

HSBC BANK MIDDLE EAST LTD - RAMALLAH BRANCH

FINANCIAL STATEMENTS

31 DECEMBER 2013

## **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 (the Bank), which comprise the statement of financial position as of December 31, 2013, 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.



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**Opinion**

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

**Ernst & Young - Middle East**

*Ernst + Young*

Ramallah - Palestine

May 7, 2014

HSBC Bank Middle East Ltd-Ramallah Branch

**Statement of Financial Position**

As at 31 December 2013

<b>Assets</b>	<b>Notes</b>	<b>2013</b> <b>JOD</b>	<b>2012</b> <b>JOD</b>
Cash and balances with Palestine			
Monetary Authority	3	10,263,128	14,198,293
Balances with banks and financial institutions	4	534,914	5,213,902
Balances with Head Office and other			
HSBC branches	5	2,374,949	8,054,129
Direct credit facilities, net	6	4,648,215	5,580,638
Property and equipment	7	37,477	45,267
Other assets	8	565,491	248,211
<b>Total Assets</b>		<b>18,424,174</b>	<b>33,340,440</b>
<b>Liabilities and Head Office equity</b>			
<b>Liabilities</b>			
Palestinian Monetary Authority Deposits	9	750,000	-
Head office and other branches' deposits	10	2,481,500	-
Customers' deposits	11	9,191,301	25,950,546
Cash margins	12	128,759	376,946
Tax provisions	13	84,986	64,704
Provision for employees' indemnity	14	104,797	85,592
Other liabilities	15	406,884	367,939
<b>Total liabilities</b>		<b>13,148,227</b>	<b>26,845,727</b>
<b>Head Office equity</b>			
Paid-in capital	1	7,090,000	7,090,000
Statutory reserve	16	92,917	92,917
General banking risks reserve	16	143,609	132,430
Head office transfers to cover losses		2,503,078	2,503,078
Accumulated losses		(4,553,657)	(3,323,712)
<b>Net Head Office equity</b>		<b>5,275,947</b>	<b>6,494,713</b>
<b>Total liabilities and head office equity</b>		<b>18,424,174</b>	<b>33,340,440</b>

The attached notes 1 to 34 form part of these financial statements

HSBC Bank Middle East Ltd-Ramallah Branch

**Statement of Income and Comprehensive income**  
For the Year Ended 31 December 2013

		2013	2012
	Notes	JOD	JOD
Interest income	18	337,392	278,689
Interest expense	19	(23,228)	(6,276)
Net interest income		314,164	272,413
Net fees and commissions	20	280,859	344,755
Net interest and commissions income		595,023	617,168
Recovery of impairment allowance for direct credit facilities	6	94,145	-
Foreign currency exchange gains		132,303	160,865
Other revenues	21	2,906	9,613
<b>Gross Profit</b>		<b>824,377</b>	<b>787,646</b>
<b>Expenses</b>			
Operating expenses	22	824,610	627,671
Personnel expenses	23	487,137	468,165
Depreciation and amortization		21,131	23,522
Impairment allowance for direct credit facilities	6	-	3,715
Other provisions	17	689,983	-
<b>Total expenses</b>		<b>2,022,861</b>	<b>1,123,073</b>
<b>Loss before tax</b>		<b>(1,198,484)</b>	<b>(335,427)</b>
Tax expense	13	(20,282)	(20,099)
<b>Loss for the year</b>		<b>(1,218,766)</b>	<b>(355,526)</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>(1,218,766)</b>	<b>(355,526)</b>

The attached notes 1 to 34 form part of these financial statements

HSBC Bank Middle East Ltd-Ramallah Branch

**Statement of Changes in Equity**

For the Year Ended 31 December 2013

	<u>Paid-in capital</u>	<u>Statutory reserve</u>	<u>General banking risks reserve</u>	<u>Head office transfers to cover losses</u>	<u>Accumulated losses</u>	<u>Net head office equity</u>
	JOD	JOD	JOD	JOD	JOD	JOD
<b>2013</b>						
<b>At 1 January 2013</b>	7,090,000	92,917	132,430	2,503,078	(3,323,712)	6,494,713
Total comprehensive income for the year	-	-	-	-	(1,218,766)	(1,218,766)
Transferred to general banking risks reserve	-	-	11,179	-	(11,179)	-
<b>At 31 December 2013</b>	<u>7,090,000</u>	<u>92,917</u>	<u>143,609</u>	<u>2,503,078</u>	<u>(4,553,657)</u>	<u>5,275,947</u>
<b>At 1 January 2012</b>	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)	-
<b>At 31 December 2012</b>	<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>

The attached notes 1 to 34 form part of these financial statements

HSBC Bank Middle East Ltd-Ramallah Branch

**Statement of Cash Flows**

For the Year Ended 31 December 2013

	Notes	2013 JOD	2012 JOD
<b>Operating activities:</b>			
Loss before tax		(1,198,484)	(335,427)
<b>Adjustments for:</b>			
Depreciation and amortization		21,131	23,522
Provision for employees' indemnity		20,490	14,940
Impairment allowance for direct credit facilities		-	3,715
Other provisions		689,983	-
Loss on disposal of property and equipment		427	-
Recovery of impairment allowance for direct credit facilities		(94,145)	-
		<u>(560,598)</u>	<u>(293,250)</u>
<b>Changes in assets and liabilities</b>			
Increase (decrease) in Direct credit facilities		1,026,568	(753,757)
Other assets		(1,008,007)	(170,283)
(Decrease) Increase in customers' deposits		(16,759,245)	2,497,521
Cash margins		(248,187)	(190,331)
Increase (decrease) in other liabilities		38,945	(37,458)
Employees' indemnity paid		(1,285)	(366)
Decrease (increase) in Statutory cash reserve		1,346,443	(180,171)
<b>Net cash flows (used in) from operating activities</b>		<u>(16,165,366)</u>	<u>871,905</u>
<b>Investing activities:</b>			
Purchase of property, equipment and intangible assets		(13,217)	(3,285)
Sale of property and equipment		193	-
<b>Net cash used in investing activities</b>		<u>(13,024)</u>	<u>(3,285)</u>
<b>Net (decrease) increase in cash and cash equivalents</b>		(16,178,390)	868,620
Cash and cash equivalents, beginning of the year		18,081,496	17,212,876
<b>Cash and cash equivalents, end of year</b>	24	<u>1,903,106</u>	<u>18,081,496</u>

The attached notes 1 to 34 form part of these financial statements

## Notes to the Financial Statements

31 December 2013

### 1. General

HSBC Bank Middle East - Ramallah Branch (the Bank) was registered in Palestine on 18 November 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 13 employees as at 31 December 2013. The Bank is carrying out all of its banking and financial activities through its sole branch in Ramallah.

