

HSBC BANK MIDDLE EAST LTD - RAMALLAH BRANCH

FINANCIAL STATEMENTS

DECEMBER 31, 2012

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, 2012, 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, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young - Middle East



Ramallah - Palestine
March 27, 2013

HSBC Bank Middle East Ltd-Ramallah Branch

Statement of Financial Position

As at December 31, 2012

<u>Assets</u>	<u>Notes</u>	<u>2012</u> JOD	<u>2011</u> JOD
Cash and balances with Palestine			
Monetary Authority	3	14,198,293	16,111,851
Balances with banks and financial institutions	4	5,213,902	2,667,374
Balances with Head Office and other			
HSBC branches	5	8,054,129	7,638,308
Direct credit facilities, net	6	5,580,638	4,830,596
Property and equipment	7	45,267	65,865
Other assets	8	248,211	77,567
Total Assets		<u><u>33,340,440</u></u>	<u><u>31,391,561</u></u>
<u>Liabilities and Head Office equity</u>			
Liabilities			
Customers' deposits	9	25,950,546	23,453,025
Cash margins	10	376,946	567,277
Tax provisions	11	64,704	44,605
Provision for employees' indemnity	12	85,592	71,018
Other liabilities	13	367,939	405,397
Total liabilities		<u><u>26,845,727</u></u>	<u><u>24,541,322</u></u>
Head Office equity			
Paid-in capital	1	7,090,000	7,090,000
Statutory reserve	14	92,917	92,917
General banking risks reserve	14	132,430	126,262
Head office transfers to cover losses		2,503,078	2,503,078
Accumulated losses		<u>(3,323,712)</u>	<u>(2,962,018)</u>
Net Head Office equity		<u><u>6,494,713</u></u>	<u><u>6,850,239</u></u>
Total liabilities and head office equity		<u><u>33,340,440</u></u>	<u><u>31,391,561</u></u>

The attached notes 1 to 32 form part of these financial statements

HSBC Bank Middle East Ltd-Ramallah Branch

Statement of Income and Comprehensive income
For the Year Ended December 31, 2012

	<u>Notes</u>	<u>2012</u> JOD	<u>2011</u> JOD
Interest income	15	278,689	322,509
Interest expense	16	(6,276)	(5,954)
Net interest income		272,413	316,555
Net fees and commissions	17	344,755	321,532
Net interest and commissions income		617,168	638,087
Foreign currency exchange gains		160,865	202,065
Other revenues	18	9,613	113,729
Gross Profit		787,646	953,881
Expenses			
Personnel expenses	19	468,165	304,977
Other operating expenses	20	627,671	772,459
Impairment allowance for direct credit facilities	6	3,715	8,582
Depreciation and amortization		23,522	26,332
Total expenses		1,123,073	1,112,350
Loss before tax		(335,427)	(158,469)
Tax expense	11	(20,099)	(29,605)
Loss for the year		(355,526)	(188,074)
Other comprehensive income		-	-
Total comprehensive income for the year		(355,526)	(188,074)

The attached notes 1 to 32 form part of these financial statements

HSBC Bank Middle East Ltd-Ramallah Branch

Statement of Changes in Equity

For the Year Ended December 31, 2012

	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
2012						
At January 1, 2012	7,090,000	92,917	126,262	2,503,078	(2,962,018)	6,850,239
Total comprehensive income for the year	-	-	-	-	(355,526)	(355,526)
Transferred to general banking risks reserve	-	-	6,168	-	(6,168)	-
At December 31, 2012	<u>7,090,000</u>	<u>92,917</u>	<u>132,430</u>	<u>2,503,078</u>	<u>(3,323,712)</u>	<u>6,494,713</u>
At January 1, 2011	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	-
At December 31, 2011	<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>

