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BANK 410

DIFFERENCE BETWEEN ISLAMIC AND COMMERCIAL BANKS IN PALESTINE

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Contents

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INTRODUCTION

Banking sector in Palestine is considered the most important sector in the financial system. This is very clear through the increase in the number of banks either foreign or local which invest in Palestinian markets.

Banking in Palestine can be classified in to two types: Islamic and Commercial banks. every bank has special working system which depends on its main operations.

In my project I started talking about the developments in Palestinian banking sector and I differentiated between the Islamic and the Commercial banks and the advantages and the disadvantages of dealing with both banking sectors, and I used some analysis techniques to help us determine the weaknesses and strengthen points in each of the aimed banking systems.

CHAPTER 1

Development of Palestine Banks:[1]

The Palestinian economy has passed through many declines due to the Israeli conquer and the situation's that passed on the Palestinian sectors caused a great decline in the economical and financial state although with what it passed through the Palestinian economy tried to develop it self over and over with time .

This development started in the financial market at 1930 at the fist bank existence in Palestine which is the Arab bank, and due to the decline of the economical state another time and the start of the 1948 war the bank closed and shifted to Jordan. And after splitting Palestine in two areas which is the west bank and Gaza strip; were the west bank was controlled under the Jordanian legislation.

the period between 1948 which is after years of stagnation and 1967 the Palestinian economy and financial market redeveloped again in the west bank which caused the re-operating of many banks anther time such as the Arab bank in Palestine, Cairo Amman bank, Grindlez bank as also the Jordanian bank.

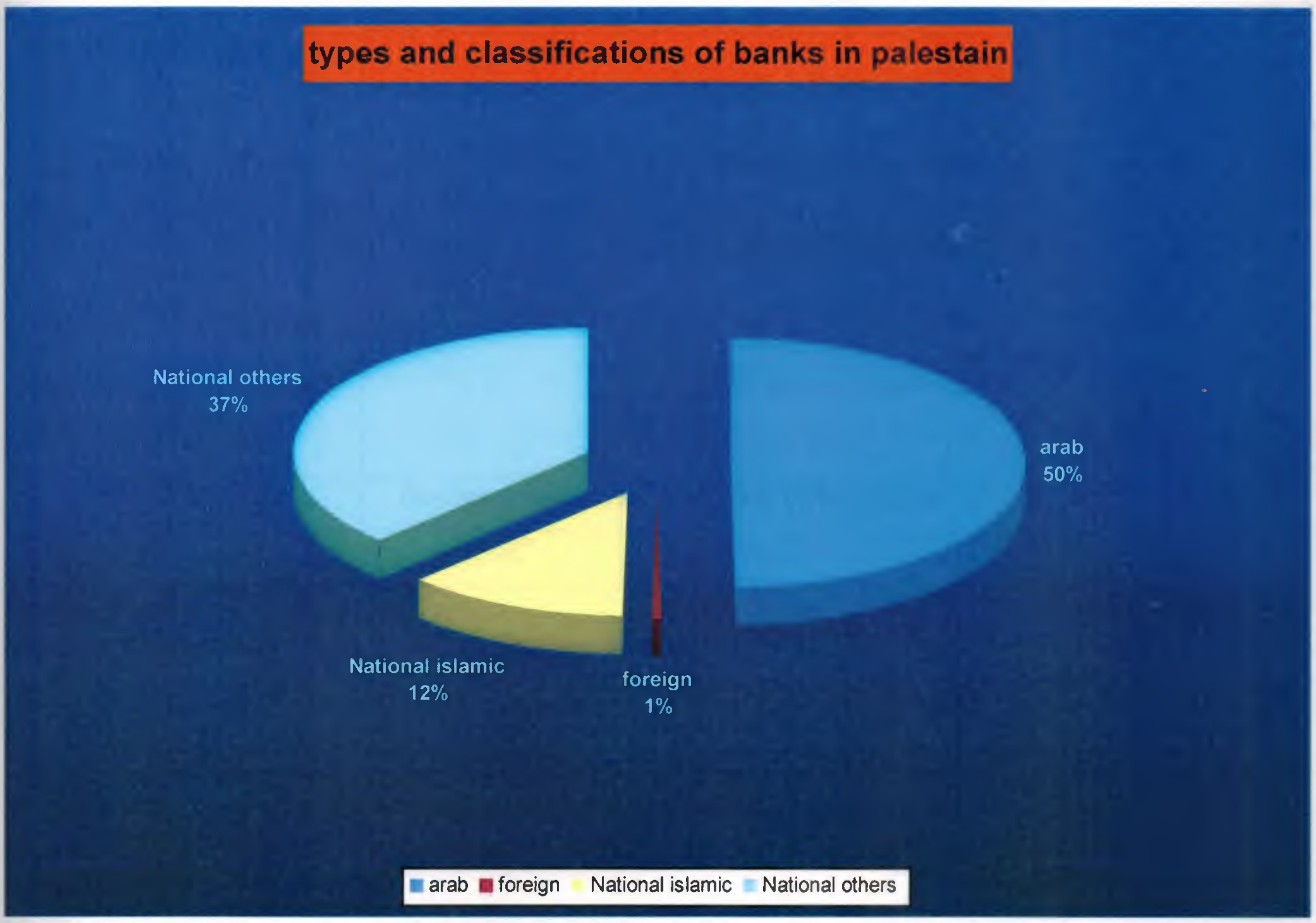
On the other hand the other side of Palestine which is Gaza strip that was under the control of Egypt legislation and that caused the presence of many banks such as: Bank of Palestine, Arab Bank, Alexandria Bank, Nation Bank, and Agriculture Lending Bank. This caused some investors trustiness in the Palestinian economy forming new investing in the Palestinian lands.

Relatively to the economical growth in Palestine at that time numbers of banks increased significantly mostly between the period 1967 and 1993, banks in Palestine started increasing there branches such as Cairo Amman bank increased branches numbers to (8) branches more.

But at that situation, banks operations stayed limited under the Israeli conquer even though this situation existed the Palestinian economy found some individuals who cared to developed it such as the Palestinian Jordanian union for developing and refunding the financial and economical market in Palestine in the period between 1/1/1994 and 31/12/1994 and After signing Paris protocol on Economic Relation between Palestine National Authority (PNA) and Israel, and after the Palestinian authority gained its right in controlling there economical state as after the independence of Palestine this caused more ga trust gaining

[1](http://www.pma-palestine.org/bankenvi/bankenvi.html, page 1/6)

from money owners (investors) and banks to enter to the Palestinian markets and increasing banks numbers in Palestine to (8) banks which has (34) branches between them 2 national banks owns (9) branches and the lift are foreign banks and in the period between (1/1/1995 till 31/12/1995) were the Palestinian authority gave other license for opening new banks and that caused increasing in the number of banks to 16 within 57 branch between them 6 national banks and that kept on increasing till the last statically research, and between the period (1/1/2005 – 31/5/2005) operating banks in Palestine reached to 22 banks with 137 branch all around Palestine between them 10 national banks with a percentage ratio of (45.45%) has 63 branch represents (45.99%) from the operating branches and there is 12 foreign bank that represents a percentage ratio of (54.55 %) from the total banks average in Palestine and its has 73 branch with a percentage ration (54.1 %) from total branches in Palestine.



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[2](http://www.pma-palestine.org/arabic/banks/chart%20of%20banks.pdf)

[3]

Table No:1			
Arab banks	**No. of branches**	**National banks**	**No. of branches**
Cairo Amman bank	16	Bank of Palestine	25
Arab bank	22	Commercial bank of Palestine	5
Bank of Jordan	8	Palestine investment bank	7
Arab Egyptian land bank	7	Arab Islamic bank	8
Jordan commercial bank	3	Development and Jerusalem investment bank	9
Jordan national bank	5	Arab Palestinian investment bank	1
Housing bank in finance & trade	5	Palestine international bank	4
Jordan Kuwaiti bank	1	Palestine Islamic bank	7
Union bank for saving & investment	1	AL-Aqsa Islamic bank	2
The principal bank of development credit and agricultural	1	Palestinian bank corporation	2
	foreign banks	**No. of branches**	
	HSBC	1	

[3] (http://www.pma-palestine.org/arabic/banks/chart%20of%20banks.pdf)

CHAPTER 2

ISLAMIC BANK

What is Islamic Bank?

It's a financial institution aims to collect the money from depositor those whom don't want to deal with interest (riba) then employ the deposit money in financial activates and services for customers according to Islamic rules (sharea).

History of Islamic bank:[4]

Islamic bank were found since the prophet Mohammad time at that period people use to keep there money saved with the prophet him self or even Abu Baker Al_Sideq the first khalifa of Islam.
Until the existents of the European colony almost at the eighteenth nineteenth and twentieth century where the Islamic economics was controlled and managed by the European conquers European banking rules took place in the Islamic community and that kept on until the waking of the national Islamic conscious almost around the end of the twentieth centuries were freedom to same Islamic country where gained for that a need of developing the old economical rules into there own values and Islamic sharias regulation had to be formed and these is where the Islamic banks started to occur clearly in the Islamic society environment such as Algeria which took its freedom in 1963 they had to promote there new economical rules and formulate them with the bases of national and Islamic economical rules. Most Islamic country took there independents between 1945 and 1963 that's where the Islamic economic started to a beer strongly on the national economical field although that needed forming a base to financial Islamic economics procedures which completely opposes the European interest rate rule these Islamic rules regulations and developments kept on modifying to meet with the Islamic and international economics tell the first Islamic bank that was established in Egypt 1970thus called Nasser Social Bank

[4](http://www.anderson.ucla.edu/zone/clubs/mbsa/history.htm)

The Islamic Development Bank and the IOC (Islamic organization conference):[5]

Due to the modern technological developments and presence of globalization as financial and economical competition as entering of investors and bankers to the Islamic market. For that the Islamic countries started to search for new rules services identical to the services featured by non Islamic banks under sharias Islamic rules that existed in the establishment of the IOC (Islamic organization conference).

The idea of Islamic bank developments in Islamic counters took several steps by the organization of Islamic conference to serve the entire Muslim (umah) community of faith.

A number of two billion dollar as capital shared initially and supplied by member countries the largest coming from Saudi Arabia, Kuwait, Libya, United Arab Emirate and Iran. 1975 was the date of Islamic banks starting with the head quarters at Jeddah (Saudi Arabia) to foster economic developments and social progress of member countries and Muslim communities according to the principles of sharia was on of its charter status.

At the first meeting there main concern was to clear the fixed interest rate and Islamizing the financial systems by giving other finical forms that are accepted economical and Islamic ally such as profit and loses sharing system (PLS) which many Islamic banks adopt it as a main system and that will be discussed bellow.

By the year 2000, the Islamic Development Bank (IDB) had financed inter-Islamic trade to the tune of over $8 billion mostly using the mark-up technique. It also gives loans, taking only service charges according to actual administrative expenditures. But it does try to promote sharing based modes of financing. It is also managing an investment portfolio in which individual Islamic banks place their surplus liquidity. Even though it can not, and does not aspire to, serve as a lender of last resort for all Islamic banks, it is trying to help them solve their liquidity problems. It fosters technical cooperation between member countries and has established or sponsored a number of institutions for this purpose. The Islamic Chamber of Commerce and the Islamic Foundation for Science, Technology and Development are two of these. It is also distributing

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5 - (http://siddiqi.com/mns/Lecture2.htm ((Anderson Graduate School of Management, University of California, Los Angeles, 7 November 2001).

scholarships for higher learning and technical education to Muslim students in countries in which Muslims are in a minority.

In order to fulfill its mission, the IDB has established the Islamic Research and Training Institute (IRTI). It conducts in house research, sponsors external research, publishes a research journal, conducts training courses, organizes seminars and conferences and maintains a database on Islamic countries' economies, etc.

The Islamic Development Bank interacts with all regional and international financial institutions like the International Monetary Fund (IMF), the World Bank, the Asian Development Bank, etc.

