The National Bank
(Public Shareholding Company Ltd.)
Ramallah-Palestine

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

The National Bank
Public Shareholding Company Ltd.
Ramallah-Palestine

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Independent Auditor's Report

To the Shareholders of
The National Bank
Ramallah – Palestine

Report on the Financial Statements:

We have audited the accompanying consolidated financial statements of **The National Bank (Public Shareholding Co. Ltd),** which comprise of the consolidated statement of financial position as of December 31, 2012, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in owners' equity and the consolidated cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements:

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

Auditor's responsibility:

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

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

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

Deloitte.

Opinion:

In our opinion, the consolidated financial statements give a true and fair view of the financial position of **The National Bank"** as of December 31, 2012, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Legal and Other Regulatory Matters:

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

- Has maintained proper accounting records and the financial statements are in agreement thereon,

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

Saba & Co.

Saba & Co.
Ramallah - Palestine

March 31, 2013

Statement (A)

The National Bank

Public Shareholding Company, Ltd.

Consolidated Statement of Financial Position

As of December 31, 2012

(Amounts Are Expressed in U.S. Dollar)

Assets	Note	December 31, 2012	December 31, 2011
Cash on hand and deposits with Palestine Monetary Authority	4	52,382,492	26,185,208
Deposits with banks and financial institutions	5	115,326,751	114,898,239
Financial assets at fair value through the statement of income	6	2,989,301	-
Trading securities	7	-	3,198,802
Credit facilities, Net	8	142,792,387	76,299,928
Financial assets at fair value through other comprehensive income	9.a	2,423,856	-
Available for sale investments	10	-	4,982,429
Financial assets at amortized cost	11	12,797,949	-
Held to maturity investments	12	-	5,000,000
Investments in associates	13	4,305,290	-
Property, plant and equipment, Net	14	7,601,176	7,257,183
Intangible assets	15	163,932	236,344
Other assets	16	10,106,900	9,340,990
Total assets		**350,890,034**	**247,399,123**
Liabilities and Owners' Equity			
Liabilities:			
Deposits of Palestine Monetary Authority	17	12,064,343	12,289,416
Deposits of banks and financial institutions	18	51,354,866	66,236,042
Customers' deposits	19	183,084,604	115,890,037
Cash margins	20	33,094,610	13,785,458
Provision for taxes	22	966,605	69,601
Provision for end of service indemnity	21	882,945	579,574
Other credit balances	23	18,120,868	9,289,428
Total liabilities		**299,568,841**	**218,139,556**
Owners' Equity:			
Paid in capital	24	49,875,642	29,875,642
Compulsory reserve	25	607,936	405,826
General banking risk reserve	25	2,426,483	1,248,353
Cyclical reserve	25	420,067	116,902
Fair value Reserve	9.b	(2,264,174)	(251,045)
Retained earnings (Accumulated losses)		255,239	(2,136,111)
Net Owners' equity		**51,321,193**	**29,259,567**
Total liabilities and Owners' equity		**350,890,034**	**247,399,123**

The accompanying notes constitute an integral part of these financial statements

<u>**Statement (B)**</u>

The National Bank

Public Shareholding Company, Ltd.

Consolidated Statement of Income

Year Ended December 31, 2012

(Amounts Are Expressed in U.S. Dollar)

		Year Ended December 31,	
	Note	**2012**	**2011**
Interest income	26	10,912,962	6,073,197
Interest expense	27	(3,497,033)	(1,671,900)
Net interest income		**7,415,929**	**4,401,297**
Net commission income	28	2,075,870	1,406,285
Net interest and commission income		**9,491,799**	**5,807,582**
Gain from investments in securities	29	124,740	277,726
Gain from foreign currencies exchange		887,675	656,480
Revenues recognized from temporary restricted donations		-	25,000
Releases from provision for impairment loss in credit facilities	8	303,297	81,210
Gains from investments in associates		80,000	-
Other income		-	20,345
Gross income		**10,887,511**	**6,868,343**
Expenses:			
Personnel costs	30	4,017,581	2,888,963
Other operating expenses	31	2,304,839	1,608,366
Depreciation and amortization	14/15	1,077,314	746,374
Provision for impairment loss in credit facilities	8	467,677	846,378
Total expenses		**7,867,411**	**6,090,081**
Net Income before taxes		**3,020,100**	**778,262**
Taxes	21	(999,000)	210,000
Net Income for the year		**2,021,100**	**568,262**
Earning per share	**41**	**0.055**	**0.0189**

The accompanying notes constitute an integral part of these financial statements

The National Bank

Public Shareholding Company, Ltd.

Consolidated Statement of Comprehensive Income

Year Ended December 31, 2012

(Amounts Are Expressed in U.S. Dollar)

	Year ended December 31,	
	2012	**2011**
Net Income for the Year	**2,021,100**	**568,262**
Items of Other Comprehensive Income		
(Loss) Gain from Revaluation of Available for Sales Investments	-	(45,490)
(Loss) Gain from revaluation of financial assets through other comprehensive income	(180,142)	-
Loss from sales of financial assets	(12,202)	-
Other Comprehensive Income for the Year	**1,828,756**	**522,772**

The accompanying notes constitute an integral part of these financial statements

Statement (D)

The National Bank

Public Shareholding Company, Ltd.

Consolidated Statement of Changes in Owners' Equity

Year Ended December 31, 2012

(Amounts Are Expressed in U.S. Dollar)

December 31, 2012	**Paid in capital**	**Compulsory Reserve**	**General Banking Risk Reserve**	**Cyclical Reserve**	**Fair Value Reserve**	**Retained Earnings (Accumulated Losses)**	**Net Owners' Equity**
Balances as of January, 2012	**29,875,642**	**405,826**	**1,248,353**	**116,902**	**(251,045)**	**(2,136,111)**	**29,259,567**
Impact of implementing of international financial reporting standard No. (9)					**(1,832,987)**	**2,065,857**	**232,870**
Adjusted Balances	**29,875,642**	**405,826**	**1,248,353**	**116,902**	**(2,084,032)**	**(70,254)**	**29,492,437**
Net income for the year	--	--	--	--	--	2,021,100	2,021,100
Items of Other Comprehensive Income:							
Loss from sales of financial assets	--	--	--	--	--	(12,202)	(12,202)
(Loss) Gain from Revaluation of financial assets through other comprehensive income	--	--	--	--	(180,142)	--	(180,142)
Total Other Comprehensive Income	**--**	**--**	**--**	**--**	**(180,142)**	**2,008,898**	**1,828,756**
Subscription into capital	20,000,000						20,000,000
Appropriation to reserving	--	202,110	1,178,130	303,165	--	(1,683,405)	--
Balance as of December 31, 2012	**49,875,642**	**607,936**	**2,426,483**	**420,067**	**(2,264,174)**	**255,239**	**51,321,193**
December 31, 2011							
Balances as of January, 2011	**29,871,624**	**349,000**	**769,752**	**31,663**	**(205,555)**	**(2,083,707)**	**28,732,777**
Net income for the year	-	-	-	-	-	568,262	568,262
Change in fair value of Available for Sales Investments	-	-	-	-	(45,490)	-	(45,490)
Total Comprehensive Loss	**-**	**-**	**-**	-	(45,490)	568,262	**522,772**
Compulsory reserve	-	56,826	-	**-**	**-**	(56,826)	-
General banking risk reserve	-	-	478,601	**-**	**-**	(478,601)	-
Reserve for cyclical fluctuation	-	-	-	85,239	**-**	(85,239)	-
Subscription into capital	4,018	-	-	-	**-**	-	4,018
Balances as of December 31, 2011	**29,875,642**	**405,826**	**1,248,353**	**116,902**	**(251,045)**	**(2,136,111)**	**29,259,567**

The accompanying notes constitute an integral part of these financial statements

The National Bank

Public Shareholding Company, Ltd.

