

بنك الإستثمار الفلسطيني
PALESTINE INVESTMENT BANK



Annual Report

16th

2010





PIB 2010 Annual Report



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Board of Directors



Board of Directors

Mr. Abed Dayeh (Chairman of the Board)

Mr. Hani Al-Qadi (Vice Chairman of the Board)

Dr. Farouq Zaa'ter (Board Member)

Mr. Ibrahim Abu Dayyeh (Board Member)

Mr. Wael Al-Qadi (Board Member)

Mr. Sami Al-Sayed (Board Member)

Mr. Jameel Al-Mo'ti (Board Member)

Mr. Kamal Hsouneh / Represent Al-Yazan for Real Estate and Investment Co. (Board Member)

Mr. Abdel Abari Awashreh / Represent Al-Yazen for Real Estate and Investment Co. (Board Member)

Dr. Adanan Estatyeh / Represent Salam International / Qatar (Board Member)

Mr. Omar Al- Haj Abed / Represent Al-Shrouq for Real Estate and Financial Investment LTD. (Board Member)



Mission and Vision Statements

- Seek earnestly, responsibility, and actively to be a leading bank in Palestine, by providing the finest financial services and banking excellence to our clients, provided by qualified staff with superior skills practiced their work in a stimulating environment, supported by modern technology applications and products from carefully selected banking vendors, while applying the highest professional and ethical standards, and seeking to achieve financial results that compete with the Palestinian banking system.
- Contribute effectively to the growth and development of the Palestinian economy with full responsibility and commitment.
- Our core values are honesty, integrity with oneself and others, and the constant quest for excellence and deliver on our promises, commitment to the foundations of corporate governance in all our actions, continuing challenge to discover the best ways to satisfy our clients, and always committed to our social responsibilities toward the surrounded community and stakeholders.
- Our choices in the future is to maintain the achievements and the continuity of growth and development governing efficiently and effectively the needs and the desires of our clients, growing their money with the utmost care and responsibility with leading the creation and development of new products in the Palestinian banking market, support our financial position while controlling the elements of risk, improve the manpower development and effectively using the modern technology for the continuity of excellence in performance and increased efficiency in dealing with our clients with the utmost transparency.



Our Services

Banking services:

- Open all type of current and saving accounts
- Accept all type 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 gold Credit cards
- ATM's full services
- Utilities bills payment services
- SWIFT services

Commercial services:

- Open all type of Letter of credits
- Issuing all type of Letter of guarantees
- Execute all type of local and international transfer
- Accept all type 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 brokerages services through the company's global securities owned by the Bank
- Buying and selling foreign currencies
- Trading fuwtures contracts for foreign currencies



Chairman's Statement

Chairman's Statement

Dear Shareholders,

On my behalf and on the behalf of my colleagues, members of the board of directors, I am delighted to welcome you to the 16th General Assembly Meeting, and to present you with the 16th annual report of the bank and its subsidiary – Global Securities Company, including the results and accomplishments for the year ended 2010. The report includes the consolidated balance sheet and income statement as of 31st December 2010, in addition to details of the financial statements.

Dear Shareholders,

Despite the difficulties facing the Palestinian economy as a result of the Israeli occupation, the Palestinian economy registered a growth of 9% in the year 2010 compared with 6.8% in 2009. The higher level of economic growth came as the result of private sector confidence bolstered by good management and reforms by the Palestinian Authority supported by donor aid, improvements in security conditions, and fewer controls on internal movement of goods and people.

The strong economic growth in 2010 came primarily from growth in services and construction. What is worrisome is the decline in the share of agriculture in the share of output from 14 percent in 2004 to 6 percent in 2010. Manufacturing activity declined from 20 percent of GDP to 10 percent over the same period. The manufacturing sector has been adversely affected by higher production costs owing to controls on imported capital goods and raw materials, as well as constrained revenue due to restrictions on access to outside markets. Meanwhile, sectors producing non-tradable and those that are less vulnerable to physical controls, especially in the construction related activities and services have fared much better.

The impact of the international financial crisis that hit the global financial sector two years ago had a little effect on the banking sector in Palestine, since Palestinian banks have limited exposure to global markets.

The banking sector in Palestine experienced a lot of activities in 2010. Credit facilities increased from US\$2.16 billion in 2009 to US\$2.85 billion in 2010, an increase of 32%. This included all the sectors lead by the General Trade Sector, its share in the increase was US\$470 million followed by the construction sector and other sectors.

Dear Shareholders,

The strong indicators of the Palestinian economy reflected positively on the Bank's financial results. The Bank's total assets grew 8.6% in 2010, from US\$245 million in 2009 to US\$267 million in 2010. Net credit facilities increased from US\$81 million to US\$97 during the same period, an increase of 20% which reflects the increased demand for obtaining credit due to the increase in economic activity. On the liabilities side, customer's deposits increased significantly reaching US\$156.6 million in 2010 compared with US\$131.2 in 2009, an increase of 19.5%. This was mainly due to the efforts by the Bank to attract deposits through its branches and the increase in marketing activity. Net profit after tax and provisions reached US\$3.3 in 2010 compared with US\$2.9 in 2009 with an increase of 11.3%. The Bank's capital was increased from US\$40 million to US\$50 million in year 2010 through the capitalization of retained earnings and part of other available reserves.

Finally, I would like to use this occasion to thank all of our shareholders for their continued support. I also would like to thank our clientele for their trust they have given to the Bank. On your behalf, I would like to extend my appreciation to all employees of the bank for their good efforts and excellent work.

Chairman of the Board of Directors
Abed Dayeh



Achievements of 2010

1. Financing

- The bank management worked hard during the year to increase the size of the granted facilities to various sectors, showing an increase of 18 percent from what was on Dec 31, 2009, where the volume of the granted facilities to the economic sectors and government increased from US\$ 81.1 million in 2009 to US\$ 95.5 million in 2010.
- The bank's management continued during 2010 to apply the policy of diversification on the components of credit facilities portfolio to cover the various economic sectors, investments, industries, commercial sectors, and other services. All the time, the lending units at the bank kept analyzing the financial capacity of borrowers' and their historical records and testing the safety of collateral provided in order to maintain high quality of the credit facilities portfolio. In the same manner, the bank management started to focus more on large companies that are characterized by the feasibility of their projects and have a fixed source of payments from known sources of cash flows, leading to promote the expansion of the number of customers and realize the potential opportunities and deal larger in the market.
- The bank proved that their adopted credit policy had enhanced the bank's ability to deal successfully with the various circumstances and to achieve the highest balance possible between the number of important considerations in providing management requirements in terms of guarantees and cash flow, and to continue pursuing a method of periodic review of granted credit facilities to ensure that proper credit performance was taken and to ensure of constructing the adequate provisions to face any needs or risks arise in the future.
- In order to maximize and increase revenues the bank's management had focused its efforts during the year on marketing the indirect credit facilities and banking services-producing commissions such as letter of guarantees and letters of credit, transferees, bills of collection, and acceptances.
 - Debt Provisions
- The bank's management follows a style of regular study and monitoring of outstanding debts, where debts are classified according to their quality, and therefore, required provisions are determined for each client in accordance with the standards and ratios set by the Palestinian Monetary Authority.

2. Internal control systems and compliance with legislation

- The bank continued to intensify its efforts in strengthening the internal controlling systems in the bank by increasing the manpower of the Internal audit department and the development on new specialized department for credit administration and control to measure the commitment of the operational units of the various legislation governing banking operations to ensure the compliance with all laws, regulations and administrative instructions, and in this context the bank makes sure to determine the accuracy and safety of different banking procedures and makes sure they are consistent with the legislation that governed through rebounds control of the compliance department.

3. Branches and Offices

- During the year 2010 the bank started offering various banking services in its new branch in the city of Jenin, which was opened in the first half of the year 2010 and the new office in the town of Husan / Bethlehem, which was opened in the second half of 2010. In addition, during 2010 the Bank also renovated the main branch of Bethlehem and the department of information technology at the General Management Headquarters in Ramallah in accordance with the latest constructing specifications. Also during 2010, the bank kept to follow-up with the maintenance work for headquarter, branches, and offices to keep their internal and external appearance in line with the required level for business and customer satisfaction.
- Also during the year 2010, the bank worked to develop and modify many of the manuals, working systems, and internal control procedures in order to cover all the work and activities of branches and various offices and to meet the general requirements, and in order to increase the level of efficiency and effectiveness for the performed services and to improve the staff productivity. The bank keeps taking the advantage of the potential of technology available at the bank, and makes savings in the general operating costs.

4. Investments

- The bank's management is working to follow the policy of excellence and diversity for the quality of its investments, the bank had kept its investment contribution in public shareholding companies that offer various services, especially in the field of communications, housing, and manufacturing industries and classified it within its long-term investment portfolio.

5. Technology Development and Information Systems

- During 2010 the bank had completed replacing the old core banking system with a more sophisticated new system (Banks). The bank has initiated the implementation of Bank operations in parallel on the new and old systems over the last month of the year 2010 and began the implementation of banking and financial operations through the new system from the beginning of year 2011. The bank's department of information technology has continued the development of the automation many of the banking services, and has invested and expanded in telecommunications in order to increase the channels of communication with customers to provide additional services that give the character of speed to the operations and guaranteed to help the bank's clients and facilitate the procedures for dealing with them and meet their needs and contribute to their success. In order to keep up with way of the highest degree of satisfaction, the bank's management is keen to keep up with the latest technology and automation systems in the banking field.

6. Human Resources

- The Staff of the bank is the key element for success and excellence, in order to maintain this element, the bank-management continually develops the skills and capabilities of the staff through dispatching them to attend different seminars and training courses required for banking activity ,investment banking, risks, financial analysis, and credit analysis in particular. In addition, the staff of the bank is exposed and trained to analyze the information and knowledge of the legal aspects that govern the banking operations. The Bank Invests in its people to provide the best services to customers, by keeping up with the latest developments in the banking industry.
- The bank management has worked throughout 2010 to attract the necessary competencies to fill the important vacancies. The Bank management also organizes many activities and programs for staff in order to promote loyalty and belonging, and this capitalized on what the bank management believes that "Our People is the bank's most valuable asset to achieve excellence and success".

7. Offshore banking services and treasury activities

- The bank management is seeking to act actively in the areas of treasury and investment, brokerage services, trading investment, foreign currencies exchange, and the employment of the bank different recourse in various investments globally and locally. In addition, the bank management is adopting a policy of deliberate and cautious in order to achieve appropriate and reasonable return against the undertaken risk.
- The Bank has continued to keep its advanced position in the market in offering treasury and banking services in the different foreign currencies, as the bank has continued to issue money orders, transfers, traveler's checks, and buy and sell foreign currencies through the bank correspondent banks network and global financial institutions located all over the world. During the year 2010 the treasury department has achieved good results in the area of foreign exchange trading and management of surplus cash available at the bank, which has contributed significantly to enhance and develop the total income of the bank.