Islamic bank activities: [6]

Islamic bank activities include steps which are the main principles that are considered and described as follows:

1-Collecting deposit

Islamic bank offer deferent kinds of deposit:

A) current account:

Current account: are similar to those offered by commercial bank and no reward is paid on deposit, they are used for transaction and safety purposes.

b) Investment account:

Investment account: Customers opens investments accounts to gain back with a financial return. Base of investment accounts are trust and safety on financing processes. It is formed of two main partners: keeper and taker. The depositor is the financial partner (keeper), while the bank is the managing partner (taker). The bank locates all investment deposits in suitable investment opportunities. The return of investment (considered to be profitable or loss) is then distributed equally upon the sharing equivalence with the depositors, after the bank deducts its own costs which are the previously agreed fees for its investment directing and management efforts. The type of investment account and the terms of the deposit determine a depositor's share in the investment's return. A higher share of profit is paid for deposits with a longer maturity. In the event the investment is not profitable, the depositors share the loss.

c) Special investment account:

[6] (www.globalwebpost.comfarooqmstudy_resi_econ_finschaik_banking.pdf Islamic bank,2001,page 8)

A lot of different and special deposit forms are preformed to services by the Islamic banks for investments either from individuals or from companies, corporations, or even from government the main aims or targets, terms conditions and statue mode of investment of these deposits may be decided by mutual acceptance.

1. Joint venture (Musharaka)

Limited liability partnership is meant to combine the skills of two or more partners in a business project where any net profit gained or lost is shared as a result of the partnership. In a joint venture, partners contribute both capital and effort. Their participation in capital and effort may differ, where the financial reward is shared depending on the capital base or effort dialed upon at the basic agreement. Since most Islamic banks do not wish to be deeply involved with the management of a venture or a project, this form of partnership is not so common.

2. Trust Financing (Mudaraba)

(Mudharaba is partnership in profit.)
It is an agreement (contract) to form a partnership between two parties; one provides capital and the other manages with his efforts. The party who provides capital is called "rabulmal or financier" and the second party who manages the partnership is called "Mudhareb".
The Mudhareb is an entrepreneur; who has good experience and managing skills and he is in full charge of day- to day running of the joint-venture.
This agreement gives the right to the entrepreneur in profit share only, where by the capital and properties of the joint venture remain owned by the financer.
The partners agree on the profit share distribution between themselves as accepted in the main contract between them

3. Non Profit and loss share financing Contracts. [7]
Mark-Up Financing (Murabaha)

Murabaha is a where the Bank, at the request of its client's buys from a supplier/producer and then sells on installments to client what was bought. The selling price includes the actual cost of the goods plus a given (predetermined) profit margin. The client pays back to the installments to Bank upon a agreement within future date. Not to forget that the delivery of the bought product or item to the client is on the spot upon signing of the Murabaha contract,

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7 (www.globalwebpost.comfarooqmstudy_resi_econ_finschaik_banking.pdf Islamic bank, 2001 page 9)

4-Salam Finance

Salaam is a sale of goods which will be delivered in a future date for a paid cash price, which means, it is a financial transaction in which price is paid in advance to the seller who relays on no one but himself to deliver goods of determined specifications on a certain future date.
Islamic banks used this mode to finance manufacturers, farmer and producers of natural resources such as natural gas, crude oil etc.

5-Istisna'a:[8]

istisna'a is a service applied from the bank to the customer upon his request to build or manufacture a factory, a building, equipment, or any other item that can be fabricated or manufactured.
For performing an istisna financing, there should be a contract signed between the bank and the service requester.
Since the bank is not qualified to manufacture the item agreed upon, the bank signs with, another contract called (PARALLEL ISTISNA'A CONTRACT) identical to the istisna.
Contract except the amount of the latter contract is greater than the main contract by the profit margin agreed upon.
Payment of the (ISTISNA'A CONTRACT) amount is payable on varied installments as agreed before, while payment of the (PARALLEL ISTSNA'A CONTRACT) is payable on cash basis.

6-Ijarah :(rent)

The Islamic banks get or gain certain assets such as machines, buildings, or equipment and allow the customers to use them for a certain period within an agreed price. This is a rent contract for the assets. The terms of the contract are decided by mutual consent.

7-Takaful (Islamic Insurance)

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[8] (http://www.alburaq.co.uk/Key/Glossary.htm,2000 ,page 65)

(http://www.cefims.ac.uk/cgi-bin/programmes.cgi?func=course&id=133)

In current and future business, one of the ways to decrease the risk of loss which is an effect of misfortunes is through insurance. The main idea for having insurance as a basic process in the modern bussines is the sharing of investments risk. The idea of insurance where resources are pooled to help the needers does not oppose Shariah.

Traditional trading insurance involves uncertainty (Al-gharar) in the contract of insurance, gambling (Al-maisir) as the consequences of the existence of uncertainty and interest (Al-riba) in the investment activities of the traditional insurance companies which pentrates sharia rules. It is generally accepted by Muslim Jurists that the operation of traditional insurance does not apply under the rules and requirements of Shariah.

2-financing

Depending on the situation, Islamic banks can choose between PLS (profit loss sharing)-financing, trade financing or lending. With respect to (PLS) a client will first of all present a detailed investment proposal to the bank, then decides either to participate or not. If it does, and which it usually does on the bases of trust financing, assuming the role of financing partner so as not to be involved with the actual management of the of the venture. The contract between the bank and the client should clearly states as the partner's responsibility and the profit-sharing ratio. However, trust between both parties should be dominant.

3- Trading in Securities

An Islamic bank may give securities as services for its clients, and ask a fee for it. The legal basis for this security service in the Shari'a is the agency-contract. The fee, however, should be fixed and depends on the cost and efforts of the bank. Hence, it may not depend on the sum in transfer, unless the quantity of the transfers affects the bank's effort. A number of securities are not acceptable according to the Shari 'a: there for Islamic banks may not deal with them.
And as was considered previously there is variation between three types of securities which are income securities, stocks and derivatives. Fixed-income securities, such as certificates of deposit and zero-coupon bonds .these are forbidden and there reasons are they interests presentation (riba) as there is other types which are legally accepted form shaira point of view as stocks and as its described above they sharing distribution will depend on the capital contribution ratio. Positive, In general, Islam has a positive attitude towards share holder ship and stock-market. Even other process in the stock market such as Speculative trade in stocks, or shareholder ship should be under the frame of Islamic sharia legal rules

4. Other Banking Services[9]

The fourth category of bank activities includes services like payment and clearing of cheques, money transfers, safeguarding of valuables, purchase and sale of foreign currency, and financial advice. The legal basis for these activities is the agency-contract. Clients benefit from these services, and the bank has to incur costs to offer them. Hence, it is justified to ask a fee. When no extra effort is performed and no extra costs are incurred for repeated services, the bank cannot legally charge a fee. The fee must be proportionate to the effort and costs. It may not fluctuate with the size of the transaction, if size does not matter for cost and/or effort. Another important activity of banks is issuing letters of credit and guarantees. The legal basis for these transactions is the guarantee (kafala) contract. Earlier, we saw that liability (guarantee) is one of the justifications for a reward, so a fee may be asked.

5. Social Activities and the Religious Supervisory Board[10]

Islamic banks have to combine both profit and morality into their aims. According to that, supporting social welfare Programmers is a way of achieving their religious duty. Islamic banks support financially social activities through the obligatory skate (wealth) tax and through voluntary donations.

Rules of profit and loss sharing in Islamic bank:-[11]

Islamic bank has five types of contracts for profit and loss sharing

If financing with a fixed return is not allowed, banks should finance on the basis of a flexible return. One of the possibilities is profit and loss-sharing (PLS), which also includes equity-based financing. Within the Shari'a, it is the most dominant form of financing; therefore the second rule is that financing should be provided on PLS basis. Actually, interest-free loans also excluding debt with an implicit interest rate, such as zero-coupon bonds), are another option, but not for large-scale financing. PLS is a form of partnership, where partners share profits and losses on the basis of their capital share and effort. The justification for the PLS financier's share in profit is his effort or liability PLS-financing is an example of cooperation on the basis of equity and solidarity Overall, there are two main types of contract. PLS - financing contracts and non-PLS Financing Contracts. Islamic jurists have worked out two forms of PLS-financing: joint venture (musharaka) and trust financing (mudaraba).

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[9] (www.globalwebpost.comfarooqmstudy_resi_econ_finschaik_banking.pdf Islamic bank, 2001,page 15)
[10] (www.globalwebpost.comfarooqmstudy_resi_econ_finschaik_banking.pdf Islamic bank, 2001,page 16)
[11] (www.globalwebpost.comfarooqmstudy_resi_econ_finschaik_banking.pdf Islamic bank, 2001,page 17)

Modern Islamic bank services:-

The Bank provides all kinds of banking services such as documentary credits, letters of guarantees, acceptances, spot foreign exchange business (buying and selling), and other banking services such as ATM, phone bank and Inter branch services.

Islamic Bank's Duties:[12]

Islamic banks aim to develop and modernize the economical and social state through the banking and investing services. As also financial employments that precedes through the sharies rules and regulations as thought the internal system that was founded and aimed to:

1. Expansion of dealing with banking sector by providing banking services with concern of aimful services to animate the social affiliation which is organized on the common utilities basis.
2. Developing facilities for attracting funds & savings and directing it toward participating in investment as by Islamic Sahria'a Rules.
3. Providing necessary funding, to fulfill the different sectors demands as Sharia'a Principles.
4. Owning and renting machines & tools for the purpose of leasing them

Banking Functions associated with the Islamic Sahiria'a Rules:[13]

1. Accept cash deposits, open current & other deposit accounts, pay value of withdrawn cheeques & dealing them, collect commercial bills, transfer funds internally & externally, open letter of credit, issue banks guarantees & letter of guarantee, personal letters of credit, credit cards & other advanced banking services.
2. Deal with foreign currencies by selling & buying on present value basis, deal by future value for customer's accounts, and enter within permitted ranges in the cases of exchangeable loans- with no interest - for different currencies as per needs.
3. Provide "limited maturity lending "considering it - no interest service - either by discounting short - term commercial bills or by partial payments lending.

[12] (http://www.alburaq.co.uk/Key/Glossary.htm)
[13] (money and banking book,Rashad AL_Asar , Read Halabe,2000 , page90)

4. Manage premises and other available, manageable assets on "paid - power of attorney "basis.
5. Play the role of the chosen custodian to operate patrimonies and carry out wills, conciliating with the legist's approbated convictions.
6. Conduct "Economical Cost - benefit analysis" for dealers & provide them by consulting.
7. Conveying any other banking operations that achieve & agrees as well with the bank's aims.

Financial sources of Islamic bank [14]

Financial sources of Islamic bank is divided in to subjective resources and un-subjective resources

1-) subjective resources its consists of:-

a-) capital funds: and its one of the most important resources of the Islamic bank in fact it forms a basic resource to the Islamic banks were as the Islamic bank cannot depend on the current accounts that relays on the interest rates .

b-) the general reserves: every Islamic bank restrict its own basic system to create the general reserve by limiting the percentage rate that should be deducted from the net profit annually to be saved in the general reserve.

c-) the undistributed profit:- depends on the basic systems limitations and the administrational decisions upon the annual net profit that is transformed to the next year and can be added on the general reserve or increase the bank capital and there for it could be consider a basic undistributed resource within the Islamic bank.

2-) un subjective resources: deposits can be considered to different types upon the Islamic rules (sharea) were it could be divided in to the below forms:

a-) Current Accounts

Current accounts are based on the principle of *al-wadiah,* whereby the depositors are guaranteed repayment of their funds. At the same time, the depositor does not receive remuneration for depositing funds in a current account, because the guaranteed funds will not be used for PLS ventures. Rather, the funds

[14] (money and banking book /Rashad AL_Asar , Read Halabe,2000, page 92)

accumulating in these accounts can only be used to balance the liquidity needs of the bank and for short-term transactions on the bank's responsibility.

b-) Savings Accounts

Savings accounts also operate under the *al-wadiah* principle. Savings accounts differ from current deposits in that they earn the depositors income: depending upon financial results, the Islamic bank may decide to pay a premium, *hiba,* at its discretion, to the holders of savings accounts.

c-) Investment Accounts

An investment account operates under the *mudaraba al-mutlaqa* principle, in which the *mudarib* (active partner) must have absolute freedom in the management of the investment of the subscribed capital. The conditions of this account differ from those of the savings accounts by virtue of: a) a higher fixed minimum amount, b) a longer duration of deposits, and c) most importantly, the depositor may lose some of or all his funds in the event of the bank making losses.

d-) Special Investment Accounts

Special investment accounts also operate under the *mudaraba* principle, and usually are directed towards larger investors and institutions. The difference between these accounts and the investment account is that the special investment account is related to a specified project, and the investor has the choice to invest directly in a preferred project carried out by the bank.

