

بنك الاستثمار الفلسطيني

Palestine Investment Bank

تنمية و أمان



Seventeenth
Annual Report For
Palestine Investment
Bank Results and
Achievements During
Year **2011**

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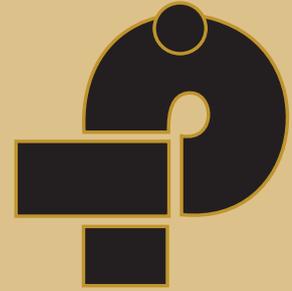


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B oard of directors

Mr. Abed Dayeh

Chairman Of the Board

Dr. Farouq Zaa'ter

Vice Chairman of the Board

Mr. Osama Khader

Board Member

Mr. Jameel Al-Mo'ti

Board Member

Mr. Sami Al-Sayed

Board Member

Mr. Khalil Naser

Board Member

Mr. Kamal Hsouneh

Board Member- Represent Al-Yazen for Real Estate and Investment Co

Mr. Rajaai Aldajani

Board Member- Represent Al-Yazen for Real Estate and Investment Co

Dr. Adanan Estatyeh

Board Member- Represent Salam International / Qatar

Board Member- Al-Shrouq for Real Estate and Financial Investment LTD

Board Member- Al-Shrouq for Real Estate and Financial Investment LTD

C ontents and PIB's Mission: The Vision, Goals, Main Values and Future Options

- We responsibly and vigorously strive to be a leading, prominent bank in Palestine by providing the finest financial services and banking excellence to our clients, presented by a highly-qualified staff working in a motivating environment, supported by modern technology and carefully selected banking software applications and products. Our staff follows the highest standards of professional conduct and ethical values, and aims to achieve financial results matching our status in the Palestinian banking system.
- We uphold our responsibility and commitment to effectively contribute to the growth and development of the Palestinian economy.
- The Banks' core values are honesty, integrity with oneself and others, continuous quest for excellence, along with honoring our promises, upholding the principles of corporate governance, and committing to our social responsibility, in addition to carrying on with the challenge to discover the best ways to satisfy our clients.
- Our future goals are to maintain our achievements; continue to develop and grow; efficiently meet our clients' needs and wishes; grow their money with the utmost care and responsibility; remain up to date with new products among the Palestinian banking market; as well as enhance our financial position through: monitoring risk factors, developing human resources, in addition to using modern technology to sustain performance excellence and efficiency in dealing with our clients, all while maintain the utmost transparency.

Our Services

services:

- Open all types of current and saving accounts.
- Accept all types of deposits in different currencies.
- Offer personal, residential, and commercial loans.
- Auto Financing.
- Export Financing.
- Projects Financing.
- Contractors Financing.
- Manufacturing Financing.
- Real estate and equity investments financing.
- SME's financing.
- Issuing silver and golden credit cards.
- ATM's full services.
- Utilities bills payment services.
- SWIFT services.

Commercial services:

- Open all types of Letter of credit.
- Issuing all types of Letter of guarantee.
- Execute all types of local and international transfers.
- Accept all types of bills of collection.

Treasury and Investment services

- Investing in securities traded in the global financial markets, including the Palestinian financial market
- Portfolio management
- Buying and selling stocks and bonds, and offer full financial brokerage services through the company's global securities owned by the Bank
- Buying and selling foreign currencies
- Trading futures contracts for foreign currencies

C hairman of the Board of Director's Statement

In the Name of Allah, the Most Gracious

Dear Shareholders,

On behalf of myself and the members of the board of directors, I welcome you all to the Palestine Investment Bank 17th General Assembly meeting. It gives me immense pleasure to present the annual report of the PIB's financial statements and achievements for the year ended 2011, along with the bank's future strategic plan for 2012.

Dear Shareholders,

The Palestinian economy continues to make significant progress despite all obstacles. The Gross Domestic Product (GDP) increased by 5.7% in 2011 compared to 9.3% in 2010. It is expected that the economic climate will achieve an increase by 10% during 2012 and 2013. The construction sector increased by 30% of GDP, which constitutes 11% of the total economy. The restaurants and hotels sector increased by 39% and the public administration sector, which constitutes 14.5% of the total Palestinian economy, increased by 14.3%,

Overall bank activity in Palestine increased notably during the year. Credit facilities of local clientele increased from 2.77 billion dollars in 2010 to 3.43 billion in 2011, registering an increase of 24% and indicating a growth in economic activities during 2011. Local clientele deposits increased from 6.63 billion dollars in 2010 to reach 6.78 billion in 2011 with an increase of 2.2%. The size of banks' securities portfolio reached 826 million dollars in 2011 compared to 574 million in 2010, registering an increase of 44%. The percentage of credit facilities to clientele deposits reached 50.6% in 2011 compared to 41.8% in 2010. Banks in Palestine held balances of 2.47 billion dollars in foreign banks in 2011 in comparison to 2.62 billion dollars in 2010, showing a decrease by 6%, which indicates that banks in Palestine employed a larger proportion of their deposits in credit facilities and securities portfolio in 2011.

Dear Shareholders,

Despite the decline in the growth of the Palestinian economy, the Palestine Investment Bank's financial results were satisfactory, thanks to our clients and your support. Improvement in asset quality accompanied the bank's profit growth as non-performing loans decreased and credit quality indicators visibly improved. Despite all circumstances, the bank management, at all levels, remains persistent to achieve development and modernization so as to revive and raise the level of provided services to clients, hence achieving reasonable growth ratios that would bring about revenues to increase the owner's equity. The management continuously aims to expand the use of banking technology and works to achieve comprehensive quality and provide new banking products, software and services. In 2011, the Palestine Investment Bank released Invest Online service (electronic banking services), which enables clients to access all their accounts and conduct numerous banking operations, such as balance inquiry, request of accounts statements and checkbooks, as well as make internal transfers between accounts.

Dear Shareholders,

Achieving growth in owner's equity under the current circumstances of the Palestinian economy requires exerting effort and hard work. The management, both board of directors and executive body, has succeeded in achieving its goals within a clear framework and complete harmonization. We need to accumulate success, small or big, and push forward to increase the growth rate, as well as limit the negative aftermath of the region's instability and unfavorable developments in the global economy. Predictions of the upcoming years indicate brighter financial results in synchronization with a strategy to accomplish growth and success, which guarantees exploiting and creating investment opportunities, meeting financial demands and provide various banking services to current and potential clientele in the bank's geographically-diverse locations.

Finally, I extend my gratitude and appreciation to the unique partnership between the bank's management and staff, and the clientele and shareholders, all who contributed to our achievements and positive results.

Peace and the mercy and blessings of Allah be on you.

Abed Dayeh

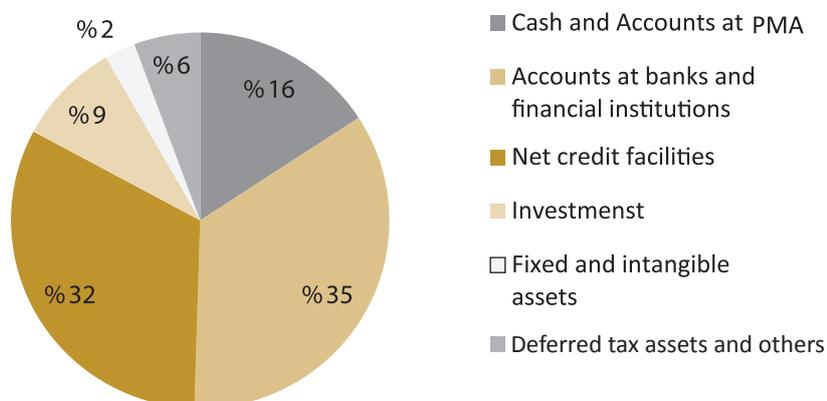
Chairman of the Board of Directors

ANALYSIS OF FINANCIAL POSITION AND ACHIEVEMENTS 2011

The bank's management continued to work to increase shareholders equity, maintain a balance between profitability and safe investment, avoid high-risk investments, provide necessary cash flow to face short or long-term financial commitments, as well as efficiently and effectively use available funds to support the bank's financial position and maintain growth of the revenue streams.

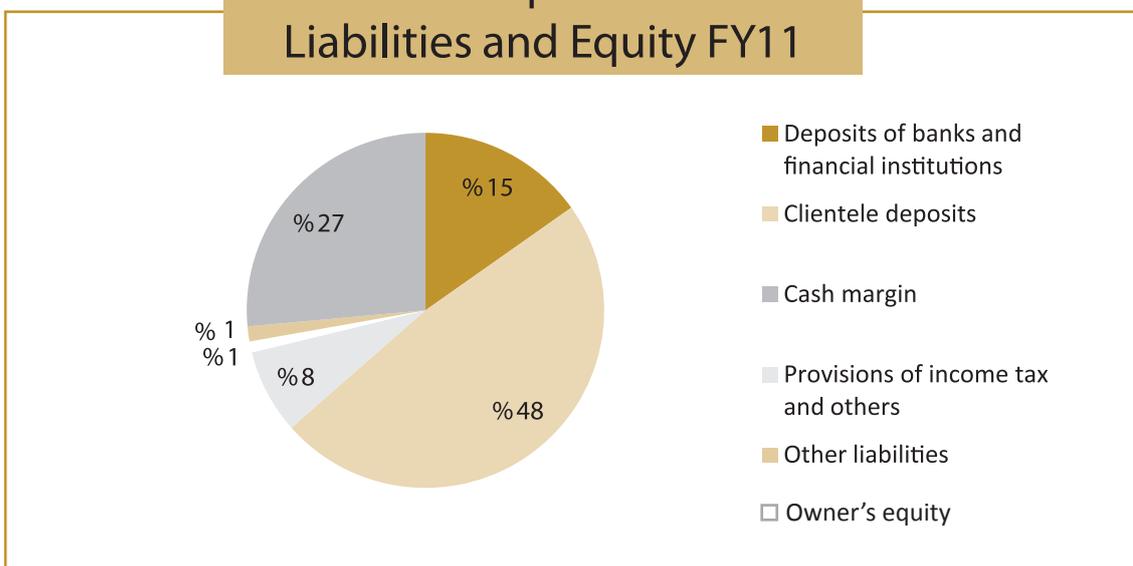
The relative importance of PIB Financial Position Elements				
	In thousands USD		%	
	2011	2010	2011	2010
Cash and Accounts at Monetary Authority	38,482	35,062	15.8%	13.3%
Accounts at banks and financial institutions	84,448	102,579	34.7%	38.8%
Net credit facilities	78,772	95,463	32.4%	36.1%
Investment	21,580	15,695	8.9%	5.9%
Fixed and intangible assets	6,431	6,534	2.6%	2.5%
Deferred tax assets and others	13,763	9,211	5.7%	3.5%
Total	243,476	264,544	100.0%	100.0%

The relative importance for PIB Assets FY11



Liabilities and Owner's Equity	In thousand USD		%	
	2011	2010	2011	2010
Deposits of banks and financial institutions	36,963	41,700	15.2%	15.8%
Clientele deposits	117,637	136,018	48.3%	51.4%
Cash margin	18,708	20,569	7.7%	7.8%
Provisions of income tax and others	2,444	2,255	1.0%	0.9%
Other liabilities	3,319	2,245	1.4%	0.8%
Owner's equity	64,405	61,757	26.5%	23.3%
Total Assets	243,476	264,544	100.0%	100.0%

The relative importance for PIB Liabilities and Equity FY11



Direct Credit Facilities

Under the supervision of the executive committee, the bank's management worked to develop the credit facilities portfolio by following a balanced credit policy in light of the changes to the interest rates and expected revenue of facilities, and following a study of market and credit risks and credit portfolio quality. The management also works to collect outstanding loans. The percentage of non-performing credit facilities to total facilities decreased compared to last year and remained within standard percentage. The bank continued to work on financing various economic sectors, financing individuals' sector along with small, medium and large enterprises, as well as the public sector, in order to continue to distribute risk and effectively manage money.

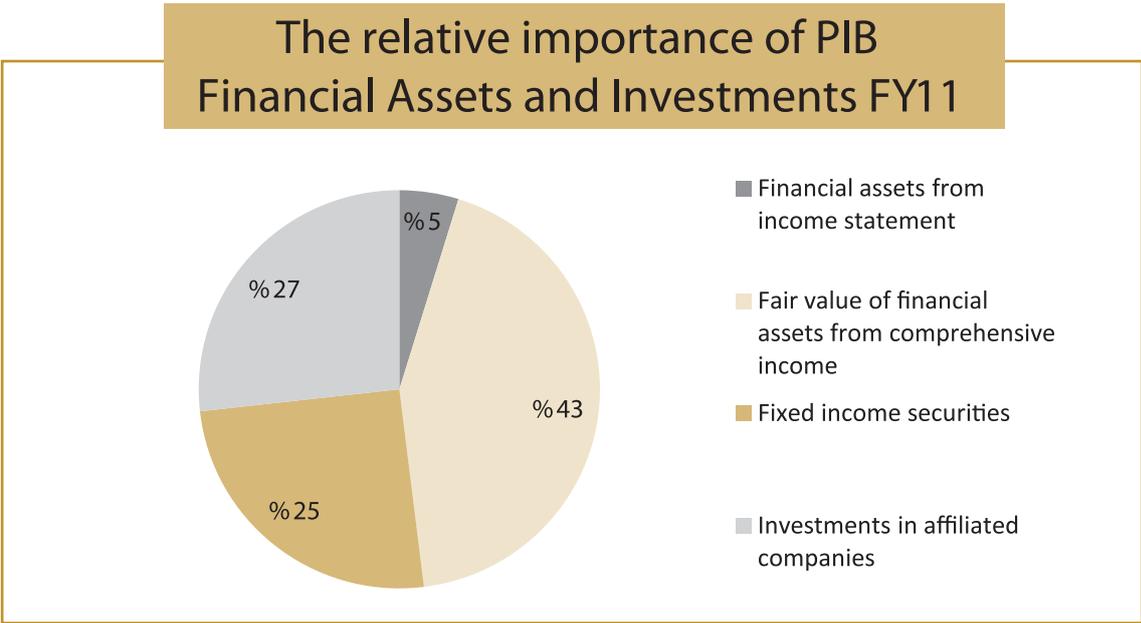
Allocating Impairment Loss on Direct Facilities

The bank’s management follows a clear policy to prepare for any expected loss and allocate an impairment loss on doubtful debts, individually and on the whole portfolio, in accordance to International Accounting Standards, the monetary authority, and recommendations of the bank’s auditors. To enhance the bank’s financial position, the percentage of allocated provisions for doubtful debts, based on a single client in the non-performing portfolio, after subtracting suspended interest and before accepting guarantees, reached 38% in 2011 compared to 25.04% in 2010. The fair value of accepted guarantees for credit facilities reached 64.344 million dollar in 2011 compared to 58.006 million dollar in 2010.