As at 31 December 2013, HSBC Holdings Plc. operates in 75 countries worldwide with about 6,300 branches and 254,000 employees as at 31 December 2013. Its total assets as at 31 December 2013 amounted to U.S. \$ 2,671 billion, while its total liabilities amounted to U.S. \$ 2,481 billion. Total deposits as at 31 December 2013 amounted to U.S. \$ 1,482 billion, while its equity amounted to U.S. \$ 190 billion.

Total authorized capital for HSBC Holdings Plc. as at 31 December 2013 amounted to U.S. \$ 9 billion. In addition, the basic capital adequacy percentage and the regulatory capital adequacy percentage were 13.60% and 15.44% respectively.

The financial statements of the Bank as of 31 December 2013 were authorized for issuance by the Bank's management on May7, 2014.

#### 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 Jordanian Dinars (JOD), which is the functional currency of the Bank.

#### 2.2 Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the Bank's annual financial statements for the year ended 31 December 2012, except for the adoption of new standards and interpretations effective as of 1 January 2013.

The adoption of the new standards and amendments did not affect the financial position or performance of the Bank.

##### - IAS 1 Presentation of Items of Other Comprehensive Income - (Amendment)

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time shall have to 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 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 1 January 2013.

The following amendments and interpretations have been issued but are not yet mandatory, and have not been adopted by the bank. These amendments and interpretations will have an impact on disclosures, financial position or performance when applied at a future date. The bank intends to adopt these amendments and interpretations when they become effective.

- Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27, these amendments will become effective for annual periods beginning 1 January 2014.
- IAS 32 Amendment - Offsetting Financial Assets and Financial Liabilities .This standard will become effective for annual periods beginning on or after 1 January 2014.
- IFRIC Interpretation 21 Levies which will become effective for annual periods beginning on or after 1 January 2014.

### **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**

#### **a. 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.

## b. 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.

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

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

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

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

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

## c. Property, Plant, and Equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses. 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:

	Useful life (Years)
Leasehold improvements	5
Equipment and computers and furniture	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.

#### **d. 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.

#### **e. 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.

#### **f. 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.

#### **g. Expense recognition**

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

#### **h. Provisions**

Provisions are recognized when the Bank 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.

#### **i. Tax Provision**

The Bank 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, 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.

#### **j. 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.

#### **k. Cash and Cash Equivalentents**

Cash and cash equivalentents 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.

## I. 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

	2013	2012
	JOD	JOD
Cash on hand	488,928	1,275,608
Balances with PMA:		
Capital deposit	7,090,000	7,090,000
Current and demand accounts	1,735,815	3,537,857
Statutory cash reserve	948,385	2,294,828
	<u>10,263,128</u>	<u>14,198,293</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. According to PMA circular (2/2012) the outstanding balance of credit facilities granted in Jerusalem for some sectors are deducted before the statutory reserve is calculated.
- Restricted cash balances at PMA excluding statutory cash reserve as at 31 December 2013 and 2012 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 commission of 0.25%.

#### 4. Balances with Banks and Financial Institutions

	<u>2013</u>	<u>2012</u>
	<u>JOD</u>	<u>JOD</u>
<b>Local banks and financial institutions</b>		
Current and demand accounts	312,278	783,275
Deposits maturing within three months	-	2,481,500
	<u>312,278</u>	<u>3,264,775</u>
<b>Foreign banks and financial institutions</b>		
Current and demand accounts	222,636	1,949,127
	<u>222,636</u>	<u>1,949,127</u>
	<u>534,914</u>	<u>5,213,902</u>

- Non-interest bearing balances at banks and financial institutions amounted to JOD 534,914 and JOD 970,394 as at 31 December 2013 and 2012, respectively.
- There are no restricted balances as at 31 December 2013 and 2012.

#### 5. Balances with Head Office and Other HSBC Branches

	<u>2013</u>	<u>2012</u>
	<u>JOD</u>	<u>JOD</u>
Current and demand accounts	2,374,949	6,245,945
Deposits maturing within 3 months	-	1,808,184
	<u>2,374,949</u>	<u>8,054,129</u>

- Interest revenue from Head Office and other HSBC branches for the years ended 31 December 2013 and 2012 amounted to JOD 34,440 and JOD 48,713, respectively.
- Non-interest bearing balances at Head Office and other HSBC branches for the years ended 31 December 2013 and 2012 amounted to JOD 1,118,604 and JOD 2,892,263, respectively.

#### 6. Direct Credit Facilities, net

	<u>2013</u>	<u>2012</u>
	<u>JOD</u>	<u>JOD</u>
<b>Retail</b>		
Loans and discounted bills	23,600	81,636
Overdraft accounts	1,464	2,213
<b>Corporate</b>		
Large		
Loans and discounted bills	4,379,153	4,956,013
Overdraft accounts	243,313	237,745
Medium and Small		
Loans and discounted bills	5,395	454,882
Overdraft accounts	9,160	6,741
	<u>4,662,085</u>	<u>5,739,230</u>
Interest and commission in suspense	(4,871)	(55,805)
Allowance for Impairment losses on direct credit facilities	(8,999)	(102,787)
	<u>4,648,215</u>	<u>5,580,638</u>

- Credit facilities excluding unearned interest and commissions amounted to JOD 41,845 and JOD 49,461 as at 31 December 2013 and 2012, respectively.