Consolidated Statement of Cash Flows

Year Ended December 31, 2012

(Amounts Are Expressed in U.S. Dollar)

	Year Ended December 31,	
	2012	**2011**
Operating Activities:		
Net income before taxes	3,020,100	778,262
Non cash items:		
Provision for impairment loss in credit facilities	467,677	846,378
Recovery of impairment loss in credit facilities	(303,297)	(81,210)
Gains from disposal of property and equipment	-	(20,345)
Depreciation and amortization	1,077,314	746,374
Provision for end of service indemnity	294,378	254,556
Loss from sale of financial assets through the statement of income	15,581	-
(Gain) Loss from sale of trading and available for sale Investments	-	(478,003)
(Gain) Loss from impairment of available for sale Investments	-	288,201
Loss from revaluation of financial assets through the statement of income	158,999	-
Impairment loss in investments	-	141,198
Gain from sale of financial assets at amortized cost	(9,517)	-
Gains from investments in associates	(80,000)	-
Amortization of premium of held to maturity investments	30,572	(3,508)
	4,671,807	**2,471,903**
Changes in assets and liabilities		
Increase in compulsory reserve with PMA	(5,613,770)	(2,947,583)
(Increase) Decrease in deposits with banks and financial institutions maturing after three months	2,115,656	2,115,654
(Increase) Decrease in restricted deposits with banks and financial institutions	(10,373,795)	(3,383,796)
Decrease (Increase) in credit facilities	(66,656,839)	(34,067,198)
(Increase) Decrease in other assets	(328,371)	(3,202,798)
Increase in customers' deposits	67,126,678	48,895,408
Increase in cash margins	19,168,108	491,591
Increase in other credit balances	8,823,817	5,688,000
Cash provided from operations	**18,933,291**	**16,061,181**
Payments toward end of service indemnity	(27,808)	(64,692)
Tax payments	(229,223)	(753,635)
Net cash available from operations	**18,676,260**	**15,242,854**

The National Bank

Public Shareholding Company, Ltd.

Consolidated Statement of Cash Flows

Year Ended December 31, 2012

(Amounts Are Expressed in U.S. Dollar)

	Year Ended December 31,	
	2012	**2011**
Investment Activities:		
Purchases of securities through the statement of income	(1,331,342)	(5,767,143)
Sales of securities through the statement of income	1,424,034	4,890,093
Purchase of securities through other comprehensive income	(2,050,464)	(6,171,543)
Sales of securities through other comprehensive income	1,728,172	2,903,901
Sale of investments at amortized cost	910,386	5,273,124
Purchase of investments at amortized cost	(1,619,000)	(6,098,753)
Investment in associate company	(4,225,290)	-
Acquisition of property, plant and equipment	(1,268,948)	(5,059,150)
Proceed from sale of property, plant and equipment	-	21,310
Acquisition of intangible assets	(40,229)	(99,988)
Net assets acquired from Palestinian Arab Investment Bank	(4,343,443)	-
Net cash flow provided from (used in) investing activities	**(10,816,124)**	**(10,108,149)**
Financing activities		
Increase in capital	20,000,000	4,018
Net cash provided from financing activities	**20,000,000**	**4,018**
Net increase in cash and cash equivalent for the year	**27,860,136**	**5,138,723**
Cash and cash equivalent at beginning of the year	43,383,757	38,245,034
Cash and cash equivalent at end of the year (note-36)	**71,243,893**	**43,383,757**

(*) This balance is composed of assets except of cash and cash equivalent net of liabilities and reserves as follows:

Available for sales investments and treasury bonds	4,246,770
Property, plant and equipment and other assets	477,257
Customers deposits and cash margins	(208,933)
Other provisions and liabilities	(171,651)
	4,343,443

The accompanying notes constitute an integral part of these financial statements

1-General Information:

The National Bank, (Formerly Al Rafah Bank for Micro Finance) "the bank" was established during 2005 as a public shareholding company in Ramallah – Palestine under registration No. 562601146.

On April 25, 2012 the general assembly approved the increase of bank capital to be US. Dollar 50,000,000. bank increased the capital to 50 Million Dollar by accepting new partners within the bank. Also, during the year the bank signed merger agreement to acquire the Palestinian Arab Investment Bank in which some of the bank's assets and liabilities were acquired in compensation for 10,000,000 share of the National Bank.

The bank is currently working through its main headquarter and its branches in Ramallah, Nablus, Hebron, Jenin and Dura.

In addition to the bank regular commercial banking, the bank finances the Palestinian microfinance sector.

The bank operates under the Palestinian Banking Law and the instructions of the Palestinian Monetary Authority.

The bank shares are listed for trading in the Palestine Securities Exchange.

The number of the bank's employees is (208) as of December 31, 2012 and (156) as of December 31, 2011.

2- Financial Statements:

- The accompanying financial statements include the financial statements of the branches of the bank in addition to the headquarter in Ramallah. The financial statements were prepared after excluding the transactions and balances between headquarter and branches.

- The financial statements were approved by the Board of Directors on January 14, 2013.

3- Significant Accounting Policies:

3.1- New Standards, Amendments and Interpretations (refer to Note 39):

3-2 Basis of Preparation of Financial Statements

- The financial statements have been prepared in accordance with the standards issued by the International Accounting Standards Board, and the interpretations issued by the Committee of International Financial Reporting Interpretations emanated from the Council of the International Accounting Standards and in accordance with the applicable local laws and the instructions of the Palestine Monetary Authority.

- The financial statements have been prepared under the historical cost basis, except for investments through the statement of income and other comprehensive income which are stated at their fair values at the date of the financial statements.

- The financial statements have been presented in U.S. Dollar which is the Bank's functional currency.

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

3.3- Significant Accounting Policies:

Financial Assets

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

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

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

- **Financial Assets at Fair Value through Profit or Loss (FVTPL)**
  Debt instruments that do not meet the amortized cost criteria are measured at FVTPL. In addition, debt instruments that meet the amortized cost criteria but are designated as at FVTPL by the Bank are measured at FVTPL.

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

  Financial assets at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognized in the statement of income.
  Dividend income on investments in equity instruments at FVTPL is recognized in the statement of income when the Bank's right to receive the dividends is established (upon the general assembly resolution).

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

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

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

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

<u>Leasing</u>

The determination of whether it is an agreement or lease contract or, contains an adopted lease which depends on the subject of the agreement, which requires an assessment whether the implementation of the agreement depend on using a specific asset or assets, or the agreement transfer the right of using the asset.

Leases contracts made by the Bank doesn't transfer all the risks and benefits of ownership to the lessee, all other leases are classified as operating leases and operating lease payments is recognized as an expenses in the statement of income and are included on a straight-line basis over the lease term.

Loans and advances and financing activities to customers

Specific provisions for the impairment of loans and advances and financing activities to customers are calculated based on the difference between the book value of loans and advances and their recoverable amounts, being the net present value of the expected future cash flows, discounted at the original interest rates. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less the costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The loss arising from impairment of loans and advances and financing activities to customers are recognized in the statement of income in 'Provision for impairment of loans and advances'. Loans and advances and financing activities to customers are written off and charged against specific provisions only in circumstances where all reasonable restructuring and collection activities have been exhausted. Recoveries from previously written off loans and advances and financing activities are written back to the income.

Collective assessment of loans and advances

Where individually assessed loans are evaluated and no evidence of loss is present or has been identified, there may be losses based upon risk rating and expected migrations product or industry characteristics.

Impairment covers losses which may arise from individual performing loans that are impaired at the reporting date but were not specifically identified as such until sometime in the future.

The estimated impairment is calculated by the Bank's management for each indentified portfolio as per the requirements of Palestine Monetary Authority based on previous experience, credit rating and expected migrations in addition to the assessed inherent losses which are reflected by the economic and credit conditions.

Revenue recognition

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

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

Property, Plant & Equipment

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

When the carrying amounts of the property exceed their recoverable values, assets' value is reduced to the recoverable value, and impairment losses are recognized in the statement of income.

The useful lives of property are reviewed at the end of each year. In case the expected useful life is different from what was determined before, the change in estimate is recorded in the following years, as a change in estimate. Any item of property is not recognized when disposed, and when there is no future economic benefits are expected from its use. Any gain or loss resulting from non-recognition of the property s inserted within other operating income in the statement of income in the year the asset is recognized.

Assets Acquired Against Settlement of Customer Debts

Assets acquired by the bank are stated in the statement of financial position under "other assets" and is stated at the lower of acquired values or fair value. Assets are re-assessed on the date of financial statements at individual basis; any impairment in value of those assets is recorded in the statement of income. Subsequent increase is recorded in the statement of income to the extent that not exceeds the impairment value which previously recorded.

