

HSBC BANK MIDDLE EAST LTD - RAMALLAH BRANCH

FINANCIAL STATEMENTS

DECEMBER 31, 2011

## **Independent Auditors' Report to the Management of HSBC Bank Middle East Ltd-Ramallah Branch**

We have audited the accompanying financial statements of HSBC Bank Middle East Ltd - Ramallah Branch, which comprise the statement of financial position as of December 31, 2011, and the statement of income and comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

The Management is responsible for the preparation and fair presentation of these 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 from material misstatement, whether due to fraud or error.

### **Auditors' 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 auditors' 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 entity'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 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 financial statements.

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of HSBC Bank Middle East Ltd - Ramallah Branch as of December 31, 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Ramallah - Palestine  
March 1, 2012

HSBC Bank Middle East Ltd-Ramallah Branch

**Statement of Financial Position**

As at December 31, 2011

<u>Assets</u>	<u>Notes</u>	<u>2011</u> <u>JOD</u>	<u>2010</u> <u>JOD</u>
Cash and balances with Palestine			
Monetary Authority	3	16,111,851	25,407,379
Balances with banks and financial institutions	4	2,667,374	2,660,899
Balances with head office and other			
HSBC branches	5	7,638,308	7,848,513
Direct credit facilities, net	6	4,830,596	4,292,189
Property and equipment	7	65,865	72,190
Other assets	8	77,567	106,414
<b>Total Assets</b>		<u><u>31,391,561</u></u>	<u><u>40,387,584</u></u>
 <b><u>Liabilities and head office equity</u></b>			
<b>Liabilities</b>			
Customers' deposits	9	23,453,025	32,334,712
Cash margins	10	567,277	680,544
Tax provisions	11	44,605	15,000
Provision for employees' indemnity	12	71,018	60,139
Other liabilities	13	405,397	258,876
<b>Total liabilities</b>		<u><u>24,541,322</u></u>	<u><u>33,349,271</u></u>
 <b>Head office equity</b>			
Paid-in capital	1	7,090,000	7,090,000
Statutory reserve	14	92,917	92,917
General banking risks reserve	14	126,262	133,474
Head office transfers to cover losses		2,503,078	2,503,078
Accumulated losses		(2,962,018)	(2,781,156)
<b>Net head office equity</b>		<u><u>6,850,239</u></u>	<u><u>7,038,313</u></u>
<b>Total liabilities and head office equity</b>		<u><u>31,391,561</u></u>	<u><u>40,387,584</u></u>

The attached notes 1 to 30 form part of these financial statements

HSBC Bank Middle East Ltd-Ramallah Branch

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**Statement of Income and Comprehensive income**  
For the Year Ended December 31, 2011

		<u>2011</u>	<u>2010</u>
	<u>Notes</u>	<u>JOD</u>	<u>JOD</u>
Interest income	15	322,509	357,502
Interest expense	16	(5,954)	(18,106)
Net interest income		316,555	339,396
Net fees and commissions	17	321,532	332,056
Net interest and commissions income		638,087	671,452
Foreign currency exchange gains		202,065	116,905
Other revenues	18	113,729	85,783
		<u>953,881</u>	<u>874,140</u>
<b>Expenses</b>			
Personnel expenses	19	304,977	364,143
Other operating expenses	20	772,459	866,419
Impairment losses on direct credit facilities	6	8,582	20,892
Depreciation and amortization		26,332	24,858
<b>Total expenses</b>		<u>1,112,350</u>	<u>1,276,312</u>
<b>Loss before tax</b>		<b>(158,469)</b>	<b>(402,172)</b>
Tax expense	11	(29,605)	(2,642)
<b>Loss for the year</b>		<b>(188,074)</b>	<b>(404,814)</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<u><u>(188,074)</u></u>	<u><u>(404,814)</u></u>

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The attached notes 1 to 30 form part of these financial statements

HSBC Bank Middle East Ltd-Ramallah Branch

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**Statement of Changes in Equity**

For the Year Ended December 31, 2011

	Paid-in capital	Statutory reserve	General banking risks reserve	Head office transfers to cover losses	Accumulated losses	Net head office equity
	JOD	JOD	JOD	JOD	JOD	JOD
<b>2011</b>						
<b>At January 1, 2011</b>	7,090,000	92,917	133,474	2,503,078	(2,781,156)	7,038,313
Total comprehensive income for the year	-	-	-	-	(188,074)	(188,074)
Transferred from general banking risks reserve	-	-	(7,212)	-	7,212	-
<b>At December 31, 2011</b>	<u>7,090,000</u>	<u>92,917</u>	<u>126,262</u>	<u>2,503,078</u>	<u>(2,962,018)</u>	<u>6,850,239</u>
<b>At January 1, 2010</b>	7,090,000	92,917	133,474	2,503,078	(2,376,342)	7,443,127
Total comprehensive income for the year	-	-	-	-	(404,814)	(404,814)
<b>At December 31, 2010</b>	<u>7,090,000</u>	<u>92,917</u>	<u>133,474</u>	<u>2,503,078</u>	<u>(2,781,156)</u>	<u>7,038,313</u>

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The attached notes 1 to 30 form part of these financial statements

HSBC Bank Middle East Ltd-Ramallah Branch

**Statement of Cash Flows**

For the Year Ended December 31, 2011

	<u>Notes</u>	<u>2011</u> JOD	<u>2010</u> JOD
<b>Operating activities:</b>			
Loss before tax		(158,469)	(402,172)
<b>Adjustments for:</b>			
Depreciation and amortization		26,332	24,858
Gains on sale of property and equipment		-	(14,130)
Provision for employees' indemnity		15,826	23,111
Recovery of employees' indemnity		-	(22,364)
Impairment losses on direct credit facilities		8,582	20,892
		<u>(107,729)</u>	<u>(369,805)</u>
<b>Changes in assets and liabilities</b>			
Direct credit facilities		(546,989)	1,693,400
Other assets		28,137	(47,314)
Customers' deposits		(8,881,687)	9,008,465
Cash margins		(113,267)	(192,142)
Other liabilities		146,521	(60,616)
Employees' indemnity paid		(4,947)	(97,850)
Tax paid		-	(77,642)
Statutory cash reserve		(76,864)	58,718
<b>Net cash flows (used in) from operating activities</b>		<u>(9,556,825)</u>	<u>9,915,214</u>
<b>Investing activities:</b>			
Purchase of property and equipment		(19,297)	(43,584)
Proceeds from sale of property and equipment		-	14,403
<b>Net cash used in investing activities</b>		<u>(19,297)</u>	<u>(29,181)</u>
<b>Net (decrease) increase in cash and cash equivalents</b>		(9,576,122)	9,886,033
Cash and cash equivalents, beginning of the year		26,788,998	16,902,965
<b>Cash and cash equivalents, end of year</b>	21	<u><u>17,212,876</u></u>	<u><u>26,788,998</u></u>

## Notes to the Financial Statements

December 31, 2011

### 1. General

HSBC Bank Middle East - Ramallah Branch (the Bank) was registered in Palestine on November 18, 1996 as a limited foreign public shareholding company in accordance with the Companies Law number 12 of the year 1964 under registration number 562800144. The Bank is fully owned by HSBC Holdings Plc that is incorporate in London. The Bank's subscribed and paid in capital amounted to JOD 7,090,000. The Bank's staff comprises 14 employees as at December 31, 2011. The Bank is carrying out all of its banking and financial activities through its sole branch in Ramallah.