8. Subsidiaries

- The Bank management is keen to provide new investment in the field of financial brokerage through its subsidiary company Global Securities, which provides different services such the sale, and purchase of stock shares, act as a broker for commission at the Palestine Securities Exchange, and act as financial investments advisor.
- The company also provides periodic reports about the listed companies and offer these report for the public. The company website also provides the clients an access to their accounts.

9. SWIFT Service

- The Bank provides its clients with fast and secures messaging service (SWIFT). Add to the list of superior services that are provided in all areas, this service has launched in order to provide the best value for the bank's customers.

10. The competitive position of the Bank

- During the year 2010 the Bank management worked to increase its market share of customers' deposits, by increasing total deposits 19.50% in 2010 compared with 2009. The bank management also worked to increase the share of credit facilities to various sectors, by increasing total granted facilities by 18% in 2010 compared with 2009 .

2010 Financial Indicator and Ratios

Results Summary- In USD thousand

Description	2010	2009
Profit and Loss Figures		
Net Interest and Commission Revenue	10,550	8,620
Net Income Before Taxes And Provisions	5,200	5,000
EPS	0.032	0.073
Balance Sheet Figures		
Assets	265,370	245,620
Credit Facilities - Net	95,460	81,100
Customer Deposits	156,580	131,200
Banks and PMA Deposits	41,700	49,010
Total Stockholders' Equity	62,580	61,080
Financial Ratios		
Return on Assets	0.59%	1.19%
Return On Equity	2.51%	4.79%
Cash Liquidity	13.52%	23.20%
Loans To Total Assets	35.97%	33.02%
Stockholders' Equity To Total Deposits	31.56%	33.89%
Stockholders' Equity To Total Assets	23.58%	24.87%
Cash on Hand and at Banks To Deposits	61.23%	78.40%



Future Plan for 2011

Future Plan for 2011

The bank future plan for the year 2011 characterized with ambitious and it has chosen to be consistent with the objectives of future aspirations, and aimed to consolidate PIB position within the Palestinian banking system, provide superior services to clients and contribute to the economic growth of the Palestinian and strengthening the financial position of the Bank, and develop its shareholders' equity. The plan has included the bank's strategic plan goals, the following will be working to be achieved in 2011:

- Achieve sustainable growth and rising profitability, assets, and equity and managing them with high efficiency to strengthen the position of the Bank and its financial position within the banking system in Palestine.
- Raise the level of production efficiency and rationalization of unproductive expenditure in order to maximize revenue.
- Increase the bank's presence in Palestinian population centers by pursuing deliberate strategies to enhance the competitive capabilities with other banks. Innovative banking products that suit the needs of communities
- Strengthen the marketing effort in the various branches and offices of the Bank through a distinctive marketing campaigns and incentives, and to maintain existing customers by meeting their needs and desires, and attract new customers to increase the market share of the bank in various banking activities
- Expand customer base and attract deposits in various currencies and reasonable interest rates and motivational awards, and optimum utilization of these deposits in different areas of permitted investments
- Bring a qualitative change in the field of investment services for personal and conservative investment customers to keep pace with global developments in financial markets and investment and to achieve attractive returns.
- Invest in people to raise their competences and abilities, and compensate the outstanding performers of them and encourage them to work as a team and attract outstanding talents to fill the vital vacancies through a well organized training plan for staff.
- Pay more attention to the Palestinian owners of capital abroad in order to attract their savings and help them to establish successful investment projects in Palestine by communicating with them through special bulletins issued by the bank
- Strengthen working relations and cooperation with the monetary authority, banks and local and foreign institutions
- Maintain cash liquidity at high rates to meet the requirements of the customer with the bank at any time
- Work to increase the size of the indirect facilities provided, such as letter of credits, bank guarantees, and transfers because this is important to maximize the Bank's income from various type of commissions.
- Reduce risk by using different kinds of system control and self-assessment of the risks
- Work on achieving customer satisfaction as one of the core values of the bank.
- Increase the size of stockholders equity and a return to shareholders by not less than 10%



Financial Highlights of 2010

Financial Highlights of 2010

Assets

At the end of 2010 total asset was US\$ 265.4 million compared to US\$ 245.6 million at the end of 2009. The 2010 increase comes as a result of the relentless efforts to respond and adapt to serve current customers and attract new Customers. The most important aspects of the change on the total assets are distributed in the following table:

A table showing the most important aspects of the change in assets (figures in thousand U.S. \$)

Description	2009	2010	Change
Total Granted Credit Facilities	81,100	95,460	14,360
Total Financial Assets	12,900	15,700	2,800

Liabilities

The total deposits in current accounts, demand deposits, savings accounts and cash margins as of Dec 31,2010 was US\$ 198.3 million compared to US\$ 180.2 million as of Dec 31,2009.Total deposits witnessed an increase of US \$ 18.1 million and 10.04%, despite the very competitive environment and the difficult conditions that govern the market.

Commitments and Contingent Liabilities

Total indirect facilities as of Dec 31, 2010 amounted to US\$ 20.28 million compared to US\$ 17.12 million on Dec 31, 2009. The following table shows the 18.46% increase at the indirect facilities:

Amount in U.S. \$ thousand

Description	2009	2010	Change
Letters of Guarantee	16,630	14,840	12.1%
Letters of Credit	3,650	2,280	60%
Total	20,280	17,120	18%

Net Profit

The Bank achieved in 2010 through the continuous efforts made by the Board and executive management to provide elite banking services, managing a diversified portfolio of investments and controlling unproductive expenditure a total net profit before taxes and provisions amounted to US\$ 5.2 million compared to US\$ 5 million in 2009. Net profit before taxes and provisions witnessed an increase of 4%, despite all the circumstances surrounding the Palestinian areas.

Revenues

Total Net revenues for the year 2010 amounted to U.S. \$ 12.18 million compared to US\$ 10.34 million for the year 2009. Total revenues from net interest and commission received reached US\$ 10.55 million representing 86.6% of the bank total revenues for the year 2010.

Expenses and Provisions

The following table shows a comparison between the details of the expenses and provisions for the years 2010 and 2009:

	2010	2009
Description	In Thousand \$	In Thousand \$
Interest Expense	1,260	1,050
Commission Expense	70	20
General And Administrative Expenses	6,360	4,950
AFS Fair value Reserev	40	400
Tax Provision	770	1,890
Provision for Credit Facilities	1,870	170
Provision for decline of Affiliates Investment	960	-

Cash liquidity and management assets and liabilities

The Bank maintained high rates of cash liquidity that keep the bank able to meet all obligations in the short, medium and long-terms, and keep the bank in line with the maturities timeline of assets and liabilities in an integrated manner within a balanced and deliberate policy aimed to maintain the optimal return on investment for the bank.

The Bank work on raising the efficiency of its use of the financial instruments as it allows the bank to strengthen the structure of its assets, focusing on components with higher returns, taking into account a balance between risk and return. To achieve these goals, the bank forms a committee at the highest levels of management to review assets and liabilities management plans on a regular basis. The following table shows liquidity most important figures:

	2009	%	2010	%
Description	In Thousand \$		In Thousand \$	
Cash on Hand and at Banks	141,300	57.53	137,600	51.84
Investment	12,900	5.25	15,700	5.92
Total Cash and Investments	154,200	62.78	153,300	57.76
Net Credit Facilities	81,100	33	95,500	35.98
Other Assets	10,300	4.22	16,600	6.26
Total Assets	245,600	100	265,400	100

The following table shows the evolution in the sources of private funding between 2010 and 2009

Description	2009	2010	Change	Change %
Customers Deposits and Cash Margins	131,200	156,590	25,390	19.40 %
Banks Deposits	49,000	41,700	(7,300)	14.90 %
Total	180,200	198,290	18,090	10.03 %

Shareholders' equity

The policy of the Bank's is to continue the development and the growth from the bank's own funds and maintain the rights of shareholders, which is the basic element of production in the banks, and this help to determine the size of investments and the level of risk that can be borne by the bank and thus the volume of revenues and profits to be generated. In this sense, the bank management deals with investment with utmost caution and precaution under the current economic conditions to maintain and increase the growth of shareholders' equity each year.

Communicating with shareholders

The Bank's management follows several ways to get data of the bank to shareholders by publishing it on the websites of the bank, Palestine Exchange and the Capital Market Authority of Palestinian. In addition, the Bank distributes the report to shareholders by mail and through local newspapers, and announcements at the branches and offices of the Bank and its subsidiary in the cities of Palestinian.

Major Shareholders

The following schedule presents shareholders who own more than 5% as of 31st of December 2010:

Name	No. Of shares in 2010	Percentage of Ownership	No. Of share in 2009	Percentage of Ownership
Abed Alqader Al-Qadi	3,434,187	6.87%	7,570,000	18.93 %
Abed Dayeh	3,607,752	7.22 %	2,886,202	7.22 %
Al-Shrouq for Real Estate & Financial Investment LTD.	15,225,000	30.45%	1,813,219	4.53%
Al-Yazan for Real Estate & Investment Co.	10,000,000	20.00 %	4,000,000	10.00%

Board of Directors Ownership

Name	Title	No. of Shares in 2010	Percentage of Ownership
Mr. Abed Dayeh	Chairman	3,434,187	7.22%
Mr. Hani Al-Qadi	Vice Chairman	434,933	0.87%
Al-Yazan for Real Estate & Investment Co.	2 Members	10,000,000	20%
Salam International / Qatar	Member	1,357,745	2.72%
Al-Shrouq for Real Estate & Financial Investment LTD.	Member	15,225,000	30.45%
Mr. Ibrahim Abu Dayyeh	Member	1,045,249	2.09%
Mr. Wael Al-Qadi	Member	484,088	0.97%
Mr. Sami Al-Sayed	Member	12,500	0.03%
Mr. Jameel Al-Mo'ti	Member	250,000	0.50%
Dr. Farouq Zaa'ter	Member	28,125	0.06%

Number of shareholders

The number of shareholders of the company's was 208 shareholders as of Dec 31, 2010 and 194 shareholders as of Dec 31, 2009

Shares movement in Palestine Stock Exchange in 2010

Description	2010	2009
High	1.3	1.9
Low	0.9	1.17
Opening Price	1.2	1.9
Closing Price	1	1.2

No. Traded Shares in 2010	No. Deals Traded	Value of Deals in \$
15,587,595	481	18,743,302

Duties of the Board of Directors to shareholders and corporate governance

During the year all generally accepted corporate governance principle has been implemented through the different activities of the Bank

The company's policy towards social responsibility

The Bank continued during the year 2010 to diversify its social responsibility program, because of the company keenness to interact with the various activities of society, and strengthening its role in serving the social environment in Palestine by adopting and sponsoring many social activities, charitable, cultural, sports and provide financial support to many students, associations, charities and support national programs designed to benefit the sons of the homeland.