TYPES OF ACCOUNTS [15]

a) Current Account:

Current account: same like current account in commercial banks but here in Islamic banks it's kept in deposits for safety without and returns or interest.

b) Investment Account:

here the investing account is considered as funds kept in the bank as money from the investor were the bank and the money depositor are considered as partners not to forget that the investor takes some reward as profit or loss according to PLS theory.

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15 (http://www.aibim.com/02-%20Productsc.htm)

Special Investment Account:

The bank offer anther types which are special investment deposit. This account is opened to individual customer companies as well as the government where this account limited under the agreement accepted previously between the bank and the client about the account not to forget. That these are all under the regulation and rules of sharia and Islamic economical & financial rules.

Functions of Islamic Banks[16]

- Islamic banks have a number of functions same of these functions are normally performed by the commercial banks and same functions have been modified by Islamic banks.
- Opening account for individuals and companies and accepting cash deposits.
- Giving credit and loans in conformity with share'ah.
- Purchase and sale of foreign exchange on the spot rate only.
- Issue letter of credit.
- Providing short term financing against collateral in the form of commercial papers at agreed commercial yield without interest.
- Collecting and processing drafts, cheques, promissory notes.
- Purchase and sale of shares, certificates of investments, financial papers and bonds without interest.
- Establishment and management of special funds for socially desirable purposes investment in trade, agriculture, industry or real state.
- Providing finance on the basis of mudarabaha.
- Providing finance on the basis of musharakah.
- Providing finance on the basis of decreasing participation.
- Operation of specified investment account.
- Direct investment by the bank.

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16 (http://www.alburaq.co.uk/Key/Glossary.htm)

- Leasing of machines, equipments, apparatus and tools.
- Sale and purchase of real estate.
- Carrying out agency functions by appointing agents and working as agents.
- Sale and purchase for others on a per agreed profit basis (murabahah).

Advantages of Islamic Banking and Finance:[17]

Islamic bank has a lot of advantages that are considered individually

- One of the good features in the Islamic rules of financing is the justice and fairness in the financial operations; i mean that the financial processing should be shared under profit or loss as considered in PLS theory. Current practice punishes bossiness men by obliging it to return the principal even when part of it is lost due to circumstances beyond the entrepreneur's control. And this way is not found in any non Islamic interest base bank were the loss is considered on one side which is the money depositor.

- Islamic finance will foster greater stability as it synchronizes payment obligations of the entrepreneur with his or her revenues. This is possible only when the obligation to pay back the funds acquired from the financier and pay a profit is related to realization of profits in the project in which the funds are invested, as it is in the profit-sharing model. Contrary to this, in the debt-financing model the payment obligations of the entrepreneur are dated as well as fixed in amount. The same is the case with the financial intermediaries; their commitment to the depositors in time and saving accounts is to pay back the sum deposited with interest added. When a project fails and businessman defaults, the financial intermediary must also default, with ripple effects destabilizing the whole system. The debt-based financial system of capitalism is inherently prone to recurrent crises. This malaise of the capitalist financial system is well discussed by Hyman P Minskey in "Stabilizing an Unstable Economy" (New Haven and London, Yale University Press, 1986).
- Linking operation between the depositors and the investors and the bank with each other as partners causes better understanding about banks situation and the investment proceeded by the bank were that plays a main role in minimizing the reports or rumors that may cause the escape of some

[17] (www.globalwebpost.comfarooqmstudy_resi_econ_finschaik_banking.pdf Islamic bank.2001,page 22)

investors from the market and drawing of there money from there investing accounts in the Islamic banks.

- we demonstrate the Islamic bank operation and its effectiveness in accurate projects research and we say that most Islamic bank operation are considered under the accuracy in studying these projects were the main reason is in most cases the Islamic bank exists as a partner in these funding operations and shares the bank profit or loss for being as a partner and that creates greater trustiness from the investors and prefers to join in these investments opposite to the non Islamic banks loan operations that depends only on the guarantees proposed to the bank and the interest rate added.
- Islamic finance will be less affected to inflation and less sensitive to gambling like speculation, both of these being mainly depending on the presence of huge quantities of debt instruments in the market .Debt instrument functions as money substitutes while equity-based financial instruments do not. And speculators find it much easier to manipulate debt instruments than those based on profit-sharing.

Obstacles Facing Islamic Banks[18]

After a rapid expansion in the seventies and early eighties, Islamic banks experienced a setback. The exaggerated optimism of the early years made way for a more realistic view. Success was not only lacking in professional and financial matters. The ideological compromises that were made in practice worsened the picture. PLS-financing is only incorporated in the banks operations on a small scale. The stagnation is mainly caused by the following four obstacles:

1. PLS-financing is unpopular

One of the main problems Islamic banks can face is through the PLS service were due to the unwilling of the clients on sharing information and profit with the bank there for its a higher risk service and a lower profit reward project as its could be a great attraction to fraudulent.

[18] (www.globalwebpost.comfarooqmstudy_resi_econ_finschaik_banking.pdf Islamic bank, 2001,page27)

2. PLS is not suitable for short-term financing or for the Non-profit sector.

Companies often need finance for short-term liquidity. The administrative procedure of PLS is too lengthy to answer such urgent needs. Furthermore, it is difficult to determine the return on financing liquidity. The same applies to financing the non-profit sector:

3. There is a lack of developed Islamic financial products, Institutions and markets.

Islamic bank faces a lot of difficulties where the main is liquidity and profit return which is a big risk for an undeveloped network of Islamic bank as also it can't gain the financing from central banks in case of liquidity shortage due to the presence of interest based finance.

4. Islamic Banking in Non-Islamic countries is still difficult[19]

Western legislation and non Islamic financial rules are basically interest rules as there also special considerable rules to Islamic bank that cant be connected with non Islamic financial western rules such as PLS which completely opposes the idea of financing through the central bank that all western banks do and that causes a high difficulty in operating of the Islamic banks under the rules and regulation of central bank in western countries.

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[19] (www.globalwebpost.comfarooqmstudy_resi_econ_finschaik_banking.pdf Islamic bank,2001,page28)

CHAPTER 3

COMMERCIAL BANK

What is commercial bank?

Is a financial institution that provides financial services particularly taking deposits, extending credit as commercial bank allows for variety of deposit accounts and these institutions are run to form profit .

History of Establishment and Development of Commercial Bank [20]

It's started when some traders and jewelers in Europe certainly in Janawa Venesea and Barcelonan accepted money depositing for means of protection as issuing on the other hands certificate deposit to the deposit savers. Progressively these companies changed the deposits form an account deposit to another account deposit to settle other commercial processes where the transforming of company records were done on the presence of the deposit savers.

And since the fourteenth century traders and jewelers accepted to some of there customers to draw money on credit which means that amount of money drawn was greater than there account limit and that caused a bankrupt too many companies.

Due to that many intellectuals at the end of the sixteenth century asked to form the first governmental bank in Venice which was called the (peaza yalatu bank).

And in 1609 Amsterdam bank was established. Its aim was to save deposits and transform it to other account when asked to. As working with exchanging foreign money and as a clearing house.

Customers started to get used to these companies issuing certificates deposits after there settlements and became frequently used as a worth certificate other types of certificates were formed such as banknotes in its modern form and since the beginning of the eighteenth century those bank associations started to increase rapidly and most of them were owned by families and individuals. Rules were processed at that time for the customers (deposit savers) protection where his deposited money can be returned in case of a bankruptcy.

[20] (money and banking book/Rashad AL_Asar , Read Halabe,2000,page105)

These rules and there modification caused the establishment of the banks as a corporative firms by virtue of the industrial revolution in Europe which caused the development of the corporative firm and the spreading of its activities and there formed the need of the big banks which modified and spread every were through the world till our present days.

Commercial Banks can be classified into two functioning

1- Traditional
2- Modern Functions

- Traditional Commercial Bank Functions:

a) Accepting Deposits in different cases such as

1. **Savings Deposits** are accounts maintained by commercial banks, savings and loan associations, credit unions, and mutual savings banks that pay interest but can not be used directly as money (by, for example, writing a check).
2. **Checkable Deposits** include demand deposits, automatic transfer service account, Negotiable Order of Withdrawal account, and other deposits on which a check may be drawn.
3. **Time Deposit** is a money deposit at a bank that cannot be withdrawn for a certain "term" or period of time

b) Loan: which is a type of debt, all material things can be lent but this article focuses exclusively on monetary loans. Like all debt instruments were Types of Bank Loans are:

1. An *overdraft* is when the bank allows a customer to take out more money than what he has in his account. Overdrafts are up to an agreed limit, and must be off whenever the bank asks .Interest is charged daily on any outstanding balance.

2. *Loan Account* is when a customer borrows a fixed sum of money to be repaid in monthly installments over a number of years. A fixed rate of interest is charged.

Modern Commercial Bank Functions [21]

- Consulting services offered to customers that includes their developing investments to gain there trust.
- Participating and supporting developing investments that serve the society firstly.

[21](money and banking book/Rashad AL_Asar , Read Halabe,2000,page 110)

- Collecting commercial papers in favor of customers.
- Selling and buying and saving commercial papers on customer accounts.
- Issuing certificate deposits to customers.
- Abroad currency transfer.
- Offers credit card services.
- Modern computer services (e.g. online or internet banking).
- Buying and selling foreign exchange currencies.

And other more services can be offered to the customer needs.

Financial Recourses of Commercial Bank[22]

Financial recourses of any commercial bank divide into two main recourses:

1. Internal Recourses such as banks assets.
2. External Recourses such as saving account deposit and creditor accounts example as deposits left in the commercial banks for funds.

1-) **Internal Recourses such as banks assets**:

Banks assets are consisting of following:

A-) **Capital Assets**

Are formed from basic money payments paid by share owner at time of establishments and that can be considered as a small ratio from the total net of the bank due to the below reasons:

- because banks don't deal directly with the main capital assets but depends in his deals with the money saved in the deposits for his investments
- smaller capital assets allows him to give higher share of profit to the basic share holders, in other hand capital assets shouldn't be neglected and that's to help on creating trust within the customers specially big deposit account owners.

B-) **Reserved Profits**

22(money and banking book/Rashad AL_Asar , Read Halabe,2000,page 111)

They are considered as part of the share holders rights which exist in different forms:

1-) **Reserves:**

In any financial institution a small part is deducted from the net profit for future safety means and emergency situations.

Reserves are also classified in different forms such as:

A-) **Legal Reserves**: This is a percentage rate that the banks deduct from the net profit each year legally and considered around 10% of the net profit.

B-) **Secondary Reserves**: It's a reserve that the bank forms from choosing by its own self and that by deducting from the net profit as the legal reserve but as an elect able choice annually deposited in the bank for the below reasons :-

- Supporting the bank financial status and gaining customers trust.
- To face any emergency loss and as an extra on the legal reservations.

C-) **Deposits in Other Banks:-**[23]

Was the commercial banks deposits part of his accounts in other banks?

1- Deposit Accounts at the central bank were the legalized regulation obligates the commercial bank to save part of the available money as liquid-funds

2- Account at other banks where the commercial banks opens himself other accounts at the same country facilitating with other commercial bank where these accounts are considered a reserved funds to the bank himself .

3- Account at foreign commercial banks for facilitating the foreign currency exchange operations as also this deposited money can be considered as reserved deposit in foreign banks.

2-) **External Sources**:- which are the deposits and accounts, deposited at the commercial bank and this is classified as Savings deposits, Checkable deposits, Time deposits. And every accounts that are deposited in the bank and tees accounts are considered as liability on the bank were these accounts are major parting the sources of funds that the bank uses for loaning selling and buying operations as to face and risk or future problems.