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

Provision for End of Services indemnity

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

Other Provisions

Provisions are recognized when the bank has obligations on the date of the financial position as a result of past events, and it is probable that the bank will settle the obligations, and a reliable estimate can be made of the amount of the obligation. The bank made provisions deducted from the statement of income for any obligations or probable commitments in accordance with expected value and probability to be realized on the date of financial position.

Taxation

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

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

Foreign currencies

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

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

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

The resultant exchange gain (loss) is reflected in the statement of income. Exchange differences for non- monetary assets and liabilities denominated in foreign currencies are recorded as part of change in fair value.

Related parties

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

Cash and cash equivalent

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

Accounting Estimates

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

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

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

Segment Information

Data of operating sectors is displayed in a manner consistent with internal reports which are presented to the administrator for making operating decisions. The Board of Directors is the responsible party for making operating decisions. This reporting is used for allocating resources to operating segments and assessing performance.

Income and expenses directly related to each sector are used in determining the performance of operating sectors. The internal reports that concern with credit concentrations and analysis of the results of work according to business sectors and economic and geographic sectors.

Financial Commitments and Contingent Liabilities

Contingent liabilities, which may occur as a result of the bank practicing its normal activities, are recorded as contra accounts and presented as off-financial position items. These accounts include obligations caused by letters of credit and guarantees issued to customers.

Definition and classification

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

Risk Management

Risk Management Framework

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

Risk management process

The Board of Directors is responsible for identifying and controlling risks; in addition, there are several bodies responsible for managing and monitoring the bank risks.

Risks Committee

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

Risk Measurement and Reporting Systems

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

Internal Audit

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

Credit Risk and Concentration of Assets and Liabilities

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

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

The credit committee and department follow-up credit in collaboration with the staff of internal audit to monitor the credit facilities granted to customers on a regular basis to identify any deviations that would expose the bank to the risk of non-fulfillment of obligations undertaken by the customers, and thus take the necessary procedures to protect the funds of the bank.
Balances with banks and financial institutions and investments in securities are the result of decisions taken by the bank for investing the cash surpluses with banks and financial institutions, in according to a system of policies and procedures that define the terms of definition and measurement and risk management that the bank is possibly exposed to, which includes adoption of credit rating system for banks, credit concentrations and determine the level of credit and the economic sector, geographical region, and analysis of economic fluctuations and to study the supposed harsh scenarios.

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

2012	Real Estate Loans	Individuals	Corporate	Small & Medium Companies	Public Sector	Total
Low risk	7,538,548	6,119,875	2,719,350	2,394,999	18,144,684	36,917,456
Acceptable risk	3,230,806	65,821,160	23,667,450	2,626,471	10,427,893	105,773,780
Of which is due:*						
Under watch	-	805,337	196,175	78,528	-	1,080,040
Non-performing:						
Below level	-	109,232	-	-	-	109,232
Bad debt	-	125,879	-	-	-	125,879
Write off	-	1,068,577	-	43,825	-	1,112,402
Total	**10,769,354**	**74,050,060**	**26,582,975**	**51,143,823**	**28,572,577**	**145,118,789**
Less: Interest in suspense	-	(407,180)	-	(126,728)	-	(533,908)
Less: Impairment provision	-	(1,591,471)	-	(201,023)	-	(1,792,494)
Net	**10,769,354**	**72,051,409**	**26,582,975**	**4,816,072**	**28,572,577**	**142,792,387**

The following is the distribution of the guarantees for facilities at their fair values

2012	Individuals	Corporate	Small and Medium Companies	Total
	US Dollar	**US Dollar**	**US Dollar**	**US Dollar**
Guarantees against:				
Low risk	8,235,610	1,573,549	1,425,064	11,234,223
Acceptable risk	41,175,335	10,612,604	7,359,626	59,147,565
Non-performing:				
Below level	525,084	-	-	525,084
Bad debt	223,573	-	-	223,573
Write off	303,404	-	107,706	411,110
Total	**50,463,006**	**12,186,153**	**8,892,396**	**71,541,555**
Of it:				
Cash Margins	5,906,977	1,573,549	1,425,064	8,905,590
Real estate	22,535,346	5,900,881	3,117,888	31,554,115
Financial Assets	2,393,995	1,979,954	1,946,946	6,320,895
Vehicles	17,298,055	2,731,769	2,402,498	22,432,322
Valuable Metals	2,328,633	-	-	2,328,633
Total	**50,463,006**	**12,186,153**	**8,892,396**	**71,541,555**

Liquidity risk

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

Liquidity risk management aims primarily to provide a plan and find mechanisms to deal with unexpected changes while the request or requirement of liquidity resulting from the actions of customers or market conditions that is not natural. The Bank’s management is committed to achieve the maximum level of customers’ deposits and other funding sources and conserving them. This committee monitors the bank deposits rates, levels, trends, significant changes and plans for marketing the deposits which constantly monitored to ensure consistency with the requirements of the liquidity policy. On the other hand, the committee emphasizes on the commitment of the Palestinian Monetary Authority's instructions on the limits of cash to be kept, and emphasizes on the commitment about the legal liquidity minimum level as instructed by the Palestinian Monetary Authority.

The following schedules depict the liquidity status as of 31 December 2012 and 2011:

The following table shows the assets and liabilities analysis according to recovery of settlement period:

2012	**Up to a Year**	**More than One Year**	**With No Maturity**	**Total**
	US. $	**US. $**	**US. $**	**US. $**
Assets:				
Cash on hand and deposits with Palestine Monetary Authority	35,519,517	-	16,862,975	52,382,492
Deposits with banks and financial institutions	115,326,751	-	-	115,326,751
Financial assets at fair value through the statement of income	2,989,301	-	-	2,989,301
Credit Facilities, Net	94,299,645	48,492,742	-	142,792,387
Financial assets at fair value through other comprehensive income	-	2,423,856	-	2,423,856
Financial assets at amortized cost	1,650,210	11,147,739	-	12,797,949
Investments in associates	-	-	4,305,290	4,305,290
Property, plant and equipment, Net	-	-	7,601,176	7,601,176
Intangible Assets	-	-	163,932	163,932
Other assets	10,106,900	-	-	10,106,900
Total Assets	**259,892,324**	**62,064,337**	**28,933,373**	**350,890,034**
Liabilities:				
Deposits of Palestine Monetary Authority	12,064,343	-	-	12,064,343
Deposits of banks and financial institutions	51,354,866	-	-	51,354,866
Customer Deposits	183,084,604	-	-	183,084,604
Cash margins	29,167,208	3,927,402	-	33,094,610
Provision for end of service indemnity	-	882,945	-	882,945
Provision for taxes	966,605	-	-	966,605
Other credit balances	5,848,209	12,272,659	-	18,120,868
Owners’ equity	-	-	51,321,193	51,321,193
Total Liabilities and Owners Equity	**282,485,835**	**17,083,006**	**51,321,193**	**350,890,034**
Gap in financial statements	**(22,593,511)**	**44,981,331**	**(22,387,820)**	**-**
Net Gap in Liquidity Risks	**(22,593,511)**	**22,387,820**	**-**	**-**

2011	Up to a Year	More than One Year	With No Maturity	Total
	US. $	US. $	US. $	US. $
Assets:				
Cash on hand and deposits with Palestine Monetary Authority	14,936,003	-	11,249,205	26,185,208
Deposits at banks and financial institutions	112,782,583	2,115,656	-	114,898,239
Trading Securities	3,198,802	-	-	3,198,802
Credit Facilities, Net	-	4,982,429	-	4,982,429
Available for sale investments	-	5,000,000	-	5,000,000
Held to maturity investments	46,085,531	30,214,397	-	76,299,928
Property, plant and equipment, Net	-	-	7,257,183	7,257,183
Intangible Assets	-	-	236,344	236,344
Other assets	9,340,990	-	-	9,340,990
Total Assets	**186,343,909**	**42,312,482**	**18,742,732**	**247,399,123**
Liabilities:				
Deposits of Palestine Monetary Authority	12,289,416	-	-	12,289,416
Deposits of banks and financial institutions	66,236,042	-	-	66,236,042
Customer Deposits	115,890,037	-	-	115,890,037
Cash margins	6,298,756	7,486,302	-	13,785,058
Provision for Taxes		579,574	-	579,574
Provision for end of service indemnity	69,601	-	-	69,601
Other credit balances	5,714,707	3,574,721	-	9,289,428
Total Liabilities	**206,498,559**	**11,640,597**	**-**	**218,139,156**
Gap in financial statements	**(20,154,650)**	**30,671,885**	**18,742,732**	**29,259,967**
Net Gap in Liquidity Risks	**(20,154,650)**	**10,517,235**	**29,259,967**	

