THE NATIONAL BANK
PUBLIC SHAREHOLDING COMPANY LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

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Independent Auditors' Report to the Shareholders of
The National Bank Company Ltd.

We have audited the accompanying consolidated financial statements of The National Bank Company Ltd. (the Bank) which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2013 and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The financial statements of the Bank as of December 31, 2012 were audited by another auditor whose report dated March 31, 2013, expressed an unqualified opinion on those financial statements.

Ernst and Young – Middle East

Ernst + Young

March 27, 2014
Ramallah - Palestine

Consolidated Statement of Financial Position

As at December 31, 2013

	Notes	2013	2012
ASSETS		U.S. $	U.S. $
Cash and balances with Palestine Monetary Authority	6	61,787,759	52,382,492
Balances at banks and financial institutions	7	179,420,284	115,326,751
Financial assets at fair value through profit or loss	8	3,441,992	2,989,301
Direct credit facilities	9	228,289,517	142,792,387
Financial assets at fair value through other comprehensive income	10	2,197,178	2,423,856
Financial assets at amortized cost	11	21,282,654	12,797,949
Investment in an associate	12	4,345,290	4,305,290
Property, plant and equipment	13	8,280,606	7,601,176
Intangible assets	14	110,424	163,932
Other assets	15	20,443,273	10,106,900
Total Assets		529,598,977	350,890,034
LIABILITIES AND EQUITY			
Liabilities			
Banks' and financial institutions' deposits	16	131,168,764	63,419,209
Customers' deposits	17	250,947,918	183,084,604
Cash margins	18	51,680,544	33,094,610
Loans and borrowings	19	30,761,679	10,726,227
Provision for employees' indemnity	20	1,131,315	882,945
Tax provisions	21	1,543,638	966,605
Other liabilities	22	7,399,101	7,394,641
Total Liabilities		474,632,959	299,568,841
Equity			
Paid-in share capital	1	49,881,953	49,875,642
Statutory reserve	23	967,960	607,936
General banking risks reserve	23	4,948,947	2,426,483
Pro-cyclicality reserve	23	960,104	420,067
Fair value reserve	10	(2,270,869)	(2,264,174)
Retained earnings		477,923	255,239
Net Equity		54,966,018	51,321,193
Total Liabilities and Equity		529,598,977	350,890,034

Consolidated Income Statement
For the Year Ended December 31, 2013

	Notes	2013 U.S. $	2012 U.S. $
Interest income	24	15,957,308	10,912,962
Interest expense	25	(5,664,521)	(3,497,033)
Net interest income		10,292,787	7,415,929
Net commissions income	26	2,861,358	2,075,870
Net interest and commission income		13,154,145	9,491,799
Foreign currency gain		1,123,572	887,675
Financial assets gains	27	798,262	124,740
Share of results of an associate	12	40,000	80,000
Recovery of impairment allowance for credit facilities	9	322,349	303,297
Other revenues		16,700	-
Gross Profit		15,455,028	10,887,511
Expenses			
Personnel expenses	28	5,150,149	4,017,581
Other operating expenses	29	3,328,295	2,304,839
Depreciation and amortization	13&14	1,188,778	1,077,314
Impairment allowance for credit facilities	9	667,563	467,677
Total expenses		10,334,785	7,867,411
Profit before taxes		5,120,243	3,020,100
Tax expense	21	(1,520,000)	(999,000)
Profit for the year		3,600,243	2,021,100
Basic and diluted earnings per share	30	0.072	0.041

Consolidated Statement of other Comprehensive Income
For the year ended December 31, 2013

	2013	2012
	U.S.$	U.S.$
Profit for the year	3,600,243	2,021,100
Other comprehensive income:		
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Change in the fair value of financial assets at fair value through other comprehensive income	38,271	(192,344)
Other comprehensive income	38,271	(192,344)
Total comprehensive income for the year	3,638,514	1,828,756

Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2013

	Paid-in share capital	Reserves: Statutory	Reserves: General banking risks	Reserves: Pro-cyclicality	Reserves: Fair value	Retained earnings	Net equity
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2013							
Balance, beginning of the year	49,875,642	607,936	2,426,483	420,067	(2,264,174)	255,239	51,321,193
Profit for the year	-	-	-	-	-	3,600,243	3,600,243
Other comprehensive income	-	-	-	-	38,271	-	38,271
Total comprehensive income	-	-	-	-	38,271	3,600,243	3,638,514
Subscriptions to capital	6,311	-	-	-	-	-	6,311
Gain on sale of financial assets recognized directly in retained earnings	-	-	-	-	(44,966)	44,966	-
Transfers to reserves	-	360,024	2,522,464	540,037	-	(3,422,525)	-
Balance, end of the year	49,881,953	967,960	4,948,947	960,104	(2,270,869)	477,923	54,966,018
At December 31, 2012							
Balance, beginning of the year, prior to adjustments	29,875,642	405,826	1,248,353	116,902	(251,045)	(2,136,111)	29,259,567
Adjustments	-	-	-	-	(1,832,987)	2,065,857	232,870
Balance, beginning of the year after adjustments	29,875,642	405,826	1,248,353	116,902	(2,084,032)	(70,254)	29,492,437
Profit for the year	-	-	-	-	-	2,021,100	2,021,100
Other comprehensive Income	-	-	-	-	(192,344)	-	(192,344)
Total comprehensive income	-	-	-	-	(192,344)	2,021,100	1,828,756
Subscriptions to Capital	20,000,000	-	-	-	-	-	20,000,000
Loss from sale of financial assets recognized directly in retained earnings	-	-	-	-	12,202	(12,202)	-
Transfers to reserves	-	202,110	1,178,130	303,165	-	(1,683,405)	-
Balance, end of the year	49,875,642	607,936	2,426,483	420,067	(2,264,174)	255,239	51,321,193

The accompanying notes from 1 to 42 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2013

	Notes	2013 U.S. $	2012 U.S. $
Operating activities:			
Profit before tax		5,120,243	3,020,100
Adjustments for:			
Depreciation and amortization		1,188,778	1,077,314
Net gain from financial assets		(798,262)	(124,740)
Bank's share of an associate's results		(40,000)	(80,000)
Impairment allowance for credit facilities		345,214	164,380
Provision for employees' indemnity		267,868	294,378
Other non-cash items		191,124	30,572
		6,274,965	4,382,004
Changes in assets and liabilities			
Restricted balances at banks and financial institutions		4,280,265	(10,373,795)
Statutory cash reserves at PMA		(9,506,539)	(5,613,770)
Direct credit facilities		(85,842,344)	(66,656,839)
Other assets		(10,336,373)	(328,371)
Customers' deposits		67,863,314	67,126,678
Cash margins		18,585,934	19,168,108
Loans and borrowings		20,035,452	8,057,250
Other liabilities		4,460	766,567
Net cash flows from operating activities before provisions and taxes		11,359,134	16,527,832
Employees' indemnity paid		(19,498)	(27,808)
Taxes paid		(942,967)	(229,223)
Net cash flows used in operating activities		10,396,669	16,270,801
Investing activities:			
Deposits at banks and financial institutions maturing after three months		-	2,115,656
Purchase of property, plant and equipment		(1,781,393)	(1,268,948)
Purchase of intangible assets		(33,307)	(40,229)
Purchase of financial assets at fair value through profit or loss		(705,281)	(1,331,342)
Proceeds from sale of financial assets at fair value through profit or loss		699,173	1,424,034
Purchase of financial assets at fair value through other comprehensive income		(25,358)	(2,050,464)
Proceeds from sale of financial assets at fair value through other comprehensive income		290,307	1,728,172
Purchase of financial assets at amortized cost		(11,318,587)	(1,619,000)
Proceeds from sale of financial assets at amortized cost		2,692,524	910,386
Cash dividends received		301,913	289,803
Investment in an associate		-	(4,225,290)
Net cash flow from merger		-	(4,343,443)
Net cash used in investing activities		(9,880,009)	(8,410,665)
Financing activities:			
Subscriptions to capital		6,311	20,000,000
Net cash flow from financing activities		6,311	20,000,000
Net increase in cash and cash equivalents		522,971	27,860,136
Cash and cash equivalents, beginning of the year		71,243,893	43,383,757
Cash and cash equivalents, end of the year	31	71,766,864	71,243,893

The accompanying notes from 1 to 42 are an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements
December 31, 2013

1. General

The National Bank Company Ltd. (the Bank) was registered in 2005 in Ramallah, Palestine under the name of "Al-Rafah Bank for Micro Finance" as a public shareholding limited company under registration no. 562601146 with its head office in Ramallah – Palestine. The Bank operates within the framework and in compliance with applicable laws and regulations in Palestine.

The Bank carries out its activities through its main headquarter and six branches throughout the Palestinian Territories, the Bank also finances microfinance and other projects.

On April 25, 2012, the general assembly approved increasing the Bank's capital to be U.S. $ 50,000,000. The Bank increased the capital to U.S. $ 50 million by accepting new partners within the Bank. Also, during 2012, the Bank signed merger agreement to acquire the Arab Palestinian Investment Bank (APIB) in which some of APIB's assets and liabilities were acquired against 10 million shares of the National Bank.

The Bank's subscribed and authorized share capital is 50 million shares of U.S $ 1 par value for each share, whereas paid in capital amounted to U.S $ 49,881,953 and U.S $ 49,875,642, as of December 31, 2013 and 2012, respectively.

The Bank's personnel reached (247) and (208) as at December 31, 2013 and 2012, respectively.

The financial statements of the Bank as of December 31, 2013 were authorized for issuance by the Bank's Board of Directors on February 16, 2014.

2. Consolidated financial statements

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiary 'Watan Private Investment Company' (Watan), as at December 31, 2013. Watan was established in accordance with the Company's Laws of the year 1964 as a limited liability private shareholding company consisting of a total capital of U.S $ 110,000 as at December 31, 2013.

Watan's financial statements have been consolidated with those of the Bank's on a line-by-line basis after eliminating all intercompany balances and transactions between the Bank and its subsidiary.