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23 money and banking book/Rashad AL_Asar , Read Halabe,2000,page112)

Differences between commercial banks and Islamic banks [24]

Table No:2	
Commercial Banks	**Islamic Banks**
1. Conventional banks processes and functions are made on a primary human base.	1. Islamic banks processes and functions are primarily based on shariah Islamic regulations.
2. An entrepreneur is guaranteed with known fixed interest rate.	2. Risk is strengthen or reinforced between capital provider and fund user.
3. Its main target is to gain profit without any limitation.	3. Under shariah limitations; profit maximizing is a main target.
4. Not related with zakat process.	4. One of the service-oriented functions of the Islamic banks is as a center for zakat collecting; where they also pay out their own *Zakat.*
5. The basic function of conventional bank is money lending with interest rate when returned back.	5. A need of a good analyzes to customers business; and that's due to the existence of the basic Islamic partner's ship operation.
6. Defaulters are charged with a penalty (compound interest).	6. The Islamic banks have no consistent-view point to charge Defaulters with extra money. But a small reparative amount is taken and given to charity.
7. Its very often, bank's own interest becomes prominent. It makes no effort to ensure growth with equity.	7. Its basic aim is to guarantee growth and equity by giving public interest well consideration
8. According to commercial interest base bank it's considered relatively easier borrowing money for the money market.	8. Shariah regulations are the limit followed for any transaction in Islamic bank.
9. The conventional banks focus and care well on client's relation.	9. The Islamic banks focus more on the viability of the projects.
10. The relation between the client and the bank is that of creditor and debtor form only.	10. The Islamic bank and its client's relations is of partners, investors and trader, buyer and seller forms (status).
11. Ensuring for the deposit of the conventional bank is a must.	11. Islamic bank can only guarantee deposits for deposit account, which is based on the principle of *al-wadiah,* thus the depositors are guaranteed repayment of their funds, however if the account is based on the mudarabah concept, client have to share in a loss position..

[24] (www.globalwebpost.comfarooqmstudy_resi_econ_finschaik_banking.pdf Islamic bank,2001,page 35)

CHAPTER 4

Financial statement methodology analysis[25]

One of the most important steps in my project is to analyze financial statement of Palestinian banking sector (Islamic bank and commercial bank) to enable us to know that took place in each item of the financial statement in this period.

1- Common sized analysis:

A standardized financial statement presenting all items in percentage terms balance sheet items are shown as a percentage of net sales .This analysis will help to determine the weaknesses of the firm activity.

2-Ratio analysis

There are many ratio analyses but in this project I use some of these ratios as profitability which represents the effectiveness of all management policies liquidity which represents the ability of the bank to meet short term obligation, these ratios gave me as a bank analysis or investor's advisor signals about the financial positions of the banks.

Return on equity: is measure of the rate of return flowing to the bank shareholders. It approximates the net benefit that the stock holders have received from investing their capital in the bank.

Return on assets: is primarily an indicator of managerial efficiency if indicates how capably the management of bank has been converting the institutions assets into net earnings.

Net Operating Margin: net interest margin and non interest margin are efficiency measures as well as profitability measures, indicating how well management staff has been able to keep the growth revenue which comes primarily from the banks loans.

Net interest margin: measures how large a spread between interest revenue and interest costs.

Non interest margin: measures the amount of non interest revenue stemming from deposit service charge and other serves fees the bank has able to collect relative to the amount of none interest costs.

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[25] (commercial bank management /third edition (petar S.rose)

EPS: provides direct measure of the return following the banks owners (its stockholder) measured relative to the number of shears sales to the public.

Credit risk: we need to find credit risk because some of the bank assets especially loans well decline in value and to the bank need to know credit risk. On the other hand the credit risk is considered as the risk that is found due to not paying the debit back to the bank.

Liquidity risk: bankers are also very concerned about the danger of not having sufficient cash and borrowing capacity to meet deposit withdrawals net loan demand and other cash need and the bank may be forced to borrow emergency funds at excessive cost to cover cash need.

Interest sensitivity: when the interest in sensitivity assets exceeds interest sensitivity liability in particularly maturity rang bank is vulnerable to losses from falling interest rat.

CHAPTR 5
FININCAL STATEMENT

Cairo Amman Bank Islamic Branch[25]

Balance Sheet End Of December 31

Assets	**2001 dollar $**	**2002 dollar $**	**2003 dollar $**
Cash In A Hand at Palestinian Monetary Authority	26,036,764	24,307,068	22,217,320
International Investments	34,076,252	19,716,323	18,617,410
Morabaha Investments	2,680,976	2,086,266	1,900,212
Investment Available	1,243,148	2,032,448	2,240,612
Fixed Assets	338,871	271,109	290,109
Other Assets	164,111	94,639	100,108
Total Assets	**64,540,122**	**48,507,853**	**45,365,771**
Liability and shareholder equity			
Liabilities			
Customer investment deposits	9,402,848	10,536,965	9,990,846
Cash margin	163,690	329,952	350,910
Banks deposits	18,809,825	3,905,665	2,590,316
Tax provision	462,469	501,062	450,137
Pension fund provision	150,905	185,113	120,225
Other liability	188,218	172,677	156,625
Total Liability	**29,177,955**	**15,631,434**	**13,659,059**
Investor account balance Shareholder equity	**32,074,742**	**28,726,050**	**27,934,742**
Authorization capital	2,127,000	2,127,000	2,127,000
Compulsory reserve	23,160	34,384	36,359
Reserve accumulative change	(149,974)	639,326	420,448
Returnd earnings	1,287,239	1,349,659	1,188,163
Total shareholder equity	**3,287,425**	**4,150,369**	**3,771,970**
Total Liability & Shareholder Equity	**64,540,122**	**48,507,853**	**45,365,771**

[25] (cairo amman bank islamic branch/annual report/2001 2002 2003)

Cairo Amman Bank Islamic Branch

Income Statement End Of December 31

	2001 dollar $	2002 dollar $	2003 dollar $
Revenues			
International Investment Revenue	492,102	473,191	445,375
Al Murabaha Convict revenue	422,311	264,876	210,522
Palestinian Monetary Authority Depositor	283,689	151,246	125,713
	1,198,102	**889,313**	**781,610**
Less Depositor investment revenue	(246,049)	(186,247)	(126,825)
	952,053	**703,066**	**654,785**
Realized interest rate	92,071	113,066	130,395
Other operating revenue	79,516	105,690	125,719
Total revenue	**1,123,640**	**921,822**	**910,899**
Expenses			
Employment salaries expenses	396,991	448,376	470,315
Miscellaneous expenses	377,450	379,231	380,210
Al murabaha investment contract provision for amount unelectable	11,981	(112,387)	(95,629)
Depression and a amortization expenses	105,623	94,365	70,537
Total Operating Expenses	**892,045**	**809,585**	**825,433**
Earning Before Tax	231,595	112,237	85,466
Tax	(111,314)	(38,593)	(23,683)
Net Income After Tax	**120,281**	**73,644**	**61,783**

BANK OF PALESTINE LTD[26]

Balance Sheet End Of December 31

ASSETS	2001 dollar $	2002 dollar $	2003 dollar $
Cash on hand and at Palestinian Monetary Authority (P.M .A)	29,462,563	31,905,783	41,068,729
Deposits at banks	122,629,263	134,300,683	157,946,384
Loans and credit facilities – net	88,483,583	71,253,904	103,296,234
Financial assets held for trading	733,106	547,706	622,003
Other investments	3,003,606	3,856,512	13,000,000
Real – estate investments	0	0	1,652,449
Other debit balances and interest receivable	1,730,178	1,116,627	3,929,058
Property and equipment – net	12,085,303	12,876,011	11,968,565
Total assets	**258,127,602**	**255,857,226**	**333,483,422**
Liabilities and shareholders' equity:			
Liabilities:			
Customers' deposits	187,740,003	191,593,099	245,167,673
PMA's deposits	14,526,502	10,979,979	25,482,759
Banks' deposits	374,475	87,515	5,308,319
Cash margin	27,073,687	23,810,797	24,852,247
Provisions	2,690,868	2,516,996	4,006,538
Other liabilities	2,556,554	3,242,901	3,449,571
Total liabilities	**234,962,089**	**232,231,287**	**308,267,107**
Shareholders' equity:			
Authorized capital	**20,320,000**	**30,000,000**	**30,000,000**
Un subscribed capital	0	-9,680,000	0
Paid – up capital	**20,320,000**	**20,320,000**	**20,320,000**
Compulsory reserve	1,540,338	1,649,881	1,897,500
Voluntary reserve	22,177	22,177	245,034
General reserve	647,998	647,998	1,247,998
Proposed shares dividends	635,000	762,000	1,270,000
Retained earnings	0	223,883	235,783
Total shareholders' equity	**23,165,513**	**23,625,939**	**25,216,315**
Total liabilities and shareholders' equity	**258,127,602**	**255,857,226**	**333,483,422**

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26 (http://www.bankofpalestine.com/reports/annual_reports.jsp/2001,2002,2003)

Bank of Palestine LTD

Income Statement End Of December 31

Revenues	**2001** dollar $	**2002** dollar $	**2003** dollar $
Interest income	16,192,406	11,836,852	12,317,250
Commission income	1,248,788	1,336,674	2,656,356
Total interest and commission income	17,441,194	13,173,526	14,973,606
Interest expense	-6,279,812	-2,775,785	-2,598,245
Net interest and commission income	11,161,382	10,397,741	12,375,361
Net income from investing activities and others	3,173,886	2,717,900	165,873
Unrealized profits (losses) from marketable stocks	0	0	87,102
Other revenue	0	0	4,586,912
Total revenue	**14,335,268**	**13,115,641**	**17,215,248**
Expenses			
Salaries, wages and allowances	-5,656,025	-5,458,316	-5,238,835
General and administrative expenses	-3,202,675	-2,496,807	-3,016,956
Provision for doubtful debts	0	-2,218,981	-1,951,391
Depreciation expense	-1,500,269	-1,219,543	-1,415,260
Loss from decrease in real-estates value	0	0	-824,126
Total expenses	**-10,358,969**	**-11,393,647**	**-12,446,568**
Net profit for the year before taxes	**3,976,299**	**1,721,994**	**4,768,680**
Value Added Tax (VAT)	0	0	-740,443
Taxes provision	-1,403,967	-626,568	**-1,552,052**
Net profit for the year after deducting taxes provision	2,572,332	1,095,426	2,476,185
Proposed dividends as follows:			
Compulsory reserve	257,233	109,543	0
Voluntary reserve	22,177	0	0
Paid - up capital	1,657,922	0	0
Proposed cash dividends	635,000	762,000	0
Retained earnings	**0**	**223,883**	0
Net profit for the year	**2,572,332**	**1,095,426**	**2,476,185**
Earning per share	**2.03**	**0.86**	**1.95**

ARAB ISLAMIC BANK[27]

Balance Sheet End Of December 31

	2001	2002	2003
Assets	*dollar $*	*dollar $*	*dollar $*
Cash in a hand & bank account	7,856,513	12,092,317	20,439,750
Deposits in monetary authority	1,162,749	2,747,354	6,191,032
Morabaha financing	715,980	4,389,369	-
Traded marketable securities	-	-	3,176,734
investment in marketable securities	3,406,164	8,142,917	7,691,814
differed expenses (net)	744,584	982,451	-
investing and financing (after provision)	-	-	14,753,875
fixed assets	1,433,973	3,591,853	4,344,533
branches establishment expenses	724,780	847,344	-
other assets	122,577	161,779	2,201,558
total assets	**16,167,320**	**32,955,384**	**58,799,296**
liability's & stock holder equity			
liability's			
Customer investment deposits	5,457,007	20,787,974	44,952,691
Cash margin	105,312	419,604	2,133,623
Other provisions	-	-	22,237
Other liability's	176,909	1,194,368	1,100,839
Total liability's	**5,739,228**	**22,401,946**	**48,209,390**
Stock holder equity			
Authorized capital	10,500,000	10,500,000	10,500,000
Compulsory reserves	-	8,689	14,619
Returned earning	(71,908)	44,749	75,287
Total stock holder equity's	**10,428,092**	**10,553,438**	**10,589,906**
Total liability's & stock holder equity's	**16,167,320**	**32,955,384**	**58,799,296**

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27 (Arab Islamic bank/annual report/2001 2002 2003)