- Non-performing credit facilities excluding interest in suspense as at 31 December 2013 and 2012 amounted to JOD 8,999 and JOD 144,894 representing 0.19% and 2.55% 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 77,281 and JOD 283,511 as at 31 December 2013 and 2012, respectively.
- Credit facilities do not include facilities granted to the government or non residents.

### Impairment allowance for Losses on Direct Credit Facilities

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

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Balance, beginning of year	102,787	98,982
Addition during the year	-	3,715
Recovery during the year	(94,145)	-
Currency exchange	357	90
Balance, end of year	<u>8,999</u>	<u>102,787</u>

### Interest in Suspense

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

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Balance, beginning of year	55,805	33,727
Interest suspended during the year	1,742	22,078
Interest in suspense written off during the year	(52,676)	-
Balance, end of year	<u>4,871</u>	<u>55,805</u>

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

	<u>2013</u>	<u>2012</u>
	JOD	JOD
<b>Industry and Trade</b>		
Manufacturing	86,444	186,171
	<u>86,444</u>	<u>186,171</u>
<b>Services</b>		
Telecommunication	2,085,155	2,077,539
	<u>2,085,155</u>	<u>2,077,539</u>
<b>Retail and Wholesale</b>		
Local trading	2,459,606	3,335,389
	<u>2,459,606</u>	<u>3,335,389</u>
<b>Consumers' loans</b>		
Commodity loans	26,009	84,326
	<u>26,009</u>	<u>84,326</u>
	<u>4,657,214</u>	<u>5,683,425</u>

## 7. Property and equipment

	Leasehold improvements	Equipment and computers	Furniture	Total
<b>31 December 2013</b>	JOD	JOD	JOD	JOD
<b>Cost:</b>				
At 1 January 2013	76,013	128,331	102,716	307,060
Additions	-	2,691	10,526	13,217
Disposals	(5,763)	(31,350)	(415)	(37,528)
At 31 December 2013	<u>70,250</u>	<u>99,672</u>	<u>112,827</u>	<u>282,749</u>
Accumulated depreciation:				
At 1 January 2013	55,623	115,870	90,300	261,793
Depreciation for the year	8,236	6,472	5,679	20,387
Disposals	(5,763)	(30,957)	(188)	(36,908)
At 31 December 2013	<u>58,096</u>	<u>91,385</u>	<u>95,791</u>	<u>245,272</u>
<b>Net book value</b>				
<b>At 31 December 2013</b>	<u><u>12,154</u></u>	<u><u>8,287</u></u>	<u><u>17,036</u></u>	<u><u>37,477</u></u>
	Leasehold improvements	Equipment and computers	Furniture	Total
<b>31 December 2012</b>	JOD	JOD	JOD	JOD
<b>Cost:</b>				
At 1 January 2012	75,300	149,647	102,375	327,322
Additions	713	-	341	1,054
Disposals	-	(21,316)	-	(21,316)
At 31 December 2012	<u>76,013</u>	<u>128,331</u>	<u>102,716</u>	<u>307,060</u>
Accumulated depreciation:				
At 1 January 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 31 December 2012	<u>55,623</u>	<u>115,870</u>	<u>90,300</u>	<u>261,793</u>
<b>Net book value</b>				
<b>At 31 December 2012</b>	<u><u>20,390</u></u>	<u><u>12,461</u></u>	<u><u>12,416</u></u>	<u><u>45,267</u></u>



## 8. Other assets

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Amounts reserved by U.S government*	494,104	-
Prepaid expenses	35,554	13,351
Commissions receivable	19,784	22,311
Accrued interest income	7,448	12,465
Due from Head Office	-	194,237
Intangible assets**	-	744
Others	8,601	5,103
	<u>565,491</u>	<u>248,211</u>

\* During the year, an American court has restricted U.S. \$ 1,670,080 (equivalent JOD 1,184,087) from the Bank account in HSBC USA for litigation against one of the bank's clients due to being involved in illegal activities in the United States, and transferring amounts equivalent to the amount previously mentioned to his account in HSBC Ramallah Branch. The Bank has contingently provided for an amount of U.S \$ 973,178 (equivalent JOD 689,983). According to Bank's legal councils, An amount of U.S. \$ 696,903 (equivalent JOD 494,104) will be refunded in 2014. (see note 17)

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

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Balance, beginning of the year	744	383
Additions	-	2,231
Amortization	(744)	(1,870)
Balance, end of year	<u>-</u>	<u>744</u>

## 9. PMA Deposits:

PMA deposits represent deposits maturing within three months which amounted to 750,000 JOD as at 31 December 2013.

## 10. Head Office and other HSBC branches' Deposits

Head office and other branches deposits represents deposits maturing within three months which amounted to 2,481,500 JOD as at 31 December 2013.

## 11. Customers' deposits

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Saving deposits	1,157,947	10,395,335
Current and demand deposits	7,321,778	12,173,836
Time deposits	711,576	3,381,375
	<u>9,191,301</u>	<u>25,950,546</u>

The Following is a detailed description of Client Deposits by nature:

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Retail	1,677,554	10,654,848
Corporate	<u>7,513,747</u>	<u>15,295,698</u>
	<u>9,191,301</u>	<u>25,950,546</u>

- Based on a strategic review of its operations and activities in Ramallah, HSBC group decided in 2013 to focus its resources and expertise, where it can best add value, specifically, to its corporate customers. Accordingly, HSBC has decided to withdraw from the Retail Sector in Ramallah. Individual customer deposits in the retail sector comprise of 894,225 JOD as at 31 December 2013, all of which will remain until such accounts are settled with their respective owners.
- Non-interest bearing deposits amounted to JOD 7,321,778 representing 79.66% of the total deposits as at 31 December 2013, compared to JOD 12,173,836 representing 46.91% of the total deposits as at 31 December 2012.