Financial Asset Portfolio

The bank’s portfolio increased by 5.885 million dollar in 2011, which is an increase of 37.5% compared to 2010. This is due to the advanced strategic policy to enhance the employment of bank assets in high-return financial tools.

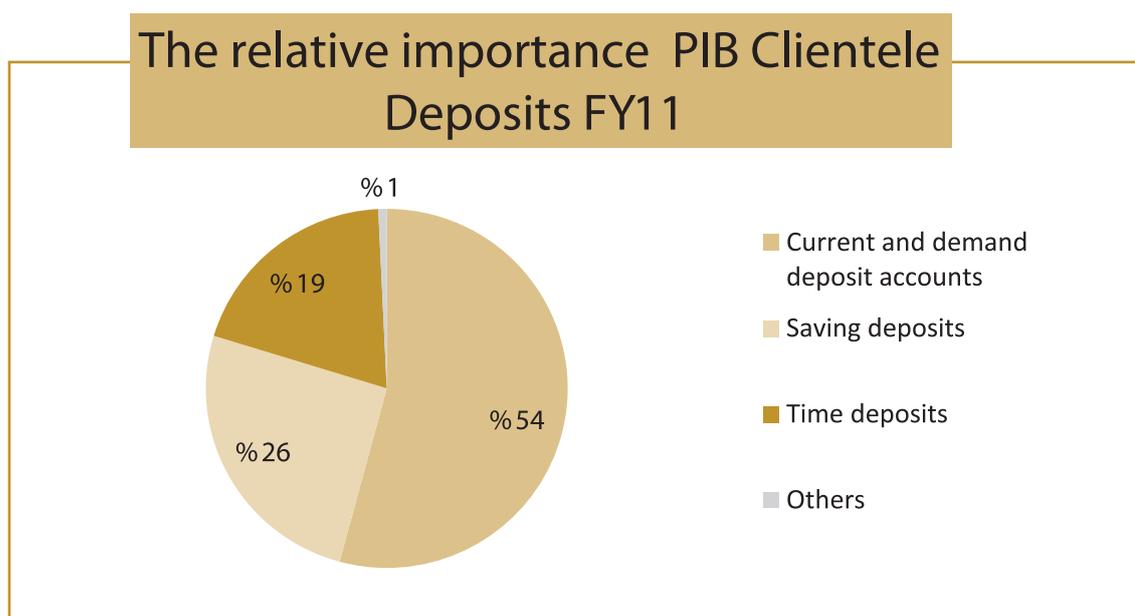
The relative importance of PIB Financial Assets and Investments				
	In thousand USD		%	
	2011	2010	2011	2010
Financial assets from income statement	1,028	419	4.8%	2.7%
Fair value of financial assets from comprehensive income	9,339	10,082	43.3%	64.2%
Fixed income securities	5,436	0	25.2%	0.0%
Investments in affiliated companies	5,777	5,194	26.8%	33.1%
Total	21,580	15,695	100.0%	100.0%



Client Deposits

The bank's management continued to work to attract fixed and less expensive deposits, and to develop a campaign for saving accounts to expand the depositors' base. The bank maintained its share of saving accounts and current deposits during the year despite heated competition with other banks.

The relative importance PIB Clientele Deposits				
	In thousand USD		%	
	2011	2010	2011	2010
Current and demand deposit accounts	63,760	62,964	54.2%	46.3%
Saving deposits	30,033	30,109	25.5%	22.1%
Time deposits	22,962	42,109	19.5%	31.0%
Others	882	837	0.7%	0.6%
Total Deposits	117,637	136,019	100.0%	100.0%



Owner's Equity – Shareholders

Shareholders' equity increased by 2.648 million, around 4.28% to reach 64.405 million dollars in 2011 compared to 61.757 million dollars in 2010. The mandatory cash reserve and the periodical fluctuations reserve were supported in ratios set by the internal system and auditing instructions. The distributed excess was used as retained earnings.

Capital Adequacy

Capital adequacy ratio reached 31.72% in 2011 compared to 27.25% in 2010, registering one of the highest ratios and is above the 12% required by the Palestine Monetary Authority. The bank's ratio was also higher than the 8% rate set by Basel (Bank for International Settlements). The ratio of the core capital to the risk-carrying assets reached 46.24% in 2011 compared to 40.72% in 2010.

Bank Business Results

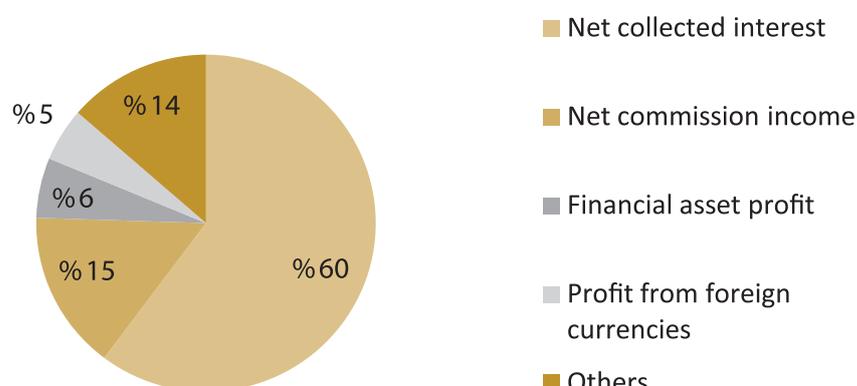
The total bank's income for 2011 was 12.891 million dollars compared to 12.174 million dollars in 2010. The net revenues of interest and commissions were 9.733 million dollars in 2011 compared to 10.548 million dollars in 2010.

Revenues before taxes and provisions reached 4.500 million dollars in 2011 while it reached 3.927 million dollars in 2010. After deducting the impairment loss allocated for facilitators, other provisions, and income tax, the net profit was 2.553 million dollars in 2011 compared to 0.790 million dollars in 2010, registering an increase of 223%.

Net Profit Before/After Provisions and Taxes			
	In thousand USD		
	2011	2010	% of change
Net profit before provisions and taxes	4,500	3,928	14.6%
Impairment loss for credit facilities	(1,474)	(1,868)	-21.1%
Net profit before taxes	3,026	2,060	46.9%
Income tax provisions	(473)	(1,270)	-62.8%
Net profit after tax	2,553	790	223.2%

Total revenues and its relative importance				
	In thousand USD		%	
	2011	2010	2011	2010
Net collected interest	7,765	7,859	60.2%	64.6%
Net commission income	1,968	2,690	15.3%	22.1%
Financial asset profit	742	669	5.8%	5.5%
Profit from foreign currencies	660	658	5.1%	5.4%
Others	1,756	299	13.6%	2.5%
Total	12,891	12,175	100.0%	100.0%

The relative importance of PIB revenues FY2011



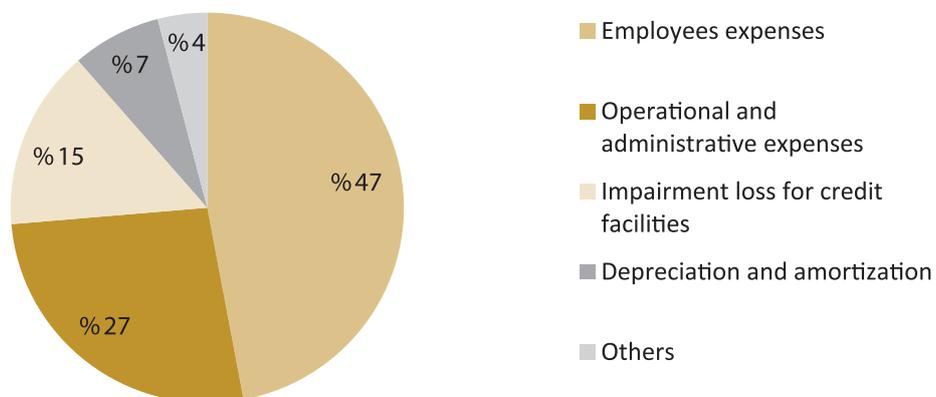
Expenses and Provisions

The total expenditure and provisions in 2011 reached 9.864 million dollars compared to 10.115 million dollars in 2010. Other operating expenses increased by around 292,000 dollars due to the increase in rent and fees of mail, phone, maintenance and permits. Depreciation increased by 312,000 dollars due to the continuous branching and development of automatic system.

Staff salaries and rewards amounted to 4.641 million dollars in 2011 compared to 3.888 million dollars in 2010, registering an increase of 753,000 dollars for new employees, the fifteenth month salary and other employee benefits.

Expenses and Provisions and Their relative importance				
	In thousand USD		%	
	2011	2010	2011	2010
Employees expenses	4,641	3,889	47.0%	38.4%
Operational and administrative expenses	2,625	2,333	26.6%	23.1%
Impairment loss for facilities	1,474	1,868	14.9%	18.5%
Depreciation and amortization	724	413	7.3%	4.1%
Others	401	1,612	4.1%	15.9%
Total	9,865	10,115	100.0%	100.0%

The relative importance of PIB expenses and provisions for FY 2011



Most Important Financial Ratios of FY2011 Compared To FY2010

	2011	2010
Return on Owner's equity	3.97%	1.28%
Return on Capital	4.82%	1.58%
Return on Assets	1.05%	0.03%
Deposits facilitates	57.78%	60.97%
Assets facilities	32.36%	36.09%
owner's equity to assets	26.46%	23.35%
Basic earning per share ratio	4.80%	1.50%

Internal Auditing, Internal Control Systems and Compliance to Regulations

The Palestine Investment Bank continues its efforts to enhance its supervision and internal control systems by increasing the internal audit staff and establishing a new department specialized in credit control. The aim is to measure the level of compliance of the various executive departments to banking regulations, all laws, regulations and administrative instructions. The bank's Internal Audit Department and the Asset Management Department conduct audits and periodic inventory to monitor the accuracy and integrity of the various banking operations; and to ensure their compliance with the relevant regulations through daily follow-ups of the Governance Department. Periodic reports and memos on the results of the auditing and follow-ups are regularly presented to the management.

Branches

The bank branches and offices underwent periodical maintenance during the year to preserve them and maintain proper interior and exterior appearance which meets the needs of the bank's clientele. The management expressed great interest in updating and equipping the branches and offices to keep pace with modern day technological advances that would offer convenience and overall services for clients, as well as respond to their wishes by providing comprehensive and unique banking services covering the main Palestinian regions.

In addition, numerous work and internal control systems have been updated and altered during the year to support operations of various branches and activities in order to improve productivity, raise service efficiency, optimize human resources, benefit from available technology, and cut the overall operating cost.

Technological Advances and Information Systems

The bank started to use the new system (BANKS) in conducting financial and banking operations since the beginning of 2011. Meanwhile, the Information Systems Department continued to develop the automation of several banking and investment services, and expand the communications field. This will expand the communication channels with clients to provide additional services that would streamline operations, facilitate dealing procedure, fulfill their needs and achieve a higher degree of satisfaction. The

bank management is keen to keep pace with the latest banking techniques and manuals as the bank implements a comprehensive plan to update the core banking system, as well as use the latest software and hardware technologies, including the internet and vast electronic services, which is provided by the bank and the bank's affiliated financial securities company.

Human Resources

The banks' staff is the prominent, key element to success and excellence. To preserve this element, the banks' management constantly works on developing the staffs' skills and abilities through necessary seminars and workshops on banking and investment activities in general, banking risks, and financial and credit analysis in particular. The seminars help the staff monitor and take note of the legal aspects governing banking operations in order to provide the best possible service to our clients and keep up with the recent developments in the banking industry.

The management worked in 2011 to attract employees with desirable skills, and granted bonuses according to employees' efforts. The management organized numerous activities and special programs for employees aiming to boost their loyalty and sense of belonging, based on its absolute conviction that the staff is the bank's human capital and one of the most important tools to achieve progress and success.

Foreign Banking Services and Various Treasury Activities

The banks' management endeavors in treasury activities, investment, financial intermediation services, and foreign currency exchange to invest and employ the bank financial resources, in various currencies, in the capital market's diverse, local and international tools in order to achieve reasonable financial returns within a calculated and conservative policy.

The Palestine Investment Bank continues to maintain its advanced position in the treasury services and banking services in traded foreign currencies. The bank issued wire transfers and checks, as well as bought and sold foreign currencies through a network of the bank's correspondences with international banks and monetary institutions across the world. In 2011 the bank's treasury achieved better results than what was achieved in 2010 in foreign currencies trading and cash surplus management, which significantly contributed to raising the overall revenues of the bank.

Subsidiaries

The bank's management is keen to provide new investment services in financial intermediation through its company Global Securities Co. (GSC). GSC provides services in buying and selling stocks, works as a commission broker in the Palestine Exchange, works as a financial advisor in securities investment, as well as works as a mediator buyer and seller of the portfolio. GSC also issues periodical reports on stocks of traded companies and provides them to traders, as well as allows traders access to their accounts on the company's website.

The Bank's Competitive Position

The Palestine Investment Bank's management worked in 2011 to improve its share in the financial market, particularly its share in the credit of various sectors.

Future Strategic Plan 2012

The year 2012 will witness the launch of several basic initiatives and projects to realize the bank's future vision in developing the level of services, products and operations to match the latest international banking methods and increase the bank's share in the financial market.

The bank will witness a renewed start in 2012 and will provide new services and products, as well as activate all applications of the new banking core system to excel in clients services, contribute to the Palestinian economic growth, enhance the bank's financial position, and develop the rights of its shareholders.