ARAB ISLAMIC BANK

Income Statement End Of December 31

	2001	2002	2003
	dollar $	*dollar $*	*dollar $*
Revenue			
Investment revenue	365761	197547	2285631
Al Murabaha Convict revenue	107397	388405	270000
Interest revenue	12,024	98,867	484,444
Currency trading revenue	210,547	110,780	111,972
Stock trading revenue	-	978,669	-
Market security revenue	-	-	254,499
Less depositor investment revenue	(60,063)	(410,166)	(925,232)
Other revenue	4,674.00	93,713	186,057
Total revenue	**640,340**	**1,457,815**	**2,667,371**
Expenses			
Managerial & general expenses	(523,010)	(917,053)	(1,876,448)
Investment risk provision	(9,240)	(58,595)	(160,687)
Depression amortization expenses	(179,999)	(323,368)	(570,938)
Total expenses	**(712,249)**	**(1,299,016)**	**(2,608,073)**
Earning Before Tax	(71,909)	158,799	59,298
Tax	-	32,584	22,237
Net Earning After Tax	**(71,909)**	**126,215**	**37,061**

Jordan National Bank

Balance Sheet End Of December 31

Assets	2001 dollar $	2002 dollar $	2003 dollar $
Cash at Central Banks	230,164,790	250,959,069	387,951,208
Cash at Banks and other Financial Institutions	336,362,061	418,000,653	244,293,770
Deposits at Banks and other financial institutions	0	10,322,960	2,544,463
Trading Securities	65,741,038	50,577,674	32,353,494
Credit Facilities - Net of Provision for Credit Facilities	540,482,060	459,004,146	429,047,089
Available for Sale Securities	48,576,353	52,686,916	48,011,588
Held to Maturity Investments	16,637,050	40,868,397	50,523,477
Investments in Subsidiaries & Affiliates	7,385,912	54,138,823	4,435,070
Fixed Assets - Net of Depreciation	56,159,238	-	52,439,879
Other Assets	46,034,400	42,872,949	46,668,421
Deferred Tax Assets	6,380,441	5,435,966	4,131,666
Total Assets	**1,353,923,343.00**	**1,384,867,553**	**1,302,400,125**
Liabilities & Shareholders' Equity			
Banks' and other Financial Institutions' Deposits	144,594,143	217,635,002	44,696,799
Customers' Deposits	857,656,217	819,728,253	1,011,106,715
Cash margins	246,181,137	250,325,154	137,084,956
Borrowed Funds	8,641,349	10,471,189	10,097,561
Various Provisions	4,711,390	3,256,548	2,870,262
Other Liabilities Income	21,844,929	18,268,185	22,416,009
Tax Provision	-	313,109	410,090
Total Liabilities	**1,283,629,165**	**1,319,997,440**	**1,228,682,392**
Minority Interest	984,108	740,982	651,204
Shareholders' Equity			
Paid-up Capital	42,000,000	43,320,331	49,411,259
Compulsory Reserve	17,184,142	17,184,142	17,184,142
Voluntary Reserve	2,407,260	2,407,260	2,407,260
Reserve for Branches Abroad	4,550,000	4,550,000	4,550,000
Other Reserves	213,054	213,054	213,054
Subsidiaries' Reserve	138,125	138,210	138,210
Translation Adjustments for Foreign Currencies	18,000	18,000	18,000
Accumulated Effect in Fair Value	77,977	(2,251,699)	508,616
Retained Earnings	2,721,512	(1,311,957)	(1,364,012)
Total Shareholders' Equity	**69,310,070**	**64,267,341**	**73,066,529**
Total Liabilities and Shareholders' Equity	**1,353,923,343**	**1,384,867,553**	**1,302,400,125**

Jordan National Bank[28]

Income Statement End Of December 31

	2001	2002	2003
Revenues:	dollar $	dollar $	dollar $
Interest Income	82,959,817	61,920,004	55,759,875
Interest Expense	51,673,573	38,817,273	29,351,488
Net Interest Income	**31,286,244**	**23,102,731**	**26,408,387**
Commission Income - Net	12,927,239	13,917,739	11,027,238
Net Interest and Commissions Income	**44,213,483**	**37,020,470**	**37,435,625**
Non-Interest and Non-Commissions Income			
Banks' Share in Affiliate Companies' Profits (Losses)	2,437	-2,079,729	837,855
Income (Loss) from Financial Assets and Instruments	773,046	-320,242	2,281,773
Other Operating Income	5,755,102	5,073,815	5,410,066
Total of Non-Interest and Non-Commission Income	6,530,585	2,673,844	8,529,694
Net Operating Income	**50,744,068**	**39,694,314**	**45,965,319**
Expenses :			
Employees expenses	14,075,769	15,236,742	15,106,077
Other operating expenses	6,045,290	7,302,930	7,687,975
Depreciation and amortization	3,661,128	4,030,834	5,209,774
Provision for credit facilities	21,414,181	12,486,457	17,028,394
Debts written-off	279,754	1,726,541	0
Other various provisions	5,378,712	418,885	526,501
Total Operating Expenses	**50,854,834**	**41,202,389**	**45,558,721**
Net Operating Income (Loss)	-110,766	-1,508,075	406,598
Non-operating revenues (expenses)	-357,923	-1,267,650	-266,217
Net (Loss) before Tax and Fees and Minority Interest	**-468,689**	**-2,775,725**	**140,381**
Less : Income tax provisions	-	1,303,723	599,774
Educational council and vocational and technical training fees	-	8	-
Net (Loss) after Tax and Fees and before Minority Interest	**-468,689**	**-4,079,456**	**-459,393**
Add : Share of minority interest from subsidiaries' net losses **Net**	575,439	321,141	451,080
(Loss) Income for the year	**106,750**	**-3,758,315**	**-8,313**

28 (www.ahli.com/annual rep .asp/2001,2002,2003

FINANCAL STATEMENT ANALYSIS

Cairo Amman Bank Islamic Branch

Return On Equity Capital (ROE) = Net Income After Taxes / Total Equity Capital

2001	120281 / 3287425	3.7%
2002	73644 / 4150369	1.7%
2003	61783 / 1771970	1.6%

Return On Assets (ROA) = net income after taxes / total assets

2001	120281 / 64540122	0.19%
2002	73644 / 48507553	0.15%
2003	61783 / 45365771	0.14%

REO = ROA (Total Assets / Total Equity)

2001	0.19% x(64540122 / 3287425)	3.7%
2002	0.15% x (48507853 / 4150369)	1.7%
2003	0.14% x (45365771 / 3771970)	1.6%

ROE = Net Profit margin x Assets Utilization x Equity Multiplier

Net Profit Margin = Net Income After Taxes / Total Operating Revenues

2001	120281 / 1123640	0.107
2002	73644 / 921822	0.079
2003	61783 / 910899	0.0657

Assets Utilization = Total Operating Revenues / Total Assets

2001	1123640 / 64540122	0.0174
2002	921822 / 48507853	0.019
2003	910899 / 4536571	0.020

Equity Multiplier = Total Assets / Total Equity Capital

2001	64540122 / 3287425	19.63
2002	48507853 / 4150369	11.69
2003	45365771 / 3771970	12.03

ROE = Net Profit margin x Assets Utilization x Equity Multiplier

2001	0.107 x 0.0174 x 19.63	.036
2002	0.079 x 0.019 x 11.69	0.017
2003	0.067 x 0.020 x 12.03	0.016

Net Interest Margin = (Interest Income From Loans and Security Investment - Interest Expense On Deposits and on other debt issued) / Total Assets

2001	(422311 – 246049) / 64540122	0.0027
2002	(264876 – 186247) / 48507853	0.0016
2003	(210522 – 126825) / 45365771	0.0019

Net non interest margin = $\frac{\text{Non interest revenues - Non interest expenses}}{\text{Total assets}}$

2001	(701329 – 892045) / 64540122	- 0.003
2002	(656946 – 809585) / 48507853	-0.0032
2003	(700377 – 825433) / 45365771	-0.0028

Net bank operating margin = $\frac{\text{Total operating revenues - Total operating expenses}}{\text{Total assets}}$

2001	(1123640 – 892045) / 64540122	0.0036
2002	(921822 – 809585) / 48507853	0.0023
2003	(910899 – 825433) / 45365771	0.002

Earnings per share of stock (EPS) = $\frac{\text{Net income after taxes}}{\text{Common equity shares outstanding}}$

2001	120281 / 2127000	0.057
2002	73644 / 2127000	0.035
2003	61783 / 2127000	0.029

Bank of Palestine LTD

Return On Equity Capital (ROE) =	Net Income After Taxes / Total Equity Capital	
2001	2572332/23165513	11.10%
2002	1095426 / 23625939	4.63%
2003	2476185 / 25216315	9.81%
Return On Assets (ROA) =	net income after taxes / total assets	
2001	2572332 / 258127602	1.00%
2002	1095426 / 255857226	0.42%
2003	2476185 / 333483422	0.74%
ROE =	ROA (Total Assets / Total Equity)	
2001	1.00% X (258127602 / 23165513)	11.14
2002	0.42% X (255857226 / 23625939)	4.54
2003	0.74 %X (333483422 / 25216315)	9.8
ROE =	Net Profit margin x Assets Utilization x Equity Multiplier	
Net Profit Margin =	Net Income After Taxes / Total Operating Revenues	
2001	2572332 / 14335268	0.18
2002	1095426 / 13115641	0.083
2003	2476185 / 17215248	0.14
Assets Utilization =	Total Operating Revenues / Total Assets	
2001	14335268 / 258127602	0.055
2002	13115641 / 255857226	0.051
2003	17215248 / 333483422	0.51
Equity Multiplier =	Total Assets / Total Equity Capital	
2001	258127602 / 23165513	11.14
2002	255857226 / 23625939	10.82
2003	333483422 / 25216315	13.22
ROE =	Net Profit margin x Assets Utilization x Equity Multiplier	
2001	0.18 X 0.055 X 11.14	11%
2002	0.083 X 0.051 X 10.82	4.5%
2003	0.14 X 0.051 X 13.22	9.43%
Net Interest Margin =	(Interest Income From Loans and Security Investment - Interest Expense On Deposits and on other debt issued) / Total Assets	
2001	(16192406 - 6279812) / 258127602	0.038
2002	(11836852 - 2775785) / 255857226	0.035
2003	((12317250 + 871102) -2598245) / 333483422	0.029

Net non interest margin =	Non interest revenues - Non interest expenses / Total assets	
2001	((1248778 + 3173886) - 10358969) / 258127602	-0.023
2002	((11836852 + 2717900) - 11393647) / 255857226	0.012
2003	((12317250 + 165873 + 4586912) - 12446568)/ 333483422	0.014
Net bank operating margin =	Total operating revenues - Total operating expenses / Total assets	
2001	(14335268 - 10358969) / 258127602	0.015
2002	(13115641 - 11393647) / 25585722	0.0067
2003	(17215248 - 12446568) / 333483422	0.014
Earnings per share of stock (EPS) =	Net income after taxes / Common equity shares outstanding	
2001	2572332 / 1270000	2.03
2002	1095426 / 1270000	0.86
2003	2476185 / 1270000	1.95
Credit Risk =	Reserve for loan losses / Net loans	
2001	2690868 / 88483583	3.04%
2002	2516996 / 71233904	3.5%
2003	4006538 / 103296234	3.9%
Credit Risk =	Provision for loan losses / Net loans	
2001	0 / 88483583	0
2002	2218981 / 71253904	0.03
2003	1951391 / 103296234	0.02
Liquidity Risk =	Total equity / Total assets	
2001	23165513 / 258127602	8.97%
2002	23625939 / 255857226	9.23%
2003	25216315 / 333483422	7.56%
Interest Sensitivity =	Interest sensitive assets / Total assets	
2001	(122629263+88483583+733106+1730178) / 258127602	0.82
2002	(134300683+71253904+547706+1116627) / 255857226	0.80
2003	(157946384+103296234+622003+3929058) / 333483422	0.79

Arab Islamic Bank

Return On Equity Capital (ROE) = $\dfrac{\text{Net Income After Taxes}}{\text{Total Equity Capital}}$

2001	-71909 / 10428092	-0.69%
2002	126215 / 10553438	1.2%
2003	37061 / 10589906	0.35%