Degrees held by members of the Board of Directors

- Two members of the board hold Doctorate degree
- One member of the board holds Master degree
- Eight members of the board hold Bachelor degree in different majors

Board of Directors remuneration

Name	2010	2009
Mr .Abed Dayeh	10,000	46,000
Mr .Hani Al-Qadi	77,000	46,000
Dr .Farouq Zaa'ter	10,000	10,000
Mr.Ibrahim Abu Dayyeh	10,000	10,000
Mr . Wael Al-Qadi	10,000	10,000
Mr .Jameel Al-Mo'ti	10,000	10,000
Dr. Adanan Estatyeh	10,000	10,000
Mr. Omar Al- Haj Abed	10,000	10,000
Mr .Sami Al-Sayed	-	-
Mr. Kamal Hsouneh	-	-
Mr. Abdel Abari Awashreh	-	-
Mr. Abed Alqader Al-Qadi	80,000	54,000
Mr. Samer Al-Qadi	10,000	10,000
Mr. Mahmoud Abu Alrub	10,000	10,000
Total	247,000	226,000

Bonuses has been paid to board members during the year 2010 as they are detailed in the following table compared with the year 2009, knowing that any of the board members did not receive any salaries or allowances during these years.

Differences between the initial financial statements, and the approved financial statements by the Palestinian Monetary Authority.

- Net profit in the financial statements disclosed as of Dec 31, 2010 decreased by US\$ 2,229,749, as a result of the increase Provision for Doubtful Credit Facilities.
- Assets have been decreased by of US\$ 1,357,296 as a result of the decrease in net credit facilities and the increase in the deferred tax assets
- Liabilities increased by US\$ 197,711 due to the reclassifying adjustment

Legal procedures and Issues

- There are no legal issues raised against the bank as of Dec 31, 2010

Issues Requested Voting by Shareholders

- No issues requested a special voting by shareholders during the year 2010



Legal adviser of the Bank

- Lawyer / Hossam El-Din Alaterah

External Auditor

- Deloitte & Touche (M.E.) audited 2010 financial statements

**PALESTINE INVESTMENT BANK
PUBLIC SHAREHOLDING COMPANY, LTD
EL-BIREH - PALESTINE**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010**

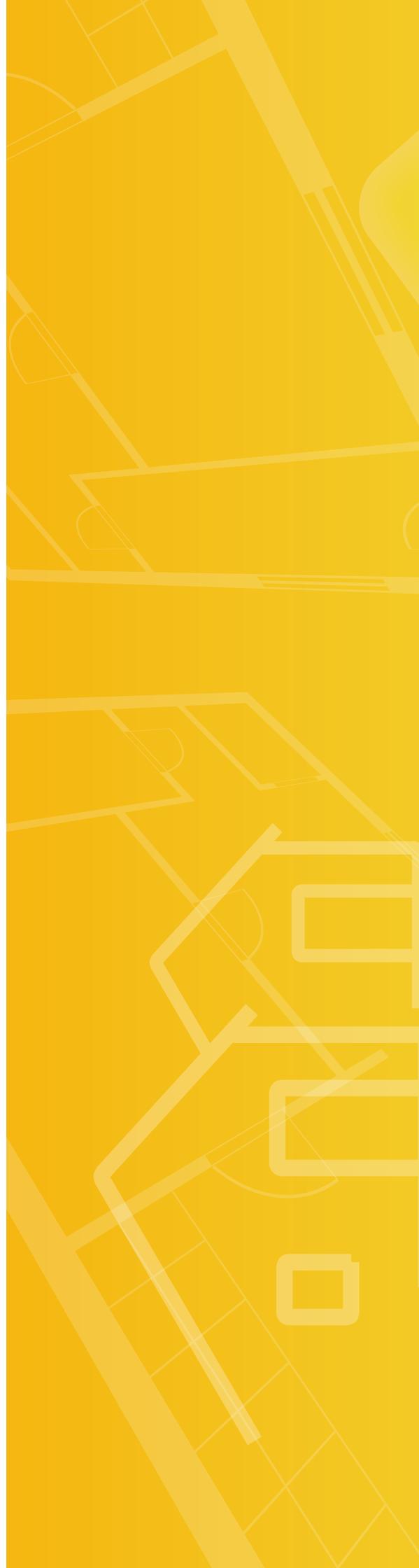


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**Independent Auditors' Report to the Shareholders of
Palestine Investment Bank
(Public Shareholding Company, LTD.)**

We have audited the accompanying consolidated financial statements of Palestine Investment Bank (Public Shareholding Co. Ltd), which comprise the consolidated statement of financial position as of December 31, 2010, 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.

Management's responsibility for the financial statements:

The management of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility:

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion:

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of "Palestine Investment Bank" as of December 31, 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regularity requirements:

As more fully disclosed in notes (37) and (38/b), and subsequent to the financial statements date, the Palestinian Monetary Authority (PMA) imposed a penalty upon the bank in the amount of U.S. Dollars 200,000. The penalty related to the Bank's violations of "Banks Law number (9)" of 2010 and "PMA regulation number (5/2008)" particularly regarding trading in foreign securities and extending credit facilities outside Palestine to finance transactions of trading in foreign securities. Moreover, the bank issued a financial guarantee to a party outside Palestine without obtaining the required approval from the PMA.

Ramallah - Palestine:
Deloitte & Touche M.E
May 31, 2011
Saba & Co.

**PALESTINE INVESTMENT BANK
PUBLIC SHAREHOLDING COMPANY, LTD**

*CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2010*

ASSETS :	Note	December 31, 2010 U.S. Dollar	December 31, 2009 U.S. Dollar
Cash in Hand and at Banks	5	121,406,150	127,472,264
Balances with the Palestinian Monetary Authority	6	16,235,457	13,824,110
Financial Assets Held for Trading	7	418,657	809,690
Financial Assets Available for Sale	8	10,081,957	10,509,910
Investment in Associate Company	9	5,194,313	1,552,500
Direct Credit Facilities – Net	10	95,463,305	81,098,530
Other Assets	11	7,811,881	4,974,097
Deferred Tax Asset	12	1,782,766	1,259,255
Property, Plant and Equipment – Net	13	3,726,058	1,926,684
Intangible Assets	13	1,053,887	--
Land	14	2,193,475	2,193,475
Total Assets		265,367,906	245,620,515
LIABILITIES AND EQUITY:			
LIABILITIES:			
Palestinian Monetary Authority's Deposits	15	17,531,563	25,161,385
Banks and Financial Institutions' Deposits	16	24,168,615	23,850,094
Customers' Deposits	17	136,018,695	112,899,089
Cash Margins	18	20,569,415	18,303,107
Sundry Provisions	19	1,463,175	1,365,655
Provision for Taxes	20	790,756	1,287,756
Other Liabilities	21	2,244,838	1,672,096
Total Liabilities		202,787,057	184,539,182
EQUITY :			
Paid-in Capital	22	50,000,000	40,000,000
Statutory Reserve	23	6,607,501	6,450,548
Voluntary Reserve	23	3,670,458	7,536,636
Special Reserve	23	--	2,805,726
General Banking Risks Reserve	23	1,605,000	1,375,000
Pro – cyclical Reserve	23	235,430	--
Cumulative Change in Fair Value of Financial Assets Available for Sale	24	(1,485,509)	(1,694,995)
Retained Earnings	25	1,947,969	4,608,418
Net Equity		62,580,849	61,081,333
Total Liabilities and Equity		265,367,906	245,620,515

Abed Dayeh

Chairman of BOD

Fawzi Al- Johary

Deputy General Manager

The Accompanying Notes Constitute an Integral Part of These Consolidated Statements

**PALESTINE INVESTMENT BANK
PUBLIC SHAREHOLDING COMPANY, LTD**

*CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010*

	Note	Year Ended December 31, 2010 U.S. Dollar	Year Ended December 31, 2009 U.S. Dollar
Interest Income	26	9,118,099	7,373,449
Commission Income	27	2,755,368	2,320,251
Total Interest and Commission Income		11,873,467	9,693,700
Interest Expense	28	(1,259,081)	(1,053,645)
Net Commission Expense		(65,401)	(21,372)
Total Interest and Commission Expenses		(1,324,482)	(1,075,017)
Net Interest and Commission Income		10,548,985	8,618,683
Gain from Trading and Revaluation Of Foreign Currencies	29	657,138	729,092
Gain from Sale of Fixed Assets		47,973	19,130
Gain from Sale of Financial Assets and Dividends	30	740,568	870,469
Provision for Credit Facilities Recovered	10	--	11,994
Provision for Impairment in Securities Recovered	30	180,115	92,313
Total Other Revenues		1,625,794	1,722,998
Employees Expenses	31	(3,888,930)	(2,857,697)
General and Administrative Expenses	32	(2,053,764)	(1,708,580)
Depreciation	13	(412,599)	(380,390)
Impairment Loss in Securities	30	(43,281)	(373,991)
Provision for Credit Facilities	10	(1,867,909)	(167,069)
Provision for Impairment of Seized Assets		--	(30,198)
Provision for decline of investment in an Associate	9	(958,187)	--
Loss from Revaluation of Financial Assets Held for Trading		(147,742)	(7,958)
PMA Fines	32	(12,052)	--
Other Losses	37	(451,250)	--
Total Expenses		(9,835,714)	5,525,883
Net Income before Taxes		2,339,065	4,815,798
Taxes	20	(769,535)	(1,887,458)
Net Income after Taxes Attributable to Shareholders		1,569,530	2,928,340
Other Comprehensive Income:			
Change in Fair Value of Financial Assets Available for Sale	24	209,486	761,830
Comprehensive Income for the Year Attributable to Shareholders		1,779,016	3,690,170
Basic and Diluted Earnings per Share from Continuing operations	33	0.0356	0.923

The Accompanying Notes Constitute an Integral Part of These Consolidated Statements

**PALESTINE INVESTMENT BANK
PUBLIC SHAREHOLDING COMPANY, LTD**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010**
(Amounts are expressed in U.S.Dollar)

December 31, 2010	Reserves							Retained Earnings**	Cumulative Change in Fair Value*	Proposed Dividends	Banking Risks Reserve *	Pro-cyclical Reserve*	Special	Voluntary	Statutory	Paid-in Capital	Net Shareholders' Equity
	Balance as of December 31, 2009	40,000,000	6,450,548	7,536,636	2,805,726	--	1,375,000										
Net Income after Tax	--	--	--	--	--	--	--	--	--	1,569,530	--	--	--	--	--	1,569,530	1,569,530
Other Comprehensive Income	--	--	--	--	--	--	--	209,486	--	--	--	--	--	--	--	209,486	209,486
Comprehensive Income for the Year	--	--	--	--	--	--	--	209,486	--	--	--	--	--	--	--	209,486	1,779,016
Remuneration Paid	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	(279,500)
Transferred to Reserves	--	156,953	--	--	--	--	235,430	--	--	--	230,000	--	--	--	--	--	(622,383)
Transferred to Capital	10,000,000	--	(3,866,178)	(2,805,726)	--	--	--	--	--	--	--	--	--	--	--	--	(3,328,096)
Balance as of December 31, 2010	50,000,000	6,607,501	3,670,458	--	235,430	1,605,000	--	(1,485,509)	--	--	1,605,000	235,430	--	3,670,458	6,607,501	50,000,000	62,580,849

December 31, 2009	Reserves										Net Shareholders' Equity
	Paid-in Capital	Statutory	Voluntary	Special	Pro-cyclicality Reserve*	Banking Risks Reserve *	Proposed Dividends	Cumulative Change in Fair Value*	Retained Earnings**		
Balance as of December 31, 2008	40,000,000	5,968,968	7,536,636	2,805,726	--	868,239	4,000,000	(2,456,825)	2,915,419		61,638,163
Net Income after Tax	--	--	--	--	--	--	--	--	2,928,340		2,928,340
Other Comprehensive Income	--	--	--	--	--	--	--	761,830	--		761,830
Comprehensive Income for the Year	--	--	--	--	--	--	--	761,830	2,928,340		3,690,170
Remuneration Paid	--	--	--	--	--	--	--	--	(247,000)		(247,000)
Transferred to Reserves	--	481,580	--	--	--	506,761	--	--	(988,341)		--
Dividends Paid	--	--	--	--	--	--	(4,000,000)	--	--		(4,000,000)
Balance as of December 31, 2009	40,000,000	6,450,548	7,536,636	2,805,726	--	1,375,000	--	(1,694,995)	4,608,418		61,081,333

* Pro – cyclicality reserve, general banking risks reserve and cumulative change in fair value cannot be released without PMA pre-approval.