The Bank and its subsidiary operate in Palestinian National Authority territories.

Basis of consolidation of financial statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2013. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investees.

The Bank re-assesses whether or not it controls investees if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of other comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

3.1 Basis of preparation of consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), local prevailing laws, and in conformity with Palestinian Monetary Authority (PMA) regulations.

The consolidated financial statements have been prepared under the historical cost basis, except for financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income that have been measured at fair value at the date of the consolidated financial statements.

The consolidated financial statements are presented in U.S. Dollars (U.S. $), which is the functional currency of the Bank.

3.2 Changes in accounting policies

The accounting policies adopted are consistent with those used in the previous year except that the Bank has adopted the following amended standards during the year:

IAS 1 Presentation of Items of Other Comprehensive Income – (Amendment)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future date would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Bank's financial position or performance.

IFRS 10 - Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

IFRS 12 - Disclosure of Interests in Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, and associates. A number of new disclosures are required, but has no impact on the Bank's financial position or performance.

IFRS 13 - Fair Value Measurement
IFRS 13 provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard will not affect the situations in which the Bank will use fair value valuation. It will only provide guidance on methods of measuring fair value. This standard has no significant impact on the fair value valuation method used by the Bank.

The following standards and interpretations have been issued but are not yet mandatory, and have not been adopted by the Bank. These standards and interpretations are those that the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments are effective for annual periods beginning on or after January, 1 2014.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments are effective for annual periods beginning on or after January, 1 2014.

IFRIC Interpretation 21 Levies
These amendments are effective for annual periods beginning on or after January, 1 2014.

3.3 Summary of Significant Accounting Policies

Revenues and expenses recognition

Interest income is recognized as the interest accrues using the effective interest method except for interest and commission income on non-performing facilities.

Commission income is recognized when the services are rendered. Dividends income is recognized when the right to receive dividends is established.

Expenses are recognized when incurred based on the accrual basis of accounting.

Credit facilities

Credit facilities are carried at cost net of allowance for impairment losses and interest in suspense.

Allowance for impairment losses is made when collection of amounts due to the Bank is not possible and when there is objective evidence that one or more events occurred after the initial recognition of the facilities that has a negative impact on the estimated future cash flows of the facilities and can be reliably estimated. Impairment loss is recognized in the consolidated income statement.

Credit facilities and related impairment provision are written off when collection procedures become ineffective, according to PMA regulations. The excess in the provision for impairment losses, if any, is transferred to the consolidated income statement. Collections of previously written off credit facilities are recognized as revenues.

In accordance with PMA regulations, credit facilities that are in default for more than 6 years together with related interest in suspense and impairment provisions are excluded from the consolidated financial statements.

Financial assets investments

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place are recognised on the trade date, i.e., the date that the Bank commits to purchase or sell the asset.

Financial assets investments are initially measured at fair value plus cost of acquisition if they are not classified at fair value through profit or loss (FVTPL). Subsequent to initial recognition all financial assets are stated at amortized cost or fair value.

Financial assets at amortized cost
Debt instruments are measured at amortized cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either or both of the two conditions are not met the financial instrument is classified as at FVTPL. Even if the instrument meets the two conditions, the Bank has the option to classify the financial asset as at FVTPL if this designation reduces any inconsistency recognition.

Subsequent to initial recognition, debt instruments are measured at amortized cost using the effective interest method net of impairment losses, if any. The Bank determines whether there is any evidence that the financial assets are impaired. If this is the case, the Bank calculates the amount of impairment and recognizes the amount in the consolidated income statement. Interest revenue from the financial assets at amortized cost is recognized in the consolidated income statement.

Financial assets at fair value
They are equity instruments and financial derivatives that are recognized at FVTPL. The entity can irrevocably elect to designate equity instruments not held for trading through other comprehensive income.

If the Bank elects to designate equity instruments at fair value through other comprehensive income (FVOCI), the Bank recognizes change in fair value in a special account in equity. Where the asset is disposed of, the gain or loss is not reclassified to the income statement, but is reclassified directly to retained earnings.

Dividends on these investments in equity instruments are recognized in the consolidated income statement when the Bank's right to receive the dividends is established.

Impairment of financial assets at amortized cost
The Bank assesses, at the consolidated financial statements date, whether there is objective evidence that a financial asset at amortized cost, including account receivables is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the bank of financial assets that can be reliably estimated.

Derecognition of financial assets
The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for the amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset.

Fair value of financial instruments
For financial instruments where there is no active market, fair value is normally determined based on one of several methods, such as the estimated cash flows discounted at current rates applicable for items with similar terms and risk characteristics. The estimation methods aim to obtain a fair value that reflects the market anticipation taking into consideration the market factors and any expected risks or benefits. These estimates may have an impact on the fair value amounts disclosed on the consolidated financial statements.

Fair Value Measurement

The Bank measures financial instruments, such as, derivatives, and non-financial assets at fair value at each financial statements date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows:

- Level 1 — Quoted (unadjusted) market prices in active markets
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External appraisers are involved for valuation of significant assets. The Bank decides, after discussions with the external appraisers, which valuation techniques and inputs to use for each case.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Investment in associates

Investment in an associate is accounted for using the equity method. An associate is an entity over which the Bank has significant influence.

Under the equity method, the investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in Bank's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated income statement and the statement of other comprehensive income reflect the share of the results of the associates. Profits and losses resulting from transactions between the Bank and the associates are eliminated to the extent of the interest in the associates.

The financial statements of the associates are prepared for the same reporting period as the Bank. Where necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Property, plant, and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other costs are recognized in the consolidated income statement as incurred. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets (except for land) as follows:

	Useful life (Years)
Real estate properties	40
Furniture, equipment and leasehold improvements	6-25
Computers	6
Vehicles	6

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Intangible assets

The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Intangible assets acquired separately are measured on initial recognition at cost.

The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and recorded in the consolidated income statement in the same period. Intangible assets with indefinite useful lives are tested for impairment annually at the reporting date and the impairment is recorded in the consolidated income statement.

Intangible assets resulting from the Bank's operations are not capitalized and should be recognized in the consolidated income statement in the period the expenditure incurred.

Any indications of impairment of intangible assets are reviewed annually at the date of the consolidated financial statements. The useful live for those assets are reviewed, and any modifications are processed in the subsequent periods.

The Bank's intangible assets comprise of computer software and banking system. The Bank's management estimates the useful life of items of intangible asset. Intangible assets are amortized on the straight line method.

Assets obtained by the Bank by calling on collateral

Assets obtained by the Bank by calling on collateral are stated in the consolidated statement of financial position under "Other assets" at the lower of the carrying value or fair value of the assets. These assets are revaluated individually at the date of the consolidated financial statements at fair value. Any impairment loss is recorded in the consolidated income statement. However, any appreciation in the assets' value is not recorded as gain. Subsequently, the gain resulted from the appreciation of the assets value is recorded in the consolidated income statement to the limit of the impairment loss previously recorded.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and the Bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Provisions

Provisions are recognized when the Bank has obligation at the date of the consolidated financial statements arising from a past event and the costs to settle the obligation are both probable and can be reliably measured.

Tax provisions

The Bank provides for income tax in accordance with Palestinian Income Tax Law and IAS (12) which requires recognizing the temporary differences, at the consolidated statement of financial position date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, as deferred tax assets or liabilities.

Deferred tax is provided on temporary differences at the consolidated statement of financial position between the tax bases of assets and the liabilities and their carrying amounts for financial reporting purposes. The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Income tax expense represents the accrued income tax which is calculated based in the Bank's taxable income. Taxable income may differ from accounting income as the later includes non-taxable revenues or non-deductible expenses, such income/expense might be taxable/deductible in the following years.

Foreign currencies

Transactions dominated in foreign currencies occurring during the year, are recorded at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at reporting date.

Non-monetary items measured at fair value and denominated in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any foreign currency exchange gains or losses are recognized in the consolidated income statement.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances at Palestine Monetary Authority, balances with banks and financial institutions maturing within three months, less banks and financial institutions' deposits maturing within three months and restricted deposits.

4. Use of estimates

The preparation of consolidated financial statements and the application of accounting policies require management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These estimates and assumptions also affect the revenues and expenses and the resulting provisions as well as other comprehensive income items. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty. Therefore, actual results may differ resulting in future changes in such provisions.

Management believes that estimates used in the preparation of the consolidated financial statements are reasonable and are as follows:

- The Bank reviews the impairment allowance for credit facilities according to PMA's regulations and IAS (39).
- Management reviews, on a regular basis, the financial assets that are stated at cost to estimate impairments, if any. Impairment losses on property, plant and equipment is recognized in the consolidated income statement based on recent appraises from licensed appraisers. Such impairment is reviewed on a regular basis.
- Tax provisions are calculated annually based on prevailing tax laws in the territories in which the Bank operates and the accounting standards that the Bank follows.
- Management reviews the useful lives of tangible and intangible assets on regular basis in order to assess the depreciation and amortizations for the year based on the assets' condition, useful lives and future economic benefits. Impairment, if any, is recognized in the consolidated income statement.
- Lawsuits provision is established to provide for legal obligations, if any, based on the opinion of the Bank's lawyer.

5. Segment information

A business segment consists of assets and operations providing goods or services that are exposed to risks and returns different from those of other business segments.

A geographic segment relates to goods or services within an economic environment exposed to risks and returns different from those of other segments working in other economic environments.

6. Cash and balances with Palestine Monetary Authority

	2013	2012
	U.S. $	U.S. $
Cash in hand	33,078,529	34,570,609
Balances with PMA:		
Current and demand accounts	2,339,716	948,908
Statutory cash reserve	26,369,514	16,862,975
	61,787,759	52,382,492

- According to PMA circular number (67/2010), the Bank shall maintain statutory cash reserves with PMA at 9% of total customers' deposits. PMA does not pay interest on statutory cash reserves. According to PMA circular number (2/2012) the outstanding balance of credit facilities granted in Jerusalem for some sectors are deducted before the statutory reserve is calculated.
- PMA does not pay interest on current accounts.