HSBC Holdings Plc operates in 80 countries worldwide, where its branches reached about 7,200 branches and its employees 302,000 as at December 31, 2011. Its total assets as at December 31, 2011 amounted to U.S. \$ 2556 trillion, while its total liabilities amounted to U.S. \$ 2390 trillion. Total deposits as at December 31, 2011 amounted to U.S. \$ 1254 trillion, while its equity amounted to U.S. \$ 166 trillion.

The concept of authorized share capital was abolished under the UK Companies Act 2006 and consequential amendments to the Company's Article of Association were approved by shareholders at the Annual General Meeting, total authorized capital for HSBC Holdings Plc as at December 31, 2011 amounted to U.S. \$ 8.9 billion. In addition, the basic capital adequacy percentage is 10.1%, and the regulatory capital adequacy percentage is 14.1%.

The financial statements of the Bank as of December 31, 2011 were authorized for issuance by the Bank's management on March 1, 2012.

#### 2.1 Basis of preparation

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

The financial statements have been prepared under the historical cost basis.

The financial statements are presented in the Jordanian Dinar (JOD), which is the functional currency of the Bank.

#### 2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted the following new and amended IFRS. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Bank.

IAS 24 - Related Party Disclosures (Amendment)

IAS 32 - Financial Instruments: Presentation (Amendment)

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

- IAS 1 - Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012) \*
- IFRS 7 - Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements (effective for annual periods beginning on or after July 1, 2011)
- IFRS 9 - Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after January 1, 2015) \*\*
- IFRS 13 - Fair Value Measurement (effective for annual periods beginning on or after January 1, 2013)\*\*\*

\* The amendments to IAS 1 change the banking of items presented in OCI. 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 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

\*\*\* IFRS 13 provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Bank is currently assessing the impact that this standard will have on the financial position and performance.

### **2.3 Segments information**

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

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



## 2.4 Summary of significant accounting policies

### Credit facilities

- Credit facilities are carried at amortized cost net of allowance for impairment losses, interest and commission in suspense.
- Allowance for impairment losses is made in accordance with PMA Authority regulations to cover impairment for direct credit facilities when there are one or more events that occurred after the initial recognition of the facilities that has a negative impact on the estimated future cash flows of the facilities that can be reliably estimated. Impairment loss is recognized in the statement of income and comprehensive income.
- Interest and commission of non-performing facilities are suspended in accordance with PMA regulations.
- Credit facilities provided for are written off when the collection procedures become ineffective according to PMA regulations. The excess in the allowance for impairment losses, if any, is transferred to the statement of income and comprehensive income. Collections of previously written off credit facilities are recognized as revenues.

### Fair value of financial instruments

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques, as follows:

- Reference to the current fair value of another instrument that is substantially the same.
- The discounted cash flow method, by analyzing future cash flows and deducting expected cash flows by a percentage used in a similar financial instrument.

When fair value of financial instruments cannot be reliably determined due to the unpredictable nature of future cash flows, they are stated at cost less any impairment.

The fair value of interest-bearing items is estimated based on discounted cash flow using interest rates for items with similar terms and risk characteristics.

### Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If such evidence exists, any impairment loss is recognized in the statement of income and comprehensive income.

Impairment is determined as follows:

- Financial assets carried at amortized cost, impairment is the difference between carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.
- Available for sale financial investments, the Bank assesses whether there is objective evidence that an asset is impaired. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

- Available for sale debt securities, the Bank assesses whether there is objective evidence that an asset is impaired. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

Impairment is recognized in the statement of income and comprehensive income. In addition, any reversal in impairment in subsequent periods is recognized in the statement of income and comprehensive income.

### Property and equipment

Property and equipment is 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 and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the statement of income as incurred. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

	<u>Useful life (Years)</u>
Leasehold improvements	5
Furniture, equipments & tools	3-5

Any item of property 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 statement of income 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. The amortization expense on intangible assets with finite lives is recognized in the statement of income and comprehensive income. Intangible assets with indefinite useful lives are tested for impairment annually and any impairment loss is recognized in the statement of income.
- Intangible assets resulting from the Bank's operations are not capitalized and should be recognized in the statement of income and comprehensive income in the period the expenditure incurred.
- Intangible assets are reviewed for impairment at each reporting date. Also the economic useful life for definite lives intangible assets are reviewed and being adjusted subsequently.

The Bank's intangible assets comprise of computer software. The Bank's Management estimates the useful life for each item of intangible asset. Amortization expense is calculated on a straight line basis over the estimated useful life at 20% - 33% annually.

### **Offsetting**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when, and only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

### **Revenue recognition**

Revenue is recognized based on the accrual basis of accounting. Following are the policies used by the Bank's:

- Interest income is recognized as the interest accrues using the effective interest method except for interest and commission income on non-performing facilities which is suspended and not recorded as revenues.
- Commissions income is recognized when the services are rendered.

### **Expense recognition**

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

### **Provisions**

Provisions are recognized when the Bank's has a present obligation (legal or constructive) as a result of a past event, and it is probable that the outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### **Tax provision**

The Bank's provides for income tax in accordance with the Palestinian Income Tax Law and IAS 12 which requires recognizing the temporary differences, at the 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. However, the Bank's management elected not to recognize such deferred taxes due to uncertainty of benefiting from future outcomes.

Income tax expense is calculated on the basis of taxable income. Taxable income differs from the accounting income declared in the financial statements because the accounting income includes non-taxable revenues or non-deductible expenses in the current year but deductible in subsequent years, accumulated losses acceptable by the tax law, and items not accepted for tax purposes or subject to tax.

Deferred income tax is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

### **Provision for employees' indemnity**

Provision for employees' indemnity is calculated in accordance with the labor law prevailing in Palestine.

### **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 the statement of financial position date as issued by PMA.
- 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 statement of income and comprehensive income.
- Currency exchange differences for non-monetary items are recognized as part of the cumulative change in fair value.