The 2012 strategic plan of the Palestine Investment Bank included the following,

- Achieve a consistent and accelerating growth in profitability, assets, and owner's equity; efficiently manage them to enhance the bank's financial position within the banking system in Palestine.
- Increase level of production efficiency and reduce non-profitable expenditure to increase revenues.
- Increase the bank's presence in the Palestinian communities by following calculated strategies to branch out, thus enhancing the bank's competitive abilities with other banks and creating banking products to meet the needs of these communities.
- Strengthening the marketing efforts of the bank's various branches and offices through organizing outstanding and motivating marketing campaigns to preserve existing clients by responding to their needs and desires, in addition to attract new clients to increase the bank's market share in various banking activities.
- Expand depositors' base and attract deposits in various currencies by offering reasonable interest rates and incentive rewards, along with achieving utmost use of these deposits in different available fields of investment.
- Continue to expand varieties in the corporate facilities portfolio and develop

new services and products in the personal/retail banking to fit with the lifestyle and desires of targeted clients.

- Enhance and distinguish the positive image of the bank's name and trademark among all groups of society and in the banking system through continuing to interact with the local community and support social, service, educational, and environmental projects.

Achieve a qualitative change in private and personal investment services of the clientele investment portfolios to keep pace with the global developments in the investment and financial markets for high returns.

- Update the bank's organizational structure to fit the global developments in the banking sector.
- Attend to the needs of the bank's staff and strive to raise their competence and efficiency; award the distinguished employees, promote spirit of team work, and attract special expertise for specific activities through a training plan for employees.
- Maintain high cash flow to face the demands of the bank's clients at any time.
- Work to increase the size of the bank's indirect facilities such as credits, guarantees, and banking services, like wire transfers, due to the great importance of the facilities in increasing the bank commission revenues.
- Develop and diversify the service performance to preserve the competitiveness with other banking institutions in Palestine through the use of banking technology to raise the bank's capacity.
- Reduce all sorts of risks by using a monitoring and risk self-assessment system.
- Work to achieve clientele satisfaction as one of the bank's core values.
- Increase the owner's equity and achieve revenue of around 10% for shareholders.

Corporate Governance

The bank is keen to work on developing and strengthening the corporate governance based on principles of transparency, accountability and responsibility to enhance the trust of depositors, shareholders and other relative parties in the bank, so as to insure a constant monitoring of the bank's compliance to policies and authorities which are in agreement with the bank's planned goals. The bank is also committed to impose the highest standards of professional conduct in all its activities in line with the Palestine Monetary Authority's instructions and best international practices.

The bank's Board of Directors has several specialized committees, each with specific goals and jurisdiction working hand in hand to achieve the bank goals. These committees are:

- **Investment and Facilities Committee**
- **Risk Committee**
- **Audit Committee**

The Board of Directors also established several General Management executive committees of senior bank executive employees in accordance to work demands and necessities. These committees are:

- **Credit Facilities Committee**
- **Human Resources Committee**
- **Supplies and Procurement Committee**
- **Asset and Liabilities Management Committee**

Mechanism for Communicating Information to Shareholders

The bank's management follows several communication mechanisms to deliver bank-related information to shareholders through publishing on the bank's website, the Palestine Exchange, and the Palestine Capital Market Authority, in addition to mailing the reports to shareholders, publishing in local newspapers, and announcing information in the bank's branches, offices and affiliated companies in the Palestinian cities and local communities.

Strategic Investors with Shares More Than 5%

Name	Numbers of shares in 31/12/2011	% of shares	Number of shares in 31/12/2010	% of shares
Abdul Qader al-Qadi	3,640,238	6.87%	3,434,187	6.87%
Abed Dayeh	3,824,217	7.22%	3,607,752	7.22%
Al-Shorooq Co. for Real Estate & Financial Investments	16,138,500	30.45%	15,225,000	30.45%
Al-Yazan Co. for Real Estate & Financial Investments	10,600,000	20.00%	10,000,000	20%

Shares Owned By Members of the Board of Directors

Name	Position	Number of shares in 31/12/2011	% of shares
Mr. Abed Dayeh	Chairman of Board of Directors	3,824,217	7.22%
Dr. Farouq Zuiater	Vice Chairman of Board of Directors	29,812	0.06%
Al-Yazan Co. for Real Estate & Financial Investments	Two members	10,600,000	20%
Salam International	Member	1,439,209	2.72%
Al-Shorooq Co. for Real Estate & Financial Investments	Two members	16,138,500	30.45%
Mr. Khalel Naser	Member	10,600	0.02%
Mr. Osama Khader	Member	21,200	0.04%
Mr. Sami Sayed	Member	13,250	0.03%
Mr. Jameel al-Muxti	Member	375,000	0.71%

Number of Shareholders

The number of the company's shareholders was 202 as of 31/12/2011 and 208 shareholders as of 31/12/2010

The company's share trading in the Palestine Exchange in 2011

Item	2011	2010
Highest price	1.15	1.30
Lowest price	0.84	0.90
Opening price	1.00	1.20
Closing price	0.97	1.00

Number of traded shares	Number of transactions	Value in dollars
2,026,265	224	2,149,291

Duties of the Board of Directors towards Shareholders and Corporate Governance:

During the year 2011, all recognized principles of governance were applied in the bank's various businesses and activities.

The Company's Corporate Social Responsibility Policy:

The bank continued to diversify its corporate social responsibility program out of its keenness to interact with the different activities of the Palestinian community by enhancing its role in the serving social development in Palestine. The bank adopted and sponsored various social, charitable, cultural and sports activities; funded students, associations, charities, and voluntary societies; as well as supported national programs with the best interest of Palestinians in heart.

Degrees Held by Members of the Board of Directors:

Two members hold PhD degrees

Four members hold Master's Degrees

Three members hold Bachelor degrees in different majors.

Board of Directors Remuneration:

Remuneration were paid to members of the Board of Directors in 2011 as detailed in the following table compared to 2010, noting that the directors did not receive any salaries or allowances during both years.

Name	2011 (dollars)	2010 (dollars)
Mr. Abed Dayeh	61,175	10,000
Dr. Farouq Zuiater	15,000	10,000
Mr. Jameel al-Muṭti	10,000	10,000
Dr. Adnan Steitieh	15,500	10,000
Mr. Sami Ismail Sayed	12,000	-
Mr. Mohammad Kmal Hassouneh	12,000	-
Mr. Kahleel Naser ^{1 *}	-	-
Mr. Rajai Dajani [*]	-	-
Mr. Osama Khader [*]	-	-
Mr. Ibrahim Abu Dayeh ^{2 **}	10,000	10,000
Mr. Hani al-Qadi ^{**}	25,000	77,000
Mr. Wael al-Qadi ^{**}	10,000	10,000
Mr. Abdul Bari Awashreh ^{**}	10,000	-
Mr. Omar al-Hajj Abed ^{3 ***}	10,000	10,000
Mr. Abdul Qader al-Qadi ^{4 ****}	-	80,000
Mr. Mahmoud Abu al-Rub ^{****}	-	10,000
Mr. samer al-Qadi ^{****}	-	10,000
Total	190,675	247,000

Number of Employees

The number of employees of the bank and its affiliated company amounted to 245 employees on 31/12/2011, whereas it was 230 employees on 31/12/2010.

Degrees Held by Bank Employees

16 employees hold Master's Degrees

154 employees hold Bachelor Degrees

27 employees hold Diploma qualifications

17 employees hold High School Degrees

20 employees hold qualifications under High School Degree.

Differences between Disclosed Financial Statements Dated 15/2/2012

There were no differences between the financial statements of 2011 disclosed in 15/2/2012.

There were differences only in the corrective terms in comparison to 2010 statements.

Issues Brought to Vote by Shareholders

The Board of Directors recommended distributing profit of bonus shares to shareholders of 6% of the registered capital.

* Member of Board of Directors starting 27/6/2011

** Member of Board of Directors starting 27/6/2011

*** Member of Board of Directors starting 27/11/2011

**** Member of Board of Directors starting 13/5/2010



Palestine Investment Bank
Consolidated Financial
Statements
December **31, 2011**

**Independent Auditors' Report to the Shareholders of
Palestine Investment Bank**

We have audited the accompanying consolidated financial statements of Palestine Investment Bank (the Bank) which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate for 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 consolidated financial statements.

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

Opinion

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

Other matters

The consolidated financial statements of the Bank as at December 31, 2010, were audited by other auditors whose report dated May 31, 2011, expressed an unqualified opinion on those consolidated financial statements, before the restatement shown in note 40 to the consolidated financial statements.

March 27, 2012
Ramallah – Palestine

Palestine Investment Bank

Consolidated Statement of Financial Position

As at December 31, 2011

		2011	2010 (Restated)	January 1, 2010 (Restated)
	Notes	U.S. \$	U.S. \$	U.S. \$
ASSETS				
Cash and balances at Palestine Monetary Authority	3	38,481,528	35,062,279	49,898,170
Balances at Banks and financial institutions	4	84,448,263	102,579,328	91,398,204
Direct credit facilities	5	78,771,670	95,463,305	81,098,530
Financial assets through profit or loss		1,027,849	418,657	809,690
Financial assets at fair value through other comprehensive income	6	9,339,436	10,081,957	10,509,910
Investment in associate	7	5,435,301	5,194,313	1,552,500
Financial assets at amortized cost	8	5,777,383	-	-
Property, plant and equipment	9	5,368,856	5,479,666	4,120,159
Deferred tax assets	10	959,699	959,699	936,536
Intangible assets	11	1,062,295	1,053,887	-
Other assets	12	12,802,851	8,251,748	4,974,097
Total Assets		243,475,131	264,544,839	245,297,796
LIABILITIES AND EQUITY				
Liabilities				
Banks and financial institutions' deposits	13	36,963,459	41,700,178	49,011,479
Customers' deposits	14	117,637,453	136,018,695	112,899,089
Cash margins	15	18,708,406	20,569,415	18,303,107
Sundry provisions	16	1,751,384	1,463,175	1,365,655
Tax provisions	17	692,593	790,756	1,287,756
Other liabilities	18	3,316,807	2,244,838	1,672,096
Total Liabilities		179,070,102	202,787,057	184,539,182

Equity attributable to the Bank's shareholders				
Paid in share capital	20	53,000,000	50,000,000	40,000,000
Statutory reserve	19	6,881,214	6,607,501	6,450,548
Voluntary reserve	19	670,458	3,670,458	10,342,362
General Banking risks reserve	19	1,605,000	1,605,000	1,375,000
Pro-cyclicality reserve	19	601,142	242,024	-
Cumulative change in fair value		(1,391,246)	(1,485,509)	(1,694,995)
Retained earnings		3,038,461	1,118,308	4,285,699
Net Equity		64,405,029	61,757,782	60,758,614
Total Liabilities and Equity		243,475,131	264,544,839	245,297,796

Palestine Investment Bank
Consolidated Income Statement
For the year ended December 31, 2011

		2011	2010 (Restated)
	Notes	U.S. \$	U.S. \$
Interest income	21	9,209,107	9,118,099
Interest expense	22	(1,444,239)	(1,259,081)
Net interest income		7,764,868	7,859,018
Net commission income	23	2,170,244	2,689,967
Net interest and commission income		9,935,112	10,548,985
Foreign currency gains		659,879	657,138
Dividends income		741,725	669,476
Bank's share of associate gains	7	240,988	-
Gains on disposal of property, plant and equipment		-	47,973
Recoveries of impaired credit facilities	5	1,129,168	-
Other income	24	184,199	251,207
Gross profit		12,891,071	12,174,779
Expenses			
Personnel expenses	25	4,641,367	3,888,930
Other operating expenses	26	2,625,129	2,333,264
Credit facilities impairment losses	5	1,474,230	1,867,909
Bank's share of associate losses	7	-	958,187
Depreciation and amortization		724,159	412,599
Provision for legal cases	27	247,313	12,052
Other losses		152,610	642,273
Total expenses		9,864,808	10,115,214
Profit before tax		3,026,263	2,059,565
Tax expense	17	(473,279)	(1,269,883)
Profit for the year		2,552,984	789,682
Basic and diluted earnings per share	29	0.048	0.015

Palestine Investment Bank

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2011

	2011	2010 (Restated)
	U.S. \$	U.S. \$
Profit for the year	2,552,984	789,682
Change in fair value reserve for financial assets at fair value through other comprehensive income	94,263	209,486
Other comprehensive income	94,263	209,486
Total comprehensive income for the year	2,647,247	999,168

Consolidated Statement of Changes in Equity

For the year ended December 31, 2011

	Paid in share capital	Reserves				Accumulated changes in fair value	Retained Earnings	Net Equity
		Statutory	Voluntary	General Banking risks	Pro-cyclicality			
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	
		2011						
At January 1, 2011	50,000,000	6,607,501	3,670,458	1,605,000	242,024	(1,485,509)	1,118,308	61,757,782
Profit for the year	-	-	-	-	-	-	2,552,984	2,552,984
Other comprehensive income for the year	-	-	-	-	-	94,263	-	94,263
Total comprehensive income for the year	-	-	-	-	-	94,263	2,552,984	2,647,247
Transferred to capital (Note 20)	3,000,000	-	(3,000,000)	-	-	-	-	-
Transferred to reserves	-	273,713	-	-	359,118	-	(632,831)	-
At December 31, 2011	53,000,000	6,881,214	670,458	1,605,000	601,142	(1,391,246)	3,038,461	64,405,029
		2010						
At January 1, 2010 – before restatement	40,000,000	6,450,548	10,342,362	1,375,000	-	(1,694,995)	4,608,418	61,081,333
Restatement (Note 40)	-	-	-	-	-	-	(322,719)	(322,719)
Balance at January 1, 2010 – restated	40,000,000	6,450,548	10,342,362	1,375,000	-	(1,694,995)	4,285,699	60,758,614
Profit for the year	-	-	-	-	-	-	789,682	789,682
Other comprehensive income for the year	-	-	-	-	-	209,486	-	209,486
Total comprehensive income for the year	-	-	-	-	-	209,486	789,682	999,168
Transferred to reserves	-	156,953	-	230,000	242,024	-	(628,977)	-
Transferred to capital	10,000,000	-	(6,671,904)	-	-	-	(3,328,096)	-
At December 31, 2010 (restated)	50,000,000	6,607,501	3,670,458	1,605,000	242,024	(1,485,509)	1,118,308	61,757,782