** Retained earnings as of December 31, 2010 include an amount of U.S. Dollar 1,782,766 representing deferred tax benefits, the usage of these benefits is restricted except for what is actually realized (U.S. Dollar 1,259,255 as of December 31, 2009).

The Accompanying Notes Constitute an Integral Part of These Consolidated Statements

**PALESTINE INVESTMENT BANK
PUBLIC SHAREHOLDING COMPANY, LTD**

*CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010*

	Year Ended December 31, 2010 U.S. Dollar	Year Ended December 31, 2009 U.S. Dollar
Operating Activities :		
Net Income Before Taxes	2,339,065	4,815,798
Adjustments:		
Depreciation	412,599	380,390
(Gain) from Sale of Fixed Assets	(47,973)	(19,130)
Provision for Vacations and Indemnities	516,929	276,588
Gain from Sale of Securities	(71,092)	(63,072)
Unrealized Loss from Investments Held for Trading	147,742	7,958
Provision for Impairment of Securities Recovered	(136,834)	281,678
Provision for Impairment of Seized Assets	--	30,198
Provision for Impairment of Credit Facilities	1,867,909	167,069
Provision for Decline of an Associate	958,187	--
Net Cash Flow from Operating Activities Before Changes in Operating Assets and Liabilities	5,986,532	5,877,477
(Increase) Decrease in Assets:		
Cash at Banks- Deposits Maturing After Three Months	(1,508,624)	5,000,000
Balances with Palestinian Monetary Authority	(2,257,612)	(960,104)
Credit Facilities	(16,232,684)	(29,849,131)
Other Assets	(2,837,784)	432,883
	(22,836,704)	(25,376,352)
Increase (Decrease) in Liabilities:		
Customers' Deposits	23,119,606	8,185,492
Cash Margins	2,266,308	268,487
Other Liabilities	540,242	(1,903,464)
	25,926,156	6,550,515
Net Cash Flow from (Used in) Operating Activities Before Taxes, Indemnities and Remuneration	9,075,984	(12,948,360)
Taxes Paid	(1,790,046)	(1,795,410)
Indemnities Paid	(419,409)	(197,559)
Remuneration Paid	(247,000)	(226,000)
Net Cash Flow from (Used in) Operating Activities After Taxes , Indemnities and Remuneration	6,619,529	(15,167,329)

The Accompanying Notes Constitute an Integral Part of These Consolidated Statements

**PALESTINE INVESTMENT BANK
PUBLIC SHAREHOLDING COMPANY, LTD
EL-BIREH - PALESTINE**

*CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010*

	Year Ended December 31, 2010 U.S. Dollar	Year Ended December 31, 2009 U.S. Dollar
Investing Activities :		
Purchase of Land	--	(63,470)
Purchase of Property, Plant and Equipment	(2,241,589)	(400,045)
Purchase of Securities	--	(16,221)
Purchase of New Software	(1,053,887)	--
Proceeds from Sale of Fixed Assets	77,589	69,817
Proceeds from Sale of Securities	1,088,656	630,180
Investment in Associate Company	(4,600,000)	(1,552,500)
Net Cash (Used in) Investing Activities	(6,729,231)	(1,332,239)
Financing Activities:		
Cash Dividends Paid to Shareholders	--	(4,020,187)
Cash Used in Financing Activities	--	(4,020,187)
Net (Decrease) in Cash and Cash Equivalent	(109,702)	(20,519,755)
Cash and Cash Equivalent at Beginning of the Year	77,345,242	97,864,997
Cash and Cash Equivalent at End of the Year	77,235,540	77,345,242
Represented By:		
Cash and Cheques in Hand	18,826,822	36,074,060
Deposits at Banks	98,070,704	88,398,204
Current Account with PMA	2,038,192	1,884,457
Banks and Financial Institutions' Deposits	(41,700,178)	(49,011,479)
	77,235,540	77,345,242

The Accompanying Notes Constitute an Integral Part of These Consolidated Statements

**PALESTINE INVESTMENT BANK
PUBLIC SHAREHOLDING COMPANY, LTD**

*NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010*

1. The Bank and its Activities:

- Palestine Investment Bank (the Bank) was established in Gaza City in Palestine on August 10, 1994 as a public shareholding company in accordance with the Companies' Law of 1929 under registration number 563200864. The Bank's authorized and paid-in capital is 50 million shares of U.S. \$ 1 par value for each share. The Bank started operations in March 1995, and currently operates through its Head Office in El-Bireh and its eight branches and five offices. The registered address of the Bank (Head quarters and EL – Bireh Branch is: EL - Bireh – Ramallah, P.O. Box 3675).
- The Bank is engaged in providing all banking services in accordance with the regulations of the Palestinian Monetary Authority and all applicable laws and regulations prevailing in Palestine.
- The Bank's shares are listed on the Palestine Stock Exchange.
- The number of the Bank's employees is (219) employee as of December 31, 2010. (179 employee as of December 31, 2009).
- The consolidated financial statements of the bank and its subsidiary were approved by the Board of Directors on May 31, 2011. These consolidated financial statements are subject for approval by the General Assembly in its forthcoming ordinary meeting planned during June 2011.

2. Basis of Preparation and Consolidation of Financial Statements:

- The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), local prevailing laws, and in conformity with Palestinian Monetary Authority (PMA) Regulations.
- The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.
- The financial statements are presented in U.S. Dollar which is the Bank's functional currency.
- The consolidated financial statements include the financial statements of the Bank and the financial statements of its wholly owned subsidiary (Global Securities Co) which are prepared for the same reporting year. Control is achieved where the Bank has the power to govern the financial and operating policies of the company so as to obtain benefits from its activities.

Global Securities Co. (GSC) is a private shareholding company incorporated in Palestine in accordance with the Companies' Law number (12) of 1964 with share capital of Jordanian Dinar one million. During the year 2007, the share capital of GSC was increased by JD 1.5 Million to become JD 2.5 Million. GSC's business is brokerage of trading in securities.

- The subsidiary prepares its financial statements in Jordanian Dinar. For consolidation purposes, assets, liabilities, income and expenses of the subsidiary were converted to U.S. Dollar using the exchange rate prevailing at the financial position date of U.S. \$1.4014 to J.D. 1.
- The consolidation was made on a line by line basis after eliminating intercompany balances and transactions between the bank and its subsidiary.
- The accounting policies of the subsidiary are similar with those applied by the bank.

3. Significant Accounting Policies:

3.1 Changes in Accounting Policies

The accounting policies adopted are consistent with those used in the previous year except that the Bank has adopted the following new and amended IFRSs during the year. Adoption of these standards did not have any effect on the financial performance or position of the Bank (Note 40).

IFRS 3 – Business Combinations (Revised).

IAS 27 - Consolidated and Separate Financial Statements (Amended).

IAS 39 - Financial Instruments: Recognition and Measurement (Amended).

The following IFRSs have been issued but are not yet mandatory, and have not been adopted by the Bank (Note 40): IFRS 9 - Financial Instruments.

IAS 24 – Related Party Disclosures (Revised).

3. Significant Accounting Policies (continued)

3.2 Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

1. Financial instruments

Date of Recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognized on the settlement date. Deposits, amounts due to banks, customers and loans are recognized when the cash is received by the Bank or advanced to the customers.

Initial Recognition of Financial Instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

Loans and Advances

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. This accounting policy relates to the statement of financial position captions 'Due from Banks and financial institutions' and 'Loans and advances. After initial measurement, those financial assets are subsequently measured at amortized cost less any provision for the impairment.

Trading Financial Assets

Financial assets classified for trading, are stated at fair value. The difference between the fair value and the cost of those financial assets is recognized in the consolidated income statement.

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established.

Available-for-Sale Financial Assets

Available-for-sale financial investments are those which are designated "Available-for-Sale (AFS)" and do not qualify to appear as investments at fair value through profit or loss, held-to-maturity or loans and advances. They may be sold in response to liquidity needs or changes in market conditions. They include both equity and debt instruments. After initial measurement, available-for sale financial investments are subsequently measured at fair value on an individual basis. Unrealized gains and losses are recognized directly in other comprehensive income and accumulated in equity under the 'Fair value reserve'. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When the security is disposed off, the cumulative gain or loss previously accumulated in equity is recognized in the statement of income in 'Net gain on sale of financial investments'. Interest earned whilst holding available-for-sale financial investments are reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognized in the statement of income as 'Dividend income'.

2. Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset is derecognized:

- With the expiration of the right to receive cash flows from the asset, or
- When the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and
- Either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in the statement of income.

3. Significant Accounting Policies (continued)

3. Determination of Fair Value

The fair value for financial instruments traded in active financial markets is determined by reference to quoted market prices on closing date (bid price for long positions and ask price for short positions) at the close of business on the statement of financial position date.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist or internal pricing and valuation models.

4. Adjustment of Financial Assets

Financial assets and liabilities are adjusted to be presented in the financial position statement with net value, when there is a legal obligation to present it in a net value and the existence of intention to adjust it with net value, or when recognizing the asset and adjusting the obligation at the same time.

5. Leasing

The determination of whether it is an agreement or lease contract or contains an adopted lease which depends on the subject of the agreement, requires an assessment whether the implementation of the agreement depends on using a specific asset or assets, or the agreement transfers the right of using the asset.

Leases contracts made by the Bank don't transfer all the risks and benefits of ownership to the lessee, all other leases are classified as operating leases and operating lease payments are reflected as expenses in the income statement and are included on a straight-line basis over the lease term.

6. Impairment of Financial Assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Loans and Advances and Financing Activities to Customers

Specific provisions for the impairment of loans and advances and financing activities to customers are calculated based on the difference between the book value of the loans and advances and their recoverable amount, being the net present value of the expected future cash flows, discounted at the original interest rates. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less the costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The loss arising from impairment of loans and advances and financing activities to customers are recognized in the income statement in 'Provision for impairment of loans and advances'. Loans and advances and financing activities to customers are written off and charged against specific provisions only in circumstances where all reasonable restructuring and collection activities have been exhausted. Recoveries from previously written off loans and advances and financing activities are written back to the income.

