired in settlement of debt (**)	1,749,830	1,159,053
Advances paid on future investments	1,007,063	417,087
Reimbursable legal fees	368,842	346,889
Total	**21,462,021**	**16,140,123**

(*) Represents payments made to reconstructions, expansions and leasehold improvements of the Bank's branches, new and existing.

(**) Movement in the account is as follows:

	31 December 2013	31 December 2012
Balance at beginning of the year	1,519,053	1,519,053
Add: completed real estate during the year	318,350	-
Less: impairment in completed real estate	(87,573)	-
Balance at end of the year	**1,749,830**	**1,519,053**

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

Composition:

a. Deposits of PMA:

	31 December 2013	31 December 2012
Time deposits due within three months	10,000,000	25,000,000
Total	**10,000,000**	**25,000,000**

b. Deposits of banks and other financial institutions:

	31 December 2013	31 December 2012
Current accounts – local banks	22,253	276,714
Time Deposits:		
Local banks – due within 3 months	21,185,539	31,780,529
Local banks – due after 3 months	-	507,654
Foreign banks – due within 3 months	1,978,213	1,650,000
Foreign banks – due after 3 months	1,021,787	-
	24,207,792	**34,214,897**

15. Customers' Deposits:

Composition:

	31 December 2013	31 December 2012
Current accounts	129,012,569	133,655,679
Saving accounts	139,528,763	112,232,727
Time deposits	132,635,969	88,368,371
	401,177,301	**334,256,777**

- Deposits of the public sector amounted to 16,040,281 U.S dollars as at 31 December 2013, representing (4%) of total deposits against 12,586,716 U.S dollars as at 31 December 2012, representing (3.77%) of total deposits.
- Non-interest bearing deposits amounted to 128,501,668 U.S dollars as at 31 December 2013, representing (32.03%) of total deposits against 141,887,617 U.S dollars as at 31 December 2012, representing (42.45%) of total deposits.
- Restricted / pledged deposits amounted to 4,132,126 U.S dollars as at 31 December 2013, representing (1.03%) of total deposits against 3,587,525 U.S dollars as at 31 December 2012, representing (1.07%) of total deposits.
- Dormant deposits amounted to 6,418,837 U.S dollars as at 31 December 2013, representing (1.6%) of total deposits against 6,500,588 U.S dollars, representing (1.95%) of total deposits as at 31 December 2012.
- Customers' deposits in foreign currencies amounted to 246,097,795 U.S dollars as at 31 December 2013 against 217,202,375 U.s dollars as at 31 December 2012.
- Non-resident customers' deposits amounted to 7,264,789 U.S dollars as at 31 December 2013 against 4,931,461 U.S dollars as at 31 December 2012.

16. Cash Margins:

Composition:

	31 December 2013	31 December 2012
Cash margins against direct facilities	11,898,333	13,498,171
Cash margins against indirect facilities	3,950,555	3,431,170
Others including cash margins against issuing of checkbooks	3,429,681	2,420,993
	19,278,569	**19,350,334**

17. Sundry Provisions:

Composition:

	31 December 2013	31 December 2012
Provision for end of service indemnity	3,027,091	2,746,452
Provisions for lawsuits against the bank	130,000	50,000
	3,157,091	**2,796,452**

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

	31 December 2013	31 December 2012
Balance at beginning of the year	2,746,452	2,079,696
Provision during the year	693,880	878,405
Payments during the year	(413,241)	(211,649)
Balance at end of the year	**3,027,091**	**2,746,452**

The movement in the provision for lawsuits is as follows:

	31 December 2013	31 December 2012
Balance at beginning of the year	50,000	30,000
Provision during the year	80,000	20,000
Balance at end of the year	**130,000**	**50,000**

18. Provision for Taxes:

The movement in the provision for taxes is as follows:

	31 December 2013	31 December 2012
Balance at beginning of the year	2,586,621	2,585,203
Tax payments during the year	(3,111,159)	(1,748,582)
Current year taxes	2,680,000	1,750,000
Balance at end of the year	**2,155,462**	**2,586,621**

The bank obtained the final clearance from the tax authorities up to 2010 and is currently negotiating to obtain the clearance for the years 2011 and 2012.

Details of Bank accounting and tax profit are as follows:

	31 December 2013	31 December 2012
Bank accounting profit	7,284,649	4,510,691
Profit subject to VAT	7,763,321	5,647,394
VAT	1,187,144	724,130
Revenue subject to VAT	-	165,401
Revenue subject to income tax at net from VAT	6,576,177	5,088,165
Income tax	1,313,439	1,016,057
Total income tax and VAT	2,500,583	1,740,187
Earmarked taxes for the year	**2,680,000**	**1,750,000**

19. Other liabilities:

Composition:

	31 December 2013	31 December 2012
Interest payable	1,641,293	722,389
Accrued expenses	299,123	294,699
Post-dated checks and remittances payable	3,258,723	2,444,336
Temporary margins	430,938	577,367
Employees accrued vacation	-	23,544
In transit transactions between headquarters and branches	647,747	-
Board of Directors remuneration	155,148	155,148
Creditors	231,573	315,135
Tax withheld from wages	180,243	141,926
Others	60,432	41,482
Total	**6,905,220**	**4,716,026**