Palestine Investment Bank

Consolidated Statement of Cash Flows

For the year ended December 31, 2011

		2011	2010
	Notes	U.S. \$	U.S. \$
Operating activities			
Profit before tax		3,026,263	2,059,565
Adjustments for:			
Provision of impairment loss on direct credit facilities		1,474,230	1,867,909
Depreciation and amortization		724,159	412,599
Losses on financial assets through profit or loss		112,092	147,742
Losses (gains) on disposal of financial assets at fair value through other comprehensive income		40,285	(71,092)
Recovery of impairment loss on direct credit facilities		(1,129,168)	-
Bank's share of associate (gains) losses		(240,988)	958,187
Gains on disposal of property, plant and equipment		-	(47,973)
Sundry provisions		439,416	516,929
Recovery of impairment loss on financial assets		-	(136,834)
		4,446,289	5,707,032
Changes in assets and liabilities:			
Direct credit facilities		16,346,573	(16,232,684)
Statutory cash reserve at PMA		1,761,700	(2,257,612)
Other assets		(4,555,419)	(2,837,776)
Customers' deposits		(18,381,242)	23,119,606
Cash margins		(1,861,009)	2,266,308
Other liabilities		1,071,969	572,741
Net cash (used in) from operating activities before provisions and tax payments		(1,171,139)	10,337,615
Sundry provisions paid		(151,207)	(419,409)
Taxes paid		(571,442)	(1,790,046)
Net cash (used in) from operating activities		(1,893,788)	8,128,160
Investing activities:			
Proceeds from sale of financial assets at fair value through other comprehensive income		796,499	1,088,656
Proceeds from sale of financial assets through profit or loss		179,661	-
Purchase of financial assets through profit or loss		(900,945)	-
Purchase of financial assets at amortized cost		(5,777,383)	-
Investment in associate		-	(4,600,000)
Purchase of property, plant and equipment		(498,368)	(2,225,396)
Proceeds from sale of property, plant and equipment		-	61,389
Purchase of intangible assets		(119,073)	(1,053,887)
Net cash used in investing activities		(6,319,609)	(6,729,238)
Net (decrease) increase in cash and cash equivalents		(8,213,397)	1,398,922
Cash and cash equivalents, beginning of year		81,744,164	80,345,242
Cash and cash equivalents, end of year	28	73,530,767	81,744,164

Palestine Investment Bank

Notes to the Consolidated Financial Statements

December 31, 2011

1. General

Palestine Investment Bank (the Bank) was founded on August 10, 1994 as a public shareholding company located in Gaza – Palestine under the companies' law of 1929 "effective in Gaza Strip" and registered under registration number 563200864, with a capital of U.S. \$ 20 million which was increased during the years from 2006 to 2011 to become U.S. \$ 53 million par value of U.S. 1 dollar per share. The Bank started its activities in March 1995. The Bank is carrying out all of its Banking and financial activities through its Head Quarter in Al-Bireh, and its eight branches and five offices located in Palestine.

The Bank aims to offer all Banking services, these services includes opening of current accounts and credits and the acceptance of deposits, trusteeships, and lending money.

The number of Bank employees as at 31 December 2011 and 2010 was (234) and (219) employees, respectively.

The Consolidated financial statements of Palestine Investment Bank for the year ended December 31, 2011 were authorized for issuance by the Bank's Board of Directors on March 27, 2012.

2.1 Basis of preparation

The accompanying consolidated financial statements as at 31 December 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with local laws and Palestine Monetary Authority (PMA) laws and regulations.

The consolidated financial statements have been prepared under the historical cost basis, except for financial assets through profit or loss and financial assets at fair value through other comprehensive income that have been measured at fair value.

The consolidated financial statements have been presented in U.S. Dollars, which is the functional currency of the Bank.

2.2 Changes in accounting polices

The accounting policies adopted are consistent with those used in the previous year except that the Bank has adopted the following new and amended IFRS:

IAS 24 – Related Party Disclosures (Amendment)

IFRS 9 – Financial Instruments During the current period the Banks early adopted IFRS 9. The Bank has chosen January 1, 2011 as the date for the early adoption (the date on which the Bank assessed its existing financial assets). This standard is applied retroactively to existing financial assets as at December 31, 2010 in line with IFRS 9; the Bank elected not to restate the comparative figures for prior periods.

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

Debt instruments are measured at amortized cost only if:

- A. The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and
- B. The contractual terms of the financial asset give rise on specified dates to cash flows constituting solely payments of principal and interest on the principal amount outstanding.

If either of the two criteria is not met the financial instrument is classified as at fair value through profit or loss (FVTPL). Additionally, even if the asset meets amortized cost criteria the Bank may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. In the current period, The Bank has not elected to designate any debt instruments meeting the amortized cost criteria as at FVTPL.

Only financial assets that are classified as measured at amortized cost are tested for impairment.

Investments in equity instruments are classified and measured as at FVTPL except if the equity investment is not held for trading and is designated by the Bank as at fair value through other comprehensive income (FVTOCI). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income which is recognized in accordance with IAS 18 (Revenue), are recognized in other comprehensive income and are not subsequently reclassified to profit or loss.

The Bank has reviewed and assessed all of its existing financial assets as at the date of initial application of IFRS 9. As a result:

- Equity instruments measured at fair value through statement of comprehensive income.

- Debt instruments that meet the amortized cost criteria were designated at amortized cost.

The reclassification of financial assets on initial application of IFRS 9 didn't change either the measurement basis and/or the policy for the recognition of gains or losses for investments in equity instruments that were previously measured at fair value and classified as financial assets at fair value through other comprehensive income. These instruments are reclassified as equity instruments designated as at FVTOCI.

The Bank early adoption of IFRS No. 9 is considered compulsory on the Bank cannot be undone.

The following standards have been issued but are not yet mandatory, and have not been adopted by the Bank:

IFRS 10 Consolidated Financial Statements (applicable to annual reporting periods beginning on or after 1 January 2013.)

IFRS 11 Joint Arrangements (applicable to annual reporting periods beginning on or after 1 January 2013.)

IFRS 12 Disclosure of Involvement with Other Entities (applicable to annual reporting periods beginning on or after 1 January 2013.)

IFRS 13 Fair Value Measurement *

- * IFRS 13 provides the guidance on the measurement of fair value, in accordance with the International Financial Reporting Standards in the event of being compulsory or permitted. The Bank is currently studying of the impact of this standard on the Bank's performance and its financial status in the event of its application. This standard will become effective to annual reporting periods beginning on or after 1 January 2013.

2.3 Summary of Significant Accounting Policies

Consolidated financial statements

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiary over which the Bank has the power to control the financial and operating policies of so as to obtain benefits from its activities. All transactions, balances, income and expenses between the Bank and its subsidiary and are eliminated. The accompanying consolidated financial statements contains the assets and liabilities and results operations of the Bank and the Global Securities Company for Financial Investment privately Ltd (subsidiary company), owned by the Bank.

On December 5, 1996 the subsidiary company headquartered in the city of Nablus, was

registered as a private shareholding limited liability, and began its operations in January of 1998. Its capital amounted to JD 2,500,000 as at 31 December 31, 2011.

The consolidated financial statements for the subsidiary company are prepared for the same fiscal year of the Bank and by using the same accounting policies used in the Bank.

The results of operations of the subsidiary are consolidated in the consolidated income statement for the date of acquisition which is the date in which the actual transfer of control of the Bank over the subsidiary company, and the results of operations of the company that has been disposed of are consolidated in the consolidated income statement until the date of disposal, the date on which the Bank loses control over the subsidiary.

Revenues and expenses recognition

Interest income is recognized as the interest accrues using the effective interest method except for interest and commission income on non-performing facilities.

Commission income is recognized when the services are rendered. Dividends income is recognized when the right to receive dividends is established.

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

Credit facilities

Credit facilities are presented net of allowance for impairment losses and interest in suspense.

Allowance for impairment losses is made 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 an impact on the estimated future cash flows of the facilities that can be reliably estimated. Impairment losses are recognized in the consolidated income statement.

Credit facilities and related allowance are written off when collection procedures become ineffective according to PMA regulations. The excess in the allowance for impairment losses, if any, is transferred to the consolidated income statement. Collections of previously written off credit facilities are recognized as revenues.

According to PMA instructions, non-performing direct credit facilities defaulted for more than 6 years along with the related suspended interest, and allowances are excluded from the Bank's consolidated financial statements.

Investment in financial assets

Purchases and sales of financial assets are recognized on the trade date, (which is the date that the Bank commits to purchase or sell the financial assets). The normal pur-

chases and sales of financial assets are those in which the transfer of financial assets during the period determined in accordance with the laws or as is customary in the market systems. Financial assets are recognized at fair value at purchase, and the expenses of acquisition is directly added to them, except for financial assets at fair value through comprehensive income and that are recorded initially at fair value. And subsequently all financial assets are recorded at either amortized cost or fair value.

Financial assets at amortized cost and the effective interest method

A debt instrument that meets the following two conditions can be measured at amortized cost:

- Business model test: The objective of the entity's business model is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes).
- Cash flow characteristics test: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Debts instruments meeting these criteria are initially measured at fair value plus transaction costs (Except if the bank chose to classify these assets through profit or loss as explained below). Subsequently they are amortized using the effective interest rate method, less allowance for impairment. The losses arising from impairment are recognized in the income statement.

The Bank reclassification of debt instruments from amortized cost to financial assets at fair value through income statement if the objective of the business model changes for the recognition of initial and therefore the amortized cost method can not be suitable.

The effective interest rate is the interest rate that is used to discount future cash flows on the life of the debt instruments, or a shorter period in certain cases, to equal the book value at the date of initial recognition.

For the initial recognition the Bank could classify debt Instruments met the amortized conditions mentioned above as financial assets at fair value through income statement if that led to eliminate or significantly reduce the accounting mismatch.

The Bank can not later undo this classification.

Financial assets at fair value through profit or loss

These financial assets are debt instruments or financial instruments that do not meet the conditions of amortized cost, but the Bank elected to classify them at fair value through profit or loss at their initial recognition and measured them at fair value.

The Bank did not classify any debt Instruments met the amortized cost conditions as financial assets at fair value through profit or loss.

Subsequent to initial recognition, the Bank has to reclassify debt instruments classified at fair value through profit or loss to debt instruments at amortized cost. When the purpose of the business model changes the amortized cost conditions start to come into effect. The Bank is not entitled to reclassify debt instruments classified at their initial recognition as debt instruments at fair value through profit or loss.

The Bank at their initial recognition of equity instruments classified them as financial assets at fair value through profit or loss except for investments held for purposes other than trading purposes, where as these assets are classified at fair value through other comprehensive income.

Financial assets at fair value through profit or loss are measured at fair value and any gain or loss resulting from changes in fair value of financial assets through profit or loss are recognized in the consolidated income statement.

Dividends income from these investments is recognized as revenue in the consolidated income statement upon obtaining the right to receive it.

Derecognition of financial assets

The financial assets are derecognized when the rights to receive cash flows from the asset have expired, the Bank has transferred its rights to receive cash flows from the asset; and either the Bank has transferred substantially all the risks and rewards of the asset or the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. When the Bank has transferred its rights to receive cash flows from an asset, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if there is a currently enforceable legal right to offset the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets (except for land) as follows:

	Years
Buildings	50
Furniture and equipment	6-17
Computers	5 - 10
Leasehold improvements	5
Motor vehicles	7

The useful lives of the property, plant and equipment are reviewed at the end of each financial year; changes in the expected useful life are treated as changes in accounting estimates and reflected in subsequent years.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use. Impairment in property and equipment is recognized in the consolidated income statement.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditures are capitalized only when they increase future economic benefits of the related item of property and equipment. All other expenditures are recognized in the consolidated income statement as the expense is incurred.

Investment in associate

The Bank’s investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Bank has significant influence. Under the equity method, the investment in the associate is carried on the consolidated statement of financial position at cost plus post acquisition changes in the Bank’s share of the associates net assets. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment. The consolidated financial statements of the associate are prepared for the same reporting period as the Bank. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

Assets obtained by the Bank by calling on collateral

Assets obtained by the Bank by calling on collateral are stated in the consolidated statement of financial position under "Other assets" at the lower of the carrying value or fair value. These assets are revaluated individually at the date of the consolidated financial statements at fair value. Any impairment loss is recorded in the consolidated income statement. However, any appreciation in the assets' value is not recorded as income. Subsequently, the increase resulting from the appreciation of the assets value is recorded in the consolidated income statement to the extent of the impairment loss previously recorded.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and can be reliably measured.

Tax provision

The Bank provides for income tax in accordance with Palestinian Income Tax Law and IAS 12 which requires recognizing the temporary differences, at the consolidated statement of financial position date, as deferred taxes.

Income tax expense is calculated on the basis of taxable income. Taxable income differs from the accounting income declared in the consolidated 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 consolidated 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 consolidated statement of financial position date.

Provision for employees' indemnity

Provision for employees' indemnity is calculated in accordance with the Bank's by-laws and the labor law prevailing in Palestine.

Employees Provident Fund

- The Bank contributes 10% of basic salary for the employees and the employees contribute 5% of the basis salary for the benefit of Provident Fund. A committee of the Bank staff manages the fund separately from the Bank accounts.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances at Palestine Monetary Authority, balances with Banks and financial institutions maturing within three months, less Banks and financial institutions' deposits maturing within three months and restricted deposits.

Segments information

A segment is a distinguished component of the Bank that is engaged either in providing products and/or services (business segment) or in providing products and/or services within a particular economic environment (geographic segment) which is subject to risks and rewards that are different from those of other segments.

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 exchange rate ruling at the consolidated statement of financial position date.
- 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 consolidated income statement.

Use of estimates

The preparation of consolidated 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 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: The Bank reviews its provision for credit facilities according to Palestine Monetary Authority regulations and IAS 39.
- Tax provisions are calculated based on prevailing tax laws and regulations in Palestine and IFRS.

- Management reviews, on a regular basis, the useful lives of the property, plant and equipments in order to assess the depreciation for the year based on the asset's condition, useful life and future economic benefits. Any impairment loss is recognized in the consolidated income statement.
- Lawsuits provision is established to provide for any legal obligation, if any, based on the opinion of the Bank's lawyer.