7. Balances at banks and financial institutions

	2013	2012
	U.S. $	U.S. $
Local banks and financial institutions		
Current and demand accounts	864,498	1,336,880
Deposits maturing within 3 months	31,165,988	60,398,722
	32,030,486	61,735,602
Foreign banks and financial institutions		
Current and demand accounts	98,930,306	19,545,309
Deposits maturing within 3 months	48,459,492	34,045,840
	147,389,798	53,591,149
	179,420,284	115,326,751

– Non-interest bearing balances at banks and financial institutions amounted to U.S. $ 13,882,578 and U.S. $ 5,986,016 as at December 31, 2013 and 2012, respectively.

– Restricted balances at banks and financial institutions amounted to U.S. $ 11,902,901 and U.S. $ 16,183,166 as at December 31, 2013 and 2012, respectively.

8. Financial assets at fair value through profit or loss

	2013	2012
	U.S.$	U.S.$
Quoted shares at Palestine Exchange	3,441,992	2,989,301
	3,441,992	2,989,301

9. Direct credit facilities

	2013	2012
	U.S. $	U.S. $
Retail		
Overdrafts	14,647,967	11,267,331
Loans and discounted bills*	93,846,650	71,072,856
Corporate		
Overdrafts	22,032,481	7,424,886
Loans and discounted bills*	32,701,480	14,661,116
Medium and small enterprises		
Overdrafts	3,580,583	2,589,205
Loans and discounted bills*	9,572,025	9,530,818
Public sector	55,061,942	28,572,577
	231,443,128	145,118,789
Interest in suspense	(926,654)	(533,908)
Impairment allowance for direct credit facilities	(2,226,957)	(1,792,494)
	228,289,517	142,792,387

* Loans and discounted bills are presented net of their related interest and commission received in advance which amounted to of U.S. $ 985,158 and U.S. $ 913,615 as at December 31, 2013 and 2012 respectively.

- Non-performing and downgraded credit facilities net of interest in suspense, according to PMA regulations, amounted to U.S. $ 13,732,361 representing 5.96% of direct credit facilities net of interest in suspense as at December 31, 2013 compared to U.S. $ 15,390,825 representing 10.65% of direct credit facilities net of interest in suspense as at December 31, 2012.
- Defaulted credit facilities, according to PMA regulations, amounted to U.S. $ 3,735,621 and U.S. $ 2,892,832 representing 1.61% and 1.99% of gross direct credit facilities as at December 31, 2013 and 2012 respectively.
- Direct Credit facilities granted to the Palestinian National Authority and by its guarantee amounted to U.S. $ 55,061,942, representing 23.79% of total direct credit facilities as at December 31, 2013 compared to U.S. $ 28,572,577 representing 19.69% of total direct credit facilities as at December 31, 2012.
- Credit facilities granted to non-residents as at December 31, 2013 and 2012 amount to U.S. $ 2,102,631 and U.S. $ 2,661,766 respectively.
- Fair value of collaterals obtained in line of credit facilities, amounted to U.S. $ 98,075,651 and U.S. $ 71,541,555 as at December 31, 2013 and 2012, respectively.

Interest in suspense

Movement on the interest in suspense during the year was as follow:

2013	Retail U.S. $	Corporate U.S. $	Total U.S. $
Balance, beginning of the year	407,930	125,978	533,908
Interest in suspense during the year	364,604	59,170	423,774
Interest in suspense transferred to revenues	(57,305)	-	(57,305)
Currency exchange differences	26,277	-	26,277
Balance, end of the year	741,506	185,148	926,654

2012	Retail U.S. $	Corporate U.S. $	Total U.S. $
Balance, beginning of the year	269,022	125,978	395,000
Interest in suspense during the year	161,213	-	161,213
Interest in suspense transferred to revenues	(43,714)	-	(43,714)
Currency exchange differences	21,409	-	21,409
Balance, end of the year	407,930	125,978	533,908

Allowance for impairment losses on direct credit facilities

Movement on the allowance for impairment losses during the year was as follows:

2013	Retail U.S $	Corporate U.S. $	Total U.S. $
Balance, beginning of the year	1,584,229	208,265	1,792,494
Provision for the year	657,660	9,903	667,563
Recovery during the year	(322,349)	-	(322,349)
Currency exchange difference	89,249	-	89,249
Balance, end of the year	2,008,789	218,168	2,226,957

2012	Retail U.S $	Corporate U.S. $	Total U.S. $
Balance, beginning of the year	1,406,735	208,265	1,615,000
Provision for the year	467,677	-	467,677
Recovery during the year	(303,297)	-	(303,297)
Currency exchange difference	13,114	-	13,114
Balance, end of the year	1,584,229	208,265	1,792,494

Following is a distribution of credit facilities excluding interest in suspense by economic sector:

	2013 U.S. $	2012 U.S. $
Public sector	55,061,942	28,572,577
Real estate	12,856,287	12,685,718
Manufacturing and trade	79,568,649	53,904,301
Agriculture sector	935,758	1,127,829
Service sector	5,577,538	7,328,828
Consumer commodities	76,516,300	40,965,628
	230,516,474	144,584,881

10. Financial assets at fair value through other comprehensive income

	2013	2012
	U.S. $	U.S. $
Shares quoted in Palestine Exchange	1,113,499	1,438,802
Shares quoted in foreign financial markets	993,935	920,310
Unquoted investment portfolios	89,744	64,744
	2,197,178	2,423,856

Following is the movement on the fair value reserve during the year:

	2013	2012
	U.S. $	U.S. $
Balance, beginning of year	(2,264,174)	(251,045)
Unrealized gains (losses)	38,271	(192,344)
Effect of early adoption of IFRS 9	-	(1,832,987)
(Gain) loss from sale of financial assets at fair value through other comprehensive income	(44,966)	12,202
Balance, end of year	(2,270,869)	(2,264,174)

11. Financial assets at amortized cost

	2013	2012
	U.S. $	U.S. $
Bonds quoted in foreign financial markets	15,302,654	6,817,949
Local unquoted bonds	5,980,000	5,980,000
	21,282,654	12,797,949

Average interest rate on financial assets at amortized cost ranges between 4.36% to 8.88%, and their maturity dates range between 1 to 9 years.

12. Investment in an associate

	Ownership Percentage		Book Value	
	2013	2012	2013	2012
	%	%	U.S. $	U.S. $
Palestine Mortgage and Housing Corporation (PMHC)	20	20	4,345,290	4,305,290
			4,345,290	4,305,290

Palestine Mortgage and Housing Corporation (PMHC) was established in 1997, the objective of PMHC is to develop and improve the Mortgage financing sector in Palestine. PMHC operates through its fully owned subsidiaries that include: Palestine Housing Finance Corporation, which is mainly concerned with refinancing intermediate and long term mortgages that are financed by its partner banks; and Palestine Mortgage Insurance Fund, which provides mortgage insurance against the risk of default.

The following is summarized information related to the Bank's investments in its associate:

	2013	2012
	U.S.$	U.S.$
The financial position of associate:		
Non-current assets	32,891,467	30,015,812
Current assets	9,465,337	7,514,221
Non-current liabilities	(19,582,028)	(14,912,342)
Current liabilities	(1,210,907)	(1,144,848)
Shareholder equity	21,563,869	21,472,843
Bank's share	4,312,774	4,294,569
Book value before adjustment	4,312,774	4,294,569
Adjustments	32,516	10,721
Book value after adjustments	4,345,290	4,305,290
Revenues and business results:		
Revenues for the year	1,700,368	1,760,807
Results of operations	216,340	452,691
Bank's share	40,000	80,000

13. Property, plant, and equipment

	Real estate proprieties	Furniture and equipment	Computers	Vehicles	Leasehold improvements	Total
December 31, 2013	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:						
Balance, beginning of the year	4,871,157	2,112,741	1,500,967	96,343	2,177,856	10,759,064
Additions	-	420,577	595,927	-	764,889	1,781,393
Balance, end of year	4,871,157	2,533,318	2,096,894	96,343	2,942,745	12,540,457
Accumulated depreciation:						
Balance, beginning of the year	244,691	965,177	728,826	35,834	1,183,360	3,157,888
Depreciation charge	244,015	238,721	266,826	24,773	327,628	1,101,963
Balance, end of the year	488,706	1,203,898	995,652	60,607	1,510,988	4,259,851
Net book value						
At December 31, 2013	4,382,451	1,329,420	1,101,242	35,736	1,431,757	8,280,606

December 31, 2012	Real Estate proprieties U.S.$	Furniture and equipment U.S.$	Computers U.S.$	Vehicles U.S.$	Leasehold improvements U.S.$	Total U.S.$
Cost:						
Balance, beginning of the year	4,871,157	1,661,034	1,011,244	89,460	1,984,611	9,617,506
Additions	-	439,988	468,606	-	360,353	1,268,947
Assets acquired from merger	-	11,719	21,117	6,883	-	39,719
Disposals	-	-	-	-	(167,108)	(167,108)
Balance, end of year	4,871,157	2,112,741	1,500,967	96,343	2,177,856	10,759,064
Accumulated depreciation:						
Balance, beginning of the year	-	772,078	537,523	17,891	1,032,831	2,360,323
Depreciation charge	244,691	193,099	191,303	17,943	317,637	964,673
Disposals	-	-	-	-	(167,108)	(167,108)
Balance, end of the year	244,691	965,177	728,826	35,834	1,183,360	3,157,888
Net book value						
As at December 31, 2012	4,626,466	1,147,564	772,141	60,509	994,496	7,601,176

14. Intangible assets

Intangible assets comprise computer software and banking system. Following is the movement on this item for the year:

	2013 U.S. $	2012 U.S. $
Balance, beginning of the year	163,932	236,344
Additions	33,307	40,229
Amortization	(86,815)	(112,641)
Balance, end of the year	110,424	163,932

15. Other assets

	2013 U.S. $	2012 U.S. $
Checks under collection	16,651,401	6,147,391
Accrued Interest Income	1,883,561	1,451,980
Prepaid expenses	991,486	1,753,379
Assets obtained by the Bank by calling on collateral *	364,509	364,509
Tax advances	200,640	200,640
Stationery	28,764	62,774
Others	322,912	126,227
	20,443,273	10,106,900

* This item represents a land lot number (53/28046) in Bethlehem acquired by The Arab Palestinian Investment Bank in 2012 for a settlement of debts. According to PMA instructions, such acquired land are retained for a maximum period of five years. The Bank is currently involved in an eviction lawsuit against the previous owner of the land.