Return On Assets (ROA) = $\dfrac{\text{net income after taxes}}{\text{total assets}}$

2001	-71909 / 16167320	-0.44%
2002	126215 / 32955384	0.39%
2003	37061 / 58799296	0.065%

ROE = ROA (Total Assets / Total Equity)

2001	0.44% x (16167320 / 10428092)	-0.69%
2002	0.39% x(32955384 / 10553438)	1.2%
2003	0.065% x (58799296 / 1058906)	0.35%

ROE = Net Profit margin x Assets Utilization x Equity Multiplier

Net Profit Margin = $\dfrac{\text{Net Income After Taxes}}{\text{Total Operating Revenues}}$

2001	-71909 / 640340	0.11
2002	126215 / 1457815	0.086
2003	37061 / 2667371	0.014

Assets Utilization = $\dfrac{\text{Total Operating Revenues}}{\text{Total Assets}}$

2001	640340 / 16167320	0.039
2002	1457815 / 32955384	0.044
2003	2667371 / 58799296	0.045

Equity Multiplier = $\dfrac{\text{Total Assets}}{\text{Total Equity Capital}}$

2001	16167320 / 10428092	1.5
2002	32955384 / 10553438	3.1
2003	58799296 / 10589906	5.5

ROE = Net Profit margin x Assets Utilization x Equity Multiplier

2001	-0.11 x 0.039 x 1.5	-0.64%
2002	0.086 x 0.044 x 3.1	1.17%
2003	0.014 x 0.045 x 5.5	0.34%

Net Interest Margin = $\dfrac{\text{(Interest Income From Loans and Security Investment - Interest Expense On Deposits and on other debt issued)}}{\text{Total Assets}}$

2001	(107397 – 60063) / 16167320	0.003
2002	(388405 – 410166) / 32955384	-0.0006
2003	(270000 – 925232) / 58799296	-0.011

Net non interest margin = $\dfrac{\text{Non interest revenues - Non interest expenses}}{\text{Total assets}}$

2001	(532943 – 712249) / 16167320	-0.011
2002	(1069410 – 1299016) / 32955384	-0.007
2003	(2142872 -2608073) / 58799296	-0.008

Net bank operating margin = $\frac{\text{Total operating revenues - Total operating expenses}}{\text{Total assets}}$

2001	(640340 – 712249) / 16167320	-0.004
2002	(1457815 – 1299016) / 32955384	0.004
2003	(2667371 – 2608073) / 58799296	0.001

Earnings per share of stock (EPS) = $\frac{\text{Net income after taxes}}{\text{Common equity shares outstanding}}$

2001	71909 / 10500000	0.0068
2002	126215 / 10500000	0.012
2003	37061 / 10500000	0.0035

Liquidity Risk = $\frac{\text{Total equity}}{\text{Total assets}}$

2001	10428092 / 16167320	64.50%
2002	10553438 / 32955384	32.02%
2003	10589906 / 58799296	18.01%

Jordan National Bank

Return On Equity Capital (ROE) = Net Income After Taxes / Total Equity Capital

2001	106750 / 69310070	0.15%
2002	-3758315 / 64267341	-5.85%
2003	-8313 / 73066529	-0.011%

Return On Assets (ROA) = net income after taxes / total assets

2001	106750 / 1353923343	0.0079%
2002	-3758315 / 1384867553	-0.27%
2003	-8313 / 1302400125	- 0.00064%

ROE = ROA (Total Assets / Total Equity)

2001	0.0079% x (135392334 / 69310070)	0.15%
2002	-0.27% x (1384867553 / 64267341)	-5.85%
2003	-0.00064 x (1302400125 / 73066529)	-0.011%

ROE = Net Profit margin x Assets Utilization x Equity Multiplier

Net Profit Margin = Net Income After Taxes / Total Operating Revenues

2001	106750 / 50744068	0.0021
2002	-3758315 / 39694314	-0.095
2003	-8313 / 45965319	-0.00018

Assets Utilization = Total Operating Revenues / Total Assets

2001	50744068 / 1353923343	0.038
2002	39694314 / 1384867553	0.029
2003	45965319 / 1302400125	0.035

Equity Multiplier = Total Assets / Total Equity Capital

2001	1353923343 / 69310070	19.53
2002	1384867553 / 64267341	21.55
2003	1302400125 / 73066529	17.83

ROE = Net Profit margin x Assets Utilization x Equity Multiplier

2001	0.0021 x 0.038 x 19.53	0.15%
2002	-0.095 x 0.029 x 21.55	-5.85%
2003	-0.00018 x 0.035 x 17.83	-0.011%

Net Interest Margin = (Interest Income From Loans and Security Investment - Interest Expense On Deposits and on other debt issued) / Total Assets

2001	((8295981 + 2437) – 51673573) / 1353923343	0.023
2002	((61920004 – 2079729) – 38817273) / 1384867553	0.015
2003	((55759875 + 837855) – 29351488) / 1302400125	0.020

Net non interest margin =	Non interest revenues - Non interest expenses / Total assets	
2001	((6530585 + 12927239) -50854834) / 1353923343	-0.023
2002	((2673844 +13917739) -41202389) / 1384867553	-0.017
2003	((8529694 + 11027238) -45558721) / 1302400125	-0.020
Net bank operating margin =	Total operating revenues - Total operating expenses / Total assets	
2001	(50744068 – 50854834) / 1353923343	-0.000081
2002	(39694314 – 41202389) / 1384867553	-0.001
2003	(45965319 – 45558721) / 1302400125	0.00031
Earnings per share of stock (EPS) =	Net income after taxes / Common equity shares outstanding	
2001	106750 / 42000000	0.0025
2002	-3758315 / 42660166	-0.088
2003	-8313 / 47992350	-0.00017
Credit Risk =	Reserve for loan losses / Net loans	
2001	4711390 / 540482060	0.87%
2002	3256548 / 459004146	0.70%
2003	2870262 / 429047089	0.66%
Credit Risk =	Provision for loan losses / Net loans	
2001	21414181 / 540482060	0.039
2002	12486457 / 459004146	0.027
2003	17028394 / 429047089	0.039
Liquidity Risk =	Total equity / Total assets	
2001	69310070 / 1353923343	5.11%
2002	64267341 / 1384867553	4.67%
2003	73066529 / 1302400125	5.61%
Interest sensitivity	Interest sensitive assets / Total assets	
2001	(0+65741038+540482060+48576353+7385912) / 1353923343	0.48
2002	(10322960+50577674+459004146+52686916+54138823) /1384867553	0.45
2003	(2544463+32353494+429047089+48011588+4435070) / 1302400125	0.39

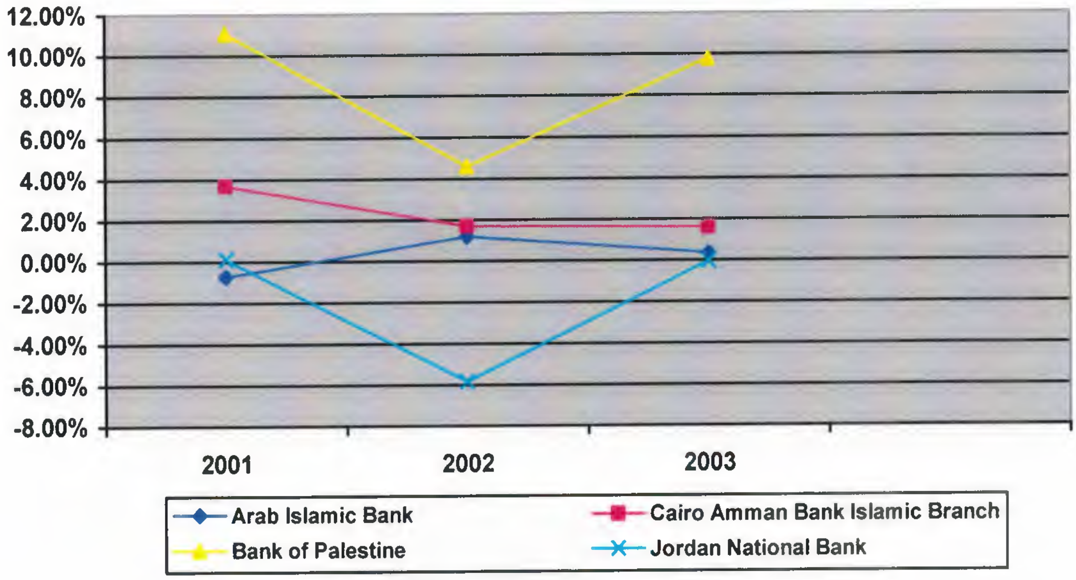
Table NO:3

ISLAMIC BANKS

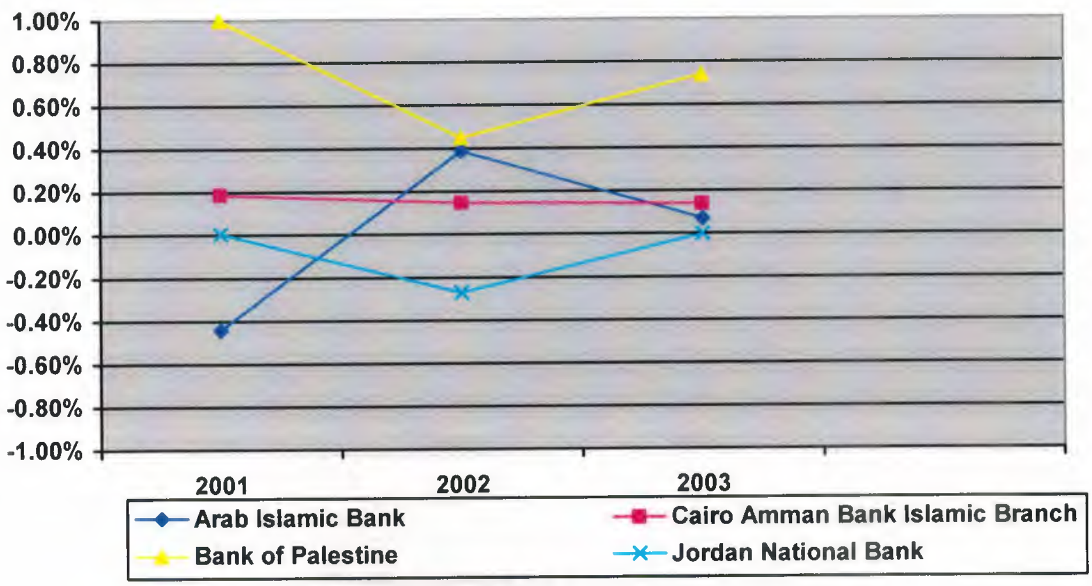
	Arab Islamic Bank			Cairo Amman Bank Islamic Branch		
	2001	**2002**	**2003**	**2001**	**2002**	**2003**
Return on Equity(ROE) =	-0.69%	1.2%	0.35%	3.7%	1.7%	1.6%
Return on Assets (ROA) =	-0.44%	0.39%	0.07%	0.19%	0.15%	0.14%
Net Interest.Margin =	0.003	-0.0006	-0.011	0.0027	0.0016	0.0019
Net non interest margin =	-0.011	-0.007	-0.008	-0.003	-0.0032	-0.0028
Net bank operating margin =	-0.004	0.004	0.001	0.0036	0.0023	0.002
Earnings per share =	0.0068	0.012	0.0035	0.057	0.035	0.029
Liquidity Risk = Total equity/Total assets	64.50%	32.02%	18.01%	5.09%	8.55%	8.31%