3. Cash and balances at Palestine Monetary Authority

- This item represents the followings:

	December	December	January 1,
	31, 2011	31, 2010	2010
	U.S. \$	U.S. \$	U.S. \$
Cash on hand	19,372,081	18,826,822	36,074,060
Balances at PMA:			
Current and demand accounts	6,673,882	2,038,192	1,884,457
Statutory cash reserve	12,435,565	14,197,265	11,939,653
	38,481,528	35,062,279	49,898,170

According to PMA Circular (67/2010), the Bank shall maintain statutory cash reserves with PMA at 9% on total customers' deposits. Statutory cash reserve and current accounts with PMA are non-interest bearing accounts.

4. Balances at banks and financial institutions

This item represents the followings:

	December	December 31,	January 1,
	31, 2011	2010	2010
	U.S. \$	U.S. \$	U.S. \$
Local banks and financial institutions			
Current accounts	11,788,230	14,652,355	11,434,114
Deposits maturing within 3 months	37,769,394	13,000,000	17,606,126
	49,557,624	27,652,355	29,040,240
Foreign banks and financial institutions			
Current accounts	8,385,035	31,149,212	28,646,563
Deposits maturing within 3 months	26,505,604	39,269,137	30,711,401
Deposits maturing after 3 months	-	4,508,624	3,000,000
	34,890,639	74,926,973	62,357,964
	84,448,263	102,579,328	91,398,204

- Non-interest bearing balances at Banks and financial institutions amounted to U.S. \$ 20,173,265 and U.S. \$ 45,801,567 as at December 31, 2011 and 2010, respectively.
- There is no restricted balance as at December 31, 2011.

5. Direct credit facilities

This item represents the followings:

	December 31, 2011	December 31, 2010	January 1, 2010
	U.S. \$	U.S. \$	U.S. \$
Individuals			
Loans and discounted bills	25,585,871	22,364,122	16,291,141
Overdraft accounts	14,929,437	24,121,920	18,452,419
Others	-	21,424	21,424
Corporate			
Loans and discounted bills	15,471,556	15,924,570	4,044,458
Overdraft accounts	12,374,526	14,256,231	10,978,603
Real estate loans	-	-	440,299
Government and public sector	13,489,690	21,494,457	31,787,122
	81,851,080	98,182,724	82,015,466
Suspended interest and commission	(260,434)	(100,173)	(141,241)
Allowance for impairment losses	(2,818,976)	(2,619,246)	(775,695)
	78,771,670	95,463,305	81,098,530

- Downgraded credit facilities, net of suspended interest according to PMA regulations, amounted to U.S. \$ 9,122,932 and U.S. \$ 10,904,559 as at December 31, 2011 and 2010, respectively. Representing (11.1%) of total direct credit facilities net of suspended interest as at December 31, 2011 and 2010, respectively.
- Non-performing direct credit facilities net of suspended interest according to PMA regulations amounted to U.S. \$ 7,677,361 and U.S. \$ 10,568,708 as at December 31, 2011 and 2010, respectively. Representing (9.4%) and (10.8%) of total direct credit facilities net of suspended interest as at December 31, 2011 and 2010, respectively.
- Credit facilities granted to Palestinian National Authority and by its guarantee amounted to U.S. \$ 13,489,690, representing (16.5%) of total direct credit facilities as at December 31, 2011 compared to U.S. \$ 21,494,457 representing (21.9%) of total direct credit facilities as at December 31, 2010.

- Credit facilities granted to non-residents amounted to U.S. \$ 7,520,445 and U.S. \$ 836,341 as at December 31, 2011 and 2010, respectively.
- Fair value of collaterals obtained in lieu of credit facilities, amounted to U.S. \$ 64,344,567 and U.S. \$ 58,006,652 as at December 31, 2011 and 2010, respectively.

Suspended interest

The movement on the suspended interest during the year is as follows:

	December	December
	31, 2011	31, 2010
	U.S. \$	U.S. \$
Balance, beginning of year	100,173	141,241
Suspended interest during the year	173,189	70,646
Suspended interest transferred to revenues	(9,413)	(94,958)
Write off of suspended interest	-	(13,797)
Write off of suspended interest of loans defaulted for more than 6 years	(3,515)	(2,959)
Balance, end of year	260,434	100,173

Allowance for impairment losses

The movement on the allowance for impairment losses during the year is as follows:

	December 31, 2011	December 31, 2010
	U.S. \$	U.S. \$
Balance, beginning of year	2,619,246	775,695
Provision for the year	1,474,230	1,867,909
Recovery during the year	(1,129,168)	-
Written off	-	(31,574)
Foreign currency difference	(145,332)	7,216
Balance, end of year	2,818,976	2,619,246

Following is the movement on the allowance for impairment losses of loans defaulted for more than 6 years:

	December 31, 2011	December 31, 2010
	U.S. \$	U.S. \$
Balance, beginning of year	1,657,717	1,650,448
Recovery during the year	(12,660)	-
Foreign currency difference	(30,186)	7,269
Balance, end of year	1,614,871	1,657,717

Following is the distribution of credit facilities net of suspended interest by economic sector:

	December 31, 2011 U.S. \$	December 31, 2010 U.S. \$
Manufacturing and Mining		
Manufacturing	4,136,677	7,884,499
	4,136,677	7,884,499
Tourism, Restaurants, Hotels and Others		
Restaurants	567,033	1,530,102
	567,033	1,530,102
Public Sector		
Communications	222,623	-
Health	125,556	-
Education	13,029	-
Public utility	2,653,319	3,054,381
Professionals	3,218,271	3,388,015
Others	3,009,814	3,027,034
	9,242,612	9,469,430
Agriculture		
Agriculture	1,528,851	-
Livestock	252,154	-
	1,781,005	-
General Trade		
Internal trade	10,521,764	10,802,486
Foreign trade	3,922,381	5,078,552
	14,444,145	15,881,038
Real Estate Development		
Construction	8,361,237	9,307,390
Residence	5,858,792	4,561,801
Land for investment	-	2,021,431
Property	6,512,740	12,524,873
	20,732,769	28,415,495
Transportation		
Trade and shipping	29,505	-
	29,505	-
Consumer Goods Financing		
Others	3,345,913	910,910
	3,345,913	910,910

Investment in Shares and Financial Instruments Financing		
Financial companies	1,673,923	-
Others	9,120,318	12,496,628
	10,794,241	12,496,628
Other in the Private Sector	3,027,056	-
Public Sector		
Palestinian National Authority	13,489,690	21,489,381
Palestinian Local Authorities	-	5,068
	13,489,690	21,494,449
	81,590,646	98,082,551

6. Financial assets at fair value through other comprehensive income

	December 31, 2011			December 31, 2010			January 1, 2010
	Local	Foreign	Total	Local	Foreign	Total	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Quoted financial instruments traded in financial markets	9,316,508	-	9,316,508	9,724,464	334,565	10,059,029	10,490,693
Unquoted financial instruments*	22,928	-	22,928	22,928	-	22,928	19,217
	9,339,436	-	9,339,436	9,747,392	334,565	10,081,957	10,509,910

* The Bank's management believes that the fair values of such investments are not materially different from their carrying amounts.

Following is the movement on the cumulative change in fair value during the year:

	December 31, 2011	December 31, 2010
	U.S. \$	U.S. \$
Balance, beginning of year	(1,485,509)	(1,694,995)
Unrealized gains	94,263	209,486
Balance, end of year	(1,391,246)	(1,485,509)

7. Investments in associates

This item represents the Bank's investment at El-Shorouq company for Financial and Real Estate Investments, for which the Bank holds for 33.06% of its shares as at 31 December 2011 (compared to 25.8% as at 31 December 2010).

	December 31, 2011	December 31, 2010
	U.S. \$	U.S. \$
Bank's share of the associate's assets and liabilities		
Non-current assets	6,978,166	5,727,224
Current assets	1,937,130	81,932
Non-current liabilities	(2,411,076)	(804,927)
Current liabilities	(1,416,876)	-
Bank's share of the associates revenue, profit and loss		
Revenues	372,845	1,370,876
Profit (loss)	240,988	(958,187)

Following is the movement on the investments in associates account during the years ended December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
	U.S. \$	U.S. \$
Balance, beginning of year	5,194,313	1,552,500
Additions during the year	-	4,600,000
Bank's share of the associates profit (loss)	240,988	(958,187)
Balance, end of year	5,435,301	5,194,313

8. Financial assets at amortized cost

	December 31, 2011
	U.S. \$
Foreign government bonds*	4,777,383
Quoted bonds traded in foreign financial markets**	1,000,000
Total	5,777,383

* This item represents the Bank's Investment in bonds issued by the Central Bank of Jordan.

** This item represents the Bank's investment in bonds issued by the Gazprom Russian Company.

9. Property, plant and equipment

	Land	Buildings and real estate	Furniture and equipments	Computer hardware	Leasehold improvement	Motor vehicles	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
2011							
Cost:							
At January 1, 2011	1,989,749	977,990	2,070,799	2,610,175	950,872	204,451	8,804,036
Additions	-	-	263,531	170,072	64,765	-	498,368
Disposals	-	-	(11,121)	(87,609)	(56)	-	(98,786)
At December 31, 2011	1,989,749	977,990	2,323,209	2,692,638	1,015,581	204,451	9,203,618
Accumulated depreciation:							
At January 1, 2011	-	14,874	1,194,427	1,365,431	625,758	123,880	3,324,370
Depreciation charge for the year	-	19,560	152,555	359,043	46,207	30,669	608,034
Disposals	-	-	(10,005)	(87,609)	(28)	-	(97,642)
At December 31, 2011	-	34,434	1,336,977	1,636,865	671,937	154,549	3,834,762
Net book value	1,989,749	943,556	986,232	1,055,773	343,644	49,902	5,368,856

	Land	Buildings and real estate	Furniture and equipments	Computer hardware	Leasehold improvement	Motor vehicles	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
2010							
Cost:							
At January 1, 2010	1,989,749	126,586	1,723,413	1,767,691	816,236	196,451	6,620,126
Additions	-	851,404	349,818	850,538	134,636	39,000	2,225,396
Disposals	-	-	(2,432)	(8,054)	-	(31,000)	(41,486)
At December 31, 2010	1,989,749	977,990	2,070,799	2,610,175	950,872	204,451	8,804,036

Accumulated depreciation:							
At January 1, 2010	-	10,897	1,067,936	1,161,545	587,386	117,538	2,945,302
Depreciation charge for the year	-	3,977	126,836	205,261	38,372	32,692	407,138
Disposals	-	-	(345)	(1,375)	-	(26,350)	(28,070)
At December 31, 2010	-	14,874	1,194,427	1,365,431	625,758	123,880	3,324,370
Net book value	1,989,749	963,116	876,372	1,244,744	325,114	80,571	5,479,666

10. Deferred tax assets

Deferred tax assets are calculated based on direct facilities impairment allowance and the end of service provision. The movements on the deferred tax assets are as follows:

	December 31, 2011	December 31, 2010
	U.S. \$	U.S. \$
Balance, beginning of year	959,699	936,536
Amortizations	-	23,163
Balance, end of year	959,699	959,699

11. Intangible assets

Intangible assets represent computer systems. The movements during the years ended December 31, 2011 and 2010 are as follows:

	December 31, 2011	December 31, 2010
	U.S. \$	U.S. \$
Balance, beginning of year	1,053,887	-
Additions	119,073	1,053,887
Amortizations	(110,665)	-
Balance, end of year	1,062,295	1,053,887

12. Other assets

This item includes the followings:

	December 31, 2011	December 31, 2010	January 1, 2010
	U.S. \$	U.S. \$	U.S. \$
Checks under collection	10,964,397	5,149,031	3,443,488
Prepaid expenses	614,527	843,445	482,428
Account receivables	475,085	1,290,125	901,365
Advances for the purchase of software and the establishment of branches	90,460	227,845	-
Assets obtained by the Bank by calling on collateral	230,685	439,863	41,802
Accrued interest receivables	305,045	301,439	105,014
Others	122,652	-	-
	12,802,851	8,251,748	4,974,097

13. Banks and financial institutions' deposits

This item includes the followings:

	December 31, 2011			December 1, 2011			January 1, 2010
	Local	Foreign	Total	Local	Foreign	Total	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Deposits at the Palestinian Monetary Authority	9,215,854	-	9,215,854	17,531,563	-	17,531,563	25,161,385
Current and demand accounts	268,374	118,258	386,632	293,986	118,258	412,244	6,654,710
Deposits maturing within a period of three months or less	18,360,348	9,000,625	27,360,973	23,756,371	-	23,756,371	17,195,384
	27,844,576	9,118,883	36,963,459	41,581,920	118,258	41,700,178	49,011,479

14. Customers' deposits

This item includes the followings:

	December 31, 2011	December 31, 2010	January 1, 2010
	U.S. \$	U.S. \$	U.S. \$
Current and demand accounts	63,759,980	62,963,972	50,287,714
Saving deposits	30,032,699	30,109,747	21,974,281
Time and notice deposits	22,962,403	42,108,874	40,277,623
Credit overdraft accounts	882,371	836,102	359,471
	117,637,453	136,018,695	112,899,089

- Public sector deposits amounted to U.S. \$ 1,032,563 and U.S. \$ 9,473,982 representing 0.88% and 6.97% of the total deposits as at December 31, 2011 and 2010, respectively.
- Non-interest bearing deposits amounted to U.S. \$ 47,222,353 and U.S. \$ 64,228,326 representing 40.14% and 47.22% of the total deposits as at December 31, 2011 and 2010, respectively.
- Dormant deposits amounted to U.S. \$ 6,133,229 and U.S. \$ 8,411,456 representing 5.21% and 6.18% of the total deposits as at December 31, 2011 and 2010, respectively

15. Cash margins

This item represents cash margins against the following facilities:

	December 31, 2011	December 31, 2010	January 1, 2010
	U.S. \$	U.S. \$	U.S. \$
Direct credit facilities	14,020,519	16,576,984	15,595,263
Indirect credit facilities	4,687,887	3,992,431	2,707,844
	18,708,406	20,569,415	18,303,107

16. Sundry provisions

This item represents end of services and vacations provisions. Movements on this item during the years ended December 31, 2011 and 2010 are as follows:

	December 31, 2011	December 31, 2010
	U.S. \$	U.S. \$
Balance, beginning of year	1,463,175	1,365,655
Current year provision	439,416	516,929
Payments during the year	(151,207)	(419,409)
Balance, end of year	1,751,384	1,463,175

17. Tax provisions

Movements on this item during the years ended December 31, 2011 and 2010 are as follows:

	December 31, 2011	December 31, 2010
	U.S. \$	U.S. \$
Balance, beginning of year	790,756	1,287,756
Current year provision	473,279	1,293,046
Payment for prior years	-	(1,330,046)
Advances during the year	(571,442)	(460,000)
Balance, end of year	692,593	790,756

- Tax included in the consolidated income statement represents the followings:

	December 31, 2011	December 31, 2010
	U.S. \$	U.S. \$
Current year provision	473,279	1,293,046
Deferred tax assets amortized	-	(23,163)
	473,279	1,269,883

- To the date of these consolidated financial statements, the Bank did not reach settlement with the Income Tax and Value-Added Tax departments for 2010.