### **Cash and cash equivalents**

Cash and cash equivalents represent cash and balances with PMA, balances with banks and financial institutions, and balances with the head office and other HSBC branches, maturing within three months, less banks' and financial institutions' deposits maturing within three months and restricted deposits.

### **Use of estimates**

The preparation of the financial statements requires 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 resultant provisions as well as fair value changes reported in Head Office equity. 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 are reasonable and are as follows:

- Allowance for impairment losses on credit facilities: The Bank reviews its provision for credit facilities according to PMA regulations and IAS 39.
- Provision for taxes: Income tax expense and value added tax expense are calculated based on the Income Tax Law and Value Added Tax Law prevailing in Palestine and IAS 12.
- Provision for legal claims: For facing any probable future legal case and contingencies, the Bank provides provision based on the legal consultants opinion.
- Management reviews, on a regular basis, the useful lives of tangible and intangible assets in order to assess the depreciation and amortization for the year based on the assets' condition, useful life, and future economic benefits. Any impairment losses are recognized in the statement of income and comprehensive income.

- Management reviews, on a regular basis, the financial assets stated at cost to determine any impairment in value. Impairment losses are recognized in the statement of income and comprehensive income.

### 3. Cash and balances with PMA

	<u>2011</u>	<u>2010</u>
	<u>JOD</u>	<u>JOD</u>
Cash on hand	1,175,926	1,233,479
Balances with PMA:		
Capital deposit	7,090,000	7,090,000
Current accounts	4,313,268	13,628,107
Time deposits	1,418,000	1,418,000
Statutory cash reserve	<u>2,114,657</u>	<u>2,037,793</u>
	<u>16,111,851</u>	<u>25,407,379</u>

- The Bank shall maintain specific statutory cash reserves with PMA according to PMA circular no. (67/2010) as a percentage of 9% of all customers' deposits. Statutory cash reserve is calculated at the end of each month.
- Restricted cash balances at PMA excluding statutory cash reserve as at December 31, 2011 and 2010 amounted to JOD 7,090,000.
- Time and capital deposits at PMA are interest-bearing deposits with interest rates based on current market interest rates less PMA's commission of 0.25%.

### 4. Balances with banks and financial institutions

	<u>2011</u>	<u>2010</u>
	<u>JOD</u>	<u>JOD</u>
<b>Local banks and financial institutions</b>		
Current and demand accounts	<u>773,827</u>	<u>1,034,437</u>
	<u>773,827</u>	<u>1,034,437</u>
<b>Foreign banks and financial institutions</b>		
Current and demand accounts	1,893,547	562,962
Deposits maturing within 3 months	-	1,063,500
	<u>1,893,547</u>	<u>1,626,462</u>
	<u>2,667,374</u>	<u>2,660,899</u>

- Non-interest bearing balances at banks and financial institutions amounted to JOD 991,103 and JOD 1,597,399 as at December 31, 2011 and 2010, respectively.
- There are no restricted balances as at December 31, 2011 and 2010.

## 5. Balances with Head Office and other HSBC branches

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Current accounts	6,271,755	6,648,513
Deposits maturing within 3 months	<u>1,366,553</u>	<u>1,200,000</u>
	<u>7,638,308</u>	<u>7,848,513</u>

- Interest revenue from Head Office and other HSBC branches for the years ended December 31, 2011 and 2010 amounted to JOD 30,283 and JOD 23,625, respectively.
- The Bank's share from Head Office overhead expenses for the years ended December 31, 2011 and 2010 amounted to JOD 233,350 and JOD 340,522, respectively.
- Non-interest bearing balances at Head Office and other HSBC branches for the years ended December 31, 2011 and 2010 amounted to JOD 2,929,003 and JOD 3,504,612, respectively.

## 6. Direct credit facilities, net

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Overdraft facilities \ overdrawn balances	306,199	787,632
Loans and discounted bills	<u>4,657,106</u>	<u>3,613,189</u>
	4,963,305	4,400,821
Interest and commission in suspense	(33,727)	(17,936)
Allowance for impairment losses	<u>(98,982)</u>	<u>(90,696)</u>
	<u>4,830,596</u>	<u>4,292,189</u>

- Downgraded credit facilities net of interest and commission in suspense as at December 31, 2011 and 2010 amounted to JOD 144,805 and JOD 145,098 representing 2.9% and 3.3% of total credit facilities net of interest in suspense, respectively.
- Non-performing credit facilities according to PMA regulations as at December 31, 2011 and 2010 amounted to JOD 178,530 and JOD 163,034 representing 3.6 % and 3.7 % of total direct credit facilities, respectively.
- Non-performing credit facilities excluding interest in suspense as at December 31, 2011 and 2010 amounted to JOD 144,805 and JOD 145,098 representing 2.9 % and 3.3 % of total direct credit facilities excluding interest in suspense, respectively.
- The fair value of collaterals against direct credit facilities according to PMA regulations amounted to JOD 336,740 and JOD 807,631 as at December 31, 2011 and 2010 respectively,
- Credit facilities do not include facilities granted to the government or non residents.

### Allowance for impairment losses on direct credit facilities

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

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Balance, beginning of the year	90,696	69,705
Addition during the year	8,582	20,892
Currency exchange	(296)	99
Balance, end of year	<u>98,982</u>	<u>90,696</u>

### Interest in suspense

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

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Balance, beginning of the year	17,936	3,142
Interest suspended during the year	15,791	14,794
Balance, end of year	<u>33,727</u>	<u>17,936</u>

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

	<u>2011</u>	<u>2010</u>
	JOD	JOD
<b>Industrial and Trade</b>		
Manufacturing	140,204	220,027
	<u>140,204</u>	<u>220,027</u>
<b>Services sector</b>		
Others	29,542	118,167
	<u>29,542</u>	<u>118,167</u>
<b>Wholesale &amp; retail</b>		
Local trading	4,519,936	3,619,986
	<u>4,519,936</u>	<u>3,619,986</u>
<b>Real estate and land development</b>		
Permanent residence and building improvements	14,180	74,860
	<u>14,180</u>	<u>74,860</u>
<b>Consumers' loans</b>		
Commodity loans	225,716	349,845
	<u>225,716</u>	<u>349,845</u>
	<u>4,929,578</u>	<u>4,382,885</u>

## 7. Property and equipment

	Leasehold	Equipment	Furniture	Total
	improvements	& computers		
<b>December 31, 2011</b>	JOD	JOD	JOD	JOD
<b>Cost:</b>				
At January 1, 2011	75,114	141,855	91,203	308,172
Additions	186	7,792	11,319	19,297
Disposals	-	-	(147)	(147)
At December 31, 2011	<u>75,300</u>	<u>149,647</u>	<u>102,375</u>	<u>327,322</u>
<b>Accumulated depreciation:</b>				
At January 1, 2011	35,843	118,792	81,347	235,982
Depreciation for the year	10,171	10,831	4,620	25,622
Disposals	-	-	(147)	(147)
At December 31, 2011	<u>46,014</u>	<u>129,623</u>	<u>85,820</u>	<u>261,457</u>
<b>Net book value</b>				
<b>At December 31, 2011</b>	<u>29,286</u>	<u>20,024</u>	<u>16,555</u>	<u>65,865</u>
<b>At December 31, 2010</b>	<u>39,271</u>	<u>23,063</u>	<u>9,856</u>	<u>72,190</u>