## 12. Cash margins

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Direct credit facilities	77,281	323,588
Indirect credit facilities	<u>51,478</u>	<u>53,358</u>
	<u>128,759</u>	<u>376,946</u>

## 13. Tax provisions

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Balance, beginning of the year	64,704	44,605
Tax expense for the year	<u>20,282</u>	<u>20,099</u>
Balance, end of year	<u>84,986</u>	<u>64,704</u>

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

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Bank's accounting loss	<u>(1,198,484)</u>	<u>(335,427)</u>
Income subject to Value Added Tax (VAT)	(226,130)	(193,319)
VAT	-	24,788
Income subject to income tax	<u>(226,130)</u>	<u>(168,531)</u>
Income Tax	-	-
Total taxes for the year	<u>-</u>	<u>-</u>
Provision for the year	<u>20,282</u>	<u>20,099</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, 2011, and 2012 despite the fact that the bank submitted the tax returns for these periods to the tax departments on time.

#### 14. Provision for employees' indemnity

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

	<u>2013</u> JOD	<u>2012</u> JOD
Balance, beginning of the year	85,592	71,018
Provided for during the year	20,490	14,940
Paid during the year	(1,285)	(366)
Balance, end of year	<u>104,797</u>	<u>85,592</u>

#### 15. Other liabilities

	<u>2013</u> JOD	<u>2012</u> JOD
Accrued expenses	214,601	226,892
Employees' provident fund *	121,323	98,121
Certified checks	64,250	35,803
Accrued unpaid interest	852	166
Sundry	<u>5,858</u>	<u>6,957</u>
	<u>406,884</u>	<u>367,939</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.

#### 16. 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 (1/2013) based on 2% of 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. This reserve cannot be utilized or deducted without prior approval of PMA.

#### 17. Other Reserves

During the period, an American court has restricted U.S. \$ 1,670,080 (equivalent JOD 1,184,087) from the bank account in HSBC USA for litigation against one of the bank's clients due to being involved in illegal activities in the United States, and transferring amounts equivalent to the amount previously mentioned to his account in HSBC Ramallah Branch. The Bank has provided for this customer an amount of JOD 689,983 and recorded the remaining amount of U.S. \$ 696,903 (equivalent JOD 494,104) as reserved by U.S government (see note 8).

## 18. Interest income

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Direct credit facilities:		
Overdraft facilities	14,070	14,513
Loans and discounted bills	284,147	208,119
	<u>298,217</u>	<u>222,632</u>
Balances with banks and financial institutions	1,865	3,134
Balances with Head Office and other HSBC branches	34,440	48,713
Balances with PMA	2,870	4,210
	<u>337,392</u>	<u>278,689</u>

## 19. Interest expense

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Time deposits	22,464	4,061
Saving deposits	764	2,215
	<u>23,228</u>	<u>6,276</u>

## 20. Net fees and commissions

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Commissions income		
Direct credit facilities	41,575	52,599
Custody Services*	222,099	257,906
Indirect credit facilities	9,788	8,232
Others	48,207	72,802
	<u>321,669</u>	<u>391,539</u>
Commission expense	(40,810)	(46,784)
	<u>280,859</u>	<u>344,755</u>

\* The Bank provides custody, services to foreign investors for securities traded in Palestine Exchange. The Bank opens bank accounts for these investors and for licensed intermediary brokers. The Bank charges commissions for account management, transactions and safekeeping services.

## 21. Other revenues

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Recovery of provisions	2,777	9,613
Sundry	129	-
	<u>2,906</u>	<u>9,613</u>

## 22. Operating Expenses

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Software development costs	201,686	200,993
Professional fees	84,953	44,352
Fees, License, and subscriptions	82,538	80,587
Telephone and postage	62,756	70,930
Travel and accommodations	33,127	13,603
Rent	30,949	28,400
Maintenance	13,436	15,980
Utilities	10,119	10,148
Insurance	8,385	2,298
Stationary and printings	7,903	5,934
Advertisement and marketing	6,083	6,668
Fuel	3,184	5,548
Entertainment expense	717	1,300
Sundry	21,764	15,385
	<u>567,600</u>	<u>502,126</u>
Bank share of Head Office overhead expense	257,010	125,545
	<u>824,610</u>	<u>627,671</u>

## 23. Personnel expenses

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Salaries and related expenses	375,873	398,030
VAT on salaries	52,871	30,020
Provident fund	29,942	17,858
Provision for employees' indemnity	20,490	14,940
Medical insurance	7,551	6,393
Training expense	410	924
	<u>487,137</u>	<u>468,165</u>

## 24. Cash and cash equivalents

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

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Cash and balances with PMA	10,263,128	14,198,293
Add: Balances with banks and financial institutions maturing within three months	534,914	5,213,902
Add: Balances with head office and other HSBC branches maturing within three months	2,374,949	8,054,129
Less: Capital deposit	(7,090,000)	(7,090,000)
Statutory cash reserve	(948,385)	(2,294,828)
Banks and financial institutions' deposits maturing within three months	(2,481,500)	-
PMA deposits maturing within three months	(750,000)	-
	<u>1,903,106</u>	<u>18,081,496</u>

## 25. Commitments and contingent liabilities

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

	<u>2013</u>	<u>2012</u>
	<u>JOD</u>	<u>JOD</u>
Letter of credits	177,250	248,150
Letter of guarantees:		
Performance	10,635	24,815
Payment guarantee	336,964	225,169
Checks under collection	342,012	426,797
Unutilized limits of direct and indirect credit facilities	<u>2,889,019</u>	<u>3,467,557</u>
	<u>3,755,880</u>	<u>4,392,488</u>

## 26. 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	<u>2013</u>	<u>2012</u>
		<u>JOD</u>	<u>JOD</u>
<b>Statement of Financial Position Items:</b>			
Balances with Head Office and other HSBC branches	Head office and branches	<u>2,374,949</u>	<u>8,054,129</u>
Customer's deposits	Executive management	<u>84,976</u>	<u>12,030</u>
Credit facilities	Executive management	<u>18,844</u>	<u>35,304</u>
Due from Head Office	Head office	<u>-</u>	<u>194,237</u>
Head office and other branches' deposits	Head office and branches	<u>2,481,500</u>	<u>-</u>
<b>Off-Balance Sheet Items:</b>			
Indirect Credit Facilities	Executive Management	<u>2,978</u>	<u>-</u>