18. Other liabilities

This item includes the followings:

	December 31, 2011	December 31, 2010	January 1, 2010
	U.S. \$	U.S. \$	U.S. \$
Accrued interest payable	209	140,750	146,696
Accrued expenses	274,104	597,899	308,777
Board of Directors remuneration	237,121	279,500	247,000
Accounts payable and temporary deposits	2,043,316	521,462	433,860
Certified checks	405,525	507,933	353,845
Checks and transfers under collection	9,871	64,773	63,697
Other payables	294,296	97,123	83,530
Dividends payable	24,109	24,229	24,659
Others	28,256	11,169	10,032
	3,316,807	2,244,838	1,672,096

19. Reserves

Statutory reserve

As required by the Companies' Law and Banking Law, 10% of the net profit is transferred to the statutory reserve and shall continue until the total reserve balance equals the Bank's paid-in share capital. The reserve is not to be utilized without PMA's prior approval.

Voluntary reserve

The amounts accumulated represents appropriations from annual net profit based on the Board of Directors decisions. This reserve could be used or distributed to shareholders based on Board and General Assembly resolutions.

General Banking risk reserve

This reserve is appropriated in accordance with PMA instruction (5/2008) based on 1.5% of direct credit facilities after deducting allowance for impairment losses and suspended interest and 0.5% of indirect credit facilities after deducting checks under collection, letters of guarantees, Irrevocable commitments to extend credit, and financial derivatives. The reserve is not to be utilized in any manner without PMA's prior approval.

Pro- cyclical reserve

This reserve is appropriated in accordance with PMA instruction (1 / 2011) based on 15% of net profit after tax, to strengthen the Bank's capital against the risks surrounding the Banking business. The reserve is not to be utilized or reduced without PMA prior approval.

20. Capital

	December 31, 2011	December 31, 2010	January 1, 2010
	U.S. \$	U.S. \$	U.S. \$
Authorized capital	53,000,000	50,000,000	40,000,000
Subscribed capital	53,000,000	50,000,000	40,000,000
Paid in capital	53,000,000	50,000,000	40,000,000

Based on the Board of Directors recommendation at the General Assembly meeting held on June 27, 2011, the Bank has distributed 6% of its capital as stock dividends that was covered from the voluntary reserve.

21. Interest income

This item represents interest income on the following accounts

	2011	2010
	U.S. \$	U.S. \$
Loans	2,461,834	3,058,673
Overdraft accounts	3,950,651	2,833,736
Government and public sector	1,287,136	1,573,868
Balances at the PMA	458	622
Balances at Banks and financial institutions	1,294,167	1,649,592
Financial assets at amortized cost	214,861	-
Others	-	1,608
	9,209,107	9,118,099

22. Interest expense

	2011	2010
	U.S. \$	U.S. \$
Customers' deposits		
Time and notice deposits	410,831	569,783
Saving accounts	34,143	36,173
Current and demand accounts	11,412	1,899
	456,386	607,855
Banks and financial institutions' deposits	472,459	487,706
Interest paid to the PMA	413,969	-
Cash margins	101,425	163,520
	1,444,239	1,259,081

23. Net commission income

This item includes commissions for the followings:

	2011	2010
	U.S. \$	U.S. \$
Direct credit facilities	425,208	519,425
Indirect credit facilities	639,436	582,645
Others	1,160,047	1,632,648
	2,224,691	2,734,718
Less: Commission expense	(54,447)	(44,751)
Net Commission income	2,170,244	2,689,967

24. Other income

	2011	2010
	U.S. \$	U.S. \$
Mail and fax revenue	51,733	-
Check books	120,809	-
Swift and ATM's revenue	918	-
Cash surplus	6,498	-
Recoveries of impaired investment	-	180,115
Sundry	4,241	71,092
	184,199	251,207

25. Personnel expenses

	2011	2010
	U.S. \$	U.S. \$
Salaries and related expenses	3,390,996	2,746,815
Provision for employees' indemnity	439,416	516,929
VAT on salaries	459,325	389,459
Training expenses	10,179	14,652
Health insurance	190,543	104,197
Bank's contribution to the provident fund	150,908	116,878
	4,641,367	3,888,930

26. Other operating expenses

	2011	2010
	U.S. \$	U.S. \$
Telephone and postage	443,920	205,781
Rent	273,597	341,846
Fees, licenses and subscriptions	248,907	298,614
Utilities	193,334	156,863
Maintenance and repairs	157,984	136,111
Stationery and printings	152,415	93,264
Board of Directors' expenses	148,296	279,500
Travel and transportation	127,052	113,744
Professional fees	116,217	96,863
Cleaning expense	71,939	61,370
Advertisements and marketing	73,718	84,610
Hospitality	41,071	63,412
Others	43,213	32,140
Insurance	33,070	46,398
Donations	27,925	15,643
Fuel and vehicle expenses	22,456	36,929
Establishing new branches expenses	450,015	270,176
	2,625,129	2,333,264

27. Regulatory authorities fines

This item represents the fines imposed by PMA result of the following violations:

	2011	2010
	U.S. \$	U.S. \$
Violation of Banking law and PMA regulation	205,000	12,052
Violation of the Financial Securities Law	42,313	-
	247,313	12,052

28. Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows comprise items presented in the consolidated statement of financial position as follows:

	2011	2010
	U.S. \$	U.S. \$
Cash and balances at PMA	38,481,528	35,062,279
Add: Balances at Banks and financial institutions	84,448,263	102,579,328
Less: PMA deposits	9,215,854	17,531,563
Due to Banks and financial institutions	27,747,605	24,168,615
Statutory cash reserve	12,435,565	14,197,265
	73,530,767	81,744,164

29. Basic and Diluted Earnings Per Share

	2011	2010
	U.S.\$	U.S.\$
Profit for the year	2,552,984	789,682
	Shares	Shares
Weighted average subscribed shares	53,000,000	53,000,000
	U.S.\$	U.S.\$
Basic and diluted earnings per share	0.048	0.015

30. 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	2011	2010
		U.S. \$	U.S. \$
Consolidated statement of financial position items			
Direct credit facilities	Associate	3,112,473	2,802,054
Deposits	Associate	57,615	482,178
Deposits	Key Management personnel and Shareholders	928,170	369,003
Board of Directors remuneration	Board of Directors	237,121	190,675
Cash margins	Key Management personnel	14,255	36,780
	Nature of relationship	2011	2010
		U.S. \$	U.S. \$
Consolidated income statement items			
Interest and commission income	Key Management personnel	168,774	145,913
Interest and commission expense	Key Management personnel	10,703	17,723
Interest and commission expense	Associate	774	2,106
Key Management personnel share in salaries and related expenses	Key Management personnel	222,109	208,553
Key Management personnel share in the end of service benefits	Key Management personnel	62,745	57,412

- Direct credit facilities granted to related parties as at December 31, 2011 and 2010 accounted for 3.95% and 2.94% respectively of the total direct credit facilities.
- Direct credit facilities granted to related parties as at December 31, 2011 and 2010 accounted for 7.59% and 6.84% respectively of the capital base.
- Interest rate on U.S. \$ direct credit facilities ranges between 5% to 8%.
- Interest rate on ILS direct credit facilities ranges between 7% to 14%.

31. Fair Value of Financial Instruments

The table below represents a comparison by class of the carrying amounts and fair values of financial instruments carried in the consolidated financial statements as at December 31, 2011 and 2010:

	Carrying amount		Fair value	
	2011	2010	2011	2010
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Financial assets				
Cash and balances at PMA	38,481,528	35,062,279	38,481,528	35,062,279
Balances at Banks and financial institutions	84,448,263	102,579,328	84,448,263	102,579,328
Investments in associate	5,435,301	5,194,313	5,435,301	5,194,313
Direct credit facilities	78,771,670	95,463,305	78,771,670	95,463,305
Financial assets through profit or loss	1,027,849	418,657	1,027,849	418,657
Financial assets at fair value through other comprehensive income:				
Quoted instruments traded in financial markets	9,316,508	10,059,029	9,316,508	10,059,029
Unquoted instruments	22,928	22,928	22,928	22,928
Financial assets at amortized cost	5,777,383	-	5,777,383	-
Other financial assets	11,867,179	6,740,695	11,867,179	6,740,695
Total assets	235,148,609	255,540,534	235,148,609	255,540,534
Financial liabilities				
Banks and financial institutions deposits	36,963,459	41,700,178	36,963,459	41,700,178
Customers' deposits	117,637,453	136,018,695	117,637,453	136,018,695
Cash margins	18,708,406	20,569,415	18,708,406	20,569,415
Other financial liabilities	2,805,582	1,367,439	2,805,582	1,367,439
Total liabilities	176,114,900	199,655,727	176,114,900	199,655,727

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 at PMA, balances at Banks and financial institutions and other financial assets, Banks and financial institutions' deposits, customers' deposits, cash margins, and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

- The fair value of the financial assets through profit or loss was based in price quotations at the reporting date.
- Financial assets at fair value through other comprehensive income, which have no market prices, were measured at cost as their fair values cannot be reliably determined.

The hierarchy of fair values:

The Bank uses the following hierarchy for determining and disclosing the fair value of its financial instruments:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Using inputs other than quoted prices that are observable, either directly or indirectly.
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the year, the Bank used only Level 1 to determine and disclose the fair values of financial assets through profit or loss and financial assets at fair value through other comprehensive income. Levels 2 and 3 were not used during the year.

32. Concentration of assets and liabilities

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

2011							
Assets	Domestic	Jordan	Israel	Europe	America	Others	Total
Cash and balances at PMA	38,481,528	-	-	-	-	-	38,481,528
Balances at Banks and financial institutions	49,557,624	291,654	6,976,850	16,776,131	575,539	10,270,465	84,448,263
Direct credit facilities	71,251,225	7,520,445	-	-	-	-	78,771,670
Financial assets through profit or loss	1,027,849	-	-	-	-	-	1,027,849
Financial assets at fair value through other comprehensive income	9,339,436	-	-	-	-	-	9,339,436
Investments in associate	5,435,301	-	-	-	-	-	5,435,301
Financial assets at amortized cost	-	4,777,383	-	1,000,000	-	-	5,777,383
Property, plant and equipment	5,368,856	-	-	-	-	-	5,368,856
Deferred tax assets	959,699	-	-	-	-	-	959,699
Intangible assets	1,062,295	-	-	-	-	-	1,062,295
Other assets	12,802,851	-	-	-	-	-	12,802,851
	195,286,664	12,589,482	6,976,850	17,776,131	575,539	10,270,465	243,475,131

Liabilities							
Banks and financial institutions' deposits	27,844,576	-	-	9,118,883	-	-	36,963,459
Customers' deposits	115,264,345	2,373,108	-	-	-	-	117,637,453
Cash margins	18,020,005	688,401	-	-	-	-	18,708,406
Sundry provisions	1,751,384	-	-	-	-	-	1,751,384
Tax provisions	692,593	-	-	-	-	-	692,593
Other liabilities	3,316,807	-	-	-	-	-	3,316,807
	166,889,710	3,061,509	-	9,118,883	-	-	179,070,102
Items out of statement of financial position							
Letter of guarantees	15,541,490	-	-	-	-	-	15,541,490
Letter of credits	1,656,705	-	-	-	-	-	1,656,705
Irrevocable commitments to extend credit	5,621,760	-	-	-	-	-	5,621,760
Unutilized credit facilities limits	3,518,525	-	-	-	-	-	3,518,525
Contracts obligations	1,402,436	-	-	-	-	-	1,402,436
	27,740,916	-	-	-	-	-	27,740,916

2010							
Assets	Domestic	Jordan	Israel	Europe	America	Others	Total
Cash and balances at PMA	35,062,279	-	-	-	-	-	35,062,279
Balances at Banks and financial institutions	27,652,355	17,084,455	22,796,081	13,458,238	7,081,926	14,506,273	102,579,328
Direct credit facilities	94,626,964	836,341	-	-	-	-	95,463,305
Financial assets through profit or loss	418,657	-	-	-	-	-	418,657
Financial assets at fair value through other comprehensive income	9,747,392	-	-	-	-	334,565	10,081,957
Investments in associate	5,194,313	-	-	-	-	-	5,194,313
Property, plant and equipment	5,479,666	-	-	-	-	-	5,479,666
Deferred tax assets	959,699	-	-	-	-	-	959,699
Intangible assets	1,053,887	-	-	-	-	-	1,053,887
Other assets	8,251,748	-	-	-	-	-	8,251,748
	188,446,960	17,920,796	22,796,081	13,458,238	7,081,926	14,840,838	264,544,839
Liabilities							
Banks and financial institutions' deposits	41,581,920	-	-	118,258	-	-	41,700,178
Customers' deposits	134,475,809	1,542,886	-	-	-	-	136,018,695
Cash margins	19,665,090	904,325	-	-	-	-	20,569,415
Sundry provisions	1,463,175	-	-	-	-	-	1,463,175
Tax provisions	790,756	-	-	-	-	-	790,756
Other liabilities	2,244,838	-	-	-	-	-	2,244,838
	200,221,588	2,447,211	-	118,258	-	-	202,787,057

Items out of statement of financial position							
Letter of guarantees	14,534,051	-	-	-	-	-	14,534,051
Letter of credits	3,065,837	-	-	-	-	-	3,065,837
Irrevocable commitments to extend credit	5,338,172	-	-	-	-	-	5,338,172
Unutilized credit facilities limits	8,615,671	-	-	-	-	-	8,615,671
Contracts obligations	4,199,973	-	-	-	-	-	4,199,973
	35,753,704	-	-	-	-	-	35,753,704

33. Risk Management

The Bank discloses information to help the consolidated financial statements users to assess the nature and level of risk the Bank is exposed to as a result of its financial instruments as of the date of the consolidated financial statements as follows:

Risk management framework

Risk related to the Bank's activities are measured and monitored continuously to keep within acceptable limits. Due to sensitivity of risk management on the Bank results of operations risk management roles and controls activities are distributed among the Bank's personnel.