Market risk

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

Interest rate risks

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

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

Interest price sensitivity

The table below shows re-pricing interest gap, classified on the basis of interest re-pricing periods or maturity:

<u>Sensitivity of Interest Rates- December 31 2012</u>:

Assets	**Up to one month**	**One to three months**	**Three to six months**	**Six months to one year**	**More than one year**	**Non- interest bearing**	**Total**
	US. $	**US. $**	**US. $**	**US. $**	**US. $**	**US. $**	**US. $**
Cash on hand	-	-	-	-	-	34,570,609	34,570,609
Cash at Palestine Monetary Authority	-	-	-	-	-	17,811,883	17,811,883
Deposits with banks and financial institutions	93,157,570	16,183,165	-	-	-	5,986,016	115,326,751
Financial assets at fair value through the statement of income	-	-	-	-	-	2,989,301	2,989,301
Credit facilities, Net	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
Investments in associates	-	-	-	-	-	4,305,290	4,305,290
Property, plant and equipment, Net	-	-	-	-	-	7,601,176	7,601,176
Intangible asset	-	-	-	-	-	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**
<u>Liabilities and Owners' equity</u>							
Deposits of Palestine Monetary Authority	12,064,343	-	-	-	-	-	12,064,343
Deposits of Banks and financial institutions	51,218,118	-	-	-	-	136,748	51,354,866
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
Provisions for end of service indemnity	-	-	-	-	-	882,945	882,945
Provisions for taxes	-	-	-	-	-	966,605	966,605
Other credit balances	-	-	-	-	9,865,706	8,255,162	18,120,868
Owners' Equity	-	-	-	-	-	51,321,193	51,321,193
Total liabilities and Owners' equity	**97,354,218**	**33,261,020**	**24,360,431**	**17,319,343**	**15,545,067**	**163,049,955**	**350,890,034**
Interest rate sensitivity gap	**28,489,279**	**(6,779,041)**	**6,769,970**	**4,515,370**	**44,095,414**	**(77,090,992)**	**-**
Cumulative interest rate sensitivity gap	**28,489,279**	**21,710,238**	**28,480,208**	**32,995,578**	**77,090,992**	**-**	**-**

Sensitivity of Interest Rates- December 31 2011:

Assets	Up to one month	One to three months	Three to six months	Six months to one year	More than one year	Non- interest bearing	Total
	US. $	US. $	US. $	US. $	US. $	US. $	US. $
Cash on hand	-	-	-	-	-	13,047,458	13,047,458
Deposits with Palestinian Monetary Authority	-	-	-	-	-	13,137,750	13,137,750
Deposits with banks and financial institutions	100,702,074	4,702,962	-	-	2,115,656	7,377,547	114,898,239
Trading Securities	-	-	-	-	-	3,198,802	3,198,802
Credit facilities, Net	-	-	-	-	-	4,982,429	4,982,429
Available for sale investments	-	-	-	-	5,000,000	-	5,000,000
Held to maturity investments	18,652,202	5,260,231	9,003,708	13,169,390	30,214,397	-	76,299,928
Property, plant and equipment, Net	-	-	-	-	-	7,257,183	7,257,183
Intangible asset	-	-	-	-	-	236,344	236,344
Other assets	-	-	-	-	-	9,340,990	9,340,990
Total assets	**119,354,276**	**9,963,193**	**9,003,708**	**13,169,390**	**37,330,053**	**58,578,503**	**247,399,123**
Liabilities and Owners' equity							
Deposits of Palestine Monetary Authority	12,289,416						12,289,416
Deposits of Banks and financial institutions	64,579,735	1,643,888				12,419	66,236,042
Customers' deposits	32,611,433	13,558,837	3,290,998	4,784,676	499,643	61,144,450	115,890,037
Cash margins				4,906,428	6,701,601	2,177,429	13,785,458
Provision for taxes						579,574	579,574
Provisions for end of service indemnity						69,601	69,601
Other credit balances					2,668,977	6,620,451	9,289,428
Owners' Equity						29,259,567	29,259,567
Total liabilities and Owners' equity	**109,480,584**	**15,202,725**	**3,290,998**	**9,691,104**	**9,870,221**	**99,863,491**	**247,399,123**
Interest rate sensitivity gap	**9,873,692**	**(5,239,532)**	**5,712,710**	**3,478,286**	**27,459,832**	**(41,284,988)**	**-**
Cumulative interest rate sensitivity gap	**9,873,692**	**4,634,160**	**10,346,870**	**13,825,156**	**41,284,988**	**-**	**-**

Foreign currency risks

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

The following table shows the bank foreign currencies position:

Currency Type	2012	2011
Jordanian Dinar	578,763	(771,144)
Israeli Shekel	(17,433)	583,461
Others	26,703	577,875

The Jordanian Dinar exchange rate is tied up with the US Dollar, and hence the change in its exchange rate has immaterial effect on the financial statements.

	2012		2011	
Currency	Change in Exchange Rate %	Effect on Profit/loss	Change in Exchange Rate %	Effect on Profit/loss
Israeli Shekel	10%	1,743	10%	58,346
Other Currencies	10%	2,670	10%	57,787

Risks of Stocks prices

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

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

	2012		
	Change in index	Effect on Statement of Income	Effect on Ownership Equity
Available for sale investments	10%	-	242,386
Trading Securities	10%	298,930	-

	2011		
	Change in index	Effect on Statement of Income	Effect on Ownership Equity
Available for sale investments	10%	-	128,643
Trading Securities	10%	319,880	-

Operation risks

Operational risks are the risks resulting from direct or indirect losses that are arising from a particular failure of technological applications, or operations or mistakes made by employees. The Bank reduces the occurrence of these risks as much as possible within the framework of policies and procedures to assess, monitor and manage these risks. Monitoring these risks include effective segregation of duties, authorities and procedures of conformity, in addition to that, increasing the employees' awareness of these risks and methods of evaluation.

Other risks

Other risks include the risks of failure to meet regulatory requirements, legal risks and reputational risks. The bank controls the risks of failure to meet regulatory requirements within the framework of policies and procedures relating to discipline and follow-up. Reputational risk is managed through regular examination of the factors relating to the reputation of the bank, in addition to that, issuing instructions and specific policies wherever appropriate.

4- Cash on Hand and Deposits with Palestine Monetary Authority:

Composition:

	December 31, 2012	December 31, 2011
Cash on hand	34,570,609	13,047,458
Balances with PMA:		
Current/ on demand accounts	948,908	1,888,545
Compulsory reserve	16,862,975	11,249,205
Total	**52,382,492**	**26,185,208**
Total in other currencies	**1,320,433**	**14,733,086**

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

5- Deposits with Banks and Financial Institutions:

Composition:

	December 31, 2012	December 31, 2011
Balances at local banks and financial institutions		
Current/ on demand accounts	1,336,880	309,911
Deposits maturing within 3 months	60,398,722	51,544,941
	61,735,602	**51,854,852**
Balances at foreign banks and financial institutions		
Current/ on demand accounts	19,545,309	41,572,214
Deposits maturing within 3 months	34,045,840	19,355,517
Deposits maturing more than 3 months	-	2,115,656
	53,591,149	**63,043,387**
Total	**115,326,751**	**114,898,239**
In foreign currencies	**9,870,028**	**72,311,823**

- Restricted deposits at banks and financial institutions as of December 31, 2012 amounted to U.S Dollar 16,183,166 against U.S Dollar 5,809,371 as of December 31, 2011.