20. Paid –in Capital:

Capital Risk Management

The Bank manages capital to ensure and provide a strong capital-base in order to support, develop and enhance its activities, subsequently increasing shareholders' revenue. The Bank also seeks, through capital risk management and compliance with the capital's requirements and principles, to realize 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 31 December 2013, the owners' equity in the amount of 64,991,920 U.S Dollars, net of accumulated losses is composed of paid in capital, statutory reserves, and paid in capital in excess of par value which constitute 12% of the total assets of the bank as of that date compared to 57,985,686 U.S Dollars, representing 12% of the total assets of the Bank as at 31 December 2012.

The Bank's policy has not witnessed any changes on its capital risk management policy during year 2013. Its policy remains similar to that of 2012.

Details on Core (primary) and Regulatory Capital are as follows:

	31 December 2013			31 December 2012		
	Amount U.S Dollar	Ratio to Assets	Ratio to assets weighted risk	Amount U.S Dollar	Ratio to Assets	Ratio to assets weighted risk
Core (primary) capital	57,280,576	10.77%	26.72%	53,860,539	11.20%	25.49%
Regulatory capital	50,819,122	9.55%	23.71%	47,977,802	9.98%	22.22%

21. Reserves:

Statutory Reserve:

In accordance with the Banking Law, 10% of the Bank's annual net income, during the previous and current year, 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:

In accordance to relevant laws, up to 20% of the annual net income, of previous year and until 2008, can be appropriated to the optional reserve, whereas this reserve shall only be used for purposes as recommended by the Board of Directors. Also, this reserve is distributable to the owners after the approval of the General Assembly of the bank.

General Banking Risk Reserve:

According to PMA regulation No. (5/2008), issued on 29 December 2008, the general banking risk reserve is calculated at 2% of the direct credit facilities after deducting the provision of impairment and interest in suspense, and at 0.5% of the indirect credit facilities after deducting collectable checks, acceptable guarantees and acceptable guaranteed withdrawals with incoming documentary credits. This reserve cannot be reduced without PMA pre-approval.

Reserve for Cyclical Fluctuation:

According to PMA regulation No. (1/2011), this item represents the value deducted from risk reserve at 15% of the annual net income after taxes, in order to support the Bank's capital in facing risks surrounding the banking sector. Deduction continues until this reserve represents 20% of the Bank's paid-in capital. This reserve cannot be reduced or deducted without PMA pre-approval.

22. Fair Value Reserve:

Movement on this account is as follows:

	31 December 2013	31 December 2012
Balance at beginning of the year	(1,321,556)	(1,117,385)
Changes in fair value of financial assets through other comprehensive income until 30 June 2012	-	173,335
Effect of applying International Financial Reporting Standard No. (9)	-	(344,618)
Net change in fair value for the year	2,266,585	(32,888)
	2,266,585	(204,171)
Balance at end of the year	945,029	(1,321,556)

23. Interest Income:

Composition:

	31 December 2013	31 December 2012
Credit Facilities:		
Loans and advances	19,592,280	14,045,688
Overdraft and overdrawn accounts	2,832,998	6,035,938
Discounted bills	149,629	165,434
Credit cards	131,091	89,165
Deposits with PMA	-	583
Deposits with banks and financial institutions	1,424,649	326,065
Financial assets at amortized cost	329,127	52,249
Total	24,459,774	20,715,122

24. Interest Expense:

Composition:

	31 December 2013	31 December 2012
Deposits of banks and financial institutions	1,489,112	1,210,242
Customers' deposits:		
Current accounts	31,990	71,043
Saving accounts	533,989	681,849
Time deposits	3,692,654	2,113,006
Cash margins	59,998	184,025
Others	65,026	282,416
Total	5,872,769	4,542,581

25. Net Commission Income:

Composition:

	31 December 2013	31 December 2012
Commission Income:		
Commission from direct credit facilities	1,389,729	2,493,708
Commission from indirect credit facilities	415,712	346,933
Other commissions	2,754,521	2,459,487
Less: commission expense	(268,912)	(333,607)
Net commission income	4,291,050	4,966,521

26. Net Gain from Financial Assets:

Composition:

	Impairment loss on fair value	Dividends	Total
Year ended 31 December 2013:			
Company shares listed in financial markets	(12,250)	97,605	85,355
Year ended 31 December 2012:			
Company shares listed in financial markets	(6,292)	18,676	12,384

27. Other Income:

Composition:

	Year ended as at 31 December	
	2013	2012
Checkbooks	268,991	275,051
Swift, postage and telephone	23,605	22,187
Post stamps	66,335	84,184
Deposit boxes rent	15,342	18,566
Miscellaneous income	381,167	269,484
	755,440	669,472

28. Personnel Costs:

Composition:

	Year ended as at 31 December	
	2013	2012
Salaries, benefits and related costs	7,734,523	7,788,213
Provident fund (*)	344,134	316,473
VAT on salaries	1,067,399	984,177
Board of Directors costs and remuneration	206,724	240,483
Travel and transportation	109,069	94,535
Medical	546,945	580,022
Training	70,945	106,620
Vacation	22,687	43,874
Uniforms	141,949	150,498
	10,244,375	10,304,895

(*)This item represents Bank's contribution in provident fund which represents 10% of the employees' basic salary. As for the employees' contribution, 5% of their salary is deducted monthly, and contribution can be increased up to 10%.