COMMERCIAL BANKS

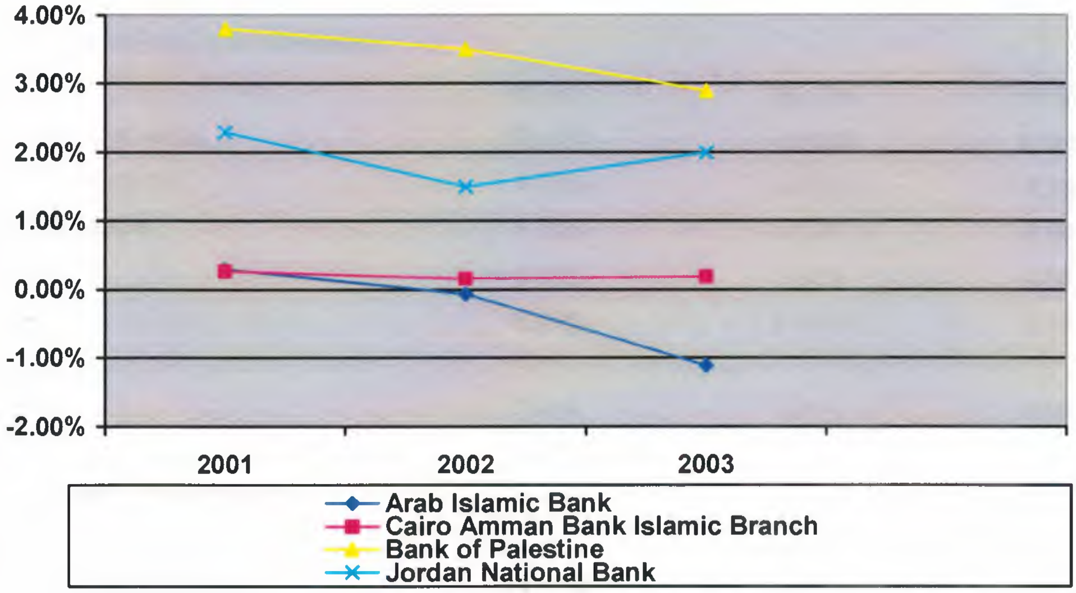
	Bank of Palestine LTD			Jordan National Bank		
	2001	**2002**	**2003**	**2001**	**2002**	**2003**
Return on Equity(ROE) =	11.10%	4.63%	9.81%	0.15%	-5.85%	-0.011%
Return on Assets (ROA) =	1%	0.42%	0.74%	0.0079%	-0.27%	-0.00064%
Net Interest Margin =	0.038	0.035	0.029	0.023	0.015	0.020
Net non interest margin =	-0.023	0.012	0.014	-0.023	-0.017	-0.020
Net bank operating margin =	0.015	0.0067	0.014	-0.000081	-0.001	-0.00031
Earnings per share =	2.03	0.86	1.95	0.0025	-0.088	-0.00017
Credit Risk = Reserve for loan losses/Net loans	3.04%	3.5%	3.9%	0.87%	0.70%	0.66%
Credit Risk = Provision for loan losses/Net loans	0	0.03	0.02	0.039	0.027	0.039
Liquidity Risk = Total equity/Total assets	8.97%	9.23%	7.56%	5.11%	4.67%	5.61%
Interest Sensitive = Interest sensitive assets/Total assets	0.82	0.80	0.79	0.48	0.45	0.39



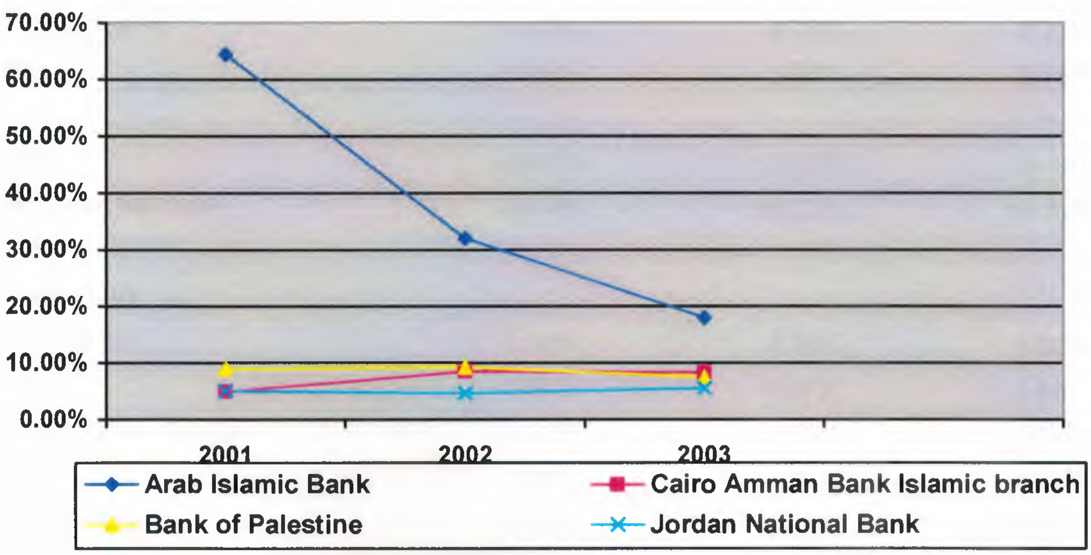
Comparison of Return on Equity



Comparison of Return on Assets



Comparison of Net Interest Margine



Comparison of Liquidity Risk

Cairo Amman Bank Islamic Branch Balance Sheet

Common size analysis	2001	2002	2003
assets	%	%	%
Cash In A Hand at Palestinian Monetary Authority	40.34%	50.11%	48.97%
International Investments	52.80%	40.65%	41.04%
Morabaha Investments	4.15%	4.30%	4.19%
Investment Available	1.93%	4.19%	4.94%
Fixed Assets	0.53%	0.56%	0.64%
Other Assets	0.25%	0.20%	0.22%
total assets	100%	100%	100%
liability and stock holder equity			
liabilities			
customer investment deposits	14.57%	21.72%	22.02%
cash margin	0.25%	0.68%	0.77%
banks deposits	29.14%	8.05%	5.71%
tax provision	0.72%	1.03%	0.99%
pension fund provision	0.23%	0.38%	0.27%
other liability	0.29%	0.36%	0.35%
total liability	45.21%	32.22%	30.11%
investor account balance	49.70%	59.22%	61.58%
stock holder equity			
authorization capital	3.30%	4.38%	4.69%
legal reserve	0.04%	0.07%	0.08%
reserve accumulative change	-0.23%	1.32%	0.93%
return earnings	1.99%	2.78%	2.62%
total shareholder equity	5.09%	8.56%	8.31%
total liability &shareholder equity	100%	100%	100%

Cairo Amman Bank Islamic Branch Income Statement

Common size analysis	2001 %	2002 %	2003 %
Revenues			
international investment revenue	43.80%	51.33%	48.89%
al murabaha convict revenue	37.58%	28.73%	23.11%
Palestinian monetary authority depositor	25.25%	16.41%	13.80%
	106.63%	96.47%	
less depositor investment revenue	-21.90%	-20.20%	-13.92%
	84.73%	76.27%	71.88%
realized interest rate	8.19%	12.27%	14.31%
other operating revenue	7.08%	11.47%	13.80%
Total revenue	**100%**	**100%**	**100%**
Expenses			
employment salaries expenses	35.33%	48.64%	51.63%
miscellaneous expenses	33.59%	41.14%	41.74%
al murabaha investment contract provision for amount unloadable	1.07%	-12.19%	-10.50%
depression and a amortization expenses	9.40%	10.24%	7.74%
Total operating expenses	79.39%	87.82%	90.62%
earning before tax	20.61%	12.18%	9.38%
tax	-9.91%	-4.19%	-2.60%
Net income after tax	10.70%	7.99%	7.48%

Bank of Palestine LTD Balance Sheet

Common size analysis	2001	2002	2003
ASSETS	%	%	%
Cash on hand and at Palestinian Monetary Authority (PMA)	11.41%	12.47%	12.32%
Deposits at banks	47.51%	52.49%	47.36%
Loans and credit facilities – net	34.28%	27.85%	30.97%
Financial assets held for trading	0.28%	0.21%	0.19%
Other investments	1.16%	1.51%	3.90%
Real – estate investments	0.00%	0.00%	0.50%
Other debit balances and interest receivable	0.67%	0.44%	1.18%
Property and equipment – net	4.68%	5.03%	3.59%
Total assets	**100%**	**100%**	**100%**
Liabilities and shareholders' equity:			
Liabilities:			
Customers' deposits	72.73%	74.88%	73.52%
PMA's deposits	5.63%	4.29%	7.64%
Banks' deposits	0.15%	0.03%	1.59%
Cash margin	10.49%	9.31%	7.45%
Provisions	1.04%	0.98%	1.20%
Other liabilities	0.99%	1.27%	1.03%
Total liabilities	91.03%	90.77%	92.44%
Shareholders' equity:			
Authorized capital	7.87%	11.73%	9.00%
Un subscribed capital	0.00%	-3.78%	0.00%
Paid – up capital	7.87%	7.94%	6.09%
Compulsory reserve	0.60%	0.64%	0.57%
Voluntary reserve	0.01%	0.01%	0.07%
General reserve	0.25%	0.25%	0.37%
Proposed shares dividends	0.25%	0.30%	0.38%
Retained earnings	0.00%	0.09%	0.07%
Total shareholders' equity	8.97%	9.23%	7.56%
Total liabilities and shareholders' equity			

Bank of Palestine LTD Income Statement

Common size analysis

Revenues	2001 %	2002 %	2003 %
Interest income	112.96%	90.25%	71.55%
Commission income	8.71%	10.19%	15.43%
Total interest and commission income	121.67%	100.44%	86.98%
Interest expense	-43.81%	79.28%	-15.09%
Net interest and commission income	77.86%	79.28%	71.89%
Net income from investing activities and others	22.14%	20.72%	0.96%
Unrealized profits (losses) from marketable stocks	0.00%	0.00%	0.51%
Other revenue	0%	0%	26.64%
Total revenue	**100%**	**100%**	**100%**
Expenses			
Salaries, wages and allowances	-39.46%	-41.62%	-30.43%
General and administrative expenses	-22.34%	-19.04%	-17.52%
Provision for doubtful debts	0.00%	-16.92%	-11.34%
Depreciation expense	-10.47%	-9.30%	-8.22%
Loss from decrease in real-estates value	0.00%	0.00%	-4.79%
Total expenses	-72.26%	-86.87%	-72.30%
Net profit for the year before taxes	27.74%	13.13%	27.70%
Value Added Tax (VAT)	0.00%	0.00%	-4.30%
Taxes provision	-9.79%	-4.78%	-9.02%
Net profit for the year after deducting taxes provision	17.94%	8.35%	14.38%
Proposed dividends as follows:			
Compulsory reserve	1.79%	0.84%	0.00%
Voluntary reserve	0.15%	0.00%	0.00%
Paid - up capital	11.57%	0.00%	0.00%
Proposed cash dividends	4.43%	5.81%	0.00%
Retained earnings	0.00%	1.71%	0.00%
Net profit for the year	17.94%	8.35%	14.38%

ARAB ISLAMIC BANK BALANCE SHEET

Common size analysis	2001	2002	2003
Assets	%	%	%
cash in a hand & bank account	48.60%	36.69%	34.76%
deposits in monetary authority	7.19%	8.34%	10.53%
morabaha financing	4.43%	13.32%	0.00%
traded marketable securities	0.00%	0.00%	5.40%
investment in marketable securities	21.07%	24.71%	13.08%
differed expenses (net)	4.61%	2.98%	0.00%
investing and financing (after provision)	0.00%	0.00%	25.09%
fixed assets	8.87%	10.90%	7.39%
branches establishment expenses	4.48%	2.57%	0.00%
other assets	0.76%	0.49%	3.74%
Total assets	**100%**	**100%**	**100%**
liability's & stock holder equity			
liability's			
customer investment deposits	33.75%	63.08%	76.45%
cash margin	0.65%	1.27%	3.63%
other provisions	0.00%	0.00%	0.04%
other liability's	1.09%	3.62%	1.87%
total liability's	**35.50%**	**67.98%**	**81.99%**
stock holder equity			
authorized capital	64.95%	31.86%	17.86%
legal reserves	0.00%	0.03%	0.02%
return earning	-0.44%	0.14%	0.13%
total stock holder equity's	64.50%	32.02%	18.01%
total liability's & stock holder equity's	**100%**	**100%**	**100%**