The attached notes 1 to 32 form part of these financial statements

HSBC Bank Middle East Ltd-Ramallah Branch

Statement of Cash Flows

For the Year Ended December 31, 2012

	Notes	2012 JOD	2011 JOD
Operating activities:			
Loss before tax		(335,427)	(158,469)
Adjustments for:			
Depreciation and amortization		23,522	26,332
Provision for employees' indemnity		14,940	15,826
Impairment allowance for direct credit facilities		3,715	8,582
		<u>(293,250)</u>	<u>(107,729)</u>
Changes in assets and liabilities			
Direct credit facilities		(753,757)	(546,989)
(Increase) decrease in other assets		(170,283)	28,137
Increase (decrease) in customers' deposits		2,497,521	(8,881,687)
Cash margins		(190,331)	(113,267)
Other liabilities		(37,458)	146,521
Employees' indemnity paid		(366)	(4,947)
Statutory cash reserve		<u>(180,171)</u>	<u>(76,864)</u>
Net cash flows from (used in) operating activities		<u>871,905</u>	<u>(9,556,825)</u>
Investing activities:			
Purchase of property and equipment and intangible assets		<u>(3,285)</u>	<u>(19,297)</u>
Net cash used in investing activities		<u>(3,285)</u>	<u>(19,297)</u>
Net increase (decrease) in cash and cash equivalents		868,620	(9,576,122)
Cash and cash equivalents, beginning of the year		<u>17,212,876</u>	<u>26,788,998</u>
Cash and cash equivalents, end of year	21	<u><u>18,081,496</u></u>	<u><u>17,212,876</u></u>

Notes to the Financial Statements

December 31, 2012

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 and 2012. The Bank is carrying out all of its banking and financial activities through its sole branch in Ramallah.

HSBC Holdings Plc operates in 81 countries worldwide, where its branches reached about 6,600 branches and its employees 301,000 as at December 31, 2012. Its total assets as at December 31, 2012 amounted to U.S. \$ 2692 trillion, while its total liabilities amounted to U.S. \$ 2509 trillion. Total deposits as at December 31, 2012 amounted to U.S. \$ 1340 trillion, while its equity amounted to U.S. \$ 183 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, 2012 amounted to U.S. \$ 9.2 billion. In addition, the basic capital adequacy percentage is 12.3%, and the regulatory capital adequacy percentage is 16.1%.

The financial statements of the Bank as of December 31, 2012 were authorized for issuance by the Bank's management on March 11, 2013.

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.

- IFRS 7 - Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Bank's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Bank does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

- IFRS 9 - Financial Instruments: Classification and Measurement

The Bank early adopted IFRS 9 "Financial Instruments" in 2012. The Bank has chosen January 1, 2012 as its date of initial application (i.e. the date on which the bank assessed its existing financial assets). This standard has been applied retrospectively for financial assets held at January 1, 2012 and has an effect on the classification and measurement of the Bank's financial assets, but has potentially no impact on classification and measurements of financial liabilities. The bank elected not to restate prior periods in accordance with IFRS 9 provisions. The early adoption of the standard by the Bank is binding and irrevocable.

The new standard includes the following categories for the classification and measurement of financial assets:

- 1- Financial assets measured at amortized cost and are held within a business model whose objective is to hold assets in order to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
- 2- Financial assets at fair value through profit or loss (FVTPL), acquired for trading and realizing gain from fluctuations in market prices.
- 3- Financial assets at fair value through other comprehensive income which include investments in equity instruments that are not held for trading.

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 (Amended)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to income statement 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. This amendment will be effective for annual periods beginning on or after 1 July 2012

- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

- IFRS 13 - Fair Value Measurement

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. This standard will be effective for financial year beginning on January 1, 2013.

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.
- Credit facilities that are defaulted for more than 6 years together with related interest in suspense and impairment provisions are excluded from the financial statements of the bank in accordance with PMA regulations.

Fair value of financial instruments

The fair value of investments that are actively traded in active financial markets is determined by reference to quoted market bid prices at the close of business.

For financial instruments where there is no active market, fair value is normally determined based on one of the following methods:

- Comparison with the current market value of a highly similar financial instrument.
- The estimated cash flows discounted at current rates applicable for items with similar terms and risk characteristics.

The estimation methods aim to obtain a fair value that reflects the market anticipation taking into consideration the market factors and any expected risks or benefits

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 from 3 - 5 years.

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.

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.

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.

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 Palestine Monetary Authority

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Cash on hand	1,275,608	1,175,926
Balances with PMA:		
Capital deposit	7,090,000	7,090,000
Current and demand accounts	3,537,857	4,313,268
Time deposits maturing within 3 months	-	1,418,000
Statutory cash reserve	<u>2,294,828</u>	<u>2,114,657</u>
	<u>14,198,293</u>	<u>16,111,851</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. PMA does not pay interest on statutory cash reserves.
- Restricted cash balances at PMA excluding statutory cash reserve as at December 31, 2012 and 2011 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>2012</u>	<u>2011</u>
	JOD	JOD
Local banks and financial institutions		
Current and demand accounts	783,275	773,827
Deposits maturing within 3 months	<u>2,481,500</u>	-
	<u>3,264,775</u>	<u>773,827</u>
Foreign banks and financial institutions		
Current and demand accounts	<u>1,949,127</u>	<u>1,893,547</u>
	<u>1,949,127</u>	<u>1,893,547</u>
	<u>5,213,902</u>	<u>2,667,374</u>

- Non-interest bearing balances at banks and financial institutions amounted to JOD 970,394 and JOD 991,103 as at December 31, 2012 and 2011, respectively.
- There are no restricted balances as at December 31, 2012 and 2011.