Bank's indebtedness to the provident fund is disclosed in the customers' deposit account.

29. Other Operating Expenses:

Composition:

	Year ended as at 31 December	
	2013	2012
Rent	1,093,405	1,018,216
Stationery and printing	335,734	442,829
Swift, postage and telephone	889,562	872,141
Cleaning and maintenance	725,250	683,965
Subscriptions, fees and licenses	569,861	483,642
Insurance	147,661	150,983
Water and electricity	518,803	446,343
Computer software	105,757	64,689
Hospitality	80,049	94,626
Professional fees	184,127	517,937
Meetings and activities expenses	42,881	45,125
Car rental	121,508	168,244
Advertisement	670,320	642,096
Others	196,926	183,174
Transportation of cash	147,560	243,311
Donations	72,508	21,843
	5,901,912	6,079,164

30. Information about Bank Operations Sectors:

The Bank's business is divided into two major sectors: the individual and corporate accounts and the treasury account. Bank's business for individual accounts includes personal current accounts, saving accounts, deposits, credit cards, loans and mortgages. Whereas, corporate accounts are related to transactions concluded with institutions including government institutions and committees. These transactions include loans, advances, commercial financing and deposits. The treasury business includes activities of the dealing room and financial market, and foreign exchange transactions with banks and financial institutions including the PMA.

Statement	Individuals	Corporate	Treasury	Others	2013	2012
					U.S Dollar	U.S Dollar
Gross income	9,296,293	3,679,939	2,422,123	16,540,864	31,939,219	28,817,334
Provision for (gain) impairment on credit facilities	390,670	(115,559)	-	-	275,111	99,046
Gross profit	**9,686,963**	**3,564,380**	**2,422,123**	**16,540,864**	**32,214,330**	**28,916,380**
Undistributed expenditures	(3,749,765)	(150,983)	(1,210,242)	(19,818,691)	(24,929,681)	(24,405,689)
Profit before tax	**5,937,198**	**3,413,397**	**1,211,881**	**(3,277,827)**	**7,284,649**	**4,510,691**
Net income taxes from deferred taxes	-	-	-	(2,545,000)	(2,545,000)	(1,242,766)
Net income (loss) for the year	**5,937,198**	**3,413,397**	**1,211,881**	**(5,822,827)**	**4,739,649**	**3,267,925**
Additional Information:						
Sector's assets	109,211,544	181,224,393	137,082,168	104,355,250	531,873,355	480,906,793
Sector's liabilities	321,144,997	83,270,592	34,207,792	28,258,054	466,881,435	422,921,107
Capital expenditures					1,408,550	2,338,290
Depreciation and amortization					1,780,260	2,247,038

31. Concentration in Credit Exposure According to Sector:

Information on Bank's business sectors:

a. Concentration in credit exposure by geographical distribution:

	Inside Palestine		Outside Palestine		Total	
	2013	2012	2013	2012	2013	2012
Net income for the year	3,436,429	3,073,164	1,303,220	194,761	4,739,649	3,267,925
Assets	445,869,677	460,028,601	86,003,678	20,878,192	**531,873,355**	**480,906,793**

b. Concentration in credit exposure by geographic region:

2013	Palestine	Jordan	Israel	Other	Total
Deposits with PMA and financial Institutions	107,010,642	43,723,268	10,545,107	21,858,000	183,137,017
Financial assets at fair value through the statement of income	116,043				116,043
Credit facilities - Net	287,349,992				287,349,992
Financial assets through other comprehensive income	8,963,469				8,963,469
Financial assets at amortized cost	980,000	9,877,303			10,857,303
Property, plant and equipment – Net	18,927,250				18,927,250
Deferred tax assets	1,066,727				1,066,727
Intangible assets	29,533				29,533
Other assets	21,426,021				21,426,021
	445,869,677	53,600,571	10,545,107	21,858,000	531,873,355
Unutilized direct facilities	6,105,626				6,105,626
Guarantees	9,875,918				9,875,918
Letter of credits	2,340,077				2,340,077
Acceptances	3,243,351				3,243,351
	21,564,972	-	-	-	21,564,972