16. Banks' and financial institutions' deposits:

	2013	2012
	U.S. $	U.S. $
PMA deposits	-	12,064,343
	-	12,064,343
Local banks and financial institutions:		
Current and demand accounts	639,271	136,748
Deposits maturing within 3 months	46,239,790	35,333,020
	46,879,061	35,469,768
Foreign banks and financial institutions:		
Current and demand accounts	82,289,703	12,882,389
Deposits maturing within 3 months	2,000,000	3,002,709
	84,289,703	15,885,098
	131,168,764	63,419,209

17. Customers' deposits

	2013	2012
	U.S. $	U.S. $
Current and demand deposits	103,190,128	65,532,500
Saving deposits	22,382,158	18,648,270
Time deposits	124,001,903	96,864,941
Debit balances – temporarily credit	1,373,729	2,038,893
	250,947,918	183,084,604

- Public sector deposits as at December 31, 2013, and 2012 amounted to U.S. $ 4,909,399 and U.S. $ 430,581 representing 1.96% and 0.24% of total deposits, respectively.
- Non-interest bearing deposits amounted to U.S. $ 104,563,857 and U.S. $ 77,757,250 representing 41.67% and 42.47% of the total deposits as at December 31, 2013 and 2012, respectively.

18. Cash margins

The following is a summary of cash margins against:

	2013	2012
	U.S. $	U.S. $
Direct credit facilities	42,050,532	22,691,673
Indirect credit facilities	9,196,936	10,392,423
Others	433,076	10,514
	51,680,544	33,094,610

19. Loans and borrowings

	Balance in U.S. $	Installment due date	Collateral	Interest rate
2013				
PMA	30,613,518	Semi-annual	None	1.7%
Partners for Sustainable Development	148,161	Monthly	None	-
2012				
PMHC	9,865,706	Monthly	Real estate Mortgage	4.30%
Partners for Sustainable Development	860,521	Monthly	None	-

20. Provision for employees' indemnity

The movement on the provision for employees' indemnity during the year was as follows:

	2013	2012
	U.S. $	U.S. $
Balance, beginning of the year	882,945	579,574
Provided for during the year	267,868	294,378
Transferred from merger	-	36,801
Paid during the year	(19,498)	(27,808)
	1,131,315	882,945

21. Tax provisions

	2013	2012
	U.S. $	U.S. $
Balance, beginning of the year	966,605	69,601
Provided for during the year	1,520,000	999,000
Transferred from merger	-	127,227
Payments during the year	(942,967)	(229,223)
Balance, end of the year	1,543,638	966,605

As of the date of the consolidated financial statements, the Bank did not reach final settlements with VAT and Income Tax Departments for the Bank's results of operations for the year 2012.

Reconciliation between accounting income and taxable income is as follows:

	2013	2012
	U.S. $	U.S. $
Accounting profit	5,120,243	3,020,100
Non-taxable income	(666,737)	(311,843)
Value Added Tax (VAT) on salaries	572,400	410,829
Non-deductible expenses	248,370	425,570
Gross income subject to VAT	5,274,276	3,544,656
Less: VAT on profit for the year	(711,096)	(462,346)
VAT on salaries	(572,400)	(410,829)
Income subject to income tax	3,990,780	2,671,481
Income tax	796,355	536,654
Total taxes for the year	1,507,456	999,000
Provision for the year	1,520,000	999,000
Effective tax rate	29.69%	33.08%

22. Other liabilities

	2013	2012
	U.S. $	U.S. $
Certified checks and incoming transfers	3,479,019	3,810,430
Accrued interest expense	1,393,546	681,781
Accounts payable	1,075,483	1,491,772
Unearned interest income	985,158	913,615
Accrued taxes on salaries	247,631	202,616
Accrued expenses	57,449	54,662
Others	160,815	239,765
	7,399,101	7,394,641

23. Reserves

– Statutory reserve

As required by the Banking Law, 10% of net profit is transferred to the statutory reserve and shall continue until the total reserve balance equals the Bank's paid-in share capital. The reserve is not to be utilized without PMA's prior approval.

– General banking risks reserve

This item represents the amount of general banking risk reserve deducted in accordance with PMA's regulations (5/2008) based on 1.5% of direct credit facilities after deducting impairment allowance for credit facilities and interest in suspense and 0.5% of indirect credit facilities. According to PMA's regulations (1/2013), the percentage of general banking risks reserve on direct credit facilities has been amended to become 2% since December 1, 2013. No such amendment applies to indirect credit facilities. The reserve is not to be utilized or reduced without PMA's prior approval.

– **Pro-cyclicality reserve**

This reserve represents 15% of net profit in accordance with PMA's instruction (1/2011) to support Banks' capital against banking risks. The reserve is not to be utilized or reduced without PMA's prior approval. The appropriation shall continue until total reserve balance equals 20% of paid in share capital.

24. Interest income

This item represents interest income on the following accounts:

	2013	2012
	U.S. $	U.S. $
Retail		
Overdraft accounts	964,769	606,331
Loans and discounted bills	2,706,143	4,671,002
	3,670,912	5,277,333
Corporate		
Overdraft accounts	1,244,960	730,952
Loans and discounted bills	5,064,816	1,089,328
	6,309,776	1,820,280
Government and public sector	3,434,419	1,978,718
	13,415,107	9,076,331
Balances at banks and financial institutions	1,606,428	1,408,145
Bonds	935,773	428,486
	15,957,308	10,912,962

25. Interest expense

This item comprise of the following accounts:

	2013	2012
	U.S. $	U.S. $
Interest on customers' deposits:		
Current and demand accounts	132,395	83,704
Savings accounts	45,834	14,881
Time deposits	3,568,616	2,032,995
Cash margins	529,913	55,287
Other interest (Loan guarantee Institutions)	11,637	239,483
Interest on banks' and financial institutions' deposits	1,376,126	1,070,683
	5,664,521	3,497,033

26. Net commissions income

	2013	2012
	U.S. $	U.S. $
Commissions income		
Direct credit facilities	1,581,257	1,079,186
Indirect credit facilities	707,459	483,686
Other banking services	1,035,254	825,716
	3,323,970	2,388,588
Commission expense	(462,612)	(312,718)
	2,861,358	2,075,870

27. Financial assets gains

	2013	2012
	U.S. $	U.S. $
Unrealized gain (loss) from revaluation of financial assets through profit or loss	354,683	(158,999)
Gain (loss) from sale of financial assets at fair value through profit or loss	91,900	(15,581)
Gain (loss) from sale of financial assets at amortized cost	49,766	9,517
Dividends income	301,913	289,803
	798,262	124,740

28. Personnel expenses

	2013	2012
	U.S. $	U.S. $
Salaries and benefits	3,728,300	2,883,931
VAT on salaries	572,400	410,829
Provision for employees' indemnity	267,868	294,378
Bank's contribution to the provident fund	277,484	202,842
Health insurance	143,220	111,294
Training expense	46,751	49,673
Travel and transportation	59,080	19,550
Bank's contribution to the social committee	55,046	45,084
	5,150,149	4,017,581

29. Other operating expenses

	2013	2012
	U.S. $	U.S. $
Rent	353,160	197,014
Utilities	207,316	181,029
Telephone and postage	135,607	103,728
Professional fees	104,935	83,262
Fees, licenses and subscriptions	713,714	592,824
Maintenance and repairs	226,501	234,648
Advertisements and marketing	654,021	244,339
Stationary and printings	281,142	181,854
Insurance	209,811	121,312
Hospitality	35,805	22,915
Cash shipment	50,450	24,571
Donations	45,405	40,994
General assembly meetings' expenses	12,475	14,960
Property tax	23,977	36,348
Board of directors' expenses	113,000	82,000
Transportation and vehicle expenses	70,038	37,439
Mortgage insurance fees	56,927	75,157
Others	34,011	30,445
	3,328,295	2,304,839

30. Basic and diluted earnings per share

	2013	2012
	U.S. $	
Profit for the year	3,600,243	2,021,100
	Shares	
Weighted average number of subscribed shares	49,881,953	49,881,953
	U.S. $	
Basic and diluted earnings per share	0.072	0.041

31. Cash and cash equivalents

	2013	2012
	U.S. $	U.S. $
Cash and balances with PMA	61,787,759	52,382,492
Add: Balances at banks and financial institutions maturing within 3 months	179,420,284	115,326,751
Less: Banks' and financial institutions' deposits maturing within 3 months	(131,168,764)	(63,419,209)
Restricted balances at banks and financial institutions	(11,902,901)	(16,183,166)
Statutory cash reserve	(26,369,514)	(16,862,975)
	71,766,864	71,243,893

32. Related party transactions

Related parties represent major shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties during the year represented by deposits, credit facilities and cash margins are as follows:

	Nature of relationship	2013 U.S. $	2012 U.S. $
Statement of financial position items:			
Direct credit facilities	Executive Management and Board of Directors	8,781,791	8,936,347
Deposits	Executive Management and Board of Directors	55,666,430	50,564,290
Cash margins	Executive Management and Board of Directors	1,890,256	1,291,301
Income statement items:			
Interest and commission income	Executive Management and Board of Directors	562,907	733,330
Interest and commission expense	Executive Management and Board of Directors	955,374	588,630
Commitments and contingencies:			
Letters of credit and guarantees	Executive Management and Board of Directors	6,605,982	6,280,117
Unutilized credit limits	Executive Management and Board of Directors	2,724,739	2,831,487

- Direct credit facilities granted to related parties as at December 31, 2013 and 2012 accounted for 3.85% and 6.26%, respectively, of the net direct credit facilities. Credit facilities granted to related parties are for members of Board of Directors and executive management or in their capacity as guarantors.
- Direct credit facilities granted to related parties as at December 31, 2013 and 2012 represent 20.62% and 21.70%, respectively, of the Bank's regulatory capital.
- Interest on U.S. $ credit facilities ranges between 3.8% and 7.5%.