## 8. Other assets

	2011	2010
	JOD	JOD
Prepaid expenses	31,226	34,423
Commissions receivable	23,353	48,398
Accrued interest income	14,031	13,644
Intangible assets*	383	1,093
Sundry	8,574	8,856
	<u>77,567</u>	<u>106,414</u>

\* Movement on intangibles assets during the year was as follows:

	2011	2010
	JOD	JOD
Balance, beginning of the year	1,093	1,861
Amortization	(710)	(768)
Balance, end of year	<u>383</u>	<u>1,093</u>

Intangible assets represent a security system licence for the banks computers.



## 9. Customers' deposits

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Saving deposits	10,196,839	9,255,934
Current and demand deposits	9,588,465	19,138,807
Time deposits	3,667,721	3,939,971
	<u>23,453,025</u>	<u>32,334,712</u>

- Non-interest bearing deposits amounted to JOD 9,588,465 representing 41% of the total deposits as at December 31, 2011, comparing to JOD 13,034,815 representing 40% of the total deposits as at December 31, 2010.
- Customer deposits don't contain any dormant accounts.

## 10. Cash margins

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Direct credit facilities	294,354	620,220
Indirect credit facilities	272,923	60,324
	<u>567,277</u>	<u>680,544</u>

## 11. Tax provisions

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Balance, beginning of the year	15,000	90,000
Tax expense for the year	29,605	15,000
Recovery of prior year's tax	-	(12,358)
Payments related to prior years	-	(77,642)
Balance, end of year	<u>44,605</u>	<u>15,000</u>

The reconciliation between accounting income and taxable income is as follows:

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Bank's accounting loss	(158,469)	(402,172)
Non-deductible expenses	244,230	274,565
Income subject to Value Added Tax (VAT)	85,761	(127,607)
VAT (14.5%)	(10,861)	16,160
VAT on payroll	-	(22,927)
Offset of prior years losses	(49,044)	-
Income subject to income tax	-	(134,374)
Income Tax (15%)	-	-
Total taxes for the year	<u>10,861</u>	<u>-</u>
Provision for the bank	<u>29,605</u>	<u>15,000</u>

As of the date of the financial statements, the Bank did not reach a final settlement with VAT and income tax departments for the Bank's results of operations for the year 2010.

## 12. Provision for employees' indemnity

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

	<u>2011</u> JOD	<u>2010</u> JOD
Balance, beginning of the year	60,139	157,242
Provided for during the year	15,826	23,111
Paid during the year	(4,947)	(97,850)
Recovered	-	(22,364)
Balance, end of year	<u>71,018</u>	<u>60,139</u>

## 13. Other liabilities

	<u>2011</u> JOD	<u>2010</u> JOD
Accrued expenses	297,035	175,435
Employees' provident fund *	74,799	55,270
Certified checks	19,434	19,424
Accrued unpaid interest	235	362
Sundry	13,894	8,385
	<u>405,397</u>	<u>258,876</u>

\* The Bank deducts 4% from the employees' monthly basic salary and contributes an additional 8% of the employees' monthly basic salary for the provident fund.

## 14. Reserves

### Statutory reserve

As required by the Companies' Law and Banking Law, 10% of net profit is transferred to the statutory reserve and will continue until the total reserve balance equals the Bank's paid-in capital, This reserve is not available for distribution to shareholders, and it cannot be utilized without the prior approval of PMA.

### General banking risks reserve

This reserve is appropriated in accordance with PMA regulations (5/2008) based on 1.5% of the direct credit facilities after deducting the allowance for impairment losses and 0.5% of the indirect credit facilities after deducting checks under collection, letters of guarantees, acceptances, and financial derivatives, and it cannot be utilized without the prior approval of PMA.

## 15. Interest income

	<u>2011</u> JOD	<u>2010</u> JOD
Direct credit facilities:		
Overdraft facilities	28,032	46,421
Loans and discounted bills	257,276	277,520
	<u>285,308</u>	<u>323,941</u>
Balances with banks and financial institutions	991	615
Balances with Head Office and other HSBC branches	30,283	23,625
Balances with PMA	5,870	8,551
Sundry	57	770
	<u>322,509</u>	<u>357,502</u>

## 16. Interest expense

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Time deposits	3,812	10,204
Saving deposits	2,101	7,698
Current and demand deposits	41	204
	<u>5,954</u>	<u>18,106</u>

## 17. Net fees and commissions

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Commissions income		
Direct credit facilities	19,623	19,282
Custody Services*	238,850	218,896
Indirect credit facilities	14,668	15,097
Others	96,797	123,713
	<u>369,938</u>	<u>376,988</u>
Commission expense	<u>(48,406)</u>	<u>(44,932)</u>
	<u>321,532</u>	<u>332,056</u>

\* The Bank provides custody services to foreign investors for securities traded in Palestine Exchange. The Bank opens accounts for these investors and for licensed intermediary brokers. The Bank charges commissions for account management, transactions, and safekeeping services. At December 31, 2011, and 2010 assets held by HSBC as custodian amounted to JOD 99,393,401 and JOD 108,515,199, respectively. Fees earned from custody services for the years ended December 31, 2011 and 2010 amounted to JOD 238,850 and JOD 218,896, respectively.