	Nature of relationship	<u>2013</u> JOD	<u>2012</u> JOD
<b>Statement of income and comprehensive income items:</b>			
Interest income	Head office, branches and executive management	<u>34,440</u>	<u>51,677</u>
Interest Expense	Head office and branches	<u>6,139</u>	<u>-</u>
Head Office expenses	Head office and branches	<u>257,010</u>	<u>125,545</u>
Commission Income	Head office and branches	<u>2,581</u>	<u>3,220</u>
Commission Expense	Head office and branches	<u>7,328</u>	<u>9,926</u>
Software development costs	Head office	<u>201,686</u>	<u>200,993</u>

Compensation of key management personnel:

	<u>2013</u> JOD	<u>2012</u> JOD
Salaries and related benefits	<u>233,387</u>	<u>326,074</u>
Long term benefits	<u>10,555</u>	<u>11,019</u>

- Net direct credit facilities granted to related parties as at 31 December 2013 and 2012 represent 0.41% and 0.63%, 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 31 December 2013 and 2012 represent 0.36% and 0.54%, respectively, from the Bank's regulatory capital.
- Interest on JOD direct credit facilities ranges between 6% and 7.5%.
- Interest on US direct credit facilities ranges between 4% and 6%.

## 27. 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, Head office deposits, PMA deposits, cash margins, and other liabilities approximate their carrying amounts largely due to the short -term maturities of these instruments.

## 28. 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:

	2013			2012		
	Assets	Liabilities and equity	Items out of statement of financial position	Assets	Liabilities and equity	Items out of statement of financial position
	JOD	JOD	JOD	JOD	JOD	JOD
<b>By geographical area</b>						
Palestine	15,332,485	15,942,674	3,755,880	23,142,647	33,340,440	4,392,488
Arab Countries	1,704,249	2,481,500	-	4,420,921	-	-
Europe and Israel	545,844	-	-	3,900,306	-	-
U.S.A	841,472	-	-	1,829,858	-	-
Others	124	-	-	46,708	-	-
<b>Total</b>	<b>18,424,174</b>	<b>18,424,174</b>	<b>3,755,880</b>	<b>33,340,440</b>	<b>33,340,440</b>	<b>4,392,488</b>
<b>By sector</b>						
Companies and other institutions	4,623,151	8,015,932	3,752,090	5,496,789	15,525,064	4,392,488
Individuals	25,064	1,425,451	3,790	83,849	10,752,967	-
Treasury	13,172,991	3,231,500	-	27,466,324	-	-
Others	602,968	5,751,291	-	293,478	7,062,409	-
<b>Total</b>	<b>18,424,174</b>	<b>18,424,174</b>	<b>3,755,880</b>	<b>33,340,440</b>	<b>33,340,440</b>	<b>4,392,488</b>

## 29. 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, through credit risk management, sets ceilings for direct credit facilities (retail or corporate) and total loans granted to each sector and each geographical area, the Bank also monitors credit risks and continuously evaluates the credit standing of customers, the Bank also obtains appropriate collaterals from customers.



## 1. Exposures to Credit Risks

	<u>2013</u>	<u>2012</u>
	JOD	JOD
<b>Statement of Financial Position Items</b>		
Balances with PMA	9,774,200	12,922,685
Balances with banks and financial institutions	534,914	5,213,902
Balances with Head Office and other HSBC branches	2,374,949	8,054,129
Direct credit facilities:		
Retail	25,064	83,849
Large Companies	4,622,466	5,193,758
Medium and small Companies	685	303,031
Other assets	529,937	234,116
	<u>17,862,215</u>	<u>32,005,470</u>
<b>Off-Statement of Financial Position Items</b>		
Letters of guarantee	177,250	248,150
Letters of credit	347,599	249,984
Checks under collections	342,012	426,797
Unutilized limits of direct and indirect credit facilities	2,889,019	3,467,557
	<u>3,755,880</u>	<u>4,392,488</u>

## 2. Credit Risk Exposure According to Risk Rating

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

<b><u>31 December 2013</u></b>	Corporate			
	Retail	Large	Medium and small	Total
	JOD	JOD	JOD	JOD
Performing	25,064	4,622,466	685	4,648,215
Watch list	-	-	-	-
Non-performing:				
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	13,870	13,870
Total	25,064	4,622,466	14,555	4,662,085
Interest and commission in suspense	-	-	(4,871)	(4,871)
Allowance for impairment losses on credit facilities	-	-	(8,999)	(8,999)
	<u>25,064</u>	<u>4,622,466</u>	<u>685</u>	<u>4,648,215</u>

<b>31 December 2012</b>	Corporate			<b>Total</b>
	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
<b>Total</b>	<b>83,849</b>	<b>5,193,758</b>	<b>461,623</b>	<b>5,739,230</b>
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>

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

<b>31 December 2013</b>	Corporate			<b>Total</b>
	Retail	Large	Medium and small	
	JOD	JOD	JOD	
<b>Collaterals against:</b>	7,799	69,482	-	77,281
Performing	-	-	-	-
Watch list	-	-	-	-
Non-performing:				
Sub-standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
<b>Total</b>	<b>7,799</b>	<b>69,482</b>	<b>-</b>	<b>77,281</b>
<b>Includes:</b>				
Cash margins	7,799	69,482	-	77,281
	<u>7,799</u>	<u>69,482</u>	<u>-</u>	<u>77,281</u>