Following is a compensation of key management personnel:

	2013 U.S. $	2012 U.S. $
Executive management salaries and related benefits	975,720	795,844
Executive management indemnity	91,106	56,553
Board of Directors' expenses	113,000	82,000

33. Fair value measurement

The following table provides the fair value measurement hierarchy of the Bank's assets as of December 31, 2013 and 2012 respectively:

			Measurement of fair value by		
	Date of measurement	Total	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
		U.S. $	U.S. $	U.S. $	U.S. $
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 8):					
Quoted- Palestine Exchange	December 31, 2013	3,441,992	3,441,992	-	-
Financial assets at fair value through other comprehensive income (note 10):					
Quoted - Palestine Exchange	December 31, 2013	1,113,499	1,113,499	-	-
Quoted - foreign markets	December 31, 2013	993,935	993,935	-	-
Unquoted - foreign markets	December 31, 2013	89,744	-		89,744
Financial assets for which values disclosed					
Financial assets at amortized cost	December 31, 2013	20,798,145	14,818,145	-	5,980,000

			Measurement of fair value by		
	Date of measurement	Total	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
		U.S. $	U.S. $	U.S. $	U.S. $
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 8):					
Quoted- Palestine Exchange	December 31, 2012	2,989,301	2,989,301	-	-
Financial assets at fair value through other comprehensive income (note 10):					
Quoted - Palestine Exchange	December 31, 2012	1,438,802	1,438,802	-	-
Quoted - foreign markets	December 31, 2012	920,310	920,310	-	-
Unquoted - foreign markets	December 31, 2012	64,744	-		64,744
Financial assets for which values disclosed					
Financial assets at amortized cost	December 31, 2012	12,855,639	6,875,639	-	5,980,000

Fair value of financial instruments

The table below represents a comparison by class of the carrying amounts and fair values of financial instruments carried in the consolidated financial statements as at December 31, 2013 and 2012:

	Carrying amount		Fair value	
	2013	2012	2013	2012
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Cash and balances with PMA	61,787,759	52,382,492	61,787,759	52,382,492
Balances at banks and financial institutions	179,420,284	115,326,751	179,420,284	115,326,751
Financial assets at fair value through profit or loss	3,441,992	2,989,301	3,441,992	2,989,301
Direct credit facilities	228,289,517	142,792,387	228,289,517	142,792,387
Financial assets at fair value through other comprehensive income	2,197,178	2,423,856	2,197,178	2,423,856
Financial assets at amortized cost:				
Quoted bonds traded in foreign financial markets	15,302,654	6,817,949	14,818,145	6,875,639
Local unquoted bonds	5,980,000	5,980,000	5,980,000	5,980,000
Other financial assets	18,857,874	7,725,598	18,857,874	7,725,598
Total assets	515,277,258	336,438,334	514,792,749	336,496,024
Financial liabilities				
Banks' and financial institutions' deposits	131,168,764	63,419,209	131,168,764	63,419,209
Customers' deposits	250,947,918	183,084,604	250,947,918	183,084,604
Cash margins	51,680,544	33,094,610	51,680,544	33,094,610
Loans and borrowings	30,761,679	10,726,227	30,761,679	10,726,227
Other financial liabilities	6,413,943	6,331,154	6,413,943	6,331,154
Total liabilities	470,972,848	296,655,804	470,972,848	296,655,804

- The fair value of the financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.
- Fair values of balances with PMA, balances at banks and financial institutions, other financial assets, banks' and financial institutions' deposits, customers' deposits, cash margins, and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of financial assets at fair value through profit or loss that are actively traded in active financial markets is determined by reference to quoted prices at the date of the consolidated financial statements.
- Loans and borrowings and financial assets at amortized cost were measured using the expected discounted future cash flows using prevailing market interest rates.

34. Concentration of assets and liabilities

	2013					
	Palestine	Jordan	Europe	USA	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances with PMA	61,787,759	-	-	-	-	61,787,759
Balances at banks and financial institutions	32,030,486	44,885,770	97,995,686	4,508,342	-	179,420,284
Financial asset at fair value through profit or loss	3,441,992	-	-	-	-	3,441,992
Direct credit facilities	226,186,886	2,102,631	-	-	-	228,289,517
Financial assets at fair value through other comprehensive income	1,113,499	993,935	89,744	-	-	2,197,178
Financial assets at amortized cost	5,980,000	4,334,296	4,068,900	1,192,906	5,706,552	21,282,654
Investment in an associate	4,345,290	-	-	-	-	4,345,290
Property, plant and equipment	8,280,606	-	-	-	-	8,280,606
Intangible assets	110,424	-	-	-	-	110,424
Other assets	20,012,705	242,018	74,592	20,035	93,923	20,443,273
Total Assets	363,289,647	52,558,650	102,228,922	5,721,283	5,800,475	529,598,977
Banks' and financial institutions' deposits	46,879,061	2,000,389	75,086,499	7,202,815	-	131,168,764
Customers' deposits	250,947,918	-	-	-	-	250,947,918
Cash margins	51,680,544	-	-	-	-	51,680,544
Loans and borrowings	30,761,679	-	-	-	-	30,761,679
Provisions for employees' indemnity	1,131,315	-	-	-	-	1,131,315
Tax provisions	1,543,638	-	-	-	-	1,543,638
Other liabilities	7,399,101	-	-	-	-	7,399,101
Total Liabilities	390,343,256	2,000,389	75,086,499	7,202,815	-	474,632,959
Paid-in share capital	49,881,953	-	-	-	-	49,881,953
Statutory reserve	967,960	-	-	-	-	967,960
General banking risks reserve	4,948,947	-	-	-	-	4,948,947
Pro-cyclicality reserve	960,104	-	-	-	-	960,104
Fair value reserve	(2,270,869)	-	-	-	-	(2,270,869)
Retained earnings	477,923	-	-	-	-	477,923
Net Equity	54,966,018	-	-	-	-	54,966,018
Total liabilities and equity	445,309,274	2,000,389	75,086,499	7,202,815	-	529,598,977
Commitments and contingencies:						
Letters of guarantees	33,637,745	-	-	-	-	33,637,745
Letters of credit	6,366,778	-	-	-	-	6,366,778
Acceptances	5,705,913	-	-	-	-	5,705,913
Unutilized credit limits	30,920,893	-	-	-	-	30,920,893
	76,631,329	-	-	-	-	76,631,329

	2012					
	Domestic	Jordan	Europe	USA	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances with PMA	52,382,492	-	-	-	-	52,382,492
Balances at banks and financial institutions	61,735,602	22,107,231	28,713,352	2,770,566	-	115,326,751
Financial asset at fair value through profit or loss	2,989,301	-	-	-	-	2,989,301
Direct credit facilities	140,130,621	2,661,766	-	-	-	142,792,387
Financial assets at fair value through other comprehensive income	1,438,802	920,310	64,744	-	-	2,423,856
Financial assets at amortized cost	5,980,000	4,400,606	1,726,373	469,653	221,317	12,797,949
Investment in an associate	4,305,290	-	-	-	-	4,305,290
Property and equipment	7,601,176	-	-	-	-	7,601,176
Intangible assets	163,932	-	-	-	-	163,932
Other assets	9,896,713	160,594	33,130	10,730	5,733	10,106,900
Total Assets	286,623,929	30,250,507	30,537,599	3,250,949	227,050	350,890,034
Banks' and financial institutions' deposits	9,828,055	22,107,237	28,713,352	2,770,565	-	63,419,209
Customers' deposits	183,084,604	-	-	-	-	183,084,604
Cash margins	33,094,610	-	-	-	-	33,094,610
Loans and borrowings	10,726,227	-	-	-	-	10,726,227
Provisions for end of service	882,945	-	-	-	-	882,945
Tax provisions	966,605	-	-	-	-	966,605
Other liabilities	7,394,641	-	-	-	-	7,394,641
Total Liabilities	245,977,687	22,107,237	28,713,352	2,770,565	-	299,568,841
Paid in share capital	49,875,642	-	-	-	-	49,875,642
Statutory reserve	607,936	-	-	-	-	607,936
General banking risks reserve	2,426,483	-	-	-	-	2,426,483
Pro-cyclicality reserve	420,067	-	-	-	-	420,067
Fair value reserve	(2,264,174)	-	-	-	-	(2,264,174)
Retained earnings	255,239	-	-	-	-	255,239
Net Equity	51,321,193	-	-	-	-	51,321,193
Total liabilities and equity	297,298,880	22,107,237	28,713,352	2,770,565	-	350,890,034
Commitments and contingencies:						
Letters of guarantees	24,532,421	-	-	-	-	24,532,421
Letters of credit	8,802,838	-	-	-	-	8,802,838
Acceptances	648,406	-	-	-	-	648,406
Unutilized credit limits	22,933,432	2,409	-	-	-	22,935,841
	56,917,097	2,409	-	-	-	56,919,506

35. Risk management

The Bank's risk management committee (the committee), which comprise of member of the Board of Directors together with executive management of the Bank, supervises the general framework of risk management. The Committee monitors and evaluates credit risks, operating and market risks and any other future risks. The Bank is developing its risk management function through programs, control and monitoring.

The following is a summary of risks associated with the Bank's operations:

I. Credit risks

Credit risks are those risks resulting from the default of counterparties to the financial instrument to repay their commitment to the Bank. The Bank, through credit risk management, sets ceilings for direct credit facilities (retail or corporate) and total loans granted to each sector and each geographical area. The Bank also monitors credit risks, continuously evaluates the credit standing of customers, and obtains appropriate collaterals from customers.