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

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

	December 31, 2012	December 31, 2011
Financial assets traded at local markets – stocks	2,989,301	-
	2,989,301	**-**

7- Trading Securities:

The details of this item are as follow:

	December 31, 2012	December 31, 2011
Local market	-	3,171,502
Foreign markets	-	27,300
	-	**3,198,802**

8- Credit Facilities, Net:

	December 31, 2012	December 31, 2011
Public Sector (PNA) :		
Current Accounts	19,572,577	-
Loans and discounted bills	9,000,000	9,933,291
	28,572,577	**9,933,291**
Individuals(Retail) :		
Overdrafts accounts	11,267,331	4,232,502
Loans and discounted bills	71,072,856	44,247,158
	82,340,187	**48,479,660**
Corporate:		
Overdrafts accounts	7,424,886	4,493,164
Loans and discounted bills	14,661,116	9,408,545
	22,086,002	**13,901,709**
Medium and Small Companies :		
Overdrafts accounts	2,589,205	1,344,356
Loans and discounted bills	9,530,818	4,650,912
	12,120,023	**5,995,268**
Total	**145,118,789**	**78,309,928**
Interest in suspense	(533,908)	(395,000)
Provision for impairment loss	(1,792,494)	(1,615,000)
Net direct credit facilities	**142,792,387**	**76,299,928**

- The gross non performing direct credit facilities according to PMA instructions as of December 31, 2012 is USD 3,424,738 which represents (2.36%) of the gross credit facilities compared to USD 2,509,388 as of December 31,2011 which represents (3.2%) of gross credit facilities.
- Credit facilities include non-performing credit facilities in the amount of US Dollar 15,390,825 net of interest in suspense which represents (10.61%) of the overall credit facilities as of December 31, 2012 (USD 7,987,205 which represent (10.21%) as of December 31, 2011).
- The non-performing credit facilities, net of interest in suspense are USD 2,892,832 as of December 31, 2012. (USD 2,117,818 as of December 31, 2011).
- Direct credit facilities granted against mortgages collaterals is in the amount of USD 31,554,115 as of December 31, 2012 (USD 15,051,223 as of December 31, 2011).
- The fair value of the collaterals obtained from borrowers is USD 71,541,555 as of December 31, 2012. (USD 45,604,922 as of December 31, 2011).
- Credit facilities include loans and overdraft to the Palestine authority's employees of USD 8,578,746 as of December 31, 2012 (USD 4,175,697 as of December 31, 2011).
- Credit facilities include USD 2,661,766 granted to non-residents as of December 31, 2012 (USD 502,235 as of December 31, 2011).

- **The composition of credit facilities by sector are as follows:**

	December 31, 2012	December 31, 2011
Public sector	28,572,577	9,933,291
Private sector:		
Corporate & Organizations	34,206,025	19,896,977
Individuals	82,340,187	48,479,660
Total	**145,118,789**	**78,309,928**

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

	December 31,2012	December 31,2011
Public Sector	28,572,577	9,933,291
Construction	12,685,718	7,616,565
Industry and General Trading	53,904,301	30,811,353
Agriculture	1,127,829	1,057,260
Transportation	7,302,116	6,234,868
Services and Tourism	26,712	2,007,660
Securities	-	11,563
Car financing loans	4,098,558	6,371,603
Consumable loans	36,867,070	13,870,765
Total	**144,584,881**	**77,914,928**

- Provision for impairment of direct credit facilities:

The mmovement in the provision for non performing credit facilities are as follows:

December 31, 2012	**Individuals**	**Corporate**	**Total**
Balance at beginning of year	**876,599**	**738,401**	**1,615,000**
Provision for the year	467,677	-	467,677
Write off during the year	(303,297)	-	(303,297)
Currency variance	13,114	-	13,114
Balance at end of year	**1,054,093**	**738,401**	**1,792,494**
December 31, 2011			
Balance at beginning of year	**178,393**	**750,734**	**929,127**
Provision for the year	779,416	66,962	846,378
Write off during the year	(81,210)	-	(81,210)
Currency variance	-	(79,295)	(79,295)
Balance at end of year	**876,599**	**738,401**	**1,615,000**

- **Interest in suspense:**

December 31, 2012	**Individuals**	**Corporate**	**Total**
Balance at beginning of year	**209,026**	**185,974**	**395,000**
Interest suspended during the year	161,213	-	161,213
Transferred to income	(43,714)	-	(43,714)
Write off	21,409	-	21,409
Balance at end of year	**347,934**	**185,974**	**533,908**

December 31, 2011	**Individuals**	**Corporate**	**Total**
Balance at beginning of year	**50,076**	**175,525**	**225,601**
Interest suspended during the year	176,693	30,131	206,824
Transferred to income	(17,743)	-	(17,743)
Write off	-	(19,682)	(19,682)
Balance at end of year	**209,026**	**185,974**	**395,000**

9. Financial assets at fair value through other comprehensive income:

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

	December 31, 2012	**December 31, 2011**
Financial assets traded at local markets – stocks	1,438,802	-
Financial assets traded at foreign markets – stocks	920,310	-
Investments in investment funds	64,744	-
	2,423,856	**-**

b. The movement in fair value reserve is as the following:

	December 31, 2012	**December 31, 2011**
Balance at the beginning of the year	**(251,045)**	**(205,555)**
Unrealized loss from revaluation of financial assets at fair value through other comprehensive income	(180,142)	**(539,246)** -
Impact of implementing IFRS No. 9	(1,832,987)	-
Realized loss from sale of held to maturity financial assets	-	205,555
Charged to income statement against impairment in available for sale investments	-	288,201
	(2,013,129)	**(45,490)**
	(2,264,174)	**(251,045)**

10. Available for Sale Investments:

The details of this item are as follow:

	Local	Foreign	Total
December 31, 2011:			
Quoted Financial Assets:			
Companies shares	289,961	996,474	1,286,435
Companies bonds	-	2,688,521	2,688,521
	289,961	3,684,995	3,974,956
Unquoted Financial Assets			
Companies shares	1,007,473	-	1,007,473
Total of financial assets available for sale	**1,297,434**	**3,684,995**	**4,982,429**

11. Financial Assets at Amortized Cost:

	December 31, 2012	December 31, 2011
Local debt financial assets	5,980,000	-
Foreign debt financial assets	2,628,950	-
Debt financial assets – Jordan Central Bank	4,188,999	-
	12,797,949	**-**

12. Held to Maturity Investments:

The details of this item are as follow:

	December 31,2012	December 31,2011
Local debt financial assets	-	5,000,000
Balance at end of year	**-**	**5,000,000**

13. Investments in Associates:

The details of this item are as follow:

	Ownership %	Investment	Origin
Palestine Mortgage and Housing Corporation	20%	4,225,290	Palestine
		4,225,290	

The movement in the investment in associated is as the following:

	Investment
Purchases of shares	4,225,290
Bank’s share from current year Profit	80,000
	4,305,290

14- Property, Plant and Equipment-Net:

Composition:

	Leasehold improvements	Equipment and Furniture	Computers and Supplies	Leased Vehicles	Real Estate	**Total**
December 31, 2012:						
January 1, 2012	**1,984,611**	**1,661,034**	**1,011,244**	**89,460**	**4,871,157**	**9,617,506**
Additions	360,353	439,988	468,606	-		1,268,947
Net book value of assets acquired from Palestinian Arab Investment Bank	-	11,719	21,117	6,883		39,719
Disposals	(167,108)	-	-	-		(167,108)
December 31, 2012	**2,177,856**	**2,112,741**	**1,500,967**	**96,343**	**4,871,157**	**10,759,064**
Accumulated Depreciation						
January 1, 2012	**1,032,831**	**772,078**	**537,523**	**17,891**	**-**	**2,360,323**
Additions	317,637	193,099	191,303	17,943	244,691	964,673
Disposals	(167,108)	-	-	-	-	(167,108)
December 31, 2012	**1,183,360**	**965,177**	**728,826**	**35,834**	**244,691**	**3,157,888**
Net book value December 31, 2012	**994,496**	**1,147,564**	**772,141**	**60,509**	**4,626,466**	**7,601,176**
December 31, 2011:						
Beginning balance	**1,973,583**	**1,627,897**	**959,399**	**55,030**		**4,615,909**
Additions	11,028	35.660	51,845	89,460	4,871,157 (*)	5,059,150
Disposals		(2,523)		(55,030)		(57,553)
December 31, 2011	**1,984,611**	**1.661.034**	**1,011,244**	**89,460**	**4,871,157**	**9,617,506**
Accumulated Depreciation						
January 1, 2011	**735,843**	**586,795**	**385,076**	**55,030**		**1,762,744**
Additions	296,988	186,841	152,447	17,891		654,167
Disposals		(1,558)		(55,030)		(56,588)
December 31, 2011	**1,032,831**	**772,078**	**537,523**	**17,891**	**-**	**2,360,323**
Net book value: December 31, 2011	**951,780**	**888,956**	**473,721**	**71,569**	**4,871,157**	**7,257,183**

(*): Represents the t acquisition cost of the headquarters building. During 2011, the bank purchased this building in Al Masyoun Area to be used as the bank headquarters.