2013	Palestine	Jordan	Israel	Other	Total
Deposits with PMA and financial Institutions	122,926,922	2,316,921	5,784,244	12,777,027	143,805,114
Financial assets at fair value through the statement of income	138,293				138,293
Credit facilities - Net	292,863,010				292,863,010
Financial assets through other comprehensive income	6,696,886				6,696,886
Financial assets at amortized cost	980,000				980,000
Property, plant and equipment – Net	19,320,344	-	-	-	19,320,344
Deferred tax assets	931,727	-	-	-	931,727
Intangible assets	31,296	-	-	-	31,296
Other assets	16,140,123				16,140,123
	460,028,601	2,316,921	5,784,244	12,777,027	480,906,793
Unutilized direct facilities	9,163,813	-	-	-	9,16,813
Guarantees	8,648,192	-	-	-	8,648,192
Letter of credits	1,849,606	-	-	-	1,849,606
Acceptances	2,905,841	-	-	-	2,905,841
	22,567,452	-	-	-	22,567,452

32. Contra Accounts:

	2013	2012
Unutilized credit limits	6,105,626	9,163,813
Guarantees	9,875,918	8,648,192
Letter of credits	2,340,077	1,849,606
Acceptances	3,243,351	2,905,841
Total	21,564,972	22,567,452

33. Related parties:

Year ended 31 December 2013				
	Executive Management	**Board of Directors**	**Other Related Parties**	**Total**
Financial Position Items				
Direct credit facilities	158,951	3,956,978	890,932	5,006,861
Deposits with banks	168,187	418,165	955,016	1,541,368
Cash margins		113,989		113,989
Off Balance Sheet Items				
Indirect credit facilities		381,229		381,229
Unutilized credit facilities	12,088	2,898,835	139,751	3,050,674
Statement of Income				
Interest and commission income	1,225	232,738	59,698	293,661
Interest and commission expense	(4,325)	(9,761)	(8,678)	(22,764)
Salaries and bonuses	817,580	206,724		1,024,304
Year ended 31 December 2012				
	Executive Management	**Board of Directors**	**Other Related Parties**	**Total**
Financial Position Items				
Direct credit facilities	1,765,163	2,989,792	1,587,766	6,342,721
Deposits with banks		7,523	635,515	643,038
Cash margins	22,570		258,189	280,759
Off Balance Sheet Items				
Indirect credit facilities	439,445		948,339	1,387,784
Statement of Income				
Interest and commission income	39,281	230,420	338,182	607,883
Interest and commission expense		(15)	(6,852)	(6,867)
Salaries and bonuses	756,020	240,483		996,503

Year ended 31 December 2013				
Related facilities	**2013**			
Related parties	**Percentage to net facilities**	**Percentage to capital**	**Classified**	**Provision for impairment**
BOD Members and Executive Management	2.58%	14.58%	1,704,795	-
Other related parties	0.36%	2.03%	-	-
Total			-	-
Related facilities	**2012**			
Related parties	**Percentage to net facilities**	**Percentage to capital**	**Classified**	**Provision for impairment**
BOD Members and Executive Management	1.62%	9.51%	1,975,962	-
Other related parties	0.5%	3.17%	-	-
Total			-	-

34. Cash and Cash Equivalent:

Composition:

	31 December 2013	31 December 2012
Deposits with PMA	84,740,545	108,629,228
Add: Deposits with banks due within three months	95,646,472	35,175,886
Less: Deposits of PMA and banks due within three months	(33,186,005)	(58,707,243)
Statutory reserve	(36,785,290)	(29,940,504)
	110,415,722	55,157,367

35. 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, whereas the number of these lawsuits has reached 17 and the total amount of these lawsuits has reached 1.8 million U.S dollars. The total amount of the reserve established for lawsuits is 130,000 U.S dollars, whereas the Bank's attorney and Board of Directors believe this amount to be sufficient for such lawsuits.

36. Earnings per Share:

Earnings per share are calculated by dividing profit on average number of trade-shares during the year in accordance with International Accounting Standard No. (33) – earnings per share.

Year ended 31 December		
	2013	**2012**
Net income for the year	4,739,649	3,267,925
Weighted average of outstanding shares	50,000,000	50,000,000
	0.095	**0.065**

37. Comparative Figures:

Certain comparative figures were reclassified to conform to the current year presentation. Such did not have an effect on the previous owners' equity or net income for the year.

38. Financial Instruments and Risk Management:

a. Definition and Classification of Financial Instruments

Financial instruments represent all financial assets and liabilities of the Bank. Financial assets include cash balances, current accounts, deposits with the PMA, banks and financial institutions as well as loans and advances to customers and banks. However, financial liabilities include customer deposits and due to banks, as well as, contingent liabilities and commitments that are inserted out of the financial position items.