<b>31 December 2012</b>	Corporate			<b>Total</b>
	Retail	Large	Medium and small	
	JOD	JOD	JOD	
<b>Collaterals against:</b>				
Performing	14,879	226,525	-	241,404
Watch list	-	-	-	-
Non-performing:				
Sub-standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	42,107	42,107
<b>Total</b>	<b>14,879</b>	<b>226,525</b>	<b>42,107</b>	<b>283,511</b>
<b>Includes:</b>				
Cash Margins	2,259	226,525	-	228,784
Quoted Shares	12,620	-	42,107	54,727
	<u>14,879</u>	<u>226,525</u>	<u>42,107</u>	<u>283,511</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	9,774,200	-	-	-	-	9,774,200
Balances with banks and financial institutions	312,278	-	222,636	-	-	534,914
Balances with Head Office and other HSBC branches	-	1,704,249	323,208	347,368	124	2,374,949
Direct credit facilities:						
Retail	25,064	-	-	-	-	25,064
Large Companies	4,622,466	-	-	-	-	4,622,466
Small-Middle size Companies	685	-	-	-	-	685
Other assets	35,833	-	-	494,104	-	529,937
<b>Total as at 31 December 2013</b>	<b>14,770,526</b>	<b>1,704,249</b>	<b>545,844</b>	<b>841,472</b>	<b>124</b>	<b>17,862,215</b>
<b>Total as at 31 December 2012</b>	<b>21,807,677</b>	<b>4,420,921</b>	<b>3,900,306</b>	<b>1,829,858</b>	<b>46,708</b>	<b>32,005,470</b>
<b>Off statement of financial position items:</b>						
Balance as 31 December 2013	3,755,880	-	-	-	-	3,755,880
Balance as 31 December 2012	4,392,488	-	-	-	-	4,392,488

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	9,774,200	-	-	-	-	9,774,200
Balances with banks and financial institutions	534,914	-	-	-	-	534,914
Balances with Head Office and other HSBC branches	2,374,949	-	-	-	-	2,374,949
Direct credit facilities	-	81,699	2,455,352	-	2,111,164	4,648,215
Other assets	494,104	-	-	-	35,833	529,937
<b>Total as at 31 December 2013</b>	<b>13,178,167</b>	<b>81,699</b>	<b>2,455,352</b>	<b>-</b>	<b>2,146,997</b>	<b>17,862,215</b>
<b>Total as at 31 December 2012</b>	<b>26,190,716</b>	<b>181,746</b>	<b>3,237,027</b>	<b>-</b>	<b>2,395,981</b>	<b>32,005,470</b>
<b>Off statement of financial position items:</b>						
Balance as 31 December 2013	-	-	521,871	-	3,234,009	3,755,880
Balance as 31 December 2012	-	-	498,134	-	3,894,354	4,392,488

## 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	2013		2012	
	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	8,679	+10	9,535
ILS	+10	(183)	+10	(486)
JOD	+10	(651)	+10	109
Other currencies	+10	49	+10	(859)

31 December 2013

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	7,090,000	-	-	-	-	3,173,128	10,263,128
Balances with banks and financial institutions	-	-	-	-	-	534,914	534,914
Balances with Head Office and other HSBC branches	1,256,345	-	-	-	-	1,118,604	2,374,949
Direct credit facilities	2,285,117	4,733	427,098	1,145,654	785,613	-	4,648,215
Property and equipment	-	-	-	-	-	37,477	37,477
Other assets	-	-	-	-	-	565,491	565,491
<b>Total assets</b>	<b>10,631,462</b>	<b>4,733</b>	<b>427,098</b>	<b>1,145,654</b>	<b>785,613</b>	<b>5,429,614</b>	<b>18,424,174</b>
<b>Liabilities</b>							
PMA Deposits	750,000	-	-	-	-	-	750,000
Balances with banks and financial institutions	2,481,500	-	-	-	-	-	2,481,500
Customers' deposits	1,869,523	-	-	-	-	7,321,778	9,191,301
Cash margins	-	-	-	-	-	128,759	128,759
Tax provisions	-	-	-	-	-	84,986	84,986
Provision for employees' indemnity	-	-	-	-	-	104,797	104,797
Other liabilities	-	-	-	-	-	406,884	406,884
<b>Total liabilities</b>	<b>5,101,023</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,047,204</b>	<b>13,148,227</b>
<b>Equity</b>							
Paid-in share capital	-	-	-	-	-	7,090,000	7,090,000
Statutory reserve	-	-	-	-	-	92,917	92,917
General banking risks reserve	-	-	-	-	-	143,609	143,609
Head office transfers to cover losses	-	-	-	-	-	2,503,078	2,503,078
Retained earnings	-	-	-	-	-	(4,553,657)	(4,553,657)
<b>Total Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,275,947</b>	<b>5,275,947</b>
<b>Total liabilities and head office equity</b>	<b>5,101,023</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,323,151</b>	<b>18,424,174</b>
<b>Interest rate re-pricing sensitivity gap</b>	<b>5,530,439</b>	<b>4,733</b>	<b>427,098</b>	<b>1,145,654</b>	<b>785,613</b>	<b>(7,893,537)</b>	<b>-</b>
<b>Cumulative Maturity Gap</b>	<b>5,530,439</b>	<b>5,535,172</b>	<b>5,962,270</b>	<b>7,107,924</b>	<b>7,893,537</b>	<b>-</b>	<b>-</b>

31 December 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
<b>Total assets</b>	<b>19,267,702</b>	<b>156,898</b>	<b>470,175</b>	<b>1,385,315</b>	<b>795,922</b>	<b>11,264,428</b>	<b>33,340,440</b>
<b>Total liabilities</b>	<b>13,571,592</b>	<b>56,889</b>	<b>148,229</b>	<b>-</b>	<b>-</b>	<b>13,069,017</b>	<b>26,845,727</b>
<b>Head office equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,494,713</b>	<b>6,494,713</b>
<b>Total liabilities and head office equity</b>	<b>13,571,592</b>	<b>56,889</b>	<b>148,229</b>	<b>-</b>	<b>-</b>	<b>19,563,730</b>	<b>33,340,440</b>
<b>Interest rate re-pricing sensitivity gap</b>	<b>5,696,110</b>	<b>100,009</b>	<b>321,946</b>	<b>1,385,315</b>	<b>795,922</b>	<b>(8,299,302)</b>	<b>-</b>
<b>Cumulative Maturity Gap</b>	<b>5,696,110</b>	<b>5,796,119</b>	<b>6,118,065</b>	<b>7,503,380</b>	<b>8,299,302</b>	<b>-</b>	<b>-</b>