## 18. Other revenues

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Gains on sale of property and equipment	-	14,130
Recovery of provisions	42,322	41,058
ATM service commissions	14,186	-
Sundry	57,221	30,595
	<u>113,729</u>	<u>85,783</u>

## 19. Personnel expenses

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Salaries and related expenses	262,546	288,618
Provision for employees' indemnity	15,826	23,111
Provident fund	14,806	24,137
Training expense	1,516	17,591
Medical insurance	10,283	10,686
	<u>304,977</u>	<u>364,143</u>

## 20. Other operating expenses

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Software development costs	232,932	184,746
Telephone and postage	63,550	59,814
Fees, license and subscriptions	60,492	57,089
Professional fees	40,001	47,449
Rent	28,400	28,209
Maintenance	20,656	20,413
Travel and accommodations	20,413	30,396
Stationery and printings	11,549	10,819
Utilities	10,839	10,398
Advertisement and marketing	9,613	15,650
Fuel	3,828	1,472
Insurance	3,784	7,743
Vehicles expense	1,236	855
Entertainment expense	791	2,729
Sundry	31,025	48,115
	<u>539,109</u>	<u>525,897</u>
Bank share of Head Office overheads expense	233,350	340,522
	<u>772,459</u>	<u>866,419</u>

## 21. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include the following:

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Cash and balances with PMA	16,111,851	25,407,379
Add: Balances with banks and financial institutions maturing within 3 months	2,667,374	2,660,899
Add: Balances with head office and other HSBC branches maturing within 3 months	7,638,308	7,848,513
Less: Capital deposit	(7,090,000)	(7,090,000)
Statutory cash reserve - restricted deposit with PMA	<u>(2,114,657)</u>	<u>(2,037,793)</u>
	<u>17,212,876</u>	<u>26,788,998</u>

## 22. Commitments and contingent liabilities

Total outstanding commitment and contingent liabilities as at the financial statements date are as follows:

	<u>2011</u>	<u>2010</u>
	JOD	JOD
Letter of credits	1,169,850	1,276,200
Letter of guarantees:		
Performance	10,635	31,905
Bids entrance	-	9,389
Payment guarantee	290,696	279,682
Endorsements and acceptances	37,714	37,714
Checks under collection	591,101	859,557
Unutilized limits of direct and indirect credit facilities	<u>1,607,886</u>	<u>2,802,543</u>
	<u>3,707,882</u>	<u>5,296,990</u>

## 23. 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 and credit facilities are as follows:

	<u>2011</u>	<u>2010</u>
	JOD	JOD
<b>Statement of financial position items:</b>		
Balances with Head Office and other HSBC branches	<u>7,638,308</u>	<u>7,848,513</u>
Customer's deposits	<u>-</u>	<u>760</u>
Credit facilities	<u>-</u>	<u>4,000</u>
<b>Commitments and contingent liabilities:</b>		
Unutilized limits of direct credit facilities	<u>-</u>	<u>1,000</u>
<b>Statement of income and comprehensive income items:</b>		
Interest income	<u>30,283</u>	<u>23,625</u>
Interest expense	<u>-</u>	<u>10</u>
Head Office expenses	<u>233,350</u>	<u>340,522</u>
Software development costs	<u>232,932</u>	<u>184,746</u>
 Compensation of key management personnel:		
	<u>2011</u>	<u>2010</u>
	JOD	JOD
Salaries and related benefits	<u>52,133</u>	<u>38,602</u>
Long term benefits	<u>2,666</u>	<u>5,318</u>

## 24. Fair value of financial instruments

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 with banks and financial institutions, balances at head office and other HSBC branches, direct credit facilities, other assets, customers' deposits, cash margins, and other liabilities approximate their carrying amounts largely due to the short -term maturities of these instruments.

## 25. Risk management

### 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's, 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's also monitors credit risks and continuously evaluates the credit standing of customers, The Bank's also obtains appropriate collaterals from customers.

#### 1. Exposures to credit risks

	<u>2011</u>	<u>2010</u>
	JOD	JOD
<b>Statement of financial position items</b>		
Balances with PMA	14,935,925	24,173,900
Balances with banks and financial institutions	2,667,374	2,660,899
Balances with Head Office and other HSBC branches	7,638,308	7,848,513
Direct credit facilities	4,929,578	4,382,885
Other assets	45,958	70,898
	<u>30,217,143</u>	<u>39,137,095</u>
<b>Off statement of financial position items</b>		
Letters of guarantee	1,169,850	1,276,200
Letters of credit	301,331	320,976
Endorsements and acceptances	37,714	37,714
Checks under collections	591,101	859,557
Unutilized limits of direct and indirect credit facilities	1,607,886	2,802,543
	<u>3,707,882</u>	<u>5,296,990</u>

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

<u>December 31, 2011</u>	Corporate			Total
	Retail	Large	Medium and small	
	JOD	JOD	JOD	
Performing	239,896	4,464,940	79,937	4,784,773
Watch list	-	-	-	-
Non-performing:				
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	178,532	178,532
<b>Total</b>	<b>239,896</b>	<b>4,464,940</b>	<b>258,469</b>	<b>4,963,305</b>
Interest and commission in suspense	-	-	(33,727)	(33,727)
Allowance for impairment losses on credit facilities	-	-	(98,982)	(98,982)
	<u>239,896</u>	<u>4,464,940</u>	<u>125,760</u>	<u>4,830,596</u>

<u>December 31, 2010</u>	Corporate			Total
	Retail	Large	Medium and small	
	JOD	JOD	JOD	
Performing	405,108	3,633,874	198,805	4,237,787
Watch list	-	-	-	-
Non-performing:				
Substandard	-	-	4,408	4,408
Doubtful	-	-	-	-
Loss	-	-	158,626	158,626
<b>Total</b>	<b>405,108</b>	<b>3,633,874</b>	<b>361,839</b>	<b>4,400,821</b>
Interest and commission in suspense	-	-	(17,936)	(17,936)
Allowance for impairment losses on credit facilities	-	-	(90,696)	(90,696)
	<u>405,108</u>	<u>3,633,874</u>	<u>253,207</u>	<u>4,292,189</u>

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

<u>December 31, 2011</u>	Corporate			Total JOD
	Retail	Large	Medium and small	
	JOD	JOD	JOD	
<b>Collaterals against:</b>				
Performing	111,894	179,023	-	290,917
Watch list	-	-	-	-
Non-performing:				
Sub-standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	45,823	45,823
<b>Total</b>	<b>111,894</b>	<b>179,023</b>	<b>45,823</b>	<b>336,740</b>
<b>Includes:</b>				
Cash margins	2,260	179,023	-	181,283
Quoted shares	-	-	45,823	45,823
Vehicles and equipment	3,362	-	-	3,362
Bank guarantees	106,272	-	-	106,272
	<u>111,894</u>	<u>179,023</u>	<u>45,823</u>	<u>336,740</u>

<u>December 31, 2010</u>	Corporate			Total JOD
	Retail	Large	Medium and small	
	JOD	JOD	JOD	
<b>Collaterals against:</b>				
Performing	175,133	540,672	40,826	756,631
Watch list	-	-	-	-
Non-performing:				
Sub-standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	51,000	51,000
<b>Total</b>	<b>175,133</b>	<b>540,672</b>	<b>91,826</b>	<b>807,631</b>
<b>Includes:</b>				
Cash margins	121,424	540,672	14,180	676,276
Bank guarantees	53,709	-	-	53,709
Quoted shares	-	-	51,000	51,000
Vehicles and equipment	-	-	26,646	26,646
	<u>175,133</u>	<u>540,672</u>	<u>91,826</u>	<u>807,631</u>