Fair value of financial assets and liabilities not displayed at fair value in the financial statements do not materially differ from their carrying value. They are as follows:

	31 December 2013		31 December 2012	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
Assets				
Cash and deposits with PMA	84,740,545	84,740,545	108,629,228	108,629,228
Deposits with banks and financial institutions	98,396,472	98,396,472	35,175,886	35,175,886
Direct credit facilities – Net	287,349,992	287,349,992	292,863,010	292,863,010
Financial assets at amortized cost	10,857,303	10,857,303	980,000	980,000
Liabilities				
PMA deposits	10,000,000	10,000,000	25,000,000	25,000,000
Deposits of banks and financial institutions	24,207,792	24,207,792	34,214,897	34,214,897
Customers' deposits	401,177,301	401,177,301	334,256,777	334,256,777
Cash margins	19,278,569	19,278,569	19,350,334	19,250,334

Below is a description of the methods and assumptions used in determining fair value of financial instruments not disclosed at fair value in the financial statements:

Financial instruments whose fair value is close to the carrying value:

Such are monetary or of short maturity period (less than three months) financial assets and liabilities whose fair value is close to the carrying value.

Financial instruments with fixed interest rate:

Fair value of financial assets and liabilities with fixed interest rate are estimated via comparing market interest rates when inserted for the first time with current market prices of similar financial instruments.

b. Fair Value Measurement

Fair value of financial instruments has been measured after initial date of recognition as follows:

- Fair value measurement is derived from quoted prices (un-fair) at the active financial markets of similar assets and liabilities.
- Fair value measurements are derived from sources other than the quoted prices, either directly (as prices) or indirectly (derived from prices).
- Fair value measurements are derived from assessment techniques that include information about assets and liabilities not based on obtainable market information.

The following table illustrates an analysis of the financial instruments measured at fair value after date of initial recognition, which have been grouped into three levels depending on the extent to which they can be measured.

Level 1: Fair value measurement is derived from quoted prices (un-fair) at the active financial markets of similar assets and liabilities.

Level 2: Fair value measurements are derived from sources other than the quoted prices, either directly (as prices) or indirectly (derived from prices).

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

	First Level	Second Level	Third Level	Total
Stocks traded at Palestinian securities exchange	9,079,512	-	-	9,079,512
Debt securities	-	10,857,303	-	10,857,303

Risk Management:

- **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. Resulting outcomes are presented to the audit committee.

- **Internal Audit**

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

- **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.

a. 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 to fulfill its obligations towards the bank, which leads to a loss. The Bank works on credit risk management through setting 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. The Bank also works continuously to evaluate the credit status of customers; in addition, the bank obtains appropriate collaterals from customers.

Details of the direct credit facilities portfolio are illustrated in not (7). Bank›s obligations outside the financial statements exposed to credit list are illustrated in note (32). Moreover, the bank restricts concentration risk on assets and liabilities by distributing its activities on several sectors.

The granting of credit facilities is the responsibility of the Bank's credit facility committee which conducts its work in accordance with the requirements of the credit policy which agrees with the 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, other explanatory statements on the financial solvency of the client, attainable guarantees, economic feasibility studies for projects subject of financing and the size of required credit.

The Bank's credit committee, in collaboration with the internal audit team, monitor 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 taking the necessary procedures to protect the Bank's funds.

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

2013 / Dollar	Individuals	Mortgage Loans	Large Companies	SMEs	Government and Public Sector	Total
Low risks	4,446,303	1,559,643	2,959,741	2,932,646	138,060,717	**149,959,050**
Acceptable risks	97,620,990	6,272,518	33,227,203	4,533,911		**141,654,622**
Maturing:						
Within 30 days						
31 to 60 days						
Under control	637,705		245,804			**883,509**
Non-functional:						
Below the level	613,020		26,536			**639,556**
Doubted	1,331,298		60,605			**1,391,903**
Bad debt	3,709,585		5,301,003			**9,010,588**
Total	102,067,293	7,832,161	36,186,944	7,466,557	138,060,717	**291,613,672**
Less: interest in suspense	(687,910)	-	(422,094)	-	-	**(1,110,004)**
Less: provision	(1,868,020)	-	(1,285,656)	-	-	**(3,153,676)**
Net	99,511,363	7,832,161	34,479,194	7,466,557	138,060,717	287,349,992

2012 / Dollar	Individuals	Mortgage Loans	Large Companies	SMEs	Government and Public Sector	Total
Low risks	2,534,147	1,820,696	5,643,306	2,137,340	127,079,273	139,214,762
Acceptable risks	113,394,208	3,813,520	33,677,147	6,771,519	-	157,656,394
Maturing:						
Within 30 days						
31 to 60 days						
Under control	167,173	-	1,523,650	-	-	1,690,823
Non-functional:						
Below the level	258,636	-	71,590	-	-	330,226
Doubted	375,696	-	318,565	-	-	694,262
Bad debt	4,686,511		5,373,663			10,060,174
Total	115,928,355	5,634,216	39,320,453	8,908,859	127,079,273	296,871,156
Less: interest in suspense	(711,047)	-	(357,221)	-	-	(1,068,268)
Less: provision	(1,787,361)	-	(1,152,517)	-	-	(2,939,878)
Net	113,429,947	5,634,216	37,810,715	8,908,859	127,079,273	292,863,010