## 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	2013		2012	
	Change in Currency rate (%)	Effect on profit and loss	Change in Currency rate (%)	Effect on profit and loss
ILS	+10	(5,846)	+10	82
Other currencies	+10	(3,059)	+10	3,555

Following is the foreign currencies position of the Bank:

	ILS JOD	U.S. \$ JOD	Other currencies JOD	Total JOD
<b>31 December 2013</b>				
<b>Assets</b>				
Cash and balances with PMA	737,014	8,647,315	288,110	9,672,439
Balances with banks and financial institutions	331,539	203,375	-	534,914
Balances with head office and other HSBC branches	107	1,582,509	770,792	2,353,408
Direct credit facilities	161,349	4,395,584	-	4,556,933
Other assets	-	10,614	-	10,614
<b>Total assets</b>	<b>1,230,009</b>	<b>14,839,397</b>	<b>1,058,902</b>	<b>17,128,308</b>
<b>Liabilities</b>				
Balances with head office and other HSBC branches	-	2,481,500	-	2,481,500
Customers' deposits	1,248,285	5,595,550	1,086,858	7,930,693
Cash margins	33,398	95,361	-	128,759
Other Liabilities	6,781	88,131	2,631	97,543
<b>Total liabilities</b>	<b>1,288,464</b>	<b>8,260,542</b>	<b>1,089,489</b>	<b>10,638,495</b>
In statement of financial position concentration	(58,455)	6,578,855	(30,587)	6,489,813
Contingent liabilities - off Statement of financial position	658,961	3,096,919	-	3,755,880
<b>31 December 2012</b>				
<b>Total assets</b>	<b>2,816,963</b>	<b>26,283,640</b>	<b>2,152,029</b>	<b>31,252,632</b>
<b>Total liabilities</b>	<b>2,816,143</b>	<b>19,315,794</b>	<b>2,116,483</b>	<b>24,248,420</b>
In statement of financial position concentration	820	6,967,846	35,546	7,004,212
Contingent liabilities - off Statement of financial position	590,959	3,801,451	-	4,392,410

### 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
	JOD	JOD	JOD	JOD	JOD	JOD	JOD
<b>31 December 2013</b>							
<b>Assets:</b>							
Cash and balances with PMA	2,224,771	-	-	-	-	8,038,420	10,263,191
Balances with banks and financial institutions	534,914	-	-	-	-	-	534,914
Balances with head office and other HSBC branches	2,374,949	-	-	-	-	-	2,374,949
Direct credit facilities	2,303,440	6,875	487,284	1,248,599	878,619	-	4,924,817
Property and equipment	-	-	-	-	-	37,477	37,477
Other assets	52,692	7,532	504,270	997	-	-	565,491
<b>Total assets</b>	<b>7,490,766</b>	<b>14,407</b>	<b>991,554</b>	<b>1,249,596</b>	<b>878,619</b>	<b>8,075,897</b>	<b>18,700,839</b>
<b>Liabilities:</b>							
Palestinian Monetary Authority Deposits	753,125	-	-	-	-	-	753,125
Balances with head office and other HSBC branches	2,483,104	-	-	-	-	-	2,483,104
Customers' deposits	9,191,304	-	-	-	-	-	9,191,304
Cash margins	-	-	128,759	-	-	-	128,759
Tax provisions	-	-	84,986	-	-	-	84,986
Provision for employees' indemnity	-	-	-	-	-	104,797	104,797
Other liabilities	285,561	-	-	-	-	121,323	406,884
<b>Total liabilities</b>	<b>12,713,094</b>	<b>-</b>	<b>213,745</b>	<b>-</b>	<b>-</b>	<b>226,120</b>	<b>13,152,959</b>
<b>Equity</b>							
Paid-in share capital	-	-	-	-	-	7,090,000	7,090,000
Statutory reserve	-	-	-	-	-	92,917	92,917
General banking risks reserve	-	-	-	-	-	143,609	143,609
Head office transfers to cover losses	-	-	-	-	-	2,503,078	2,503,078
Retained earnings	-	-	-	-	-	(4,553,657)	(4,553,657)
<b>Total Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,275,947</b>	<b>5,275,947</b>
<b>Total liabilities and head office equity</b>	<b>12,713,094</b>	<b>-</b>	<b>213,745</b>	<b>-</b>	<b>-</b>	<b>5,502,067</b>	<b>18,428,906</b>
<b>Interest rate re-pricing sensitivity gap</b>	<b>(5,222,328)</b>	<b>14,407</b>	<b>777,809</b>	<b>1,249,596</b>	<b>878,619</b>	<b>2,573,830</b>	<b>271,933</b>
<b>Cumulative Maturity Gap</b>	<b>(5,222,328)</b>	<b>(5,207,921)</b>	<b>(4,430,112)</b>	<b>(3,180,516)</b>	<b>(2,301,897)</b>	<b>271,933</b>	<b>543,866</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>31 December 2012</b>	JOD	JOD	JOD	JOD	JOD	JOD	JOD
<b>Assets:</b>							
Cash and balances with PMA	4,813,465	-	-	-	-	9,385,133	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
<b>Total assets</b>	<b>21,182,326</b>	<b>218,667</b>	<b>631,608</b>	<b>2,082,699</b>	<b>982,250</b>	<b>9,431,144</b>	<b>34,528,694</b>
<b>Liabilities:</b>							
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
<b>Total liabilities</b>	<b>26,015,322</b>	<b>56,903</b>	<b>213,007</b>	<b>376,946</b>	<b>-</b>	<b>183,713</b>	<b>26,845,891</b>
<b>Equity</b>							
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)
<b>Total Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,494,713</b>	<b>6,494,713</b>
<b>Total liabilities and head office equity</b>	<b>26,015,322</b>	<b>56,903</b>	<b>213,007</b>	<b>376,946</b>	<b>-</b>	<b>6,678,426</b>	<b>33,340,604</b>
<b>Interest rate re-pricing sensitivity gap</b>	<b>(4,832,996)</b>	<b>161,764</b>	<b>418,601</b>	<b>1,705,753</b>	<b>982,250</b>	<b>2,752,718</b>	<b>1,188,090</b>
<b>Cumulative Maturity Gap</b>	<b>(4,832,996)</b>	<b>(4,671,232)</b>	<b>(4,252,631)</b>	<b>(2,546,878)</b>	<b>(1,564,628)</b>	<b>1,188,090</b>	<b>2,376,180</b>