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

	Palestine	Arab countries	Europe & Israel	United States of America	Other	Total
	JOD	JOD	JOD	JOD	JOD	JOD
Balances with PMA	14,935,925	-	-	-	-	14,935,925
Balances with banks and financial institutions	773,827	-	1,893,547	-	-	2,667,374
Balances with Head Office and other HSBC branches		3,245,809	2,237,323	2,110,975	44,201	7,638,308
Direct credit facilities	4,929,578	-	-	-	-	4,929,578
Other assets	45,958	-	-	-	-	45,958
<b>Total as at December 31, 2011</b>	<b>20,685,288</b>	<b>3,245,809</b>	<b>4,130,870</b>	<b>2,110,975</b>	<b>44,201</b>	<b>30,217,143</b>
<b>Total as at December 31, 2010</b>	<b>29,662,120</b>	<b>3,788,627</b>	<b>3,460,182</b>	<b>2,205,645</b>	<b>20,521</b>	<b>39,137,095</b>
<b>Off statement of financial position items:</b>						
<b>Balance as December 31, 2011</b>	<b>3,707,882</b>	-	-	-	-	<b>3,707,882</b>
<b>Balance as December 31, 2010</b>	<b>5,296,990</b>	-	-	-	-	<b>5,296,990</b>

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

	Financial	Industrial	Commerce	Real estate	Others	Total
	JOD	JOD	JOD	JOD	JOD	JOD
Balances with PMA	14,935,925	-	-	-	-	14,935,925
Balances with banks and financial institutions	2,667,374	-	-	-	-	2,667,374
Balances with Head Office and other HSBC branches	7,638,308	-	-	-	-	7,638,308
Direct credit facilities	-	140,204	4,519,936	14,180	255,258	4,929,578
Other assets	-	-	-	-	45,958	45,958
<b>Total as at December 31, 2011</b>	<b>25,241,607</b>	<b>140,204</b>	<b>4,519,936</b>	<b>14,180</b>	<b>301,216</b>	<b>30,217,143</b>
<b>Total as at December 31, 2010</b>	<b>34,683,312</b>	<b>219,370</b>	<b>3,620,643</b>	<b>74,860</b>	<b>538,910</b>	<b>39,137,095</b>
<b>Off statement of financial position items:</b>						
<b>Balance as December 31, 2011</b>	-	-	3,707,882	-	-	3,707,882
<b>Balance as December 31, 2010</b>	-	-	5,296,990	-	-	5,296,990

## II, Market risk

Market risk arises from changes in interest rates, exchange rates of foreign currencies, 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's manage this risk by reviewing the interest rate on assets and liabilities through its strategy on risk management.

Interest rates on assets and liabilities are reviewed periodically and the Bank's 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 (basis points) is expected to be equal and opposite to the effect of the increase shown below:

Currency	2011		2010	
	Increase in interest rate (basis points)	Interest income sensitivity (profit and loss)	Increase in interest rate (basis points)	Interest income sensitivity (profit and loss)
U.S. \$	+10	7,377	+10	1,829
ILS	+10	(228)	+10	(1,564)
JOD	+10	183	+10	(2,688)
Other currencies	+10	(1,547)	+10	(1,812)

**December 31, 2011**

**Interest rate re-pricing sensitivity**

	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
	JOD	JOD	JOD	JOD	JOD	JOD	JOD
<b>Assets</b>							
Cash and balances with PMA	8,508,000	-	-	-	-	7,603,851	16,111,851
Balances with banks and financial institutions	1,676,271	-	-	-	-	991,103	2,667,374
Balances with Head Office and other HSBC branches	4,709,305	-	-	-	-	2,929,003	7,638,308
Direct credit facilities	3,607,428	192,598	618,873	276,894	134,803	-	4,830,596
Property and equipment	-	-	-	-	-	65,865	65,865
Other assets	-	-	-	-	-	77,567	77,567
<b>Total assets</b>	<b>18,501,004</b>	<b>192,598</b>	<b>618,873</b>	<b>276,894</b>	<b>134,803</b>	<b>11,667,389</b>	<b>31,391,561</b>
<b>Liabilities</b>							
Customers' deposits	13,660,446	56,150	147,964	-	-	9,588,465	23,453,025
Cash margins	-	-	-	-	-	567,277	567,277
Tax provisions	-	-	-	-	-	44,605	44,605
Provision for employees' indemnity	-	-	-	-	-	71,018	71,018
Other liabilities	74,799	-	-	-	-	330,598	405,397
<b>Total liabilities</b>	<b>13,735,245</b>	<b>56,150</b>	<b>147,964</b>	<b>-</b>	<b>-</b>	<b>10,601,963</b>	<b>24,541,322</b>
<b>Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,850,239</b>	<b>6,850,239</b>
Total liabilities and head office equity	13,735,245	56,150	147,964	-	-	17,452,202	31,391,561
Interest rate re-pricing sensitivity gap	4,765,759	136,448	470,909	276,894	134,803	(5,784,813)	-

**December 31, 2010**

**Interest rate re-pricing sensitivity**

	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
	JOD	JOD	JOD	JOD	JOD	JOD	JOD
<b>Total assets</b>	<b>12,899,001</b>	<b>285,685</b>	<b>1,032,507</b>	<b>351,758</b>	<b>494,738</b>	<b>25,323,895</b>	<b>40,387,584</b>
<b>Total liabilities</b>	<b>19,013,624</b>	<b>138,586</b>	<b>147,687</b>	<b>-</b>	<b>-</b>	<b>14,049,374</b>	<b>33,349,271</b>
<b>Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,038,313</b>	<b>7,038,313</b>
Total liabilities and head office equity	19,013,624	138,586	147,687	-	-	21,087,687	40,387,584
Interest rate re-pricing sensitivity gap	(6,114,623)	147,099	884,820	351,758	494,738	4,236,208	-

## 2. Foreign currency risk

These are the risks of the change in value of financial instruments resulting from the change in foreign exchange rates, The JOD 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 effect of decrease in currency rate (%) is expected to be equal and opposite to the effect of the increase shown below:

Currency	2011			2010		
	Change in currency rate (%)	Effect on profit and loss	Effect on equity	Change in currency rate (%)	Effect on profit and loss	Effect on equity
ILS	+10	(989)	-	+10	(1,372)	-
Other currencies	+10	206,700	-	+10	2,088	-

Following is the foreign currencies position of the Bank:

	ILS JOD	U.S. \$ JOD	Other currencies JOD	Total JOD
<b>December 31, 2011</b>				
<b>Assets</b>				
Cash and balances with PMA	1,116,213	14,024,481	284,869	15,425,563
Balances with banks and financial institutions	231,449	2,433,900	2,023,486	4,688,835
Balances with head office and other HSBC branches	-	4,143,937	1,900,109	6,044,046
Direct credit facilities	707,851	4,075,470	-	4,783,321
Other assets	6,821	43,328	3,728	53,877
<b>Total assets</b>	<b>2,062,334</b>	<b>24,721,116</b>	<b>4,212,192</b>	<b>30,995,642</b>
<b>Liabilities</b>				
Customers' deposits	2,051,555	16,924,562	2,139,386	21,115,503
Cash margins	20,669	529,543	5,810	556,022
<b>Total liabilities</b>	<b>2,072,224</b>	<b>17,454,105</b>	<b>2,145,196</b>	<b>21,671,525</b>
In statement of financial position concentration	(9,890)	7,267,011	2,066,996	9,324,117
Contingent liabilities - off balance sheet	728,961	2,978,908	-	3,707,869
<b>December 31, 2010</b>				
<b>Total assets</b>	<b>3,105,790</b>	<b>32,319,997</b>	<b>1,838,528</b>	<b>37,264,315</b>
<b>Total liabilities</b>	<b>3,119,513</b>	<b>25,283,160</b>	<b>1,817,652</b>	<b>30,220,325</b>
In statement of financial position concentration	(13,723)	7,036,837	20,876	7,043,990
Contingent liabilities - off Statement of financial position	770,180	4,525,814	-	5,295,994

### III, Liquidity Risk

Liquidity risk is the risk that the Bank's will be unable to meet its payment obligations when they fall due, to limit this risk, management has arranged diversified funding sources, manages assets and liabilities with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

The table below summarizes the allocation of financial assets and liabilities (undiscounted) on the basis of the remaining contractual entitlement as of the financial statements date,

	Less than 3 months	From 3 months to 6 months	From 6 months up to 1 year	From 1 year to three years	More than 3 years	Without maturity	Total
<b>December 31, 2011</b>	JOD	JOD	JOD	JOD	JOD	JOD	JOD
<b>Assets:</b>							
Cash and balances with PMA	8,508,592	-	-	-	-	7,603,851	16,112,443
Balances with banks and financial institutions	1,676,344	-	-	-	-	991,103	2,667,447
Balances with head office and other HSBC branches	4,711,276	-	-	-	-	2,929,003	7,640,279
Direct credit facilities	3,908,044	209,917	682,732	312,895	160,044	-	5,273,632
Property and equipment	-	-	-	-	-	65,865	65,865
Other assets	-	-	-	-	-	77,567	77,567
<b>Total assets</b>	<b>18,804,256</b>	<b>209,917</b>	<b>682,732</b>	<b>312,895</b>	<b>160,044</b>	<b>11,667,389</b>	<b>31,837,233</b>

	Less than 3 months	From 3 months to 6 months	From 6 months up to 1 year	More than 1 year	More than 3 years	Without maturity	Total
<b>December 31, 2011</b>	JOD	JOD	JOD	JOD	JOD	JOD	JOD
<b>Liabilities:</b>							
Customers' deposits	13,663,270	56,370	148,062	-	-	9,588,465	23,456,167
Cash margins	-	-	-	-	-	567,277	567,277
Tax provisions	-	-	-	-	-	44,605	44,605
Provision for employees' indemnity	-	-	-	-	-	71,018	71,018
Other liabilities	74,851	-	-	-	-	330,598	405,449
<b>Total liabilities</b>	<b>13,738,121</b>	<b>56,370</b>	<b>148,062</b>	<b>-</b>	<b>-</b>	<b>10,601,963</b>	<b>24,544,516</b>

	Less than 3 months	From 3 months to 6 months	From 6 months up to 1 year	From 1 year to three years	More than 3 years	Without maturity	Total
<b>December 31, 2010</b>	JOD	JOD	JOD	JOD	JOD	JOD	JOD
<b>Assets:</b>							
Cash and balances with PMA	18,329,196	-	-	-	-	7,090,000	25,419,196
Balances with banks and financial institutions	2,660,974	-	-	-	-	-	2,660,974
Balances with head office and other HSBC branches	7,850,476	-	-	-	-	-	7,850,476
Direct credit facilities	2,158,626	294,212	1,094,457	395,235	555,910	-	4,498,440
Property and equipment	-	-	-	-	-	72,190	72,190
Other assets	-	-	-	-	-	106,414	106,414
<b>Total assets</b>	<b>30,999,272</b>	<b>294,212</b>	<b>1,094,457</b>	<b>395,235</b>	<b>555,910</b>	<b>7,268,604</b>	<b>40,607,690</b>

	Less than 3 months	From 3 months to 6 months	From 6 months up to 1 year	More than 1 year	More than 3 years	Without maturity	Total
<b>December 31, 2010</b>	JOD	JOD	JOD	JOD	JOD	JOD	JOD
<b>Liabilities:</b>							
Customers' deposits	32,050,815	138,586	147,724	-	-	-	32,337,125
Cash margins	-	-	-	-	-	680,544	680,544
Tax provisions	-	-	-	-	-	15,000	15,000
Provision for employees' indemnity	-	-	-	-	-	60,139	60,139
Other liabilities	203,606	-	-	-	-	55,270	258,876
<b>Total liabilities</b>	<b>32,254,421</b>	<b>138,586</b>	<b>147,724</b>	<b>-</b>	<b>-</b>	<b>810,953</b>	<b>33,351,684</b>

#### IV, Balances off the statement of financial position

	<u>One year</u> <u>JOD</u>	<u>More than</u> <u>one year</u> <u>JOD</u>	<u>Total</u> <u>JOD</u>
<b><u>December 31, 2011</u></b>			
Letters of credit	1,169,850	-	1,169,850
Letters of guarantees:			
Performance	10,635	-	10,635
Bids entrance	-	-	-
Payment guarantee	290,696	-	290,696
Endorsement and acceptances	37,714	-	37,714
Checks under collections	591,101	-	591,101
Unutilized limits of direct and indirect credit facilities	<u>1,607,886</u>	<u>-</u>	<u>1,607,886</u>
	<u><u>3,707,882</u></u>	<u><u>-</u></u>	<u><u>3,707,882</u></u>
	<u>One year</u> <u>JOD</u>	<u>More than</u> <u>one year</u> <u>JOD</u>	<u>Total</u> <u>JOD</u>
<b><u>December 31, 2010</u></b>			
Letters of credit	1,276,200	-	1,276,200
Letters of guarantees:			
Performance	31,905	-	31,905
Bids entrance	9,389	-	9,389
Payment guarantee	279,682	-	279,682
Endorsement and acceptances	37,714	-	37,714
Checks under collections	859,557	-	859,557
Unutilized limits of direct and indirect credit facilities	<u>2,802,543</u>	<u>-</u>	<u>2,802,543</u>
	<u><u>5,296,990</u></u>	<u><u>-</u></u>	<u><u>5,296,990</u></u>