ARAB ISLAMIC BANK INCOME STATEMENT

Common size analysis Revenue	2001 %	2002 %	2003 %
investment revenue	57.11%	13.55%	85.68%
AL Murabaha convict revenue	16.77%	26.64%	10.12%
interest revenue	1.88%	6.78%	18.16%
currency trading revenue	32.88%	7.60%	4.20%
stock trading revenue	0.00%	67.13%	0.00%
market security revenue	0.00%	0.00%	9.54%
less depositor investment revenue	-9.38%	-28.14%	-34.69%
other revenue		6.43%	6.98%
Total revenue	100.%	100.%	100.%
Expenses			
managerial & general expenses	-81.68%	-62.91%	-70.35%
investment risk provision	-1.44%	-4.02%	-6.02%
depression amortization expenses	-28.11%	-22.18%	-21.40%
Total expenses	-111.23%	-89.11%	-97.78%
Earning before tax	-11.23%	10.89%	2.22%
tax	0.00%	2.24%	0.83%
Net earning after tax	-11.23%	8.66%	1.39%

Jordan National Bank Balance Sheet

Common size analysis	2001	2002	2003
Assets	%	%	%
Cash at Central Banks	17.00%	18.12%	29.79%
Cash at Banks and other Financial Institutions	24.84%	30.18%	18.76%
Deposits at Banks and other financial institutions	0.00%	0.75%	0.20%
Trading Securities	4.86%	3.65%	2.48%
Credit Facilities - Net of Provision for Credit Facilities	39.92%	33.14%	32.94%
Available for Sale Securities	3.59%	3.80%	3.69%
Held to Maturity Investments	1.23%	2.95%	3.88%
Investments in Subsidiaries & Affiliates	0.55%	3.91%	0.34%
Fixed Assets - Net of Depreciation	4.15%	0.00%	4.03%
Other Assets	3.40%	3.10%	3.58%
Deferred Tax Assets	0.47%	0.39%	0.32%
Total Assets	100%	100%	100%
Liabilities & Shareholders' Equity			
Banks' and other Financial Institutions' Deposits	10.68%	15.72%	3.43%
Customers' Deposits	63.35%	59.19%	77.63%
Cash margins	18.18%	18.08%	10.53%
Borrowed Funds	0.64%	0.76%	0.78%
Various Provisions	0.35%	0.24%	0.22%
Other Liabilities Income	1.61%	1.32%	1.72%
Tax Provision	0.00%	0.02%	0.03%
Total Liabilities	94.81%	95.32%	94.34%
Minority Interest	0.07%	0.05%	0.05%
Shareholders' Equity			
Paid-up Capital	3.10%	3.13%	3.79%
Statutory Reserve	1.27%	1.24%	1.32%
Voluntary Reserve	0.18%	0.17%	0.18%
Reserve for Branches Abroad	0.34%	0.33%	0.35%
Other Reserves	0.02%	0.02%	0.02%
Subsidiaries' Reserve	0.01%	0.01%	0.01%
Translation Adjustments for Foreign Currencies	0.0013%	0.0013%	0.0014%
Accumulated Effect in Fair Value Retained	0.01%	-0.16%	0.04%
Earnings	0.20%	-0.09%	-0.10%
Total Shareholders' Equity	5.12%	4.64%	5.61%
Total Liabilities and Shareholders' Equity	100%	100%	100%

Jordan National Bank Income Statement

Common size analysis

Revenues:	2001 %	2002 %	2003 %
Interest Income	163.49%	155.99%	121.31%
Interest Expense	101.83%	97.79%	63.86%
Net Interest Income	61.65%	58.20%	57.45%
Commission Income - Net	25.48%	35.06%	23.99%
Net Interest and Commissions Income	87.13%	93.26%	81.44%
Non-Interest and Non-Commissions Income			
Banks' Share in Affiliate Companies' Profits (Losses)	0.00%	-5.24%	1.82%
Income (Loss) from Financial Assets and Instruments	1.52%	-0.81%	4.96%
Other Operating Income	11.34%	12.78%	11.77%
Total of Non-Interest and Non-Commission Income	12.87%	6.74%	18.56%
Net Operating Income	**100%**	**100%**	**100%**
Expenses :			
Employees expenses	27.74%	38.39%	32.86%
Other operating expenses	11.91%	18.40%	16.73%
Depreciation and amortization	7.21%	10.15%	11.33%
Provision for credit facilities	42.20%	31.46%	37.05%
Debts written-off	0.55%	4.35%	0.00%
Other various provisions	10.60%	1.06%	1.15%
Total Operating Expenses	100.22%	103.80%	99.12%
Net Operating Income (Loss)	-0.22%	-3.80%	0.88%
Non-operating revenues (expenses)	-0.71%	-3.19%	-0.58%
Net (Loss) before Tax and Fees and Minority Interest	-0.92%	-6.99%	0.31%
Less : Income tax provisions	0.00%	3.28%	1.30%
Educational council and vocational and technical training fees	0.00%	0.00002%	0.00%
Net (Loss) after Tax and Fees and before Minority Interest	-0.92%	-10.28%	-1.00%
Add : Share of minority interest from subsidiaries' net losses **Net**	1.13%	0.81%	0.98%
(Loss) Income for the year	0.21%	-9.47%	-0.02%

CHAPTER 6

COMMENTS TO ALL RATIO ANYLASIS

Cairo Amman bank Islamic branch

ROE: decreased in the year 2002 as a result of decrease in net income large increase in total equity in 2003 decrease as result of decrease in net income.
The net income decreased over the year as a result of decrease in total operating revenue over the year and decrease in equity multiplier.

ROA: decreased over the year as a result of decrease in net income

Net interest margin: decreased over the year as a result of decrease in interest revenue

Net non interest margin: decreased over the year as a result of decrease of non interest revenue

Net bank operating margin: decreased over the year as a result of decreased in total operating revenue

EPS: decreased over the year as a result of decreased in net income

Liquidity risk: increased over the year as a result of decrease in total assets

As we see from the common size analysis and balance sheet that the total assets of Cairo Amman Bank Islamic Branch have been decreasing over the years as a result of decrease of the bank on the main sources of the fund which is the bank's deposit (it's clear at the liability section) also we can realize that the bank total stock holder equity fluctuate over the year as a result of fluctuate in return equity reserves.

Bank of Palestine LTD

ROE: fluctuated over the years 2002 in large number then back to increase in 2003 as a result of increase in net income which increased by the increases in net profit margin and equity multiplier

ROA: decreased over the years especially in 2002 as a result of decrease in net income and increase in total assets

Net interest margin: decreased over the years as a result of decrease in interest income

Net non interest margin: increased over the years as result of increase in non interest revenue

Net bank operating margin: decreased over the years especially in 2002 as a result of increased in operating expense and increased in total assets

EPS: decrease in 2002 then back to increase in 2003as a result increase in net income

Credit risk:-

1- **Reserve for loan losses:** increased over the year as a result of increase in the reserve comparing with the amount of loans offers
2- **Provision for loan losses:** decreased over the year as a result of increase in net loans and decrease in provision for loan losses

Liquidity risk: decrease over the year as a result of increase in total assets

Interest sensitivity: decreased over the year as a result of increase in total assets

As we see from the common size analysis of balance sheet for bank of Palestine that the total assets have been decreased in first two years as a result of decreased in the facilities, financial assets held for sales and other debt balances and interest receivable but at the third year the total assets increased as a result of increased in cash on a hand, deposits at banks other investment which financial by the customer and bank and Palestinian monetary authority deposit which increase the total liabilities.

Arab Islamic Bank

ROE: fluctuated over the years as a result of increase and decrease in net income in the 2002 it increase as a result of increase in net income which increased by the increase in net profit margin

ROA: fluctuated over the years as a result of increase in net income in year 2002 then decrease in year 2003 as a result of both decrease in net income and increase in total assets

Net interest margin: decreased over the year as a result of increase in operating expense over operating revenue and increase in total assets

Net non interest margin: increase over the year as a result of increase in non interest revenue comparing with non interest expense

Net bank operating margin: increase in the year 2002 as a result of increase in total operating revenue then decrease in 2003 as a result of little increase in operating expense and increase in total assets

EPS: increase in 2002 as a result of increase in net income

Liquidity risk: decrease over the year as a result of increase in total assets comparing with how increasing in total equity

As we see from the common size analysis and the balance sheet that the total assets of Arab Islamic Bank have been increasing over the years as a result of increased in total liabilities which resulted from the increase in customer deposit and cash margin also the total stock holder equity increased over the years as a result of increased in returned earning.

In the income statement of Arab Islamic Bank we can see that the total revenue increased over the years but the total expense increased also this means a smooth increase and decrease in net income over the year.

Jordan National Bank

ROE: decreased over the year as a result of net loss which resulted by net profit margin

ROA: decreased over the year as a result of decreased in net income then move to be net losses

Net interest margin: decreased over the year as a result of decrease in interest income and in total assets 2002

Net non interest margin: increased over the year as of increase of non interest revenue and decrease in total assets

Net bank operating margin: increased in 2002 as a result of increase in total operating revenue. Also increased in 2003 as a result of increase in operating revenue over operating expense

EPS: decreased over the year as a result of increase in net loss

Credit risk:-

1- **Reserve for loan losses:** decreased over the year as a result of decrease in both the amount of reserve outstanding loans
2- **Provision for loan losses:** decrease in 2002 as a result of decrease in provision comparing with the amount of outstanding loan.

Liquidity risk: decrease in 2002 as a result of decreasing in total equity and decrease in total assets

Interest sensitivity: decrease over the year as a result of decreasing of interest sensitivity assets

As we can see from the common size analysis of balance sheet for the Jordan national bank that the total assets increased in the first two years as a result of increased in cash account at a central bank, cash in banks and other financial institutions then at the last year total assets decrease as a result of decreased in the account mentioned above also the total liabilities increased in the first two years as a result of increase in banks and other financial institutions and cash margin.

In the income statement of Jordan National Bank we can see that the total revenue fluctuate over the year as a result of increase and decrease in interest revenue and interest expense.

As it's clear from the analysis which I've done, all the analyzed banks suffer a decrease over the years except a smooth increase in the year 2002.
Under this bad financial circumstance we can say that the bank of (Palestine Ltd) achieved a good relative stability in its financial position.
The bad financial position which the Islamic bank suffers appears as the result of the newly establishment, where as they started operating at the beginning of the recession which resulted from Israel restrictions over the Palestinian economy.
Where as for the commercial bank's we can see that it appears more profitable and more stable than the Islamic bank because they started there operations at the Palestinian economic growth period, where at that time all the investors and customers obtained loans from commercial banks.
Finally Lets not forget that the time between 1996 until current days, which is the interval that Islamic banks appeared at, was in a economical decline period which resulted a great drop in the financial state of the banks in Palestine; also one of the other reasons are running away of investors from the Palestinian markets because of the current economical and political situation.

CONCLUSION

In my project I defined the Palestinian banking sectors and the hard situations that passed on the Palestinian economy as how the banks in Palestine tried to keep on developing by facing all the obstacles that opposed her developing and modification in all its banking operation and international relations .

I also explained In my project how the banking sectors in Palestine operates considering Islamic and commercial banking system and there activities.

On the other hand I analyzed some Palestinian bank's financial statements (commercial and Islamic Bank) and found that banking sector's in Palestine are still standing and operating under all what it face from hard economic situation's which is resulted from the unstable political state.

This can be observed clearly through the fluctuate in the customer deposit and the bank loans offered to the customer as a result of fluctuation in the credit worthy of the customers. As it is shown in the balance sheet of both Islamic and Commercial Banks the total assets have been increased in the same years as a result of increase in a total liability, and then decreased in the following years.
Banking sector in Palestine appears to be profitable in the years which are politically stable and unprofitable in the years which are politically instable.

RECOMMENDATIONS

In my project I recommended the commercial bank to reconstruct a good controlling system over the interest expenses which paid for the customer deposited, also to reconstruct a good strategy for loan offering to customer to decreases the provision for loan losses, commercial bank and almorabaha contract provision in Islamic bank.

I recommend the management to construct a good controlling system for non interest expense which is over the non interest revenue, this increase leads to decrease net bank operating margin. This problem in determining the interest paid on deposit and received from loan appears as a result of absence of the central bank, which prohibited from the Israeli occupation.

The fluctuations in the bank net income as a result of the interrelated economy between the Palestinian and Israeli economy which aim to damage the Palestinian economy, therefore I recommend to make independence between the two economies to avoid this problem of decline in banking operation.

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