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

2013 / Dollar	Individuals	Mortgage Loans	Companies	Total
Low risks	4,446,303	1,559,643	5,892,387	11,898,333
Acceptable risks	21,289,688	563,937	13,629,188	35,482,813
Under control	1,821,771		245,804	2,067,575
Non-functional:				
Below the level	613,020		26,536	639,556
Doubted	1,331,298		60,605	1,391,903
Total	29,502,080	2,123,580	19,854,520	51,480,180
Cash margins	4,446,303	1,559,643	5,892,387	11,898,333
Mortgages	18,849,488	563,937	12,002,389	31,415,814
Shared stocks	6,206,289		1,959,744	8,166,033
Total	29,502,080	2,123,580	19,854,520	51,480,180

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

A\3. PMA's regulation No. (1), issued on 20 January 2008, resembles the Bank's adopted framework in classifying credit facilities and acceptable securities when calculating and identifying impairment provisions and amounts in credit facilities to cover credit risks resulting from doubtful and bad debt . Whereas, this regulation requires all banks operating in Palestine to assess its credit control at least once every three months and constitute required provisions.

b. Liquidity Risk

Liquidity risk is the inability of the bank to provide the funding necessary to carry out its obligations in the due dates. Therefore, to prevent such risks, management diversifies its financial resources and manages assets and liabilities and their maturity dates, it also maintains sufficient balance of cash and cash equivalents and tradable securities. Moreover, PMA controls liquidity in banks on a periodic basis through determining the deposit ratios those banks must maintain at all times. Liquidity in banks and ratios approved by PMA are controlled through the Bank's assets and liabilities committee.

B/1. Maturing assets and liabilities as at 31 December 2013.

	Within one month	One to three months	Three to six months	Six months to one year	One to three years	More than three years	No specific maturity	total
Assets								
Cash and deposits with PMA	47,955,255						36,785,290	84,740,545
Deposits with banks and financial institutions	92,146,472	3,500,000	2,750,000					98,396,472
Financial assets at fair value through the statement of income	116,043							116,043
Direct credit facilities – Net	17,875,792	4,492,655	3,533,613	12,607,776	16,607,968	223,331,536	8,778,652	287,349,992
Financial assets through other comprehensive income					8,963,469			8,963,469
Financial assets at amortized cost					9,877,303	980,000		10,857,303
Property, plant and equipment – Net							18,927,250	18,927,250
Deferred tax assets					1,066,727			1,066,727
Intangible assets							29,533	29,533
Other assets	12,487,619	1,001,911	94,472	5,723,347	368,842	-	1,749,830	21,426,021
Total assets	170,581,181	8,994,566	6,378,085	18,331,123	37,006,309	224,311,536	66,270,555	531,873,355
Liabilities								
Deposits of PMA, banks and financial institutions	31,711,738	1,474,265	1,021,789					34,207,792
Customers' deposits	152,825,498	69,389,746	55,435,157	42,797,059	80,729,841			401,177,301
Cash margins	1,017,016	255,603	201,039	717,300	951,826	12,706,104	3,429,681	19,278,569
Sundry provisions					3,157,091			3,157,091
Provision for taxes				2,155,462				2,155,462
Other liabilities	3,003,259	3,315,875	155,148	430,938				6,905,220
Total liabilities	188,557,511	74,435,489	56,813,133	46,100,759	84,838,758	12,706,104	3,429,681	466,881,435
Net liquidity gap	(17,976,330)	(65,440,923)	(50,435,048)	(27,769,636)	(47,832,449)	211,605,432	62,840,874	64,991,920
Cumulative liquidity gap	(17,976,330)	(83,417,253)	(133,852,311)	(161,621,937)	(209,454,386)	2,151,046	64,991,920	-

Maturing Assets and Liabilities as at 31 December 2012:

	Within one month	One to three months	Three to six months	Six months to one year	One to three years	More than three years	No specific maturity	total
Assets								
Cash and deposits with PMA	78,688,724	-	-	-	-	-	29,940,504	108,629,228
Deposits with banks and financial institutions	7,327,900	27,802,986	-	-	-	-	-	35,175,886
Financial assets at fair value through the statement of income		138,293						138,293
Direct credit facilities – Net	23,312,357	2,205,314	1,951,142	8,258,152	112,840,741	144,295,304	-	292,863,010
Financial assets through other comprehensive income		-					6,696,886	6,696,886
Financial assets at amortized cost		-				980,000		980,000
Property, plant and equipment – Net	-	-	-	-	-	-	19,320,344	19,320,344
Deferred tax assets	-	-	-	-	-	931,727	-	931,727
Intangible assets	-	-	-	-		-	31,296	31,296
Other assets	-	12,643,526	-	-	1,865,942	-	1,630,655	16,140,123
Total assets	109,373,981	42,790,119	1,951,142	8,258,152	114,706,683	146,207,031	57,619,685	480,906,793
Liabilities								
Deposits of PMA, banks and financial institutions	57,296,806	1,410,437	507,654	-	-	-	-	59,214,897
Customers' deposits	292,423,284	16,509,478	18,083,537	6,985,161	255,317	-	-	334,256,777
Cash margins	19,350,334	-	-	-		-	-	19,350,334
Sundry provisions	-	-	-	-	2,796,452	-	-	2,796,452
Provision for taxes	-	-	-	2,586,621	-	-	-	2,586,621
Other liabilities	-	4,716,026	-	-	-	-	-	4,716,026
Total liabilities	369,070,424	22,635,941	18,591,191	9,571,782	3,051,769	-	-	422,921,107
Net liquidity gap	(259,696,443)	20,154,178	(16,640,049)	(1,313,630)	111,654,914	146,207,031	57,619,685	57,985,686
Cumulative liquidity gap	(259,696,443)	(239,542,265)	(256,182,314)	(257,495,944)	(145,841,030)	366,001	57,985,686	-