## 26. Maturities of assets and liabilities

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

<b>December 31, 2011</b>	<u>Up to 1 year</u>	<u>More than 1</u> <u>year</u>	<u>Without</u> <u>maturity</u>	<u>Total</u>
<b>Assets</b>	<u>JOD</u>	<u>JOD</u>	<u>JOD</u>	<u>JOD</u>
Cash and balances with PMA	9,021,851	-	7,090,000	16,111,851
Balances with banks and financial institutions	1,676,271	-	991,103	2,667,374
Balances with Head Office & other HSBC branches	4,709,305	-	2,929,003	7,638,308
Direct credit facilities	4,418,899	411,697	-	4,830,596
Property and equipment	-	-	65,865	65,865
Other assets	-	-	77,567	77,567
<b>Total assets</b>	<u>19,826,326</u>	<u>411,697</u>	<u>11,153,538</u>	<u>31,391,561</u>
<b>Liabilities</b>				
Customers' deposits	23,453,025	-	-	23,453,025
Cash margins	-	-	567,277	567,277
Tax provisions	-	-	44,605	44,605
Provision for employees' indemnity	-	-	71,018	71,018
Other liabilities	-	-	405,397	405,397
<b>Total liabilities</b>	<u>23,453,025</u>	<u>-</u>	<u>1,088,297</u>	<u>24,541,322</u>
<b>Head office equity</b>				
Paid-in capital	-	-	7,090,000	7,090,000
Statutory reserve	-	-	92,917	92,917
General banking risks reserve	-	-	126,262	126,262
Head Office transfers to cover losses	-	-	2,503,078	2,503,078
Accumulated losses	-	-	(2,962,018)	(2,962,018)
<b>Net head office equity</b>	<u>-</u>	<u>-</u>	<u>6,850,239</u>	<u>6,850,239</u>
<b>Total liabilities and head office equity</b>	<u>23,453,025</u>	<u>-</u>	<u>7,938,536</u>	<u>31,391,561</u>
<b>Maturity gap</b>	<u>(3,626,699)</u>	<u>411,697</u>	<u>3,215,002</u>	<u>-</u>
<b>Cumulative maturity gap</b>	<u>(3,626,699)</u>	<u>(3,215,002)</u>	<u>-</u>	<u>-</u>



<b>December 31, 2010</b>	Up to 1 year	More than 1 year	Without maturity	Total
	JOD	JOD	JOD	JOD
<b>Assets</b>				
Cash and balances with PMA	18,317,379	-	7,090,000	25,407,379
Balances with banks and financial institutions	2,660,899	-	-	2,660,899
Balances with Head Office & other HSBC branches	7,848,513	-	-	7,848,513
Direct credit facilities	3,445,691	846,498	-	4,292,189
Property and equipment	-	-	72,190	72,190
Other assets	-	-	106,414	106,414
<b>Total assets</b>	<b>32,272,482</b>	<b>846,498</b>	<b>7,268,604</b>	<b>40,387,584</b>
<b>Liabilities</b>				
Customers' deposits	32,334,712	-	-	32,334,712
Cash margins	-	-	680,544	680,544
Tax provisions	-	-	15,000	15,000
Provision for employees' indemnity	-	-	60,139	60,139
Other liabilities	-	-	258,876	258,876
<b>Total liabilities</b>	<b>32,334,712</b>	<b>-</b>	<b>1,014,559</b>	<b>33,349,271</b>
<b>Head office equity</b>				
Paid-in capital	-	-	7,090,000	7,090,000
Statutory reserve	-	-	92,917	92,917
General banking risks reserve	-	-	133,474	133,474
Head Office transfers to cover losses	-	-	2,503,078	2,503,078
Accumulated losses	-	-	(2,781,156)	(2,781,156)
<b>Net head office equity</b>	<b>-</b>	<b>-</b>	<b>7,038,313</b>	<b>7,038,313</b>
<b>Total liabilities and head office equity</b>	<b>32,334,712</b>	<b>-</b>	<b>8,052,872</b>	<b>40,387,584</b>
<b>Maturity gap</b>	<b>(62,230)</b>	<b>846,498</b>	<b>(784,268)</b>	<b>-</b>
<b>Cumulative maturity gap</b>	<b>(62,230)</b>	<b>784,268</b>	<b>-</b>	<b>-</b>

## 27. 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.

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

	Retail	Corporate	Treasury	Other	Total	
	JOD	JOD	JOD	JOD	2011 JOD	2010 JOD
Gross revenue	42,068	360,328	202,065	403,780	1,008,241	937,178
Impairment losses on direct credit facilities	-	(8,582)	-	-	(8,582)	(20,892)
Segment results	37,728	350,094	202,065	355,412	945,299	853,248
Unallocated expenses					(1,103,768)	(1,255,420)
Loss before taxes					(158,469)	(402,172)
Taxes expense					(29,605)	(2,642)
Loss for the year					(188,074)	(404,814)
Segment assets	239,896	4,590,700	26,417,533	143,432	31,391,561	40,387,584
Segment liabilities	10,495,148	13,525,154	-	521,020	24,541,322	33,349,271
Other segment information:						
Capital expenditures					19,297	43,584
Depreciation and amortization					26,332	24,858

### b. Geographical distribution information

The following is the distribution of the Bank's income, assets and capital expenditures according to geographical sector.

	Domestic		Foreign		Total	
	2011 JOD	2010 JOD	2011 JOD	2010 JOD	2011 JOD	2010 JOD
Gross revenues	723,932	780,241	284,309	156,937	1,008,241	937,178
Total assets	21,859,706	30,912,609	9,531,855	9,474,975	31,391,561	40,387,584
Capital expenditures	19,297	43,584	-	-	19,297	43,584

## 28. 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 capital adequacy ratio is computed in accordance with the PMA regulations derived from Basel Committee regulations computed as follows.

<u>2011</u>	<u>Amount</u>	<u>Percentage to risk - weighted assets</u>	<u>Percentage to assets</u>
	<u>JOD</u>	<u>%</u>	<u>%</u>
Regulatory capital	6,849,860	68	22
Basic capital	6,723,598	67	21

  

<u>2010</u>	<u>Amount</u>	<u>Percentage to risk - weighted assets</u>	<u>Percentage to assets</u>
	<u>JOD</u>	<u>%</u>	<u>%</u>
Regulatory capital	7,037,220	66	17
Basic capital	6,903,746	65	17

## 29. Lawsuits Against the Bank

Lawsuits against the bank amounted to JOD 4,335 as of December 31, 2011, according to the bank's management and lawyer estimation there will be no obligations or commitments for these lawsuits.

## 30. Concentration of risk in geographical area

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