15- Intangible Assets:

The movement in this account is as follows:

	December 31, 2012		
	Computers	Key Money Right	Total
Balance at beginning of year	196,344	40,000	236,344
Additions during the year	40,229	-	40,229
Disposals during the year	(102,641)	(10,000)	(112,641)
Balance at end of year	**133,932**	**30,000**	**163,932**

	December 31, 2011		
	Computers	Key Money Right	Total
Balance at beginning of the year	178,563	50,000	228,563
Additions during the year	99,988	-	99.988
Disposals during the year	(82,207)	(10,000)	(92,207)
Balance End of the year	**196,344**	**40,000**	**236,344**

16- Other Assets

Composition:

	December 31, 2012	December 31, 2011
Interest receivable	1,451,980	1,032,602
Advance payments to vendors	1,587,552	516,144
Checks under clearance	6,147,391	7,426,841
Tax advances	200,640	200,640
Prepaid expenses	165,827	160.206
Stationery and office supplies	62,774	-
Lands acquired from pPalestinian Arab Iinvestment bank	364,509	-
Others	126,227	4,557
Total	**10,106,900**	**9,340,990**

17- Deposits of Palestine Monetary Authority

Composition:

	December 31, 2012	December 31, 2011
Time deposits maturing within three months	12,064,343	12,289,416
Total	**12,064,343**	**12,289,416**

18- Deposits of Banks and Financial Institutions:

Composition:

	December 31, 2012	December 31, 2011
Local banks and financial institutions		
Current accounts	136,748	12,419
Deposits maturing within 3 months	35,333,020	33,373,939
Foreign banks and financial institutions		
Current accounts	15,885,098	32,849,684
Total	**51,354,866**	**66,236,042**
In foreign currencies	**442,392**	**28,385,408**

19- Customers' Deposits:

2012	Individuals	Corporate	Small & Medium Companies	Government & Public Sector	Total
Current accounts	28,762,143	36,339,776	-	430,581	65,532,500
Savings accounts	18,648,270	-	-	-	18,648,270
Time deposits	26,032,366	70,832,575	-	-	96,864,941
Debt accounts – Temporarily credit	61,064	1,977,829	-	-	2,038,893
	73,503,843	**109,150,180**	**-**	**430,581**	**183,084,604**
2011					
Current accounts	24,362,247	36,271,766	-	95,884	60,729,897
Savings accounts	11,634,707	-	-	-	11,634,707
Time deposits	16,026,650	27,120,327	-	-	43,146,977
Debt accounts – Temporarily credit	105,634	272,822	-	-	378,456
	52,129,238	**63,664,915**	**-**	**95,884**	**115,890,037**

- Non-interest bearing deposits amounted to U.S Dollar 77,757,250 as of December 31, 2012 representing (42%) of total deposits against U.S Dollar 53,282,989 as of December 31, 2011 representing (46%) of total deposits.
- Dormant deposits amounted to U.S Dollar 843,784 as of December 31, 2012 representing 0.04 % of total deposits against U.S Dollar 401,175 as of December 31, 2011 representing 0.3 % of total deposits.
- Deposits of the public sector amounted to U.S Dollar 430,581 as of December 31, 2012 representing (0.02 %) of total deposits against U.S Dollar 95,884 as of December 31, 2011 representing (0.081 %) of total deposits.
- Deposits include U.S Dollar 800,673 as of December 31, 2012 of total deposits represents provident fund due balance (U.S Dollar 499,643 as of December 31, 2011).

Customers' deposits classified by currency as of December 31, 2012 and 2011 are as follows:

	Expressed in USD				
	NIS	JOD	USD	EUR	Total
2012	63,617,784	26,455,508	90,156,452	2,854,860	183,084,604
2011	48,614,134	16,875,792	47,234,606	3,165,505	115,890,037

20 - Cash Margins:

Composition:

	December 31, 2012	December 31, 2011
Cash margins against direct facilities	22,691,673	11,608,029
Cash margins against indirect facilities	10,392,423	2,171,329
Cash margins against deposits and checks	10,514	6,100
	33,094,610	**13,785,458**

21 - Provision for end of service indemnity:

Composition:

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

	December 31, 2012	December 31, 2011
Balance at beginning of year	579,574	389,710
Provision for the year	294,378	254,556
Acquired from PPalestinian Arab Investment Bank liabilities	36,801	-
Payments during the year	(27,808)	(64,692)
Balance at end of year	**882,945**	**579,574**

22 - Provision for Taxes

The movement in the provision for taxes is as follows:

	December 31, 2012	December 31, 2011
Balance at beginning of year	69,601	613,236
Paid during the year	(229,223)	(753,635)
Current year taxes	999,000	210,000
Provision aacquired from Palestinian Arab Investment Bank	127,227	-
Balance at end of year	**966,605**	**69,601**

22 - Provision for Taxes – Continue:

The bank obtained the final tax clearance from tax authorities for the years ended December 31, 2011 and is currently negotiating to obtain the clearance for the year 2012.

Financial Net Income & Taxable Net Income:

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

	December 31, 2012	December31, 2011
Net accounting income	3,020,100	778,262
Non taxable revenues	(311,843)	(707,125)
VAT on salaries	410,829	299,838
Disallowed expenses	425,570	189,865
Impairment in available for sale investments	-	429,399
Income (Loss) subject to VAT	**3,544,656**	**990,239**
Vat on net income	(462,346)	(125,401)
VAT on salaries	(410,829)	(299,838)
Net income for income tax purposes	**2,671,481**	**565,000**
Tax on income	536,654	84,599
Total Taxes	**999,000**	**210,000**

23- Other Credit Balances:

Composition:

	December 31, 2012	December 31, 2011
Outward transfers and certified checks	3,810,430	4,907,687
Temporary margins	10,726,227	2,668,977
Interest received in advance	913,615	839,295
Accounts payables	1,491,772	253,462
Accrued interest payable	681,781	195,215
Accrued expenses	54,662	39,301
Value added tax on salaries	65,069	66,449
Restricted grants	170,140	125,159
Capital overpayments	32,476	22,691
Income tax on salaries	149,872	158,093
Other credit balances	24,824	13,099
Total	**18,120,868**	**9,289,428**

24- Paid-up Capital:

Capital Risk Management

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

During 2008, the authorized capital of the bank was increased to USD 40,000,000 and the Board of Directors is seeking to increase the paid in capital to USD 50,000,000 in order to comply with the requirements of PMA.

During the year 2012 the bank increased the authorized capital to USD 50,000,000 and the paid in capital became to USD 49,875,642.

Capital Adequacy:

According to PMA regulations, the bank should maintain a minimum capital adequacy ratio of 12%. As of December 31, 2012 and 2011, the bank was compliant with this ratio.