5. Balances with Head Office and other HSBC branches

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Current and demand accounts	6,245,945	6,271,755
Deposits maturing within 3 months	<u>1,808,184</u>	<u>1,366,553</u>
	<u>8,054,129</u>	<u>7,638,308</u>

- Interest revenue from Head Office and other HSBC branches for the years ended December 31, 2012 and 2011 amounted to JOD 48,713 and JOD 30,283, respectively.
- Non-interest bearing balances at Head Office and other HSBC branches for the years ended December 31, 2012 and 2011 amounted to JOD 2,892,263 and JOD 2,929,003, respectively.

6. Direct credit facilities, net

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Retail		
Loans and discounted bills	81,636	237,632
Overdraft accounts	2,213	2,264
Corporate		
Large Corporate		
Loans and discounted bills	4,956,013	4,194,731
Overdraft accounts	237,745	270,209
Medium and Small Corporate		
Loans and discounted bills	454,882	252,797
Overdraft accounts	<u>6,741</u>	<u>5,672</u>
	5,739,230	4,963,305
Interest and commission in suspense	(55,805)	(33,727)
Allowance for Impairment losses on direct credit facilities	<u>(102,787)</u>	<u>(98,982)</u>
	<u>5,580,638</u>	<u>4,830,596</u>

- Credit facilities excluding unearned interest and commissions amounted to JOD 49,461 as at December 31, 2012.
- Non-performing credit facilities excluding interest in suspense as at December 31, 2012 and 2011 amounted to JOD 144,894 and JOD 144,805 representing 1.55% and 2.9% 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 283,511 and JOD 336,740 as at December 31, 2012 and 2011 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>2012</u>	<u>2011</u>
	JOD	JOD
Balance, beginning of the year	98,982	90,696
Addition during the year	3,715	8,582
Currency exchange	90	(296)
Balance, end of year	<u>102,787</u>	<u>98,982</u>

Interest in suspense

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

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Balance, beginning of the year	33,727	17,936
Interest suspended during the year	22,078	15,791
Balance, end of year	<u>55,805</u>	<u>33,727</u>

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

	<u>2012</u>	<u>2011</u>
	<u>JOD</u>	<u>JOD</u>
Industrial and Trade		
Manufacturing	186,171	140,204
	<u>186,171</u>	<u>140,204</u>
Services sector		
Telecommunication	2,077,539	-
Others	-	29,542
	<u>2,077,539</u>	<u>29,542</u>
Wholesale & retail		
Local trading	3,335,389	4,519,936
	<u>3,335,389</u>	<u>4,519,936</u>
Real estate and land development		
Permanent residence and building improvements	-	14,180
	<u>-</u>	<u>14,180</u>
Consumers' loans		
Commodity loans	84,326	225,716
	<u>84,326</u>	<u>225,716</u>
	<u><u>5,683,425</u></u>	<u><u>4,929,578</u></u>

7. Property and equipment

	<u>Leasehold</u>	<u>Equipment</u>		
	<u>improvements</u>	<u>&</u>	<u>Furniture</u>	<u>Total</u>
	<u>JOD</u>	<u>computers</u>	<u>JOD</u>	<u>JOD</u>
<u>December 31, 2012</u>				
Cost:				
At January 1, 2012	75,300	149,647	102,375	327,322
Additions	713	-	341	1,054
Disposals	-	(21,316)	-	(21,316)
At December 31, 2012	<u>76,013</u>	<u>128,331</u>	<u>102,716</u>	<u>307,060</u>
Accumulated depreciation:				
At January 1, 2012	46,014	129,623	85,820	261,457
Depreciation for the year	9,609	7,563	4,480	21,652
Disposals	-	(21,316)	-	(21,316)
At December 31, 2012	<u>55,623</u>	<u>115,870</u>	<u>90,300</u>	<u>261,793</u>
Net book value				
At December 31, 2012	<u><u>20,390</u></u>	<u><u>12,461</u></u>	<u><u>12,416</u></u>	<u><u>45,267</u></u>

	Leasehold improvements	Equipment & computers	Furniture	Total
December 31, 2011	JOD	JOD	JOD	JOD
Cost:				
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>
Accumulated depreciation:				
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>
Net book value				
At December 31, 2011	<u><u>29,286</u></u>	<u><u>20,024</u></u>	<u><u>16,555</u></u>	<u><u>65,865</u></u>