1. Exposures to Credit Risks

	2013	2012
	U.S. $	U.S. $
Consolidated statement of financial position items		
Balances with PMA	28,709,230	17,811,883
Balances at banks and financial institutions	179,420,284	115,326,751
Direct credit facilities	228,289,517	142,792,387
Financial assets at amortized cost	21,282,654	12,797,949
Other assets	18,583,424	7,725,598
	476,285,109	296,454,568
Commitments and contingencies		
Letters of guarantees	33,637,745	24,532,421
Letters of credit	6,366,778	8,802,838
Acceptances	5,705,913	648,406
Unutilized credit limits	30,920,893	22,935,841
	76,631,329	56,919,506
	552,916,438	353,374,074

2. Credit Risk Exposure for each risk rating

Credit risk exposure for each risk rating is distributed as follows:

December 31, 2013	Retail	Mortgages	Corporate	Government and public sector	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Low risk	11,685,854	11,686,166	4,056,432	46,272,282	73,700,734
Acceptable risk	68,202,099	5,008,357	61,083,263	8,789,660	143,083,379
Watch list	9,781,817	-	1,141,577	-	10,923,394
Non-performing:					
Substandard	120,653	-	1,605,297	-	1,725,950
Doubtful	569,385	-	-	-	569,385
Loss	1,440,286	-	-	-	1,440,286
Total	91,800,094	16,694,523	67,886,569	55,061,942	231,443,128
Interest in suspense	(741,506)	-	(185,148)	-	(926,654)
Impairment allowance for credit facilities	(2,008,789)	-	(218,168)	-	(2,226,957)
	89,049,799	16,694,523	67,483,253	55,061,942	228,289,517

December 31, 2012	Retail	Mortgages	Corporate	Government and public sector	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Low risk	6,119,875	7,538,549	5,114,348	18,144,684	36,917,456
Acceptable risk	52,323,980	3,230,806	26,293,921	10,427,893	92,276,600
Watch list	12,757,198	-	274,703	-	13,031,901
Non-performing:					
Substandard	109,232	-	1,545,319	-	1,654,551
Doubtful	125,879	-	-	-	125,879
Loss	1,068,577	-	43,825	-	1,112,402
Total	72,504,741	10,769,355	33,272,116	28,572,577	145,118,789
Interest in suspense	(407,930)	-	(125,978)	-	(533,908)
Impairment allowance for credit facilities	(1,584,229)	-	(208,265)	-	(1,792,494)
	70,512,582	10,769,355	32,937,873	28,572,577	142,792,387

3. Distribution of collaterals' fair value against credit facilities is as follows:

December 31, 2013	Retail	Corporate	Government and public Sector	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Collaterals against:				
Low risk	11,685,854	4,056,432	-	15,742,286
Acceptable risk	53,017,965	27,830,545	-	80,848,510
Non-performing:				
Substandard	617,844	-	-	617,844
Doubtful	428,625	38,004	-	466,629
Loss	245,345	155,037	-	400,382
Total	65,995,633	32,080,018	-	98,075,651
Comprising:				
Cash margins	9,585,951	4,056,432	-	13,642,383
Real estate	33,629,063	16,984,053	-	50,613,116
Quoted stocks	1,453,284	4,742,566	-	6,195,850
Vehicles and equipment	19,227,432	6,296,967	-	25,524,399
Precious metals	2,099,903	-	-	2,099,903
	65,995,633	32,080,018	-	98,075,651

December 31, 2012	Retail	Corporate	Government and public Sector	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Collaterals against:				
Low risk	8,235,610	2,998,613	-	11,234,223
Acceptable risk	41,688,881	17,972,230	-	59,661,111
Non-performing:				
Sub-standard	109,232	-	-	109,232
Doubtful	125,879	-	-	125,879
Loss	303,404	107,706	-	411,110
Total	50,463,006	21,078,549	-	71,541,555
Comprising:				
Cash margins	5,906,977	2,998,613	-	8,905,590
Real estate	22,535,346	9,018,769	-	31,554,115
Quoted stocks	2,393,995	3,926,900	-	6,320,895
Vehicles and equipment	17,298,055	5,134,267	-	22,432,322
Precious metals	2,328,633	-	-	2,328,633
	50,463,006	21,078,549	-	71,541,555

4. Concentration in risk exposures according to the geographical area is as follows:

	Palestine	Arab countries	Europe	USA	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balances with PMA	28,709,230	-	-	-	-	28,709,230
Balances at banks and financial institutions	32,030,486	44,885,770	97,995,686	4,508,342	-	179,420,284
Direct credit facilities	226,186,886	2,102,631	-	-	-	228,289,517
Financial assets at amortized cost	5,980,000	4,334,296	4,068,900	1,192,906	5,706,552	21,282,654
Other assets	18,152,856	242,018	74,592	20,035	93,923	18,583,424
Total as at December 31, 2013	311,059,458	51,564,715	102,139,178	5,721,283	5,800,475	476,285,109
Total as at December 31, 2012	233,173,517	29,330,197	30,472,855	3,250,949	227,050	296,454,568
Commitments and contingencies:						
Letters of guarantees	33,637,745	-	-	-	-	33,637,745
Letters of credit	6,366,778	-	-	-	-	6,366,778
Acceptances	5,705,913	-	-	-	-	5,705,913
Unutilized credit limits	30,920,893	-	-		-	30,920,893
Balance as December 31, 2013	76,631,329	-	-	-	-	76,631,329
Balance as December 31, 2012	56,917,097	2,409	-	-	-	56,919,506

5. Concentration in risk exposures according to economic sector is as follows:

	Public	Financial	Commerce	Real estate	Agriculture	Retail	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balances with PMA	–	28,709,230	–	–	–	–	28,709,230
Balances at banks and financial institutions	–	179,420,284	–	–	–	–	179,420,284
Direct credit facilities	55,061,942	–	79,568,649	12,865,287	935,758	79,857,881	228,289,517
Financial assets at amortized cost	–	21,282,654	–	–	–	–	21,282,654
Other assets	–	18,583,424	–	–	–	–	18,583,424
Total as at December 31, 2013	55,061,942	247,995,592	79,568,649	12,865,287	935,758	79,857,881	476,285,109
Total as at December 31, 2012	28,572,577	151,335,779	53,904,301	12,162,225	1,127,829	49,351,857	296,454,568

II. Market risk

Market risk arises from changes in interest rates, exchange rates of foreign currencies and stock prices. The Bank's board of directors sets the limits for acceptable risks. This is periodically monitored by the Bank's management.

1. Interest rate risk

Interest rate risk arises from the effects of changes in interest rates on the value of financial instruments. The Bank's is exposed to interest rate risk as a result of mismatch or the existence of a gap between assets and liabilities according to their maturities, or re-pricing interest rates in certain periods. The Bank manages those risks by reviewing the interest rate on assets and liabilities in through its strategy on risk management.

Interest rates on assets and liabilities are reviewed periodically. The Bank regularly follows up the actual cost of funds and takes appropriate decisions regarding pricing, based on the prevailing prices.

The effect of decreases in interest rate is expected to be equal and opposite to the effect of the increase shown below:

	2013		2012	
	Increase in interest rate	Interest income sensitivity (profit and loss)	Increase in interest rate	Interest income sensitivity (profit and loss)
Currency	Basis points	U.S. $	Basis points	U.S. $
U.S. $	+10	63,313	+10	75,067
ILS	+10	6,376	+10	(5,284)
JOD	+10	1,665	+10	(4,414)
Other currencies	+10	6,368	+10	(133)

December 31, 2013	Interest rate re-pricing sensitivity gap							
	Less than 3 months	From 1 months to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	More than 3 years	Non-interest bearing	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Assets								
Cash and balances with PMA	-	-	-	-	-	-	61,787,759	61,787,759
Balances with banks and financial institutions	150,724,368	14,813,338	-	-	-	-	13,882,578	179,420,284
Financial assets at fair value through profit and loss	-	-	-	-	-	-	3,441,992	3,441,992
Direct credit facilities	15,706,653	17,882,915	67,811,915	38,916,337	43,259,505	44,712,192	-	228,289,517
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	2,197,178	2,197,178
Financial assets at amortized cost	-	-	-	8,518,787	1,201,260	11,562,607	-	21,282,654
Investment in an associate	-	-	-	-	-	-	4,345,290	4,345,290
Property, plant and equipment	-	-	-	-	-	-	8,280,606	8,280,606
Intangible assets	-	-	-	-	-	-	110,424	110,424
Other assets	-	-	-	-	-	-	20,443,273	20,443,273
Total assets	166,431,021	32,696,253	67,811,915	47,435,124	44,460,765	56,274,799	114,489,100	529,598,977
Liabilities								
Banks' and financial institutions' deposits	130,529,493	-	-	-	-	-	639,271	131,168,764
Customers' deposits	63,752,177	46,545,801	17,630,538	18,455,545	-	-	104,563,857	250,947,918
Cash margins	-	-	-	8,489,607	18,134,491	5,463,095	19,593,351	51,680,544
Loans and borrowings	-	6,000,000	-	4,000,000	20,613,518	-	148,161	30,761,679
Provision for employees' indemnity	-	-	-	-	-	-	1,131,315	1,131,315
Tax provisions	-	-	-	-	-	-	1,543,638	1,543,638
Other liabilities	-	-	-	-	-	-	7,399,101	7,399,101
Total liabilities	194,281,670	52,545,801	17,630,538	30,945,152	38,748,009	5,463,095	135,018,694	474,632,959
Equity								
Paid-in share capital	-	-	-	-	-	-	49,881,953	49,881,953
Statutory reserve	-	-	-	-	-	-	967,960	967,960
General banking risks reserve	-	-	-	-	-	-	4,948,947	4,948,947
Pro-cyclicality reserve	-	-	-	-	-	-	960,104	960,104
Fair value reserve	-	-	-	-	-	-	(2,270,869)	(2,270,869)
Retained earnings	-	-	-	-	-	-	477,923	477,923
Total Equity	-	-	-	-	-	-	54,966,018	54,966,018
Total liabilities and equity	194,281,670	52,545,801	17,630,538	30,945,152	38,748,009	5,463,095	189,984,712	529,598,977
Interest rate re-pricing sensitivity gap	(27,850,649)	(19,849,548)	50,181,377	16,489,972	5,712,756	50,811,704	(75,495,612)	-
Cumulative Maturity Gap	(27,850,649)	(47,700,197)	2,481,180	18,971,152	24,683,908	75,495,612	-	-