Collective Assessment of Loans and Advances

Where individually assessed loans are evaluated and no evidence of loss is present or has been identified, there may be losses based upon risk rating and expected migrations product or industry characteristics.

Impairment covers losses which may arise from individual performing loans that are impaired at the reporting date but were not specifically identified as such until sometime in the future.

The estimated impairment is calculated by the Bank's management for each identified portfolio as per the requirements of Palestinian Monetary Authority based on previous experience, credit rating and expected migrations in addition to the assessed inherent losses which are reflected by the economic and credit conditions.

Other Financial Assets

For other financial assets, the Bank makes an assessment on each reporting date about whether there is an objective evidences that any of the financial assets are impaired in value.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

3. Significant Accounting Policies (continued)

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an Available-For-Sale (AFS) financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss of the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

7. Revenue Recognition

Revenue is recognized on an accrual basis. Interest income and expense are recognized using the effective yield method. Interest on default loans are suspended when collection of such interest or the principal amount becomes doubtful.

Management fees and commissions are amortized from the shared loans arrangements over the period of the loan using the effective yield method, if applicable. Other Bank fees and commissions are realized on the date of the transaction that the revenue will occur. Income from dividends and investment funds are recognized when the right to receive the dividends has been announced.

8. Fixed Assets

This item is stated at cost after deducting the accumulated depreciation and any impairment in value. Fixed assets (except for land) are depreciated according to the straight-line method over their estimated useful lives ranging between 4 years and 50 years for real estate properties.

When the carrying amounts of fixed assets exceed their recoverable values, assets' value is reduced to the recoverable value, and impairment losses are recognized in the statement of income.

The useful lives of fixed assets are reviewed at the end of each year. In case the expected useful life is different from what was determined before, the change in estimate is recorded in the following years, as a change in estimate.

Any item of the fixed assets is derecognized when disposed, and when there is no future economic benefits are expected from its use. Any gain or loss resulting from derecognition of fixed assets is presented within "other operating income" in the income statement in the year the asset is derecognized.

9. Assets Acquired Against Settlement of Customer Debts

Assets Acquired by the Bank are stated in the statement of financial position under "other assets" at the lower of acquired values or fair value. Assets are re-assessed on the date of financial statements at individual fair values, any impairment in value of those assets is recorded in the statement of income and the increase in value is not recorded. The subsequent increase is recorded in the consolidated statement of income to the extent of the impairment loss previously recorded.

In accordance with PMA regulations, all properties and real-estates that are acquired as settlement of debts can be retained for a period of two years from acquisition date, and this period is allowed to be renewed for five years at the most, subject to PMA approvals.

10. Investment in Associates

Investments in associates are accounted for using the equity method. An associate is an entity over which the Bank has significant influence. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost plus post acquisition changes in Bank's share of net assets of the associates. The Bank's share in associates' results is recorded in the consolidated income statement. Unrealized gains and losses resulting from transactions between the Bank and its associates are eliminated to the extent of its interest in the associates. The reporting dates of the associate and the Bank are identical and the associate's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

11. Provisions

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

3. Significant Accounting Policies (continued)

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

12. Provision for Employees' End of Service Indemnity

Provision for employees' indemnities is calculated in accordance with the prevailing labor law in Palestine and the Bank's by-laws. Amounts paid reduce the accumulated liability and change in the accumulated liability during the year is taken to the income statement.

13. Tax Provisions

The Bank provides for income tax in accordance with Palestine Income Tax Law.

IAS 12 requires recognizing the temporary differences, at the consolidated financial position date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be realized, as deferred.

Tax expense represents the accrued income tax and VAT.

The accrued tax expense is calculated on the base of taxable profit, and taxable profit differs in what is reported in the financial statements, because the reported profit include non-taxable revenues, or expenses that cannot be deducted in the financial year or in subsequent years.

Taxes are calculated using current tax rates as enacted by the prevailing laws and regulations in Palestine.

14. Foreign Currencies

- Transactions dominated in foreign currencies occurring during the year, are recorded at the exchange rate ruling at the date of the transaction.
- Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at reporting 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.
- Currency exchange differences for non-monetary assets and liabilities items stated at fair value (such as available-for sale investment) are recognized in the consolidated statement of comprehensive income.

15. Cash and Cash Equivalent

Cash and cash equivalents consist of cash on hand, balances with the Palestinian Monetary Authority, balances with banks and financial institutions maturing within three months, less deposits by banks and financial institutions that mature within three months and restricted balances.

16. Use of Estimates

The preparation of the financial statements and the application of accounting policies require the Bank's management to perform assessments and assumptions that affect the amount of financial assets and liabilities. Moreover, these estimates and assumptions affect revenues, expenses, provisions and the balance of the cumulative change in fair values stated within equity. In particular, this requires the Bank's management to issue significant judgments and assessments to assess future cash flows amounts and their timing. Moreover the mentioned assessments are necessarily based on assumptions and factors with varying degrees of consideration and uncertainty. In addition, actual results may differ from assessments, due to the changes arising from the conditions and circumstances of those assessments in the future.

The management of the Bank believes that its assumptions and estimates in the financial statements were reasonable and they are as follows:

Tax provisions are calculated annually based on prevailing tax laws.

End of service indemnity is calculated according to the labor law prevailing in Palestine.

Management periodically reassesses the economic useful lives of tangible and intangible assets for the purpose of calculating annual depreciation and amortization based on the general condition of these assets and the assessment of their useful economic lives expected in the future. Impairment loss (if any) is recognized in the income statement.

Management reviews on regular basis financial assets stated at cost to assess impairment if any. Impairment loss

3. Significant Accounting Policies (continued)

(if any) is recognized in the income statement.

Impairment in the value of real estate acquired is assessed based on appraisal reports by accredited assessors. Impairment is periodically reviewed.

The Bank reviews its impairment provision for loans and advances in accordance with PMA regulations and IAS 39.

17. Segment Information

Operating Segments information is presented in a manner consistent with internal reports which are used by Management for making operating decisions in order to allocate resources to the segments and to assess their performance. The Board of Directors is the responsible party for making these decisions. This reporting is used for allocating resources to operating segments and assessing its performance. Segment information is shown in note 4-3

4. Risk Management of Financial Instruments:

4-1) Financial Instrument:

a) Definition and Classification

Financial instruments represent all the financial assets and liabilities of the Bank. Financial assets include cash balances, on demand balances and deposits with banks and other financial institutions, investments, loans and advances to customers and banks. Financial liabilities include customer deposits and due to banks. Financial instruments also include contingent liabilities and commitments that are inserted out of the financial position items.

The carrying value for financial assets and financial liabilities that are liquid or having short term maturity (less than three months); are equal to their fair values and re-priced frequently.

b) Fair Value Measurement

The following table provides an analysis of financial instruments that are measured after the initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is measurable.

Level 1: Fair value measurement is derived from quoted prices (unadjusted) in active financial markets for identical assets or liabilities.

Level 2: Fair value measurements are derived from sources other than quoted prices included within Level 1 that are measurable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Fair value measurements are derived from valuation techniques that include information about the assets or liabilities that are not based on obtainable market information.

Total	Level 3	Level 2	Level 1	
USD	USD	USD	USD	
10,059,029	--	--		Trading financial assets
22,928	22,928	--	--	Available for sale financial assets

4. Risk Management of Financial Instruments (continued)

4-2) Risk Management:

Risk Management Framework

Inherent Risks of the Bank activities are managed, measured and monitored continuously, to be within the authorized limits, considering the importance of risk management process affecting the bank's revenue, the functions and regulatory responsibilities that relates to risks are distributed to employees. The Bank is exposed to credit risk, liquidity risk, operating risk and market risk, which represent trading and hedging risks and operating risks. Risks relevant to the change of factors, the effect of technological factors and the industrial sectors are managed through the process of strategic planning.

Risk Management Process

The Board of Directors is responsible for identifying and controlling risks. In addition, there are committees that are responsible for managing and monitoring the bank risks.

4. Risk Management of Financial Instruments (contained)

Risks Committee

Risks Committee is responsible for developing risk strategies and applying the principles, general frame and allowed limits.

Risk Measurement and Reporting Systems

Risks are monitored and controlled through the control of authorized limits for each type of risk. These limits reflect the strategy of the Bank and the surrounding various market factors, in addition to the acceptable level of risk with a focus on certain financial sectors. Information is collected from different departments and analyzing it to get early identification of potential risks that may result from them. This information is presented to the Board of Directors and the Audit Committee and the manager of each department of the bank.

Internal Audit

The existence of an internal audit department that performs regular financial and compliance audits. Internal audit reports are sent to the Audit Committee of the Board.

b) Credit Risk and Concentration of Assets and Liabilities

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation in full. The Bank manages its credit risk exposure through diversification of its investments and lending activities to avoid undue concentration of risks with individuals or groups or customers in specific locations or businesses. It also obtains security where appropriate.

The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee. The bank also follows the guidelines issued by the PMA with regard to the granting of loans, investments and deposits with foreign banks which limits exposure to counterparties.

Concentration and analysis of the portfolio of direct credit facilities are illustrated in note (10). Exposure of the bank to credit risk from off financial position items are shown in note (35).

4. Risk Management of Financial Instruments (continued)

b)1. Credit exposures according to the degree of risk are categorized according to the following table:

2010	Individuals	Property Loans	Corporations	Small and Medium Companies	Government and Public Sector	Total
	USD	USD	USD	USD	USD	USD
Low risk	34,858,845	--	12,593,607	2,249,217	21,494,457	71,196,126
Acceptable risk	3,650,788	--	8,290,554	1,783,733	--	13,725,075
Of which is due:*						
within 30 days	--	--	--	--	--	--
from 31 to 60 days	--	--	--	--	--	--
Under watch	335,851	--	--	--	--	335,851
Non-performing:	2,840,411	--	--	2,869,619	--	5,710,030
Below level	1,097,020	--	--	131,835	--	1,228,855
Allowance provided	3,068,442	--	683,875	--	--	3,752,317
Bad debt	656,109	--	1,412,111	166,250	--	2,234,470
Total	46,507,466	--	22,980,147	7,200,654	21,494,457	98,182,724
<u>Less: Provision for credit facilities</u>	<u>(47,283)</u>	<u>--</u>	<u>(42,318)</u>	<u>(10,572)</u>	<u>--</u>	<u>(100,173)</u>
<u>Less: Interest in suspense</u>	<u>(1,815,868)</u>	<u>--</u>	<u>(62,196)</u>	<u>(741,182)</u>	<u>--</u>	<u>(2,619,246)</u>
Net	44,644,315	--	22,875,633	6,448,900	21,494,457	95,463,305