### 30. Maturities of Assets and Liabilities

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

<b>31 December 2013</b>	Up to 1 year	More than 1 year	Without maturity	Total
<b>Assets</b>	JOD	JOD	JOD	JOD
Cash and balances with PMA	3,173,128	-	7,090,000	10,263,128
Balances with banks and financial institutions	534,914	-	-	534,914
Balances with Head Office & other HSBC branches	2,374,949	-	-	2,374,949
Direct credit facilities	2,716,948	1,931,267	-	4,648,215
Property and equipment	-	-	37,477	37,477
Other assets	564,494	997	-	565,491
<b>Total assets</b>	<b>9,364,433</b>	<b>1,932,264</b>	<b>7,127,477</b>	<b>18,424,174</b>
<b>Liabilities</b>				
Balances with Head Office & other HSBC branches	2,481,500	-	-	2,481,500
PMA Deposits	750,000	-	-	750,000
Customers' deposits	9,191,301	-	-	9,191,301
Cash margins	128,759	-	-	128,759
Tax provisions	84,986	-	-	84,986
Provision for employees' indemnity	-	-	104,797	104,797
Other liabilities	285,561	-	121,323	406,884
<b>Total liabilities</b>	<b>12,922,107</b>	<b>-</b>	<b>226,120</b>	<b>13,148,227</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	-	-	143,609	143,609
Head Office transfers to cover losses	-	-	2,503,078	2,503,078
Accumulated losses	-	-	(4,553,657)	(4,553,657)
<b>Net head office equity</b>	<b>-</b>	<b>-</b>	<b>5,275,947</b>	<b>5,275,947</b>
<b>Total liabilities and head office equity</b>	<b>12,922,107</b>	<b>-</b>	<b>5,502,067</b>	<b>18,424,174</b>
Maturity gap	(3,557,674)	1,932,264	1,625,410	-
Cumulative maturity gap	(3,557,674)	(1,625,410)	-	-

<b>31 December 2012</b>	<u>Up to 1 year</u>	<u>More than 1</u>	<u>Without</u>	<u>Total</u>
	<u>JOD</u>	<u>year</u>	<u>maturity</u>	<u>JOD</u>
		<u>JOD</u>	<u>JOD</u>	
<b>Assets</b>				
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
<b>Total assets</b>	<b>24,023,192</b>	<b>2,181,237</b>	<b>7,136,011</b>	<b>33,340,440</b>
<b>Liabilities</b>				
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
<b>Total liabilities</b>	<b>26,285,068</b>	<b>376,946</b>	<b>183,713</b>	<b>26,845,727</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	-	-	132,430	132,430
Head Office transfers to cover losses	-	-	2,503,078	2,503,078
Accumulated losses	-	-	(3,323,712)	(3,323,712)
<b>Net head office equity</b>	<b>-</b>	<b>-</b>	<b>6,494,713</b>	<b>6,494,713</b>
<b>Total liabilities and head office equity</b>	<b>26,285,068</b>	<b>376,946</b>	<b>6,678,426</b>	<b>33,340,440</b>
Maturity gap	(2,261,876)	1,804,291	457,585	-
Cumulative maturity gap	(2,261,876)	(457,585)	-	-

## 31. 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.

Based on a strategic review of its operations and activities in Ramallah, HSBC group decided in 2013 to focus its resources and expertise, where it can best add value, specifically, to its corporate customers. Accordingly, HSBC has decided to gradually withdraw from the Retail Sector in Ramallah.

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

	Retail	Corporate	Treasury	Other	Total	
	JOD	JOD	JOD	JOD	2013 JOD	2012 JOD
Gross revenue	11,869	748,812	33,589	-	794,270	840,706
Impairment losses on direct credit facilities	-	94,145	-	-	94,145	(3,715)
Segment results	10,923	583,410	165,892	(29,993)	730,232	787,646
Unallocated expenses					(2,022,861)	(1,119,358)
Loss before taxes					(1,198,484)	(335,427)
Taxes expense					(20,282)	(20,099)
Loss for the year					(1,218,766)	(355,526)
Segment assets	25,064	4,623,151	13,172,991	602,968	18,424,174	33,340,440
Segment liabilities	1,425,451	8,015,932	3,231,500	475,344	13,148,227	26,845,727
Other segment information:						
Capital expenditures					13,217	3,285
Depreciation and amortization					21,131	23,522

### 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	
	2013 JOD	2012 JOD	2013 JOD	2012 JOD	2013 JOD	2012 JOD
Gross revenues	543,257	533,382	251,013	307,324	794,270	840,706
Total assets	15,332,485	23,142,647	3,091,689	10,197,793	18,424,174	33,340,440
Capital expenditures	13,217	3,285	-	-	13,217	3,285

### 32. 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.

	2013			2012		
	Amount JOD	Percentage to risk weighted assets %	Percentage to assets %	Amount JOD	Percentage to risk weighted assets %	Percentage to assets %
Regulatory capital	5,258,147	52.25	28.54	6,493,974	49.88	19.48
Basic capital	5,132,344	51.00	27.86	6,361,544	48.86	19.08

### 33. Lawsuits against the Bank

According to lawyer's Confirmation dated 16 January 2014, There are no outstanding lawsuits against the entity as at 31 December 2013.

### 34. 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.