December 31, 2012	Interest rate re-pricing sensitivity gap						
	Less than 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	More than 3 years	Non-interest bearing	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Assets							
Cash and balances with PMA	-	-	-	-	-	52,382,492	52,382,492
Balances with banks and financial institutions	93,157,570	16,183,165	-	-	-	5,986,016	115,326,751
Financial assets at fair value through profit and loss	-	-	-	-	-	2,989,301	2,989,301
Direct credit facilities	32,685,927	10,298,814	31,130,401	20,184,502	48,492,743	-	142,792,387
Financial assets at fair value through other comprehensive income	-	-	-	-	-	2,423,856	2,423,856
Financial assets at amortized cost	-	-	-	1,650,211	11,147,738	-	12,797,949
Investment in an associate	-	-	-	-	-	4,305,290	4,305,290
Property, plant and equipment	-	-	-	-	-	7,601,176	7,601,176
Intangible assets	-	-	-	-	-	163,932	163,932
Other assets	-	-	-	-	-	10,106,900	10,106,900
Total assets	125,843,497	26,481,979	31,130,401	21,834,713	59,640,481	85,958,963	350,890,034
Liabilities							
Banks' and financial institutions' deposits	63,282,461	-	-	-	-	136,748	63,419,209
Customers' deposits	34,071,757	33,261,020	24,360,431	12,833,473	800,673	77,757,250	183,084,604
Cash margins	-	-	-	4,485,870	4,878,688	23,730,052	33,094,610
Loans and borrowings	-	-	-	-	9,865,706	860,521	10,726,227
Provision for employees' indemnity	-	-	-	-	-	882,945	882,945
Tax provisions	-	-	-	-	-	966,605	966,605
Other liabilities	-	-	-	-	-	7,394,641	7,394,641
Total liabilities	97,354,218	33,261,020	24,360,431	17,319,343	15,545,067	111,728,762	299,568,841
Equity							
Paid-in share capital	-	-	-	-	-	49,875,642	49,875,642
Statutory reserve	-	-	-	-	-	607,936	607,936
General banking risks reserve	-	-	-	-	-	2,426,483	2,426,483
Pro-cyclicality reserve	-	-	-	-	-	420,067	420,067
Fair value reserve	-	-	-	-	-	(2,264,174)	(2,264,174)
Retained earnings	-	-	-	-	-	255,239	255,239
Total Equity	-	-	-	-	-	51,321,193	51,321,193
Total liabilities and equity	97,354,218	33,261,020	24,360,431	17,319,343	15,545,067	163,049,955	350,890,034
Interest rate re-pricing sensitivity gap	28,489,279	(6,779,041)	6,769,970	4,515,370	44,095,414	(77,090,992)	-
Cumulative Maturity Gap	28,489,279	21,710,238	28,480,208	32,995,578	77,090,992	-	-

2. Equity Price risk

Equity price risk results from changes in fair value of equity instruments. The effect of the expected decrease in equity instrument prices is equal and opposite to the effect of the increase stated below:

	2013			2012		
	Increase in indicator	Effect on consolidated income statement	Effect on equity	Increase in indicator	Effect on consolidated income statement	Effect on equity
Market	%	U.S. $	U.S. $	%	U.S. $	U.S. $
Palestine Exchange	+10	344,199	111,350	+10	298,930	143,880
Foreign financial markets	+10	–	99,394	+10	–	92,031
Investment portfolios	+10	–	8,974	+10	–	6,474

3. Foreign currency risk

These are the risks of the change in value of financial instruments resulting from the change in foreign exchange rates. The U.S. $ is the functional currency of the Bank. The board of directors sets the limit of the financial position for each currency, and such position is monitored on a daily basis to ensure maintaining the foreign currency position within the established limits.

The Jordanian Dinar (JOD) exchange rate is pegged to US Dollar exchange rate, so foreign currency risk of (JOD) is not material on the Bank's financial statements.

The effect of decrease in currency rate (%) is expected to be equal and opposite to the effect of the increase shown below:

	2013		2012	
	Increase in currency rate	Effect on consolidated income statement	Increase in currency rate	Effect on consolidated income statement
Currency	%	U.S.$	%	U.S.$
ILS	+10	1,061,102	+10	(274,855)
Other currencies	+10	255	+10	2,676

Following is the foreign currencies position of the Bank:

December 31, 2013	JOD U.S. $	ILS U.S. $	Other currencies U.S. $	Total U.S. $
Assets				
Cash and balances at PMA	6,096,714	30,438,793	2,515,702	39,051,209
Balances at banks and financial institutions	44,339,673	20,618,167	10,937,979	75,895,819
Financial assets at fair value through profit and loss	3,239,492	-	-	3,239,492
Direct credit facilities	7,500,915	90,020,737	41,466,822	138,988,474
Financial assets at amortized cost	2,538,787	-	-	2,538,787
Other assets	343,573	704,039	233,216	1,280,828
Total assets	64,059,154	141,781,736	55,153,719	260,994,609
Liabilities				
Banks' and financial institutions' deposits	24,427,705	49,199,157	42,305,887	115,932,749
Customers' deposits	38,931,777	74,602,185	5,931,536	119,465,498
Cash margins	3,593,483	6,225,089	6,869,728	16,688,300
Other Liabilities	198,168	1,144,286	44,020	1,386,474
Total liabilities	67,151,133	131,170,717	55,151,171	253,473,021
Statement of financial position concentration	(3,091,979)	10,611,019	2,548	7,521,588
Commitments and contingencies	1,212,337	5,318,316	39,179,784	45,710,437

December 31, 2012	JOD U.S. $	ILS U.S. $	Other currencies U.S. $	Total U.S. $
Total assets	36,475,010	102,217,984	11,917,432	150,610,426
Total liabilities	39,822,226	104,966,537	11,890,671	156,679,434
Statement of financial position concentration	(3,347,216)	(2,748,553)	26,761	(6,069,008)
Commitments and contingencies	875,530	8,597,214	24,510,921	33,983,665

III. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity and maintains sufficient amount of cash and cash equivalents and liquid financial assets.

Liquidity management policy at the Bank aims to maximize sources of liquidity at the lowest possible cost. Liquidity management aims to maintain stable sources of funding that is considered reliable with an appropriate cost.

Liquidity is measured, controlled and managed on the basis of normal and emergency conditions. This includes the use of analysis of the maturities of the assets and liabilities and various financial ratios.

The table below summarizes the allocation of liabilities (undiscounted) on the basis of the remaining contractual liability as at the financial statements date:

December 31, 2013	Less than 1 month U.S. $	From 1 to 3 months U.S. $	From 3 to 6 months U.S. $	From 6 months up to 1 year U.S. $	From 1 to 3 years U.S. $	More than 3 years U.S. $	Without maturity U.S. $	Total U.S. $
Liabilities:								
Banks' and financial institutions' deposits	131,225,446	-	-	-	-	-	-	131,225,446
Customers' deposits	168,404,756	46,632,169	17,679,610	18,763,753	-	-	-	251,480,288
Cash margins	-	19,593,351	-	8,513,236	18,437,337	5,736,796	-	52,280,720
Loans and borrowings	-	6,011,134	-	4,006,680	21,646,255	148,161	-	31,812,230
Provisions for employees indemnity	-	-	-	-	-	1,131,315	-	1,131,315
Tax provisions	1,543,638	-	-	-	-	-	-	1,543,638
Other liabilities	3,479,019	2,687,293	1,232,789	-	-	-	-	7,399,101
Total liabilities	304,652,859	74,923,947	18,912,399	31,283,669	40,083,592	7,016,272	-	476,872,738
Total assets	242,463,816	36,547,726	68,379,629	41,069,522	58,237,544	45,555,521	38,818,763	531,072,521

December 31, 2012	Less than 1 month U.S. $	From 1 to 3 months U.S. $	From 3 to 6 months U.S. $	From 6 months up to 1 year U.S. $	From 1 to 3 years U.S. $	More than 3 years U.S. $	Without maturity U.S. $	Total U.S. $
Liabilities:								
Banks and financial institutions' deposits	63,474,476	-	-	-	-	-	-	63,474,476
Customers' deposits	132,267,850	22,933,385	24,438,257	3,650,961	-	-	-	183,290,453
Cash margins	-	10,412,812	-	18,821,190	3,936,827	-	-	33,170,829
Loans and borrowings	-	-	-	-	9,971,368	860,521	-	10,831,889
Provisions for employees indemnity	-	-	-	-	-	882,945	-	882,945
Tax provisions	966,605	-	-	-	-	-	-	966,605
Other liabilities	3,810,430	2,467,980	1,116,231	-	-	-	-	7,394,641
Total liabilities	200,519,361	35,814,177	25,554,488	22,472,151	13,908,195	1,743,466	-	300,011,838
Total assets	184,563,464	26,651,308	31,401,235	29,039,106	27,318,405	37,660,577	27,590,455	364,224,550

36. Segment Information

a. Information on the Bank's activities

For management purposes, the Bank's is organized into three major business segments:

Retail banking: Includes handling individual customers' deposits, and providing consumer type loans, overdrafts, credit cards facilities and other services.

Corporate banking: Includes handling loans, credit facilities, deposits and current accounts for corporate and institutional customers.

Treasury: Includes providing trading and treasury services and managing the Bank's funds and investments.