Risk management process

The board of directors is responsible for identifying and controlling risks; in addition, there are several parties which are responsible for managing and monitoring risks in the area in which the Bank operates.

Risk measurement and reporting system

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk the Bank is willing to accept. Information is collected from different departments and analyzed for early identification of potential risks. This information is presented to the Bank's board of directors, the and the executive departments responsible for risk management.

Risks

The Bank follows different policies in managing various risks as part of determined strategies. The Bank's risk departments monitor and control risks and optimize strategic diversification of financial assets and financial liabilities. Risks include credit risk, market risk (Interest rate risk, foreign currency risk, equity price risk) and liquidity risk.

I. Credit Risks

Credit risks are those risks resulting from the default of counterparties to the financial instruments 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.

Exposures to credit risks

	2011	2010
	U.S. \$	U.S. \$
Consolidated statement of financial position Items		
Balances at PMA	19,109,447	16,235,457
Balances at Banks and financial institutions	84,448,263	102,568,541
Investments in associate	5,435,301	5,194,313
Direct credit facilities		
Retail	36,778,380	44,458,621
Corporate	28,503,600	29,510,227
Public sector	13,489,690	21,494,457
Financial assets at amortized cost	5,777,383	-
Other assets	11,867,179	6,740,695
	205,409,243	226,202,311
Commitments and Contingencies		
Letter of guarantee	15,541,490	14,534,051
Letter of credit	1,656,705	3,065,837
Irrevocable commitments to extend credit	5,621,760	5,338,172
	22,819,955	22,938,060

Credit risk exposure for each risk rating:

Credit risk exposure for each risk rating distributed as follows:

December 31, 2011	Retail	Corporate	Government and public sector	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Performing	12,486,231	13,128,153	13,489,690	39,104,074
Acceptable risk	20,211,333	13,412,741	-	33,624,074
Watch list	954,586	490,986	-	1,445,572
Non-performing:				
Substandard	2,708,904	1,253,881	-	3,962,785
Doubtful	2,327,324	1,387,251	-	3,714,575
Total	38,688,378	29,673,012	13,489,690	81,851,080
Suspended interest and commissions	(144,921)	(115,513)	-	(260,434)
Allowance for impairment losses on credit facilities	(1,765,077)	(1,053,899)	-	(2,818,976)
	36,778,380	28,503,600	13,489,690	78,771,670

December 31, 2010	Retail	Corporate	Government and public sector	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Performing	34,858,845	14,842,824	21,494,457	71,196,126
Acceptable risk	6,007,752	10,074,287	-	16,082,039
Watch list	335,851	-	-	335,851
Non-performing:				
Substandard	2,539,719	3,187,148	-	5,726,867
Doubtful	1,923,496	683,875	-	2,607,371
Loss	656,109	1,578,361	-	2,234,470
Total	46,321,772	30,366,495	21,494,457	98,182,724
Suspended interest and commissions	(47,283)	(52,890)	-	(100,173)
Allowance for impairment losses on credit facilities	(1,815,868)	(803,378)	-	(2,619,246)
	44,458,621	29,510,227	21,494,457	95,463,305

Distribution of collaterals fair value against credit facilities is as follows:

December 31, 2011	Retail	Corporate	Government and public sector	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Collaterals against:				
Performing	10,575,807	10,271,410	13,489,690	34,336,907
Acceptable risk	10,360,445	13,334,055	-	23,694,500
Watch list	493,550	1,237,576	-	1,731,126
Non-performing:				
Substandard	1,218,899	1,150,441	-	2,369,340
Doubtful	1,126,950	1,085,744	-	2,212,694
Total	23,775,651	27,079,226	13,489,690	64,344,567
Comprising of:				
Cash margins	9,317,280	9,391,126	-	18,708,406
Letters of Guarantees	640,115	689,509	-	1,329,624
Quoted instrument	7,047,683	6,627,019	-	13,674,702
Vehicles and equipment	1,072,899	3,202,517	-	4,275,416
Real estate	5,697,674	7,169,055	-	12,866,729
Government Guarantees	-	-	13,489,690	13,489,690
	23,775,651	27,079,226	13,489,690	64,344,567

December 31, 2010	Retail	Corporate	Government and public sector	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Collaterals against:				
Performing	616,000	21,572,948	21,494,457	43,683,405
Acceptable risk	4,942,464	3,844,563	-	8,787,027
Watch list	153,068	-	-	153,068
Non-performing:				
Substandard	2,522,259	663,525	-	3,185,784
Doubtful	2,140,069	57,299	-	2,197,368
Total	10,373,860	26,138,335	21,494,457	58,006,652
Comprising of:				
Cash margins	3,757,782	16,811,633	-	20,569,415
Letters of Guarantees	1,576,475	2,623,650	-	4,200,125
Real estate	1,591,958	2,029,674	-	3,621,632
Quoted instrument	2,929,950	3,966,185	-	6,896,135
Vehicles and equipment	517,695	707,193	-	1,224,888
Government Guarantees	-	-	21,494,457	21,494,457
	10,373,860	26,138,335	21,494,457	58,006,652

Concentration in risk exposures according to economic sectors:

	Financial	Industrial and tourism	Commerce	Real estate	Financial markets	Government	Other	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Cash and balances at PMA	19,109,447	-	-	-	-	-	-	19,109,447
Balances at Banks and financial institutions	84,448,263	-	-	-	-	-	-	84,448,263
Direct credit facilities	1,673,923	3,976,344	14,268,935	20,304,618	8,480,203	13,489,690	16,577,957	78,771,670
Investment in associate	-	-	-	-	5,435,301	-	-	5,435,301
Financial assets at amortized cost	-	-	-	-	5,777,383	-	-	5,777,383
Other assets	11,867,179	-	-	-	-	-	-	11,867,179
Total as at December 31, 2011	117,098,812	3,976,344	14,268,935	20,304,618	19,692,887	13,489,690	16,577,957	205,409,243
Total as at December 31, 2010	122,646,679	7,884,499	15,390,827	30,845,115	21,107,020	21,494,457	6,833,714	226,202,311

II. Market risk

Market risk arises from changes in interest rates, exchange rates of foreign currencies and stock prices; The Bank's board of directors sets the limits for acceptable risks. This is periodically monitored by the Bank's management.

Interest rate risk

Interest rate risk arises from the effects of changes in interest rates on the value of financial instruments. The Bank 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 manages 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 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 is expected to be equal and opposite to the effect of the increase shown below:

	2011		2010	
	Increase in interest rate	Interest income sensitivity (profit and loss)	Increase in interest rate	Interest income sensitivity ((profit and loss
Currency	basis points	U.S.\$	basis points	U.S.\$
U.S. \$	+10	46,330	+10	52,984
Jordanian Dinar	+10	(10,861)	+10	6,125
Israeli Shekel	+10	(22,840)	+10	3,234
EURO	+10	(6,427)	+10	(22)
Other currencies	+10	4,696	+10	(240)

December 31, 2011	Interest rate re-pricing sensitivity							Total
	Less than 1 Month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than 1 year	Non-interest bearing		
Assets	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Cash and balances at PMA	38,481,528	-	-	-	-	-	-	38,481,528
Balances at Banks and financial institutions	61,274,998	-	3,000,000	-	-	-	20,173,265	84,448,263
Direct credit facilities	5,096,781	3,507,547	8,130,664	24,151,403	37,885,275	-	-	78,771,670
Financial assets through profit or loss	-	-	-	-	-	1,027,849	-	1,027,849
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	9,339,436	9,339,436
Investment in associate	-	-	-	-	-	-	5,435,301	5,435,301
Financial assets at amortized cost	-	-	-	-	5,777,383	-	-	5,777,383
Property, plant and equipment	-	-	-	-	-	-	5,368,856	5,368,856
Deferred tax assets	-	-	-	-	-	-	959,699	959,699
Intangible assets	-	-	-	-	-	-	1,062,295	1,062,295
Other assets	-	-	-	-	-	-	12,802,851	12,802,851
Total Assets	104,853,307	3,507,547	11,130,664	24,151,403	43,662,658	56,169,552	243,475,131	

Liabilities										
Banks and financial institutions' deposits	36,695,085	-	-	-	-	-	-	-	268,374	36,963,459
Customers' deposits	45,363,717	5,417,707	7,002,191	11,875,130	756,356	47,222,352	117,637,453			
Cash margins	1,790,789	836,033	596,472	6,160,497	9,324,615	-	18,708,406			
Sundry provisions	-	-	-	-	-	1,751,384	1,751,384			
Tax provisions	-	-	-	-	-	692,593	692,593			
Other liabilities	-	-	-	-	-	3,316,807	3,316,807			
Total Liabilities	83,849,591	6,253,740	7,598,663	18,035,627	10,080,971	53,251,510	179,070,102			
Equity										
Paid in share capital	-	-	-	-	-	53,000,000	53,000,000			
Statutory reserve	-	-	-	-	-	6,881,214	6,881,214			
Voluntary reserve	-	-	-	-	-	670,458	670,458			
General Banking risks reserve	-	-	-	-	-	1,605,000	1,605,000			
Pro- cyclicity reserve	-	-	-	-	-	601,142	601,142			
Cumulative change in fair value	-	-	-	-	-	(1,391,246)	(1,391,246)			
Retained Earnings	-	-	-	-	-	3,038,461	3,038,461			
Net Equity	-	-	-	-	-	64,405,029	64,405,029			
Total liabilities and equity	83,849,591	6,253,740	7,598,663	18,035,627	10,080,971	117,656,539	243,475,131			
Interest rate re-pricing sensitivity gap	21,003,716	(2,746,193)	3,532,001	6,115,776	33,581,687	(61,486,987)	-			

December 31, 2010	Interest rate re-pricing sensitivity							Total
	Less than 1 Month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than 1 year	Non-interest bearing		
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Total assets	94,602,795	15,718,166	12,355,825	22,675,982	21,859,906	97,332,165	264,544,839	
Total liabilities and equity	109,413,177	14,249,952	5,294,961	6,259,251	6,185	129,321,313	264,544,839	
Interest rate re-pricing sensitivity gap	(14,810,382)	1,468,214	7,060,864	16,416,731	21,853,721	(31,989,148)	-	

Foreign currency risk

These are the risks of the change in value of financial instruments resulting from the change in foreign exchange rates. The U.S \$ is the functional currency of the Bank. The board of directors sets the limit of the financial position for each currency at the Bank, and such position is monitored on a daily basis and hedging strategies are used to ensure maintaining the foreign currency position within the set limits.

The Jordanian Dinar (JOD) exchange rate is pegged to US Dollar exchange rate, so foreign currency risk of (JOD) is not material on the Bank's consolidated financial statements.

The effect of the expected decrease in exchange rates is equal and opposite to the effect of the increase stated below:

Currency	2011		2010	
	Change in currency rate (%)	Effect on profit and loss (USD)	Change in currency rate (%)	Effect on profit and loss (USD)
Israeli Shekels (ILS)	+10	24,889	+10	(12,110)
EURO	+10	(580,299)	+10	3,175
Other currencies	+10	582,478	+10	23,984

Following is the foreign currencies position of the Bank:

	JOD	EURO	ILS	Others	Total
December 31, 2011	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Assets					
Cash and balances with PMA	7,032,372	-	17,839,582	1,129,065	26,001,019
Balances at Banks and financial institutions	153,092	42,676	14,829,809	4,741,536	19,767,113
Direct credit facilities	5,832,551	689,308	36,168,717	-	42,690,576
Financial assets at fair value through other comprehensive income	9,243,526	-	-	-	9,243,526
Other assets	1,272,996	624,180	5,657,623	-	7,554,799
Total Assets	23,534,537	1,356,164	74,495,731	5,870,601	105,257,033
Liabilities					
Banks and financial institutions' deposits	-	1,551,000	16,839,151	-	18,390,151
Customers' deposits	23,158,967	4,298,529	50,802,924	45,822	78,306,242
Cash margins	2,390,825	1,309,585	6,196,350	-	10,436,760
Other liabilities	245,658	41	408,419	-	654,118
Total Liabilities	26,335,450	7,159,155	74,246,844	45,822	107,787,271
Statement of financial position concentration	(2,800,913)	(5,802,991)	248,887	5,824,779	(2,530,238)
Commitments and contingencies	2,889,413	4,384,480	5,697,607	-	12,971,500

	JOD	EURO	ILS	Others	Total
December 31, 2010	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Total assets	38,599,566	7,056,259	83,944,072	755,551	130,355,448
Total liabilities and Equity	40,617,807	7,024,514	84,065,170	515,715	132,223,206
Statement of financial position concentration	(2,018,241)	31,745	(121,098)	239,836	(1,867,758)
Commitments and contingencies	2,955,056	3,194,820	8,657,238	-	14,807,114

Equity price risk

Equity price risk results from changes in fair value of equity instruments. The effect of the expected decrease in equity instrument prices is equal and opposite to the effect of the increase stated below:

Market	2011		2010		
	Change in indicator (%)	Effect on profit and loss (USD)	Effect on equity (USD)	Effect on profit and loss (USD)	Effect on equity (USD)
Palestine Securities Exchange	+10	102,785	931,651	41,866	972,446
Foreign financial markets	+10	-	-	-	33,457

III. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity and maintains sufficient amount of cash and cash equivalents and liquid financial investments.