8. Other assets

	2012	2011
	JOD	JOD
Due from Head Office	194,237	-
Prepaid expenses	13,351	31,226
Commissions receivable	22,311	23,353
Accrued interest income	12,465	14,031
Intangible assets*	744	383
Sundry	5,103	8,574
	<u>248,211</u>	<u>77,567</u>

* Intangible assets represent a security system licence for the banks computers:

	2012	2011
	JOD	JOD
Balance, beginning of the year	383	1,093
Additions	2,231	-
Amortization	(1,870)	(710)
Balance, end of year	<u>744</u>	<u>383</u>

9. Customers' deposits

	2012	2011
	JOD	JOD
Saving deposits	10,395,335	10,196,839
Current and demand deposits	12,173,836	9,588,465
Time deposits	3,381,375	3,667,721
	<u>25,950,546</u>	<u>23,453,025</u>

- Non-interest bearing deposits amounted to JOD 12,173,836 representing 46.91% of the total deposits as at December 31, 2012, comparing to JOD 9,588,465 representing 40.88% of the total deposits as at December 31, 2011.
- Customer's deposits do not include any dormant accounts as at December 31, 2012.

10. Cash margins

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Direct credit facilities	323,588	294,354
Indirect credit facilities	53,358	272,923
	<u>376,946</u>	<u>567,277</u>

11. Tax provisions

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Balance, beginning of the year	44,605	15,000
Tax expense for the year	20,099	29,605
Balance, end of year	<u>64,704</u>	<u>44,605</u>

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

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Bank's accounting loss	(335,427)	(158,469)
Income subject to Value Added Tax (VAT)	(193,319)	85,761
VAT	24,788	(10,861)
Offset of prior years losses	-	(74,900)
Income subject to income tax	(168,531)	-
Income Tax	-	-
Total taxes for the year	<u>-</u>	<u>10,861</u>
Provision for the year	<u>20,099</u>	<u>29,605</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 years 2010 and 2011, despite the fact that the bank submitted the tax returns for these periods to the tax departments on time.

12. Provision for employees' indemnity

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

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Balance, beginning of the year	71,018	60,139
Provided for during the year	14,940	15,826
Paid during the year	(366)	(4,947)
Balance, end of year	<u>85,592</u>	<u>71,018</u>

13. Other liabilities

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Accrued expenses	226,892	297,035
Employees' provident fund *	98,121	74,799
Certified checks	35,803	19,434
Accrued unpaid interest	166	235
Sundry	6,957	13,894
	<u>367,939</u>	<u>405,397</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. In accordance with PMA regulations (1/2013), general banking risk reserve is amended to become 2% of the direct credit facilities after deducting the allowance for impairment losses, and remained the same for indirect facilities. This reserve cannot be utilized or deducted without the prior approval of PMA.

15. Interest income

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Direct credit facilities:		
Overdraft facilities	14,513	28,089
Loans and discounted bills	208,119	257,276
	<u>222,632</u>	<u>285,365</u>
Balances with banks and financial institutions	3,134	991
Balances with Head Office and other HSBC branches	48,713	30,283
Balances with PMA	4,210	5,870
	<u>278,689</u>	<u>322,509</u>

16. Interest expense

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Time deposits	4,061	3,812
Saving deposits	2,215	2,101
Current and demand deposits	-	41
	<u>6,276</u>	<u>5,954</u>

17. Net fees and commissions

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Commissions income		
Direct credit facilities	52,599	19,623
Custody Services*	257,906	238,850
Indirect credit facilities	8,232	14,668
Others	72,802	96,797
	<u>391,539</u>	<u>369,938</u>
Commission expense	<u>(46,784)</u>	<u>(48,406)</u>
	<u>344,755</u>	<u>321,532</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.

18. Other revenues

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Recovery of provisions	9,613	42,322
ATM service commissions	-	14,186
Sundry	-	57,221
	<u>9,613</u>	<u>113,729</u>

19. Personnel expenses

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Salaries and related expenses	398,030	262,546
VAT on salaries	30,020	-
Provision for employees' indemnity	14,940	15,826
Provident fund	17,858	14,806
Training expense	924	1,516
Medical insurance	6,393	10,283
	<u>468,165</u>	<u>304,977</u>

20. Other operating expenses

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Software development costs	200,993	232,932
Fees, license and subscriptions	80,587	60,492
Telephone and postage	70,930	63,550
Professional fees	44,352	40,001
Rent	28,400	28,400
Maintenance	15,980	20,656
Travel and accommodations	13,603	20,413
Utilities	10,148	10,839
Advertisement and marketing	6,668	9,613
Stationery and printings	5,934	11,549
Fuel	5,548	3,828
Insurance	2,298	3,784
Vehicles expense	-	1,236
Entertainment expense	1,300	791
Sundry	15,385	31,025
	<u>502,126</u>	<u>539,109</u>
Bank share of Head Office overheads expense	125,545	233,350
	<u>627,671</u>	<u>772,459</u>