Following are the Bank's business segments according to operations:

	Retail	Corporate	Treasury	Other	Total 2013	Total 2012
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenue	5,854,469	7,940,187	4,024,037	3,441,119	21,259,812	14,393,965
Impairment losses on direct credit facilities	(345,214)	-	-	-	(345,214)	(164,380)
Segment results	4,336,000	4,815,048	2,175,298	3,461,119	14,787,465	10,419,834
Unallocated expenses	(1,163,255)	(3,125,139)	(1,838,739)	(3,540,089)	(9,667,222)	(7,399,734)
Profit before taxes					5,120,243	3,020,100
Taxes expense					(1,520,000)	(999,000)
Profit for the year					3,600,243	2,021,100
Other information						
Total segment assets	108,446,166	68,008,132	289,126,558	64,018,121	529,598,977	350,890,034
Total segment liabilities	144,774,770	156,616,743	161,782,282	11,459,164	474,632,959	299,568,841
Investment in an associate	-	-	-	4,345,290	4,345,290	4,305,290
Capital expenditures					1,814,700	1,309,177
Depreciation and amortization					1,188,778	1,077,314

b. Geographical distribution information

The following is the geographic distribution of the Bank's income, assets and capital expenditures.

	Domestic		Foreign		Total	
	2013	2012	2013	2012	2013	2012
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	19,513,266	13,358,158	1,746,546	1,035,807	21,259,812	14,393,965
Total assets	365,545,386	289,350,439	164,053,591	61,539,595	529,598,977	350,890,034
Capital expenditures	1,814,700	1,309,177	-	-	1,814,700	1,309,177

37. Maturities of assets and liabilities

December 31, 2013

The following table depicts the analysis of assets and liabilities according to their maturities:

	Less than 1 Month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	More than 3 years	Non-interest bearing	Total
Assets	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances with PMA	61,787,759	-	-	-	-	-	-	61,787,759
Balances at banks and financial institutions	164,606,946	14,813,338	-	-	-	-	-	179,420,284
Financial asset at fair value through profit or loss	-	-	-	-	-	-	3,441,992	3,441,992
Direct credit facilities	15,706,654	17,882,915	67,811,519	38,916,237	43,259,505	44,712,687	-	228,289,517
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	2,197,178	2,197,178
Financial assets at amortized cost	-	-	-	8,518,787	1,201,260	11,562,607	-	21,282,654
Investment in associate	-	-	-	-	-	-	4,345,290	4,345,290
Property, plant and equipment	-	-	-	-	-	-	8,280,606	8,280,606
Intangible assets	-	-	-	-	-	-	110,424	110,424
Other assets	16,651,401	897,175	553,643	2,341,054	-	-	-	20,443,273
Total Assets	258,752,760	33,593,428	68,365,162	49,776,078	44,460,765	56,275,294	18,375,490	529,598,977
Liabilities								
Banks' and financial institutions' deposits	131,168,764	-	-	-	-	-	-	131,168,764
Customers' deposits	168,316,034	46,545,801	17,630,538	18,455,545	-	-	-	250,947,918
Cash margins	-	19,593,351	-	8,489,607	18,134,491	5,463,095	-	51,680,544
Loans and borrowings	-	6,000,000	-	4,000,000	20,613,518	148,161	-	30,761,679
Provisions for employees indemnity	-	-	-	-	-	1,131,315	-	1,131,315
Tax provisions	1,543,638	-	-	-	-	-	-	1,543,638
Other liabilities	3,479,019	2,687,293	1,232,789	-	-	-	-	7,399,101
Total Liabilities	304,507,455	74,826,445	18,863,327	30,945,152	38,748,009	6,742,571	-	474,632,959
Equity								
Paid-in share capital	-	-	-	-	-	-	49,881,953	49,881,953
Statutory reserve	-	-	-	-	-	-	967,960	967,960
General banking risks reserve	-	-	-	-	-	-	4,948,947	4,948,947
Pro-cyclicality reserve	-	-	-	-	-	-	960,104	960,104
Fair value reserve	-	-	-	-	-	-	(2,270,869)	(2,270,869)
Retained earnings	-	-	-	-	-	-	477,923	477,923
Net Equity	-	-	-	-	-	-	54,966,018	54,966,018
Total liabilities and equity	304,507,455	74,826,445	18,863,327	30,945,152	38,748,009	6,742,571	54,966,018	529,598,977
Interest rate re-pricing sensitivity gap	(45,754,695)	(41,233,017)	49,501,835	18,830,926	5,712,756	49,532,723	(36,590,528)	-
Cumulative gap	(45,754,695)	(86,987,712)	(37,485,877)	(18,654,951)	(12,942,195)	36,590,528	-	-

December 31, 2012

The following table depicts the analysis of assets and liabilities according to their maturities:

December 31, 2012	Less than 1 Month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	More than 3 years	Non-interest bearing	Total
Assets	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances with PMA	35,519,517	-	-	-	-	-	16,862,975	52,382,492
Balances at banks and financial institutions	20,882,189	94,444,562	-	-	-	-	-	115,326,751
Financial asset at fair value through profit or loss	-	-	-	-	-	-	2,989,301	2,989,301
Direct credit facilities	32,685,927	10,298,814	31,130,401	20,184,503	24,163,851	24,328,891	-	142,792,387
Financial assets at fair value through other Comprehensive income	-	-	-	-	-	-	2,423,856	2,423,856
Financial assets at amortized cost	-	-	-	1,650,211	2,538,787	8,608,951	-	12,797,949
Investment in associate	-	-	-	-	-	-	4,305,290	4,305,290
Property, plant and equipment	-	-	-	-	-	-	7,601,176	7,601,176
Intangible assets	-	-	-	-	-	-	163,932	163,932
Other assets	9,102,145	-	555,149	449,606	-	-	-	10,106,900
Total Assets	98,189,778	104,743,376	31,685,550	22,284,320	26,702,638	32,937,842	34,346,530	350,890,034
Liabilities								
Banks' and financial institutions' deposits	63,419,209	-	-	-	-	-	-	63,419,209
Customers' deposits	132,267,850	22,858,084	24,360,430	3,598,240	-	-	-	183,084,604
Cash margins	-	10,402,936	-	18,764,272	3,927,402	-	-	33,094,610
Loans and borrowings	-	-	-	-	9,865,706	860,521	-	10,726,227
Provisions for employees indemnity	-	-	-	-	-	882,945	-	882,945
Tax provisions	966,605	-	-	-	-	-	-	966,605
Other liabilities	3,810,430	2,467,980	1,116,231	-	-	-	-	7,394,641
Total Liabilities	200,464,094	35,729,000	25,476,661	22,362,512	13,793,108	1,743,466	-	299,568,841
Equity								
Paid-in share capital	-	-	-	-	-	-	49,875,642	49,875,642
Statutory reserve	-	-	-	-	-	-	607,936	607,936
General banking risks reserve	-	-	-	-	-	-	2,426,483	2,426,483
Pro-cyclicality reserve	-	-	-	-	-	-	420,067	420,067
Fair value reserve	-	-	-	-	-	-	(2,264,174)	(2,264,174)
Retained earnings	-	-	-	-	-	-	255,239	255,239
Net Equity	-	-	-	-	-	-	51,321,193	51,321,193
Total liabilities and equity	200,464,094	35,729,000	25,476,661	22,362,512	13,793,108	1,743,466	51,321,193	350,890,034
Interest rate re-pricing sensitivity gap	(102,274,316)	69,014,376	6,208,889	(78,192)	12,909,530	31,194,376	(16,974,663)	-
Cumulative gap	(102,274,316)	(33,259,940)	(27,051,051)	(27,129,243)	(14,219,713)	16,974,663	-	-

38. Bank development policies

In accordance with its strategic plan, and its mission to satisfy the customers' full banking needs, and offer them an excellent level of service, the Bank has expanded its operations across new sectors. The Bank's most significant strategic plans for the year include:

- Develop a network of branches across the West Bank.
- Develop new unconventional products that satisfy the customers' various banking needs, especially loans and investments across all sectors (retail, corporate, microfinance projects, treasury, and SMEs).
- Improve customer service procedures to make them more efficient and timely in accordance with the Bank's vision and goals.
- Work on creating a new investment division in order to manage Bank's and customers' investments.
- Build and develop strategic partnerships with financial institutions and entities.
- Train and develop specialized team for various banking services.
- Develop and enhance the banking systems and software to provide customers with a faster and easier banking services.

39. Capital management

The primary objective of the Bank's capital management is to ensure that it maintains adequate capital ratios in order to support its business and maximize shareholder value.

The Bank manages its capital structure and makes adjustments to it in light of changes in business conditions. The Bank did not make any adjustments to the goals, policies and actions concerning capital management for current and prior year, except for increasing the Bank's paid in capital in the amount of U.S. $ 6,311 and U.S. $ 20 million during the years 2013 and 2012, respectively. The Bank did not increase its capital to reach U.S. $ 50 million.

The capital adequacy ratio is computed in accordance with the PMA's regulations derived from Basel Committee regulations computed as follows:

	2013			2012		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S. $	%	%	U.S. $	%	%
Regulatory capital	42,596,649	8.04	16.30	41,183,575	11.73	20.50
Basic capital	54,961,977	10.38	21.05	50,739,713	14.46	25.26

40. Commitments and contingencies

The total outstanding commitments and contingent liabilities as at the financial statements date are as follows:

	2013	2012
	U.S. $	U.S. $
Letters of guarantees	33,637,745	24,532,421
Letters of credit	6,366,778	8,802,838
Acceptances	5,705,913	648,406
Unutilized credit limits	30,920,893	22,935,841
	76,631,329	56,919,506

41. Law suits against the Bank

In the normal course of business, the Bank appears as a defendant in a number of lawsuits for U.S. $ 63,095 and U.S. $ 62,048 as at December 31, 2013 and 2012, respectively. The Bank's management and its legal advisor believes that the Bank maintain adequate provisions against the lawsuits.

42. Concentration of risk per geographic area

The Bank carries out its activities in Palestine. The political and economic destabilization in the area increases the risk of carrying out business and could adversely affect performance.