4. Risk Management of Financial Instruments (continued)

2009	Individuals		Property Loans		Corporations		Small and Medium Companies		Government and Public Sector		Total	
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Low risk	8,939,305	--	14,680,125	6,269,472	31,787,122	61,676,024						
Acceptable risk	2,814,277	440,299	9,663,001	3,853,422	16,727	16,787,726						
Of which is due:*												
within 30 days	--	--	--	--	--	--	--	--	--	--	--	--
from 31 to 60 days	--	--	--	--	--	--	--	--	--	--	--	--
Under watch	2,332	--	--	--	--	2,332						
Non-performing:	15,202	--	--	--	--	15,202						
Below level	500,633	--	--	--	--	500,633						
Allowance provided	777,356	--	--	--	--	777,356						
Bad debt	877,167	--	1,220,697	158,329	--	2,256,193						
Total	13,926,272	440,299	25,563,823	10,281,223	31,803,849	82,015,466						
<u>Less: Provision for credit facilities</u>	(66,690)	(52,377)	(7,309)	(9,141)	(5,724)	(141,241)						
<u>Less: Interest in suspense</u>	(438,170)	--	(75,551)	(250,971)	(11,003)	(775,695)						
Net	13,421,412	387,922	25,480,963	10,021,111	31,787,122	81,098,530						

4. Risk Management of Financial Instruments (continued)

b/2. Credit exposures according to the degree of risk are categorized according to the following table:

2010	Individuals	Small & Medium Size Companies	Large Companies	Government & Public Sector	Total
	USD	USD	USD	USD	USD
Guarantees against:					
Low risk	616,000	8,367,678	13,205,270	21,494,457	43,683,405
Acceptable risk	4,965,839	1,489,861	2,354,702	--	8,810,402
Under watch	153,068	--	--	--	153,068
Non-performing:	1,923,688	612,403	--	--	2,536,091
Below level	575,196	51,122	--	--	626,318
(Allowance provided)	2,140,069	57,299	--	--	2,197,368
Total	10,373,860	10,578,363	15,559,972	21,494,457	58,006,652
Of it:					
Cash Margins	3,757,782	10,119,847	6,691,786	--	20,569,415
Acceptable bank guarantees	1,576,475	--	2,623,650	--	4,200,125
Real estate	1,591,958	--	2,029,674	--	3,621,632
Trade stocks	2,929,950	458,516	3,507,669	--	6,896,135
Vehicles and equipment	517,695	--	707,193	--	1,224,888
Government Guarantee	--	--	--	21,494,457	21,494,457
Total	10,373,860	10,578,363	15,559,972	21,494,457	58,006,652

4. Risk Management of Financial Instruments (continued)

2009	Individuals	Small & Medium Size Companies	Large Companies	Government and Public Sector	Total
	USD	USD	USD	USD	USD
Guarantees against:					
Low risk	9,659,954	5,721,180	14,716,841	31,787,122	61,885,097
Acceptable risk	5,461,415	3,325,539	10,061,096	--	18,848,050
Under watch	--	--	--	--	--
Non-performing:	--	--	--	--	--
Below level	719,477	--	--	--	719,477
(Allowance provided)	--	--	562,842	--	562,842
Bad debt	--	--	--	--	--
Total	15,840,846	9,046,719	25,340,779	31,787,122	82,015,466
Of it:					
Cash Margins	3,932,007	8,650,441	5,720,136	--	18,302,584
Acceptable bank guarantees	6,951,397	--	14,264,498	--	21,215,895
Real estate	1,616,662	--	1,212,400	--	2,829,062
Trade stocks	2,220,450	396,278	2,613,325	--	5,230,053
Vehicles and equipment	1,120,330	--	1,530,420	--	2,650,750
Government Guarantee	--	--	--	31,787,122	31,787,122
Total	15,840,846	9,046,719	25,340,779	31,787,122	82,015,466

4. Risk Management of Financial Instruments (continued)

c) Liquidity Risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to cease immediately. Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the bank's short, medium and long-term funding and liquidity management requirements. To mitigate this risk, the Bank has diversified funding sources and assets are managed with liquidity in mind in order to maintain a healthy balance of cash, cash equivalents and readily marketable securities.

The table below summarizes the maturity profile of the Bank's major assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. The Bank routinely monitors assets and liabilities maturity profiles to ensure adequate liquidity is maintained.

4. Risk Management of Financial Instruments (continued)

Liquidity risk may result from the Bank's disability to meet its obligations. The maturities of assets and liabilities as of December 31, 2010 were as follows:

Assets:	Within 3 Months	Over 3 to 6 Months	Over 6 Months to 12 Months	Over 12 Months	Without Maturity	Total
	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar
Cash in Hand and at Banks	116,897,526	1,458,624	3,050,000	--	--	121,406,150
Balances With the PMA	2,038,192	--	--	--	14,197,265	16,235,457
Financial Assets Held for Trading	--	418,657	--	--	--	418,657
Financial Assets Available for Sale	--	--	--	--	10,081,957	10,081,957
Direct Credit Facilities-Net	43,080,216	10,897,201	19,625,982	21,859,906	--	95,463,305
Investment in Associate Company	--	--	--	--	5,194,313	5,194,313
Deferred Tax Asset	--	--	--	--	1,782,766	1,782,766
Fixed and Intangible Assets-Net and Land	--	--	--	--	6,973,420	6,973,420
Other Assets	6,433,170	306,914	843,952	227,845	--	7,811,881
Total Assets	168,449,104	12,662,739	23,938,591	22,087,751	38,229,721	265,367,906
Liabilities and Shareholders' Equity:						
PMA Deposits	17,531,563	--	--	--	--	17,531,563
Banks' and Financial Institutions Deposits	24,168,615	--	--	--	--	24,168,615
Customers' Deposits	124,458,298	5,294,961	6,259,251	6,185	--	136,018,695
Cash Margins	20,569,415	--	--	--	--	20,569,415
Provisions	--	--	790,756	--	1,463,175	2,253,931
Other Liabilities	1,965,338	279,500	--	--	--	2,244,838
Net Shareholders' Equity	--	--	--	--	62,580,849	62,580,849
Total Liabilities and Shareholders' Equity	188,693,229	5,574,461	7,050,007	6,185	64,044,024	265,367,906
Net liquidity gap	(20,244,125)	7,088,278	16,888,584	22,081,566	(25,814,303)	--
Accumulated net liquidity	(20,244,125)	(13,155,847)	3,732,737	25,814,303	--	--

4. Risk Management of Financial Instruments (continued)

The maturities of assets and liabilities as of December 31, 2009 were as follows:

	Within 3 Months	Over 3 to 6 Months	Over 6 Months to 12 Months	Over 12 Months	Without Maturity	Total
Assets:	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar
Cash in Hand and at Banks	124,472,264	--	3,000,000	--	--	127,472,264
Balances With the PMA	1,884,457	--	--	--	11,939,653	13,824,110
Financial Assets Held for Trading	809,690	--	--	--	--	809,690
Financial Assets Available for Sale	--	--	--	--	10,509,910	10,509,910
Investment in Associate Company	--	--	--	--	1,552,500	1,552,500
Direct Credit Facilities-Net	31,720,492	1,529,357	35,120,448	12,728,233	--	81,098,530
Other Assets	--	--	--	4,974,097	--	4,974,097
Deferred Tax Asset	--	--	--	--	1,259,255	1,259,255
Fixed Assets-Net	--	--	--	--	1,926,684	1,926,684
Land	--	--	--	--	2,193,475	2,193,475
Total Assets	158,886,903	1,529,357	38,120,448	17,702,330	29,381,477	245,620,515
Liabilities and Shareholders' Equity:						
Banks' and Financial Institutions Deposits	49,011,479	--	--	--	--	49,011,479
Customers' Deposits	100,514,586	4,569,606	4,806,636	3,008,261	--	112,899,089
Cash Margins	18,303,107	--	--	--	--	18,303,107
Provisions	--	--	1,287,756	--	1,365,655	2,653,411
Other Liabilities	1,672,096	--	--	--	--	1,672,096
Net Shareholders' Equity	--	--	--	--	61,081,333	61,081,333
Total Liabilities and Shareholders' Equity	169,501,268	4,569,606	6,094,392	3,008,261	62,446,988	245,620,515
Net liquidity gap	(10,614,365)	(3,040,249)	32,026,056	14,694,069	(33,065,511)	--
Accumulated net liquidity gap	(10,614,365)	(13,654,614)	18,371,442	33,065,511	--	--

4. Risk Management of Financial Instruments (continued)

d) 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 possibility that changes in interest rates will affect the value of financial instruments or cash flows of the bank. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities. The Bank measures and manages interest rate risk by establishing levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

4. Risk Management of Financial Instruments (continued)
Risk Management of Financial Instruments (contained) Interest Rate Sensitivity – 2010:

	Within 3 Months	Over 3 to 6 Months	Over 6 Months to 12 Months	Over 12 Months	Not Subject to Interest Rate Risk	Total
Assets:	U.S.Dollar	U.S.Dollar	U.S.Dollar	U.S.Dollar	U.S.Dollar	U.S.Dollar
Cash in Hand and at Banks	67,240,745	1,458,624	3,050,000	--	49,656,781	121,406,150
Balances With the PMA	--	--	--	--	16,235,457	16,235,457
Financial Assets Held for Trading	--	--	--	--	418,657	418,657
Financial Assets Available for Sale	--	--	--	--	10,081,957	10,081,957
Direct Credit Facilities-Net	43,080,216	10,897,201	19,625,982	21,859,906	--	95,463,305
Investment in Associate Company	--	--	--	--	5,194,313	5,194,313
Deferred Tax Asset	--	--	--	--	1,782,766	1,782,766
Fixed and Intangible Assets-Net and Land	--	--	--	--	6,973,420	6,973,420
Other Assets	--	--	--	--	7,811,881	7,811,881
Total Assets	110,320,961	12,355,825	22,675,982	21,859,906	98,155,232	265,367,906
Liabilities and Shareholders' Equity:						
PMA Deposits	17,531,563	--	--	--	--	17,531,563
Banks' and Financial Institutions Deposits	23,874,662	--	--	--	293,953	24,168,615
Customers' Deposits	61,687,489	5,294,961	6,259,251	6,185	62,770,809	136,018,695
Cash Margins	20,569,415	--	--	--	--	20,569,415
Provisions	--	--	--	--	2,253,931	2,253,931
Other Liabilities	--	--	--	--	2,244,838	2,244,838
Net Shareholders' Equity	--	--	--	--	62,580,849	62,580,849
Total Liabilities and Shareholders' Equity	123,663,129	5,294,961	6,259,251	6,185	130,144,380	265,367,906
Difference of Interest Rate Sensitivity	(13,342,168)	7,060,864	16,416,731	21,853,721	(31,989,148)	--
Accumulated Difference of Interest Rate Sensitivity	(13,342,168)	(6,281,304)	10,135,427	31,989,148	--	--

4. Risk Management of Financial Instruments (continued)

Interest Rate Sensitivity – 2009:

	Within 3 Months	Over 3 to 6 Months	Over 6 Months to 12 Months	Over 12 Months	Not Subject to Interest Rate Risk	Total
	U.S.Dollar	U.S.Dollar	U.S.Dollar	U.S.Dollar	U.S.Dollar	U.S.Dollar
Assets:						
Cash in Hand and at Banks	50,027,726	--	3,000,000	--	74,444,538	127,472,264
Balances With the PMA	--	--	--	--	13,824,110	13,824,110
Financial Assets Held for Trading	--	--	--	--	809,690	809,690
Financial Assets Available for Sale	--	--	--	--	10,509,910	10,509,910
Investment in Associate Company	--	--	--	--	1,552,500	1,552,500
Direct Credit Facilities-Net	32,132,758	1,529,357	35,120,448	12,315,967	--	81,098,530
Other Assets	--	--	--	--	4,974,097	4,974,097
Deferred Tax Asset	--	--	--	--	1,259,255	1,259,255
Fixed Assets-Net and Land	--	--	--	--	4,120,159	4,120,159
Total Assets	82,160,484	1,529,357	38,120,448	12,315,967	111,494,259	245,620,515
Liabilities and Shareholders' Equity:						
Banks' and Financial Institutions Deposits	47,354,419	--	--	--	1,657,060	49,011,479
Customers' Deposits	50,679,046	4,569,606	4,806,636	3,008,261	49,835,540	112,899,089
Cash Margins	18,303,107	--	--	--	--	18,303,107
Provisions	--	--	--	--	2,653,411	2,653,411
Other Liabilities	--	--	--	--	1,672,096	1,672,096
Net Shareholders' Equity	--	--	--	--	61,081,333	61,081,333
Total Liabilities and Shareholders' Equity	116,336,572	4,569,606	4,806,636	3,008,261	116,899,440	245,620,515
Difference of Interest Rate Sensitivity	(34,176,088)	(3,040,249)	33,313,812	9,307,706	5,405,181	--
Accumulated Difference of Interest Rate Sensitivity	(34,176,088)	(37,216,337)	(3,902,525)	(5,405,181)	--	--

4. Risk Management of Financial Instruments (continued)

Foreign Currencies Risk:

The currencies positions are monitored daily to ensure that they are within the determined limits. Moreover, the related reports are submitted to the Assets and Liabilities Committee and Board of Directors.

The following table summarizes the net currencies positions for basic currencies the bank deals with:

	2010 U.S. Dollar	2009 U.S. Dollar
Jordan Dinar	(665,060)	(536,557)
New Israeli Shekel	(119,870)	281,138
Euro	31,745	(54,467)
U.S. Dollar	403,335	(2,275,706)
Sterling Pound	7,405	3,367
Swiss Frank	7,794	9
Other Currencies	334,651	2,582,216

Net concentration to foreign currencies on financial position as of December 31, 2010:

Not sensitive to change in currency price

2010	Total	JOD	Other currency	EURO	NIS
	USD	USD	USD	USD	USD
Assets					
Balances at banks and financial institutions	62,552,730	18,852,878	531,000	6,679,410	36,489,442
Financial assets	10,380,614	10,046,049	334,565	--	--
Loans and advances to customers - net	50,411,131	6,131,795	--	366,832	43,912,504
Other assets	6,549,426	2,997,283	--	10,017	3,542,126
Total assets	129,893,901	38,028,005	865,565	7,056,259	83,944,072
Liabilities and shareholders' equity:					
Banks' and financial institutions' balances and deposits	39,342,996	2,961,918	--	--	36,381,078
Customers' deposits	79,191,925	31,490,638	244,115	6,484,333	40,972,839
Cash margins	11,464,252	4,372,043	271,600	540,031	6,280,578
Other liabilities	1,270,693	841,096	--	150	429,447
Shareholders' equity	(972,630)	(972,630)	--	--	--
Total liabilities and shareholders' equity	130,297,236	38,693,065	515,715	7,024,514	84,063,942
Net concentration on financial position	(403,335)	(665,060)	349,850	31,745	(119,870)
Contingent obligations off-financial position	14,807,114	2,955,056	--	3,194,820	8,657,238
2009					
Total assets	130,398,647	40,134,102	2,968,512	5,330,530	81,965,503
Total liabilities and shareholders' equity	128,122,941	40,670,659	382,920	5,384,997	81,684,365
Net concentration on financial position	2,275,706	(536,557)	2,585,592	(54,467)	281,138
Contingent obligations off-financial position	11,068,812	2,738,828	--	1,704,927	6,628,057

4. Risk Management of Financial Instruments (continued)

The following table details the Bank's sensitivity to a percentage increase or decrease in the U.S. Dollar against the relevant foreign currencies except for Jordan Dinar which is pegged to the U.S. Dollar. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and the impact of a change of +/- 10% in the exchange rates are as follows:

Currency	Gain / Loss		Percentage
	2010	2009	
	USD	USD	%
Euro	952	1,634	+/- 3%
NIS	3,596	8,434	+/- 3%
Other currencies	10,495	77,568	+/- 3%

● Price risk

Price risk is the risk that the market value increases / decreases as a result of volatility in the price. The effect on the statement of income and shareholders' equity of a possible price change of +/- 10% in quoted investments, with all other variables held constant is as follows:

	2010		2009	
	Effect on equity	Effect on P&L	Effect on equity	Effect on P&L
	USD		USD	
Quoted Securities	1,008,196	41,866	1,049,069	80,969

e) Operating Risks

Operational risks are the risks resulting from direct or indirect losses that are arising from a particular failure of technological applications, or operations or mistakes made by employees. The Bank reduces the occurrence of these risks as much as possible within the framework of policies and procedures to assess, monitor and manage these risks. Monitoring these risks include the work on the effective segregation of duties, authorities and procedures of conformity, in addition to that, increasing the employees' awareness of these risks and methods of evaluation.

f) Other Risks

Other risks include the risks of failure to meet regulatory requirements, legal risks and reputational risks. The bank controls the risks of failure to meet regulatory requirements within the framework of policies and procedures relating to discipline and follow-up. Reputational risk is managed through regular examination of the factors related to the reputation of the bank, in addition to that, issuing instructions and specific policies wherever appropriate.

4. Risk Management of Financial Instruments (continued)

g) Capital Adequacy

The Bank maintains an actively managed capital base to cover the risks inherent in the business. The adequacy of the Bank's capital is monitored using among other measures, the rules and ratios established by the PMA regulations derived from Basel Committee on Banking Supervision.

The primary objective of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue capital securities. During 2010 the bank increased capital by \$10 million to become \$50 Million as required by the PMA by capitalizing voluntary and special reserves and retained earnings

4. Risk Management of Financial Instruments (continued)

4-3) Segmentation of Bank's Activities:

The Bank is organized, for managerial purposes, into two major sectors; individual and corporate accounts and treasury. Individual accounts include following up on individual customers accounts, and granting them loans, credit, credit cards, and other services. Corporate accounts include following up on deposits, credit facilities, and other banking services related to customers. Treasury includes providing dealing services and management of the Bank's funds.

a. The following information show the Bank's Operations Segments:

	Individuals	Corporations	Finance	Treasury	Others	Total 2010	Total 2009
-	USD	USD	USD	USD	USD	USD	USD
Gross income	4,225,064	1,624,757	1,573,870	605,084	4,146,004	12,174,779	10,341,681
Provision for credit facilities	(1,377,698)	(490,211)	--	--	--	(1,867,909)	(167,069)
Gross profit	2,847,366	1,134,546	1,573,870	605,084	4,146,004	10,306,870	10,174,612
Distributed expenditures	(2,224,463)	(885,422)	(828,630)	(318,572)	(3,740,718)	(7,967,805)	(5,358,814)
Profit (loss) before taxes	622,903	279,124	745,240	286,512	405,286	2,339,0650	4,815,798
Taxes	74,018	(39,412)	(169,506)	(65,167)	(421,432)	(769,535)	(1,887,458)
Profit (loss) after taxes	548,885	239,712	575,734	221,345	(16,146)	1,569,530	2,928,340
Additional Information:							
Sector's Assets	--	18,655,080	97,331,214	137,595,362	11,786,250	265,367,906	45,620,5152
Sector's Liabilities	67,796,979	49,468,323	20,569,415	41,581,920	23,370,420	202,787,057	184,539,182
Capital expenditures	--	--	--	--	--	3,295,476	463,515
Depreciation	--	--	--	--	--	412,599	380,390

4. Risk Management of Financial Instruments (continued)

b. Secondary operation segment information

The following table explains the operating income, total assets, total liabilities and capital expenses for the bank according to geographic segment:

	Total		Outside Palestine		Inside Palestine	
	2009	2010	2009	2010	2009	2010
	U.S.D	U.S.D	U.S.D	U.S.D	U.S.D	U.S.D
Income for the year	2,928,340	1,569,530	698,198	532,691	2,230,142	1,036,839
Capital expenditures	463,515	3,295,476	--	--	463,515	3,295,476
Total assets	245,620,515	265,367,906	62,421,475	76,240,493	183,199,040	189,127,413
Total liabilities	184,539,182	202,787,057	10,657,058	12,202,695	173,882,124	190,584,362

c. Concentration of risk by geographical area:

c/1. Exposure According to Geographical Areas:

Geographical Area	Inside Palestine	Middle East Countries	Europe	Asia *	Africa *	America	Total
	USD	USD	USD	USD	USD	USD	USD
Balances at banks & financial institutions	62,714,634	54,386,809	13,458,238	--	--	7,081,926	137,641,607
Credit facilities	94,706,276	757,029	--	--	--	--	95,463,305
Financial assets held for trading	196,732	221,925	--	--	--	--	418,657
Investment in associate company	5,194,313	--	--	--	--	--	5,194,313
Financial Assets Available for Sale	9,747,391	334,566	--	--	--	--	10,081,957
Fixed and intangible assets – net and land	6,973,420	--	--	--	--	--	6,973,420
Other assets	9,594,647	--	--	--	--	--	9,594,647
Total for the current year	189,127,413	55,700,329	13,458,238	--	--	7,081,926	265,367,906
Off – financial position items/ current year	37,869,360	--	--	--	--	--	37,869,360
Total/comparative figures	183,199,040	46,409,873	11,646,333	--	--	4,365,269	245,620,515
Off – financial position items – comparative figures	31,249,263	--	--	--	--	--	31,249,263

● **Excluding Middle East Countries.**

c/2. Concentration of risk by economic sector

December 31, 2010

Economic Sector	Financial	Industrial	Trade	Real estate	Agricultural	Shares	Individuals	Government & public sector	Total
	USD	USD	USD	USD	USD	USD	USD	USD	USD
Balances at PMA	16,235,457	--	--	--	--	--	--	--	16,235,457
Balances at banks & financial institutions	121,406,150	--	--	--	--	--	--	--	121,406,150
Credit facilities	--	7,884,499	15,390,827	28,415,495	--	--	22,278,027	21,494,457	95,463,305
Financial assets held for trading	--	--	--	--	--	418,657	--	--	418,657
Financial asset available for sale	--	--	--	--	--	--	--	--	10,081,957
Others assets	19,332,760	--	--	2,429,620	--	--	--	--	21,762,380
Total	156,974,367	7,884,499	15,390,827	30,845,115	--	--	22,278,027	21,494,457	265,367,906

December 31, 2009

Economic Sector	Financial	Industrial	Trade	Real estate	Agricultural	Shares	Individuals	Government & public sector	Total
	USD	USD	USD	USD	USD	USD	USD	USD	USD
Balances at PMA	13,824,110	--	--	--	--	--	--	--	13,824,110
Balances at banks & financial institutions	127,472,264	--	--	--	--	--	--	--	127,472,264
Credit facilities	--	2,764,640	16,464,463	7,387,829	--	45,759	22,654,440	31,781,399	81,098,530
Financial assets held for trading	--	--	--	--	--	809,690	--	--	809,690
Financial asset available for sale	--	--	--	--	--	10,509,910	--	--	10,509,910
Other assets	7,970,640	--	--	3,935,371	--	--	--	--	11,906,011
Total	149,267,014	2,764,640	16,464,463	11,323,200	--	11,365,359	22,654,440	31,781,399	245,620,515

5. Cash in Hand and at Banks:

	December 31, 2010 U.S. Dollar	December 31, 2009 U.S. Dollar
Cash and Cheques in Hand	18,826,822	36,074,060
Current Deposits at Local Banks	14,652,355	11,434,114
Time Deposits at Local Banks	13,000,000	17,606,126
Current Deposits at Foreign Banks	31,149,212	28,646,563
Time Deposits at Foreign Banks	43,777,761	33,711,401
	121,406,150	127,472,264
In Other Currencies	52,981,482	75,410,656

Deposits at banks include non – interest bearing deposits amounted to U.S.Dollar 30,865,417 as of December 31, 2010 (U.S.Dollar 36,608,916 as of December 31, 2009).