Particulars of capital ratio are as follows:

	December 31, 2012		December 31, 2011	
	Amount U.S Dollar	Ratio to assets by weighted risk	Amount U.S Dollar	Ratio to assets by weighted risk
Core (primary) capital	50,739,713	14.46%	28,025,915	11.32%
Regulatory capital	41,183,575	11.73%	23,781,557	9.61%

25- Reserves:

Compulsory Reserve:

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

Optional Reserve:

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

General Banking Risk Reserve:

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

Cyclical Reserve:

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

26- Interest Income:

	2012	2011
Public Sector (PNA) :		
Current accounts	1,620,866	-
Loans and discounted bills	357,852	381,702
	1,978,718	**381,702**
Direct credit facilities :		
Individuals (Retail):		
Overdrafts facilities	606,331	459,086
Loans and discounted bills	4,671,002	2,706,955
	5,277,333	**3,166,041**
Corporate:		
Overdraft facilities	730,952	668,441
Loans and discounted bills	1,089,328	636,909
	1,820,280	**1,305,350**
	9,076,331	**4,853,093**
Balances and deposits at banks and financial institutions	1,408,145	915,678
Investments at amortized cost	428,486	-
Available for sale financial assets	-	117,331
Held to maturity financial assets	-	187,095
	10,912,962	**6,073,197**

27- Interest Expense:

Composition:

	2012	2011
Customers' deposits:		
Time and term deposits	2,032,995	741,605
Saving accounts	14,881	11,738
Current and demand accounts	83,704	38,275
Cash margins	55,287	45,065
Others	239,483	79,239
PMA, Banks' and financial institutions' deposits	1,070,683	755,978
	3,497,033	**1,671,900**

28 -Net Commission Income:

Composition:

	2012	2011
Commission income:		
Commission from direct credit facilities	1,079,186	861,179
Commission from indirect credit facilities	483,686	269,173
Other commissions	825,716	659,183
	2,388,588	**1,789,535**
Less :Commission expenses	(312,718)	(383,250)
Net commission income	**2,075,870**	**1,406,285**

29- Gain from investments in securities:

Composition:

	2012	2011
Gain (loss) from sale of trading securities	-	(8,151)
Gain from sale of available for sale financial assets	-	273,064
(Loss) from sale of held to maturity financial assets	-	213,090
Loss from sales of financial assets at fair value through income statement	(15,581)	-
Gain from sales of financial assets at amortized cost	9,517	-
Revaluation (loss) gain of securities through income statement	(158,999)	(141,198)
Impairment of available for sale financial assets	-	(288,201)
Dividends income	289,803	229,122
	124,740	**277,726**

30 – Personnel Costs:

Composition:

	2012	2011
Salaries, benefits and related costs	2,883,931	2,070,606
Value add tax on salaries	410,829	299,838
End of service provision	294,378	254,556
Bank’s share in provident fund (*)	202,842	143,240
Medical	111,294	80,089
Training	49,673	9,945
Travel and transportation	19,550	7,155
Others	45,084	23,534
	4,017,581	**2,888,963**

(*) Represents Bank contribution into the employees’ provident fund which is 10% of the employees’ basic salaries. Employees’ contribution represents 5% of basic salary.

31-Other Operating Expenses:

Composition:

	2012	2011
Rent	197,014	200,861
Licenses and subscriptions	592,824	434,387
Legal and professional fees	83,262	88,061
Advertising including awards to depositors	244,339	102,706
Maintenance	234,648	150,690
Stationery and printings	181,854	145,199
Electricity and water	181,029	114,371
Telephone and postage	103,728	103,747
Hospitality	22,915	19,511
Travel and transportation	37,439	37,315
Cash transportation cost	24,571	18,481
Insurances	121,312	78,841
General assembly expenses	14,960	10,786
Board of directors remunerations	82,000	75,000
Property tax	36,348	-
Mortgage loans insurance	75,157	-
Donations	40,994	15,516
Others	30,445	12,894
	2,304,839	**1,608,366**

32. Information about bank operations segments:

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

	Individuals	Corporate	Financing/ Treasury	Others	2012	2011
Gross income	7,343,538	4,424,677	2,929,047	-	14,697,262	8,923,493
Expenses	(1,001,286)	(1,737,787)	(1,070,678)	-	(3,809,751)	(2,055,150)
Provision for credit facilities	(467,677)	-	-	-	(467,677)	(846,378)
Gross income	**5,874,575**	**2,686,890**	**1,858,369**	**-**	**10,419,834**	**6,021,965**
Undistributed expenses					(7,399,734)	(5,243,703)
Income before taxes					3,020,100	778,262
Taxes					(999,000)	(210,000)
Net Income after taxes					**2,021,100**	**568,262**
Additional information:						
Sector's Assets	**83,166,594**	**62,961,481**	**196,632,342**	**8,129,617**	**350,890,034**	**247,399,123**
Sector's Liabilities	**94,274,736**	**138,027,518**	**63,452,057**	**3,814,530**	**299,568,841**	**218,139,556**
Capital Expenditures					**1,348,895**	**5,159,138**
Depreciation and Amortization					**1,077,314**	**746,374**

B) Bank revenues, assets and capital expenditures according to geographical area:

	Inside Palestine		Outside Palestine		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Gross Revenues	13,661,455	8,491,810	1,035,807	431,683	14,697,262	8,923,493
Total Assets	289,350,439	180,493,273	61,539,595	66,905,850	350,809,034	247,399,123
Capital Expenditures	1,348,895	5,159,138	-	-	1,348,895	5,159,138

33. Credit Risk Exposure according to Sector:

a. Credit Risk Exposure according to geographical area:

December 31, 2012

	Inside Palestine	Middle East Countries	Europe	Africa	America	Total
Deposits with Palestine Monetary Authority	17,811,883	-	-	-	-	17,811,883
Deposits with banks and financial institutions	61,735,602	22,107,231	28,713,352	-	2,770,566	115,326,751
Credit facilities:						
Individuals	74,050,060	-	-	-	-	74,050,060
Real estate loans	10,769,354	-	-	-	-	10,769,354
Corporate	26,582,975	-	-	-	-	26,582,975
Small and medium companies	5,143,823	-	-	-	-	5,143,823
Government and public sector	28,572,577	-	-	-		28,572,577
Financial assets at fair value through statement of income	2,989,301	-	-	-	-	2,989,301
Financial assets at fair value through other comprehensive income	1,503,546	920,310	-	-	-	2,423,856
Financial assets at amortized cost	5,980,000	4,400,606	1,726,373	221,317	469,653	12,797,949
Investments in associates	4,305,290	-	-	-	-	4,305,290
Other assets	3,384,813	160,594	33,130	5,733	10,730	3,595,000
Total for the current year	**242,829,224**	**27,588,741**	**30,472,855**	**227,050**	**3,250,949**	**304,368,819**
Off Balance Sheet Items:						
Letters of credits	8,802,838	-	-	-	-	8,802,838
Acceptable guarantees	648,406	-	-	-	-	648,406
Bank guarantees	24,532,421	-	-	-	-	24,532,421
Unused direct credit facilities	22,933,432	2,409	-	-	-	22,935,841

Total for the current year	**56,917,097**	**2,409**	**-**	**-**	**-**	**56,919,506**

December 31, 2011

	Inside Palestine	Middle East Countries	Europe	Africa	America	Total
Deposits with Palestine Monetary Authority	13,137,750	-	-	-	-	13,137,750
Deposits with banks and financial institutions	51,854,852	14,048,580	44,635,719	-	4,359,088	114,898,239
				-		
Credit facilities:	45,678,050	-	-	-	-	45,678,050
Individuals	2,801,610	-	-	-	-	2,801,610
Real estate loans	13,901,709	-	-	-	-	13,901,709
Corporate	5,995,268	-	-	-	-	5,995,268
Small and medium companies	9,933,291	-	-		-	9,933,291
Available for sale financial assets	1,297,434	1,402,668	2,041,774	-	240,553	4,982,429
Held to maturity investments	5,000,000	-	-	-	-	5,000,000
Trading asset	3,171,502	27,300	-	-	-	3,198,802
Other assets	1,759,424	99,118	49,748		1,302	1,909,592
Total for the current year	**154,530,890**	**15,577,666**	**46,727,241**	**-**	**4,600,943**	**221,436,740**
Off Balance Sheet Items:						
Letters of credits	4,597,468	-	-	-	-	4,597,468
Acceptable guarantees	256,642	-	-	-	-	256,642
Bank guarantees	7,438,498	-	-	-	-	7,438,498
Unused direct credit facilities	8,416,183	61,939	-	-	-	8,478,122
Total for the current year	**20,708,791**	**61,939**	**-**	**-**	**-**	**20,770,730**

b. Exposure according to economic sector:

	Financial	Industrial	Trade	Real Estates	Agricultural	Individuals	Total
December 31, 2012	**US. $**	**US. $**	**US. $**	**US. $**	**US. $**	**US. $**	**US. $**
Deposits with Palestine Monetary Authority	17,811,883	-	-	-	-	-	17,811,883
Deposits with banks and financial institutions	115,326,751	-	-	-	-	-	115,326,751
Credit facilities	-	860,920	53,043,381	12,162,225	1,127,829	77,924,434	145,118,789
Financial assets at fair value through the statement of income	2,989,301	-	-	-	-	-	2,989,301
Financial assets at fair value through other comprehensive income	2,423,856	-	-	-	-	-	2,423,856
Financial assets at amortized cost	12,797,949	-	-	-	-	-	12,797,949
Investments in associates	4,305,290	-	-	-	-	-	4,305,290
Others assets	3,595,000	-	-	-	-	-	3,595,000
Total	**159,250,030**	**860,920**	**53,043,381**	**12,162,225**	**1,127,829**	**77,924,434**	**304,368,819**
December 31, 2011							
Deposits with Palestine Monetary Authority	13,137,750	-	-	-	-	-	13,137,750
Deposits with banks and financial institutions	114,898,239	-	-	-	-	-	114,898,239
Credit facilities	11,563	2,854,033	27,957,320	7,616,565	1,057,260	38,813,187	78,309,928
Available for sale investments	4,982,429	-	-	-	-	-	4,982,429
Held to maturity investments	5,000,000	-	-	-	-	-	5,000,000
Trading securities	3,198,802	-	-	-	-	-	3,198,802
Others assets	1,909,592	-	-	-	-	-	1,909,592
Total	**143,138,375**	**2,854,033**	**27,957,320**	**7,616,565**	**1,057,260**	**38,813,187**	**221,436,740**

c. Concentration of assets and liabilities

	2012			2011		
	Assets	Liabilities	Off Balance Sheet Items	Assets	Liabilities	Off Balance Sheet Items
	US. $	US. $	US. $	US. $	US. $	US. $
A. According to Geographic Area						
Inside Palestine	289,350,440	283,218,905	56,919,506	180,554,147	184,667,648	20,770,730
Jordan	26,945,087	3,003,543		14,939,468	-	-
Gulf Countries	643,654	464,004		577,324	622,224	-
Africa	227,050	-		-	-	-
Europe	30,472,855	12,882,389		46,727,241	32,849,684	-
America	3,250,948	-		4,600,943	-	-
Total	**350,890,034**	**299,568,841**	**56,919,506**	**247,399,123**	**218,139,556**	**20,770,730**
B. According to Sector						
Companies and institutions	62,961,481	138,027,518	46,312,776	29,750,122	74,939,431	16,122,381
Individuals	83,166,594	94,274,736	10,606,730	48,290,614	59,662,012	4,648,349
Treasury	196,632,342	63,452,057	-	161,864,861	78,045,640	-
Others	8,129,617	3,814,530	-	7,493,526	5,492,473	-
Total	**350,890,034**	**299,568,841**	**56,919,506**	**247,399,123**	**218,139,556**	**20,770,730**

34- Related Parties:

Transactions and balances with related parties are as follows:

	Executive Management and Board of Directors	Other Related Parties	Total	Percentage to Net Facilities	Percentage to capital
Year Ended 31 December 2012:					
Financial Position items:					
Direct credit facilities	1,783,008	7,153,339	8,936,347	6.258%	21.699%
Deposits	14,840,389	35,723,901	50,564,290		
Cash margins	-	1,291,301	1,291,301		
Off balance sheet items:					
Letter of guarantees	680,796	5,599,321	6,280,117	6.381%	22.124%
Unutilized credit limits	465,595	2,365,892	2,831,487		
Statement of Income:					
Interest and commission income	733,330	-	733,330		
Interest and commission expense	588,630	-	588,630		
Year Ended 31 December 2011:					
Financial Position items:					
Direct credit facilities	2,081,255	2,198,355	4,279,610	5.60%	17.99%
Deposits	1,474,087	23,887,978	25.362.065		
Cash margins	-	333,103	333.103		
Off balance sheet items:					
Letter of guarantees	-	1,695,253	1,695,253		
Unutilized credit limits	192,048	2,801,053	2,993,101	6.10%	19.71%
Statement of Income:					
Interest and commission income	289,014	-	289,014		
Interest and commission expense	135,036	-	135,036		

35 – Contra Accounts:

Composition:

	December 31, 2012	December 31, 2011
	Due within One year	Due within One year
Letter of credits	8,802,838	4,597,468
Acceptances	648,406	256,642
Letter of guarantees	24,532,421	7,438,498
Unutilized credit limits	22,935,841	8,478,122
Total	**56,919,506**	**20,770,730**

36- Cash and Cash Equivalent:

Composition:

	For the Period Ended December 31	
	2012	2011
Deposits with Palestine Monetary Authority	52,382,492	26,185,208
Deposits with banks due within three months	115,326,751	112,782,583
Deposits of PMA and banks due within three months	(63,419,209)	(78,525,458)
Restricted deposits	(16,183,166)	(5,809,371)
Compulsory reserve	(16,862,975)	(11,249,205)
	71,243,893	**43,383,757**

37- Lawsuits against the Bank:

There are lawsuits held against the bank to abolish the bank's claims on others and /or damage claims and / or labor claims. The total amount of the reserve established for any potential loss was in the amount of U.S Dollar 62,048 as of 31 December 2012.

38- Comparative Figures:

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

39- New Standards, Amendments and Interpretations:

Adoption of New and Revised Standards:

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

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

Amendments to IFRS 1 Severe Hyperinflation (Effective for annual periods beginning on or after 1 July 2011),	The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.
Amendments IFRS 1 removal of Fixed Dates for First-time Adopters (Effective for annual periods beginning on or after 1 July 2011)	The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs.
Amendments to IFRS 7 Disclosures – Transfers of Financial assets (effective for annual periods beginning on or after 1 July 2011)	The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset.

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

Amendments to IAS 12: Deferred Tax – Recovery of Underlying assets (Effective for annual periods beginning on or after 1 January 2012)	The amendments to IAS 12 provide an exception to the general principle set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40 Investment Property will be recovered entirely through sale. The amendments were issued in response to concerns that application of IAS 12's general approach can be difficult or subjective for investment property measured at fair value because it may be that the entity intends to hold the asset for an indefinite or indeterminate period of time, during which it anticipates both rental income and capital appreciation. Under the amendments, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset is required to reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. The 'sale' presumption is rebutted if the investment property is depreciable and the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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

Amendments to IAS 12: Deferred Tax – Recovery of Underlying assets (Effective for annual periods beginning on or after 1 January 2012)	Following the application of the amendments, entities holding investment property accounted for using the fair value model in accordance with IAS 40 in jurisdictions where tax is not imposed on sale of the investment property will no longer recognise deferred tax on any temporary differences arising from fair value gains or losses (unless the presumption is rebutted). This is because there would be no tax consequences expected to arise from recovering the carrying amount entirely through sale, regardless of whether the entity intends to use the property to generate rental income for a period of time prior to sale. For depreciable investment property, the application of the amendments will result in a change in accounting policy. When the deferred tax associated with an investment property was previously determined based on expectations that the property would be recovered through use, the measurement basis will need to be changed unless the 'sale' presumption is rebutted. When the amendments result in a change to the basis of measurement and the effect is material, prior year amounts are required to be restated as the amendments require full retrospective application.

New and revised IFRSs issued but not yet effective

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

	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments (as revised in 2010)	1 January 2015.
Amendments to IFRS 9 and IFRS 7 Mandatory Effective date of IFRS 9 and transition Disclosures	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other entities	1 January 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other entities: Transition Guidance	1 January 2013
IAS 27 Separate Financial Statements (as revised in 2011)	1 January 2013
IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IAS 19 Employee Benefits (as revised in 2011)	1 January 2013
Amendments to IAS 32 Financial Statements Offsetting Financial Assets and Liabilities	1 January 2014
Amendments to IFRS 1 Government Loans	1 January 2013
Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	1 January 2014
Annual Improvements to IFRSs 2009 – 2011 Cycle	1 January 2013

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