21. Cash and cash equivalents

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

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Cash and balances with PMA	14,198,293	16,111,851
Add: Balances with banks and financial institutions maturing within 3 months	5,213,902	2,667,374
Add: Balances with head office and other HSBC branches maturing within 3 months	8,054,129	7,638,308
Less: Capital deposit	(7,090,000)	(7,090,000)
Statutory cash reserve	(2,294,828)	(2,114,657)
	<u>18,081,496</u>	<u>17,212,876</u>

22. Commitments and contingent liabilities

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

	<u>2012</u>	<u>2011</u>
	JOD	JOD
Letter of credits	248,150	1,169,850
Letter of guarantees:		
Performance	24,815	10,635
Payment guarantee	225,169	290,696
Endorsements and acceptances	-	37,714
Checks under collection	426,797	591,101
Unutilized limits of direct and indirect credit facilities	3,467,557	1,607,886
	<u>4,392,488</u>	<u>3,707,882</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:

	Nature of relationship	2012 USD	2011 USD
Statement of financial position items:			
Balances with Head Office and other HSBC branches	Head office and branches	8,054,129	7,638,308
Customer's deposits	Executive management	12,030	10,938
Credit facilities	Executive management	35,304	42,942
Due from Head Office	Head office	194,237	-
Statement of income and comprehensive income items:			
	Head office, branches and executive management		
Interest income		51,677	35,769
Head Office expenses	Head office	125,545	233,350
Software development costs	Head office	200,993	232,932

Compensation of key management personnel:

	2012 JOD	2011 JOD
Salaries and related benefits	326,074	186,290
Long term benefits	11,019	47,720

- Net direct credit facilities granted to related parties as at December 31, 2012 and 2011 represent 0.63% and 0.89%, respectively, from the net direct credit facilities. These credit facilities represent facilities granted to executive management or guaranteed by them.
- Net direct credit facilities granted to related parties as at December 31, 2012 and 2011 represent 0.54% and 0.63% respectively, from the Bank's regulatory capital.
- Interest on JOD direct credit facilities ranges between 4% and 7%.

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. Concentration of Assets and Liabilities

Following is a break down of the Bank's assets, liabilities and items out of statement of financial position by geographical area:

	2012			2011		
	Assets	Liabilities and equity	Items out of statement of financial position	Assets	Liabilities and equity	Items out of statement of financial position
By geographical area						
Palestine	23,142,647	33,340,440	4,392,488	21,859,706	31,391,561	3,707,882
Arab Countries	4,420,921	-	-	3,245,809	-	-
Europe and Israel	3,900,306	-	-	4,130,871	-	-
Others	1,876,566	-	-	2,155,175	-	-
Total	33,340,440	33,340,440	4,392,488	31,391,561	31,391,561	3,707,882
By sector						
Companies and other institutions	5,496,789	15,525,064	4,392,488	4,590,700	13,450,356	3,707,882
Individuals	83,849	10,752,967	-	239,896	10,569,946	-
Treasury	27,466,324	-	-	26,417,533	-	-
Others	293,478	7,062,409	-	143,432	7,371,259	-
Total	33,340,440	33,340,440	4,392,488	31,391,561	31,391,561	3,707,882

26. 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

	2012	2011
	JOD	JOD
Statement of financial position items		
Balances with PMA	12,922,685	14,935,925
Balances with banks and financial institutions	5,213,902	2,667,374
Balances with Head Office and other HSBC branches	8,054,129	7,638,308
Direct credit facilities	5,580,638	4,830,596
Other assets	234,116	45,958
	32,005,470	30,118,161
Off statement of financial position items		
Letters of guarantee	248,150	1,169,850
Letters of credit	249,984	301,331
Endorsements and acceptances	-	37,714
Checks under collections	426,797	591,101
Unutilized limits of direct and indirect credit facilities	3,467,557	1,607,886
	4,392,488	3,707,882

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

<u>December 31, 2012</u>	Corporate			Total
	Retail	Large	Medium and small	
	JOD	JOD	JOD	
Performing	83,849	5,193,758	260,924	5,538,531
Watch list	-	-	-	-
Non-performing:	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	200,699	200,699
Total	83,849	5,193,758	461,623	5,739,230
Interest and commission in suspense	-	-	(55,805)	(55,805)
Allowance for impairment losses on credit facilities	-	-	(102,787)	(102,787)
	<u>83,849</u>	<u>5,193,758</u>	<u>303,031</u>	<u>5,580,638</u>