c. Market Risks

Market risk results from fluctuation in interest prices, exchange rates and prices of shares. The Board of Directors, thus, sets a limit for acceptable risks, and such is controlled by the Bank's committee of assets and liabilities on a periodic-basis.

d. Interest Rate Risks

These risks arise from the likely changes in interest rates which may affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of a mismatch or gap in amounts of assets and liabilities in accordance with numerous life-spans or revision of interest rates within a specific period of time. The Bank, thus, manages these risks through reviewing interest rates to assets and liabilities via the risk management strategy.

Sensitivity of Interest Rates – 31 December 2013:-

Items subject to interest rate risks

	Within one month	One to three months	Three to six months	Six months to one year	One to three years	More than three years	No specific maturity	total
Assets								
Cash and deposits with PMA							84,740,545	54,740,545
Deposits with banks and financial institutions	77,757,261	3,500,500	2,750,000				14,389,211	98,396,472
Financial assets at fair value through the statement of income							116,043	116,043
Direct credit facilities – Net	17,875,792	4,492,655	3,533,613	12,607,776	16,729,968	232,110,188	-	287,349,992
Financial assets through other comprehensive income							8,963,469	8,963,469
Financial assets at amortized cost						980,000	9,877,303	10,857,303
Property, plant and equipment – Net							18,927,250	18,927,250
Deferred tax assets							1,066,727	1,066,727
Intangible assets							29,533	29,533
Other assets							21,426,021	21,426,021
Total assets	95,633,053	7,992,655	6,283,613	12,607,776	16,729,968	233,090,188	159,536,102	531,873,355
Liabilities								
Deposits of PMA, banks and financial institutions	31,689,487	1,474,265	1,021,787				22,253	34,207,792
Customers' deposits	193,504,870	31,793,959	25,895,611	21,313,753	167,440		128,501,668	401,177,301
Cash margins	3,000,000						16,278,569	19,278,569
Sundry provisions							3,157,091	3,157,091
Provision for taxes							2,155,462	2,155,462
Other liabilities							6,905,220	6,905,220
Total liabilities	228,194,357	33,268,224	26,917,398	21,313,753	167,440	-	157,020,263	466,881,435
Net liquidity gap	(132,561,304)	(25,275,569)	(20,633,785)	(8,705,977)	16,562,528	233,090,188	2,515,839	64,991,920
Cumulative liquidity gap	(132,561,304)	(157,836,873)	(178,470,658)	(187,176,635)	(170,614,107)	62,476,081	64,991,920	-

Sensitivity of Interest Rates – 31 December 2012:-

Items subject to interest rate risks

	Within one month	One to three months	Three to six months	Six months to one year	One to three years	More than three years	No specific maturity	total
Assets								
Cash and deposits with PMA							108,629,228	108,629,228
Deposits with banks and financial institutions	27,802,986	-	-	-	-		7,372,900	35,175,886
Financial assets at fair value through the statement of income							138,293	138,293
Direct credit facilities – Net	144,295,304	112,840,741	8,258,152	1,951,142	25,517,671		-	292,863,010
Financial assets through other comprehensive income							6,696,886	6,696,886
Financial assets at amortized cost						980,000		980,000
Property, plant and equipment – Net	-	-	-	-	-		19,320,344	19,320,344
Deferred tax assets	-	-	-	-	-		931,727	931,727
Intangible assets	-	-	-	-	-		31,296	31,296
Other assets	-	-	-	-	-		16,140,123	16,140,123
Total assets	172,098,290	112,840,741	8,258,152	1,951,142	25,517,671	980,000	159,260,797	480,906,793
Liabilities								
Deposits of PMA, banks and financial institutions	57,296,806	1,410,437	507,654	-	-		-	59,214,897
Customers' deposits	150,535,666	16,509,478	18,083,537	6,985,161	255,318		141,887,617	334,256,777
Cash margins	3,500,000	-	-	-	-		15,850,334	19,350,334
Sundry provisions	-	-	-	-	-		2,796,452	2,796,452
Provision for taxes	-	-	-	-	-		2,586,621	2,586,621
Other liabilities	-	-	-	-	-		4,716,026	4,716,026
Total liabilities	211,332,472	17,919,915	18,591,191	6,985,161	255,318	-	167,837,050	422,921,107
Net liquidity gap	(39,234,182)	94,920,826	(10,333,039)	(5,034,019)	25,262,353	980,000	(8,576,253)	57,985,686
Cumulative liquidity gap	(39,234,182)	55,686,644	45,353,605	40,319,586	65,581,939	66,561,939	57,985,686	-

Foreign currency Risks:

Foreign currency risks are those which change the value of financial instruments as a result of change in the foreign currency prices, whereas the U.S dollar is considered the Bank's main currency. Thus, the Board of Directors sets limits to the financial position of each of the Bank's currencies. The foreign currency unit is monitored on a daily-basis and hedging strategies are followed to ensure the stability of foreign currencies within adopted limits.