The table below summarizes the assets and liabilities on the basis of the remaining contractual maturities as at December 31, 2011 and 2010, respectively:

	Less than 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months up to 1 year	More than 1 year to 3 years	More than 3 years	Without maturity	Total
December 31, 2011	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Assets								
Cash and balances with PMA	38,481,528	-	-	-	-	-	-	38,481,528
Balances at Banks and financial institutions	61,274,998	-	3,000,000	-	-	-	20,173,265	84,448,263
Direct credit facilities	5,096,781	3,507,547	8,130,664	24,151,403	37,885,275	-	-	78,771,670
Financial assets through profit or loss	-	-	-	-	-	-	1,027,849	1,027,849
Financial assets at fair value through other comprehensive income	9,339,436	-	-	-	-	-	-	9,339,436
Investment in associate	-	-	-	-	-	-	5,435,301	5,435,301
Financial assets at amortized cost	-	-	-	-	5,777,383	-	-	5,777,383
Property, plant and equipment	-	-	-	-	-	-	5,368,856	5,368,856
Deferred tax assets	-	-	-	-	-	-	959,699	959,699
Intangible assets	-	-	-	-	-	-	1,062,295	1,062,295
Other assets	9,821,340	-	613,548	1,681,796	455,482	-	230,685	12,802,851
Total assets	124,014,083	3,507,547	11,744,212	25,833,199	44,118,140	-	34,257,950	243,475,131

Liabilities:										
Banks and financial institutions' deposits	36,695,085	-	-	-	-	-	-	-	268,374	36,963,459
Customers' deposits	45,363,717	5,417,707	7,002,191	11,875,130	756,356	-	-	47,222,352	117,637,453	
Cash margins	1,790,789	836,033	596,472	6,160,497	2,625,473	6,699,142	-	-	18,708,406	
Sundry provisions	-	-	-	-	-	-	-	1,751,384	1,751,384	
Tax provisions	-	-	692,593	-	-	-	-	-	692,593	
Other liabilities	2,496,039	549,070	271,698	-	-	-	-	-	3,316,807	
Total liabilities	86,345,630	6,802,810	8,562,954	18,035,627	3,381,829	6,699,142	49,242,110	179,070,102		
Equity										
Paid-in share capital	-	-	-	-	-	-	-	53,000,000	53,000,000	
Statutory reserve	-	-	-	-	-	-	-	6,881,214	6,881,214	
Voluntarily reserve	-	-	-	-	-	-	-	670,458	670,458	
General Banking risks reserve	-	-	-	-	-	-	-	1,605,000	1,605,000	
Pro- cyclical reserve	-	-	-	-	-	-	-	601,142	601,142	
Accumulated change in fair value	-	-	-	-	-	-	-	(1,391,246)	(1,391,246)	
Retained earnings	-	-	-	-	-	-	-	3,038,461	3,038,461	
Total equity	-	-	-	-	-	-	-	64,405,029	64,405,029	
Total liabilities and equity	86,345,630	6,802,810	8,562,954	18,035,627	3,381,829	6,699,142	113,647,139	243,475,131		
Maturity gap	37,668,453	(3,295,263)	3,181,258	7,797,572	40,736,311	(6,699,142)	(79,389,189)	-	-	
Cumulative gap	37,668,453	34,373,190	37,554,448	45,352,020	86,088,331	79,389,189	-	-	-	

	Less than 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months up to 1 year	More than 1 year to 3 years	More than 3 years	Without maturity	Total
December 31, 2010	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Assets								
Cash and balances with PMA	35,062,279	-	-	-	-	-	-	35,062,279
Balances at Banks and financial institutions	86,456,289	11,614,415	1,458,624	3,050,000	-	-	-	102,579,328
Direct credit facilities	38,976,465	4,103,751	10,897,201	19,625,982	14,986,076	6,873,830	-	95,463,305
Financial assets through profit or loss	-	-	-	-	-	-	418,657	418,657
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	10,081,957	10,081,957
Investment in associate	-	-	-	-	-	-	5,194,313	5,194,313
Property, plant and equipment	-	-	-	-	-	-	5,479,666	5,479,666
Deferred tax assets	-	-	-	-	-	-	959,699	959,699
Intangible assets	-	-	-	-	-	-	1,053,887	1,053,887
Other assets	6,435,836	-	306,914	841,282	227,845	-	439,871	8,251,748
Total assets	166,930,869	15,718,166	12,662,739	23,517,264	15,213,921	6,873,830	23,628,050	264,544,839

Liabilities:										
Banks and financial institutions' deposits	37,632,855	4,067,323	-	-	-	-	-	-	-	41,700,178
Customers' deposits	114,275,669	10,182,629	5,294,961	6,259,251	-	-	-	-	-	136,018,695
Cash margins	8,398,233	884,232	2,348,013	4,228,797	3,229,040	1,481,100	-	-	-	20,569,415
Sundry provisions	-	-	-	-	-	-	-	-	1,463,175	1,463,175
Tax provisions	-	-	-	790,756	-	-	-	-	-	790,756
Other liabilities	1,380,290	585,048	279,500	-	-	-	-	-	-	2,244,838
Total liabilities	161,687,047	15,719,232	7,922,474	11,278,804	3,235,225	1,481,100	1,463,175	1,481,100	1,463,175	202,787,057
Equity										
Paid-in share capital	-	-	-	-	-	-	-	-	50,000,000	50,000,000
Statutory reserve	-	-	-	-	-	-	-	-	6,607,501	6,607,501
Voluntarily reserve	-	-	-	-	-	-	-	-	3,670,458	3,670,458
General Banking risks reserve	-	-	-	-	-	-	-	-	1,605,000	1,605,000
Pro- cyclical reserve	-	-	-	-	-	-	-	-	242,024	242,024
Cumulative change in fair value	-	-	-	-	-	-	-	-	(1,485,509)	(1,485,509)
Retained earnings	-	-	-	-	-	-	-	-	1,118,308	1,118,308
Total equity	-	-	-	-	-	-	-	-	61,757,782	61,757,782
Total liabilities and equity	161,687,047	15,719,232	7,922,474	11,278,804	3,235,225	1,481,100	1,463,175	1,481,100	63,220,957	264,544,839
Maturity gap	5,243,822	(1,066)	4,740,265	12,238,460	11,978,696	5,392,730	(39,592,907)	-	-	-
Cumulative gap	5,243,822	5,242,756	9,983,021	22,221,481	34,200,177	39,592,907	-	-	-	-

34. Segment information

Information on the Bank's business segments

For management purposes, the Bank 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 the management of the Bank's funds.

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

	Retail	Corporate	Treasury	Other	Total	
					2011	2010
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Gross revenue	4,250,863	3,501,441	530,381	6,052,625	14,335,310	13,433,860
Recovery of impairment of credit facilities	(593,439)	(880,791)	-	-	(1,474,230)	(1,867,909)
Segment results	3,657,424	2,620,650	530,381	6,052,625	12,861,080	11,565,951
Unallocated expenses					(9,834,817)	(9,506,386)
Profit before tax					3,026,263	2,059,565
Tax expense					(473,279)	(1,269,883)
Profit for the year					2,552,984	789,682
Other segment information:						
Depreciation and amortization					724,159	412,599
Capital expenditures					617,441	3,279,283
					2011	2010
Segment assets	37,782,957	26,661,411	5,777,383	173,253,380	243,475,131	264,544,839
Segment liabilities	98,401,457	38,598,543	-	42,070,102	179,070,102	202,787,057

Geographical distribution information

The following is the geographical distribution of the Bank's businesses. The Bank mainly carries out its business in Palestine, in addition to foreign operations.

The following is the distribution of the Bank's revenues, asset and liabilities according to geographical sector:

	Domestic		Foreign		2010 U.S. \$
	2011	2010	2011	2010	
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	
Gross revenues	13,047,239	13,415,945	1,288,071	17,915	13,433,860
Total assets	195,286,664	188,446,960	48,188,467	76,097,879	64,544,839
Capital expenditures	617,441	3,279,283	-	-	3,279,283

35. Maturities of assets and liabilities

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

December 31, 2011	Up to 1 year	More than 1 year	Without maturity	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Assets				
Cash and balances at PMA	38,481,528	-	-	38,481,528
Balances at Banks and financial institutions	84,448,263	-	-	84,448,263
Direct credit facilities	39,510,411	39,261,259	-	78,771,670
Financial assets through profit or loss	-	-	1,027,849	1,027,849
Financial assets at fair value through other comprehensive income	-	-	9,339,436	9,339,436
Investment in associate	-	-	5,435,301	5,435,301
Financial assets at amortized cost	-	5,777,383	-	5,777,383
Property, plant and equipment	-	-	5,368,856	5,368,856
Deferred tax assets	-	-	959,699	959,699
Intangible assets	-	-	1,062,295	1,062,295
Other assets	-	-	12,802,851	12,802,851
Total Assets	162,440,202	45,038,642	35,996,287	243,475,131

LIABILITIES				
Banks and financial institutions' deposits	36,963,459	-	-	36,963,459
Customers' deposits	53,866,473	-	63,770,980	117,637,453
Cash margins	9,383,791	9,324,615	-	18,708,406
Sundry Provisions	-	-	1,751,384	1,751,384
Tax provisions	692,593	-	-	692,593
Other liabilities	-	-	3,316,807	3,316,807
Total Liabilities	100,906,316	9,324,615	68,839,171	179,070,102
EQUITY				
Paid in share capital	-	-	53,000,000	53,000,000
Statutory reserve	-	-	6,881,214	6,881,214
Voluntary reserve	-	-	670,458	670,458
General Banking risks reserve	-	-	1,605,000	1,605,000
Pro- cyclicity reserve	-	-	601,142	601,142
Cumulative change in fair value	-	-	(1,391,246)	(1,391,246)
Retained earnings	-	-	3,038,461	3,038,461
Net Equity	-	-	64,405,029	64,405,029
Total Liabilities and Equity	100,906,316	9,324,615	133,244,200	243,475,131
Maturity gap	61,533,886	35,714,027	(97,247,913)	-
Cumulative maturity gap	61,533,886	97,247,913	-	-

December 31, 2010	Up to 1 year	More than 1 year	Without maturity	Total
Assets	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Cash and balances at PMA	20,865,014	-	14,197,265	35,062,279
Balances at Banks and financial institutions	102,579,328	-	-	102,579,328
Direct credit facilities	73,603,399	21,859,906	-	95,463,305
Financial assets through profit or loss	-	-	418,657	418,657
Financial assets at fair value through other comprehensive income	-	-	10,081,957	10,081,957
Investment in associate	-	-	5,194,313	5,194,313
Property, plant and equipment	-	-	5,479,666	5,479,666
Deferred tax assets	-	-	959,699	959,699
Intangible assets	-	-	1,053,887	1,053,887
Other assets	7,584,032	227,845	439,871	8,251,748
Total Assets	204,631,773	22,087,751	37,825,315	264,544,839
LIABILITIES				
Banks and financial institutions' deposits	41,700,178	-	-	41,700,178
Customers' deposits	136,012,510	6,185	-	136,018,695
Cash margins	15,859,275	4,710,140	-	20,569,415
Sundry Provisions	-	-	1,463,175	1,463,175
Tax provisions	790,756	-	-	790,756
Other liabilities	2,244,838	-	-	2,244,838
Total Liabilities	196,607,557	4,716,325	1,463,175	202,787,057
EQUITY				
Paid in share capital	-	-	50,000,000	50,000,000
Statutory reserve	-	-	6,607,501	6,607,501
Voluntary reserve	-	-	3,670,458	3,670,458
General Banking risks reserve	-	-	1,605,000	1,605,000
Pro- cyclical reserve	-	-	242,024	242,024
Cumulative change in fair value	-	-	(1,485,509)	(1,485,509)
Retained earnings	-	-	1,118,308	1,118,308
Net Equity	-	-	61,757,782	61,757,782
Total Liabilities and Equity	196,607,557	4,716,325	63,220,957	264,544,839
Maturity gap	8,024,216	17,371,426	(25,395,642)	-
Cumulative maturity gap	8,024,216	25,395,642	-	-

36. 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 the capital structure and make the necessary adjustments in light of changes in economic conditions and the nature of the work. Bank does not have to make any amendments to the objectives, policies and procedures relating to the structuring of capital during the current year except for capitalization of U.S. \$ 3 million from the voluntary reserve.

The capital adequacy ratio is computed in accordance with the PMA's regulations derived from Basel Committee regulations computed as follows:

	2011			2010		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S. \$	%	%	U.S. \$	U.S. \$	%
Regulatory capital	40,957,952	16.82	31.72	39,531,045	14.94	27.25
Basic capital	59,670,117	24.51	46.21	59,079,994	22.33	40.72

37. Commitments and contingent liabilities

The total outstanding commitments and contingent liabilities as at the consolidated financial statements date are as follows:

	2011	2010
	U.S. \$	U.S. \$
Letter of guarantees	15,541,490	14,534,051
Letters of credits	4,768,351	3,065,837
Irrevocable commitments to extend credit	2,510,114	5,338,172
Contract obligations	1,402,436	4,199,973
Unutilized credit facilities	3,518,525	8,615,671
	27,740,916	35,753,704

38. Legal cases against the Bank

The numbers of lawsuits established against the Bank is 5 and 3 law suits as of 31 December 2011 and 2010, respectively, within the normal activity of the Bank. The value of these lawsuits amounted to U.S. \$ 2,065,191 and U.S. \$ 62.191 as of 31 December 2011 and December 31, 2010, respectively.

The Bank's management and its legal advisor believes that the Bank maintain adequate provisions against the lawsuits.

39. 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.

40. Comparative Figures

Comparative figures have been restated as follows:

The Bank has amended the accounting treatment of deferred tax assets retroactively, resulting in a reduction in the balance of the deferred tax assets and retained earnings as in January 1, 2010 and December 31, 2010 of U.S. \$ 322,719 and U.S. \$ 500,348, respectively. Below is a summary of the impact of the restatement to the consolidated financial statements for the year of 2010. There was no effect of these restatements on the consolidated financial statements for the year ended December 31, 2011.

The impact of restatements on the assets and the retained earnings as at the January 1, 2010 was as follows:

	January 1, 2010		
	Before restatement	Restatement	Restated
	U.S. \$	U.S. \$	U.S. \$
Assets	245,620,515	(322,719)	245,297,796
Retained earnings	4,608,418	(322,719)	4,285,699

The impact of restatements on the assets and the retained earnings as at 31 December 31, 2010:

	December 31, 2010		
	Before restatement	Restatement	Restated
	U.S. \$	U.S. \$	U.S. \$
Assets	265,367,906	(823,067)	264,544,839
Retained earnings	1,941,375	(823,067)	1,118,308

-The impact of restatements on the profit for the year ended December 31, 2010:

	December 31, 2010		
	Before restatement	Restatement	Restated
	U.S. \$	U.S. \$	U.S. \$
Profit for the year	1,290,030	(500,348)	789,682

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