<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
Total	239,896	4,464,940	258,469	4,963,305
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>

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

<u>December 31, 2012</u>	Corporate			Total JOD
	Retail JOD	Large JOD	Medium and small JOD	
Collaterals against:				
Performing	14,879	226,525	-	241,404
Watch list	-	-	-	-
Non-performing:				
Sub-standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	42,107	42,107
Total	14,879	226,525	42,107	283,511
Includes:				
Cash margins	2,259	226,525	-	228,784
Quoted shares	12,620	-	42,107	54,727
Vehicles and equipment	-	-	-	-
	<u>14,879</u>	<u>226,525</u>	<u>42,107</u>	<u>283,511</u>

<u>December 31, 2011</u>	Corporate			Total JOD
	Retail JOD	Large JOD	Medium and small JOD	
Collaterals against:				
Performing	111,894	179,023	-	290,917
Watch list	-	-	-	-
Non-performing:				
Sub-standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	45,823	45,823
Total	111,894	179,023	45,823	336,740
Includes:				
Bank guarantees	106,272	-	-	106,272
Cash margins	2,260	179,023	-	181,283
Quoted shares	-	-	45,823	45,823
Vehicles and equipment	3,362	-	-	3,362
	<u>111,894</u>	<u>179,023</u>	<u>45,823</u>	<u>336,740</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	12,922,685	-	-	-	-	12,922,685
Balances with banks and financial institutions	3,264,775	-	1,949,127	-	-	5,213,902
Balances with Head Office and other HSBC branches	-	4,226,384	1,951,179	1,829,858	46,708	8,054,129
Direct credit facilities	5,580,638	-	-	-	-	5,580,638
Other assets	39,579	194,537	-	-	-	234,116
Total as at December 31, 2012	21,807,677	4,420,921	3,900,306	1,829,858	46,708	32,005,470
Total as at December 31, 2011	20,586,306	3,245,809	4,130,870	2,110,975	44,201	30,118,161
Off statement of financial position items:						
Balance as December 31, 2012	4,392,488	-	-	-	-	4,392,488
Balance as December 31, 2011	3,707,882	-	-	-	-	3,707,882

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	12,922,685	-	-	-	-	12,922,685
Balances with banks and financial institutions	5,213,902	-	-	-	-	5,213,902
Balances with Head Office and other HSBC branches	8,054,129	-	-	-	-	8,054,129
Direct credit facilities	-	181,746	3,237,027	-	2,161,865	5,580,638
Other assets	-	-	-	-	234,116	234,116
Total as at December 31, 2012	26,190,716	181,746	3,237,027	-	2,395,981	32,005,470
Total as at December 31, 2011	25,241,607	135,870	4,425,288	14,180	301,216	30,118,161
Off statement of financial position items:						
Balance as December 31, 2012	-	-	4,392,488	-	-	4,392,488
Balance as December 31, 2011	-	-	3,707,882	-	-	3,707,882

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	2012		2011	
	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	9,535	+10	7,377
ILS	+10	(486)	+10	(228)
JOD	+10	109	+10	183
Other currencies	+10	(859)	+10	(1,547)

December 31, 2012

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
Assets							
Cash and balances with PMA	7,090,000	-	-	-	-	7,108,293	14,198,293
Balances with banks and financial institutions	4,243,508	-	-	-	-	970,394	5,213,902
Balances with Head Office and other HSBC branches	5,161,866	-	-	-	-	2,892,263	8,054,129
Direct credit facilities	2,772,328	156,898	470,175	1,385,315	795,922	-	5,580,638
Property and equipment	-	-	-	-	-	45,267	45,267
Other assets	-	-	-	-	-	248,211	248,211
Total assets	19,267,702	156,898	470,175	1,385,315	795,922	11,264,428	33,340,440
Liabilities							
Customers' deposits	13,571,592	56,889	148,229	-	-	12,173,836	25,950,546
Cash margins	-	-	-	-	-	376,946	376,946
Tax provisions	-	-	-	-	-	64,704	64,704
Provision for employees' indemnity	-	-	-	-	-	85,592	85,592
Other liabilities	-	-	-	-	-	367,939	367,939
Total liabilities	13,571,592	56,889	148,229	-	-	13,069,017	26,845,727
Equity							
Paid-in share capital	-	-	-	-	-	7,090,000	7,090,000
Statutory reserve	-	-	-	-	-	92,917	92,917
General banking risks reserve	-	-	-	-	-	132,430	132,430
Head office transfers to cover losses	-	-	-	-	-	2,503,078	2,503,078
Retained earnings	-	-	-	-	-	(3,323,712)	(3,323,712)
Total Equity	-	-	-	-	-	6,494,713	6,494,713
Total liabilities and head office equity	13,571,592	56,889	148,229	-	-	19,563,730	33,340,440
Interest rate re-pricing sensitivity gap	5,696,110	100,009	321,946	1,385,315	795,922	(8,299,302)	-