Risk 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. Most of the Bank's stock investments listed at Palestine Securities Exchange.

The following table illustrates unrealized gain or loss as a result of possible and probable changes in stock prices at 10%, with the remaining other influences fixed:

	2013		
	Change in Index	Effect on Income Statement	Effect on Ownership Equity
Securities through the statement of other comprehensive income	10%		869,347
Securities through the statement of income	10%	11,604	

	2012		
	Change in Index	Effect on Income Statement	Effect on Ownership Equity
Securities through the statement of other comprehensive income	10%		669,689
Securities through the statement of income	10%	13,829	

39. Application of new and amended International Financial Reporting Standards (IFRS):

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

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

IFRS 10 Consolidated Financial Statements	This standard requires the consolidated financial statements of the Holding Company as one economic unit to replace previous requirements for International Accounting Standard (IAS) No. (27): Separate and Consolidated Financial Statements and Interpretation No. (12): Consolidating Financial Statements of Entities of Special Purposes.
IFRS 11 Joint Arrangements	Replaced IAS No. (31): Interests in Joint Ventures. This standard requires that the entity – related party in joint arrangements – determines the type of joint arrangements it participates in through assessing its rights and obligations involved in these participations, and to be accountable for these rights and obligations according to the type of joint arrangements.
IFRS 12 Disclosure of Interests in Other entities	This standard requires the entities' detailed disclosure of information which enables the users of the financial statements to assess risks and the nature of those related to the entity's interests with other entities and its effect on the entity's financial position and performance, and audit.
IFRS 13 Calculating Fair Value	This standard addresses the measurement and disclosure of fair value of assets and liabilities, whereas it has replaced guidelines relating to the calculation of fair value included in IFRS for developing general requirements of the measurements and disclosure of fair value.
IAS 27 Separate Financial Statements (as revised in 2011)	The amended version of IAS No. (27) addresses: the separate financial statements with the separate financial statements' preparation requirements only. However, similar requirements of IAS no. (27) addresses: the separate and consolidated financial statements, noting that the preparation of consolidated financial statements is currently done in accordance with IFRS No. (10): Consolidated Financial Statements.
IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)	Replaced IAS No. (28): Investments in Associates, this describes the accounting treatment of investments in associates and joint ventures, and determines necessary requirements for application of owners' equity method to be accounted. This standard defines the term "significant influence" and provides guidelines regarding the owners' equity method, including cases exempted from the owners' equity method. In addition, it illustrates how to perform an impairment test for associates and joint ventures.
Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities	Disclosure requirements' amendment to IFRS No. (7): Disclosures. Whereas, this requires disclosure of all information regarding all acknowledged financial assets off set in accordance with IAS No. (32): Disclosure of Financial Instruments.
Improvements to IFRSs issued in 2009 – 2011	IFRS No, (1) and IAS No. (1), (16), (32) and (34).
Amendments to Government Loans	IFRS No. (1).
Amendments to IFRS (10), (11) and (12) - Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other entities: Transition Guidance	These amendments provide additional exemptions in accordance with the transitional provisions to reduce amendment requirements and illustrate comparative figures for the years prior to the comparison year.

New and revised IFRSs issued but not yet effective

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

	Effective for annual periods beginning in or after
Amendments to IAS No. (32): Disclosure of Financial Instruments – Offsetting of Financial Assets and Liabilities	1 January 2014
Amendments to IFRS (10) and (12) - Consolidated Financial Statements and Disclosure of Interests in Other entities, and IAS No. (7): Separate Financial Statements related to the Illustration and Measurement of Financial Assets.	1 January 2014
Amendments to IAS No. (36): Impairment in Assets – Disclosures about Reimbursements of Non-Financial Assets.	1 January 2014
Amendments to IAS No. (39): Derivatives Exchange and Hedge Accounting.	1 January 2014
Interpretation No. (21): Levies.	1 January 2014
Improvements to IFRS issued in 2010-2012.	1 July 2014
Improvements to IFRS issued in 2011-2013.	1 July 2014
Amendments to IFRS No. (9): Financial Instruments, and IFRS No. (7): Disclosures – Offsetting Financial Assets and Financial Liabilities.	1 January 2017

Management anticipates that each of the above standards and interpretations will be adopted in the financial statements at their effective dates without having any material impact on the bank's financial statements.

Remarks