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
Total assets	18,501,004	192,598	618,873	276,894	134,803	11,667,389	31,391,561
Total liabilities	13,735,245	56,150	147,964	-	-	10,601,963	24,541,322
Equity	-	-	-	-	-	6,850,239	6,850,239
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)	-

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	2012		2011	
	Change in Currency rate (%)	Effect on profit and loss	Change in Currency rate (%)	Effect on profit and loss
ILS	+10	82	+10	(989)
Other currencies	+10	3,555	+10	206,700

Following is the foreign currencies position of the Bank:

	ILS JOD	U.S. \$ JOD	Other currencies JOD	Total JOD
December 31, 2012				
Assets				
Cash and balances with PMA	1,926,806	11,336,659	499,721	13,763,186
Balances with banks and financial institutions	221,292	4,990,543	2,067	5,213,902
Balances with head office and other HSBC branches	-	4,969,746	1,650,015	6,619,761
Direct credit facilities	667,514	4,874,325	-	5,541,839
Other assets	1,351	112,367	226	113,944
Total assets	2,816,963	26,283,640	2,152,029	31,252,632
Liabilities				
Customers' deposits	2,795,044	18,977,460	2,107,426	23,879,930
Cash margins	21,099	338,334	9,057	368,490
Total liabilities	2,816,143	19,315,794	2,116,483	24,248,420
In statement of financial position concentration	820	6,967,846	35,546	7,004,212
Contingent liabilities - off balance sheet	590,959	3,801,451	-	4,392,410
December 31, 2011				
Total assets	2,062,334	24,721,116	4,212,192	30,995,642
Total liabilities	2,072,224	17,454,105	2,145,196	21,671,525
In statement of financial position concentration	(9,890)	7,267,011	2,066,996	9,324,117
Contingent liabilities - off Statement of financial position	728,961	2,978,908	-	3,707,869

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
December 31, 2012	JOD	JOD	JOD	JOD	JOD	JOD	JOD
Assets:							
Cash and balances with PMA	7,108,293	-	-	-	-	7,090,305	14,198,598
Balances with banks and financial institutions	5,213,976	-	-	-	-	-	5,213,976
Balances with head office and other HSBC branches	8,064,407	-	-	-	-	-	8,064,407
Direct credit facilities	2,850,124	217,236	625,926	2,082,699	982,250	-	6,758,235
Property and equipment	-	-	-	-	-	45,267	45,267
Other assets	240,354	1,431	5,682	-	-	744	248,211
Total assets	23,477,154	218,667	631,608	2,082,699	982,250	7,136,316	34,528,694

	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
December 31, 2012	JOD	JOD	JOD	JOD	JOD	JOD	JOD
Liabilities:							
Customers' deposits	25,745,504	56,903	148,303	-	-	-	25,950,710
Cash margins	-	-	-	376,946	-	-	376,946
Tax provisions	-	-	64,704	-	-	-	64,704
Provision for employees' indemnity	-	-	-	-	-	85,592	85,592
Other liabilities	269,818	-	-	-	-	98,121	367,939
Total liabilities	26,015,322	56,903	213,007	376,946	-	183,713	26,845,891

	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
December 31, 2011	JOD	JOD	JOD	JOD	JOD	JOD	JOD
Assets:							
Cash and balances with PMA	8,508,592	-	-	-	-	7,603,851	16,112,443
Balances with banks and financial institutions	2,667,447	-	-	-	-	-	2,667,447
Balances with head office and other HSBC branches	7,640,279	-	-	-	-	-	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	52,321	4,158	20,705	-	-	383	77,567
Total assets	22,776,683	214,075	703,437	312,895	160,044	7,670,099	31,837,233

	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
December 31, 2011	JOD	JOD	JOD	JOD	JOD	JOD	JOD
Liabilities:							
Customers' deposits	23,251,735	56,370	148,062	-	-	-	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	330,598	-	-	-	-	74,799	405,397
Total liabilities	23,582,333	56,370	192,667	567,277	-	145,817	24,544,464

27. Maturities of assets and liabilities

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

December 31, 2012	Up to 1 year	More than 1	Without	Total
	JOD	year	maturity	JOD
Assets		JOD	JOD	
Cash and balances with PMA	7,108,293	-	7,090,000	14,198,293
Balances with banks and financial institutions	5,213,902	-	-	5,213,902
Balances with Head Office & other HSBC branches	8,054,129	-	-	8,054,129
Direct credit facilities	3,399,401	2,181,237	-	5,580,638
Property and equipment	-	-	45,267	45,267
Other assets	247,467	-	744	248,211
Total assets	24,023,192	2,181,237	7,136,011	33,340,440
Liabilities				
Customers' deposits	25,950,546	-	-	25,950,546
Cash margins	-	376,946	-	376,946
Tax provisions	64,704	-	-	64,704
Provision for employees' indemnity	-	-	85,592	85,592
Other liabilities	269,818	-	98,121	367,939
Total liabilities	26,285,068	376,946	183,713	26,845,727
Head office equity				
Paid-in capital	-	-	7,090,000	7,090,000
Statutory reserve	-	-	92,917	92,917
General banking risks reserve	-	-	132,430	132,430
Head Office transfers to cover losses	-	-	2,503,078	2,503,078
Accumulated losses	-	-	(3,323,712)	(3,323,712)
Net head office equity	-	-	6,494,713	6,494,713
Total liabilities and head office equity	26,285,068	376,946	6,678,426	33,340,440
Maturity gap	(2,261,876)	1,804,291	457,585	-
Cumulative maturity gap	(2,261,876)	(457,585)	-	-

December 31, 2011	Up to 1 year	More than 1	Without	Total
	JOD	year	maturity	JOD
	JOD	JOD	JOD	JOD
Assets				
Cash and balances with PMA	9,021,851	-	7,090,000	16,111,851
Balances with banks and financial institutions	2,667,374	-	-	2,667,374
Balances with Head Office & other HSBC branches	7,638,308	-	-	7,638,308
Direct credit facilities	4,418,899	411,697	-	4,830,596
Property and equipment	-	-	65,865	65,865
Other assets	77,184	-	383	77,567
Total assets	23,823,616	411,697	7,156,248	31,391,561
Liabilities				
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	330,598	-	74,799	405,397
Total liabilities	23,828,228	567,277	145,817	24,541,322
Head office equity				
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)
Net head office equity	-	-	6,850,239	6,850,239
Total liabilities and head office equity	23,828,228	567,277	6,996,056	31,391,561
Maturity gap	(4,612)	(155,580)	160,192	-
Cumulative maturity gap	(4,612)	(160,192)	-	-

28. 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	
					2012	2011
	JOD	JOD	JOD	JOD	JOD	JOD
Gross revenue	37,718	575,227	218,148	9,613	840,706	1,008,241
Impairment losses on direct credit facilities	-	(3,715)	-	-	(3,715)	(8,582)
Segment results	32,603	572,897	218,148	(36,002)	787,646	953,881
Unallocated expenses					(1,119,358)	(1,103,768)
Loss before taxes					(335,427)	(158,469)
Taxes expense					(20,099)	(29,605)
Loss for the year					(355,526)	(188,074)
Segment assets	83,849	5,496,789	27,466,324	293,478	33,340,440	31,391,561
Segment liabilities	10,752,967	15,574,525	-	518,235	26,845,727	24,541,322
Other segment information:						
Capital expenditures					3,285	19,297
Depreciation and amortization					23,522	26,332

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	
	2012	2011	2012	2011	2012	2011
	JOD	JOD	JOD	JOD	JOD	JOD
Gross revenues	533,382	723,932	307,324	284,309	840,706	1,008,241
Total assets	23,142,647	21,859,706	10,197,793	9,531,855	33,340,440	31,391,561
Capital expenditures	3,285	19,297	-	-	3,285	19,297

29. 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>2012</u>	Amount	Percentage to risk - weighted assets	Percentage to assets
	JOD	%	%
Regulatory capital	6,493,974	49.88	19.48
Basic capital	6,361,544	48.86	19.08

<u>2011</u>	Amount	Percentage to risk - weighted assets	Percentage to assets
	JOD	%	%
Regulatory capital	6,849,860	67.81	21.82
Basic capital	6,723,598	66.56	21.42

30. Lawsuits against the Bank

Lawsuits against the bank amounted to JOD 4,335 as of December 31, 2012, according to the bank's management and lawyer estimation there will be no obligations or commitments for these lawsuits.

31. 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.

32. Subsequent events

Subsequent to the date of the financial statements and following a strategic review of its operations and activities in Ramallah, HSBC will focus resources and expertise where it can best add value, specifically, to its corporate customers. Accordingly, HSBC has decided to exit its retail business in Ramallah.