6. Balances With the Palestinian Monetary Authority:

Balances with the Palestinian Monetary Authority as of December 31, 2009 consist of the following:

			December 31, 2010 U.S. Dollar	December 31, 2009 U.S. Dollar
	U.S. Dollar	Other Currencies U.S. Dollar	Total	Total
Mandatory Reserve	5,825,688	8,371,577	14,197,265	11,939,653
Current Account	838,521	1,199,671	2,038,192	1,884,457
	6,664,209	9,571,248	16,235,457	13,824,110

According to circular No 67/2010 of the Palestinian Monetary Authority (PMA) dated July 5, 2010, the Bank should maintain with PMA mandatory cash reserve at 9% of all customers deposits. PMA stopped to pay interest on the balances of mandatory cash reserve effective May 2001.

7. Financial Assets Held for Trading:

Financial assets held for trading represent investments in quoted equity securities of local and Jordanian Companies. These securities are being traded on the Palestine Stock Exchange and Amman Financial Market and are stated at fair value as follows:

	December 31, 2010			December 31, 2009		
	Local	Foreign	Total	Local	Foreign	Total
	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar
Equity Securities – Shares in USD	120,000	--	120,000	144,789	--	144,789
Equity Securities – Shares in JOD	76,733	221,924	298,657	245,690	419,211	664,901
	196,733	221,924	418,657	390,479	419,211	809,690

8. Financial Assets Available for Sale:

Financial assets available for sale represent investments in equity securities in Jordanian Dinar, U.S. Dollar and other currencies. Financial assets available for sale as of December 31, 2010 are stated in the accompanying consolidated statement of financial position at fair value as follows:

	December 31, 2010			December 31, 2009		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar
U.S. Dollar	--	3,711	3,711	69,354	--	69,354
Jordanian Dinar	9,724,464	19,217	9,743,681	10,038,415	19,217	10,057,632
Other Currencies	334,565	--	334,565	382,924	--	382,924
	10,059,029	22,928	10,081,957	10,490,693	19,217	10,509,910

The unrealized loss from the change in fair value as of December 31, 2010 amounted to U.S. Dollar 1,485,509 (Unrealized loss of U.S. Dollar 1,694,995 as of December 31, 2009).

Impairment loss on certain securities amounted to U.S. Dollar 43,281 during the year ended December 31, 2010 (U.S. Dollar 55,491 during the year 2009).

9. Investment in Associate Company:

Details of investment in associate as at December 31, 2010 are as follows:

	Country of incorporation	Equity %	Carrying Value
Al Shorouk Real Estate and Investment Co.	Palestine	25.8%	5,194,313

Al Shorouk Real Estate and Investment Co. is incorporated in Palestine with a paid in capital of 23 million shares at par value of \$1 per share. The company primary activity is investment in real estate. The Palestine Investment Bank owns 5,950,000 shares representing 25.8% of the total equity of the associate.

At the same time, the associate owns 15,225,000 shares in the Bank representing 30.45% of the Bank's total equity (see note 38/c).

Summary of movement is as follows:

	December 31, 2010 U.S. Dollar	December 31, 2009 U.S. Dollar
Balance – Beginning of the Year	1,552,500	1,552,500
Additional shares acquired during the year (4,600,000 shares)	4,600,000	--
Provision for decline in value	(958,187)	--
Balance, end of the year	5,194,313	1,552,500

The bank's share in assets, liabilities and income of the associate is as follows:

	December 31, 2010		December 31, 2009	
	Bank's Share		Bank's Share	
	U.S. Dollar	U.S. Dollar	U.S. Dollar	U.S. Dollar
Assets	22,516,110	5,824,820	28,390,579	1,675,044
Liabilities	3,119,871	807,097	7,015,510	413,915
Revenues	5,217,095	1,349,640	--	--

10. Direct Credit Facilities - Net :

	December 31,2010 U.S. Dollar	December 31,2009 U. S. Dollar
Retail :		
Overdraft Facilities	24,121,920	18,452,419
Loans and Advances	22,364,122	16,291,141
Others	21,424	21,424
Total	46,507,466	34,764,984
Real – Estate	--	440,299
Corporate:		
Overdraft Facilities	14,256,231	10,978,603
Loans and Advances	15,924,570	4,044,458
Total	30,180,801	15,023,061
Public Sector	21,494,457	31,787,122
Total	98,182,724	82,015,466
Interest In – Suspense	(100,173)	(141,241)
Provision for credit facilities	(2,619,246)	(775,695)
Net Credit Facilities	95,463,305	81,098,530

Activity in the provision for the credit facilities during the year was as follows:

	December 31,2010 U.S.Dollar	December 31,2009 U.S.Dollar
Balance – Beginning of the Year	775,695	648,892
Additions During the Year	1,867,909	167,069
Amounts Written off During the Year	(31,574)	(29,340)
Disposed off Out the Financial Position *	--	(930)
Foreign currency exchange	7,216	(9,996)
Balance - End of the Year	2,619,246	775,695

Activity in interest in suspense during the year was as follows:

	December 31, 2010 U.S. Dollar	December 31, 2009 U. S. Dollar
Balance-Beginning of the Year	141,241	128,905
Interest Suspended During the Year	70,646	58,101
Suspended Interest Transferred to Income	(94,958)	(13,049)
Interest Written-off During the Year	(13,797)	(20,211)
Transferred to off-Financial Position *	(2,959)	(12,505)
Balance-End of the Year	100,173	141,241

* Based on the instructions of the Palestinian Monetary Authority, non-performing credit facilities past – due for more than six years and fully provided for, are transferred to off-financial position items

c. The distribution of credit facilities (net of interest in – suspense) among the different economical sectors is as follows:

	December 31, 2010 U.S. Dollar	December 31, 2009 U. S. Dollar
Palestinian Authority	21,489,381	31,770,395
Palestinian Authority – Local Authorities	5,076	11,003
Real estate	12,524,873	7,073,096
Manufacturing	7,884,499	3,796,411
Tourism	1,530,102	1,221,700
Investment in Securities – Corporate	--	25,351
Investment in Securities – Individuals	--	20,408
Domestic Trade	10,802,486	9,937,990
Foreign Trade	5,078,552	5,325,580
Financing Consumables	13,407,538	12,196,072
Other Purposes – Private Sector	18,917,648	9,555,000
Public Services	6,442,396	941,219
	98,082,551	81,874,225

11. Other Assets :

	December 31, 2010 U.S. Dollar	December 31, 2009 U. S. Dollar
Cheques under Clearance	5,149,031	3,443,488
Prepaid Expenses	843,445	482,428
Real Estate acquired on settlement of credit facilities *	--	41,802
Accrued Interest Income	301,439	105,014
Prepayments on account of Purchasing software & establishing new branches	227,845	--
Accounts Receivable	1,290,121	901,365
	7,811,881	4,974,097

* In accordance with the Palestinian Monetary Authority (PMA) instructions, the bank should dispose these assets within a period of maximum five years. When this period expires, the bank has to obtain the approval from the PMA for an extension.

12. Deferred Tax Asset:

The balance of this account is composed of tax benefits arising from tax temporary differences from the below accounts:

	Balance			Balance	Deferred
	Beginning	Amounts		End of	Tax
	of Year	Released	Additions	Year	Asset
	USD	USD	USD	USD	USD
December 31, 2010					
Provision for Impairment in Loans and Advances	2,426,143	(31,574)	1,882,394	4,276,963	1,183,179
Provision for employees Indemnity	1,365,655	(419,409)	516,929	1,463,175	404,772
Interest In-Suspense	760,166	(126,596)	70,646	704,216	194,815
	4,551,964	(577,579)	2,469,969	6,444,354	1,782,766
December 31, 2009					
Provision for Impairment in Loans and Advances	2,321,044	(36,949)	167,069	2,451,164	678,090
Provision for Staff Indemnity	1,286,626	(197,559)	276,588	1,365,655	377,795
Interest In-Suspense	710,304	(33,260)	58,101	735,145	203,370
	4,317,974	(267,768)	501,758	4,551,964	1,259,255

The following is the movement in the account balance as of December 31, 2010 and 2009:

	2010	2009
	USD	USD
Opening Balance	1,259,255	1,194,524
Additions	683,292	138,806
Disposals	(159,781)	(74,075)
Ending Balance	1,782,766	1,259,255

13. Fixed Assets - Net:

	Balance-Beginning	Additions/		Balance-End
December 31, 2010	of the Year	Depreciation	Disposals	of the Year
	U.S.Dollar	U.S.Dollar	U.S.Dollar	U.S.Dollar
Cost :				
Furniture	315,387	52,799	--	368,186
Computers	988,314	728,044	(1,301)	1,715,057
Telecommunication Devices	119,614	11,957	--	131,571
Automated Teller Machines	480,308	49,236	--	529,544
Calculators and Printers	340,607	67,875	(6,840)	401,642
Safes	330,576	43,044	(2,345)	371,275
Decorations and Partitions	816,237	134,636	--	950,873
Electricity Substructures	382,607	146,620	(16,200)	513,027
Air Conditions and Heating	189,099	62,001	--	251,100
Alarm System	237,768	22,294	--	260,062
Motor Vehicles	196,451	39,000	(31,000)	204,451
Safety Doors	106,825	32,683	--	139,508
Real Estate	399,589.	851,400	--	1,250,989
	4,903,382	2,241,589	(57,686)	7,087,285
Accumulated Depreciation:				
Furniture	178,345	19,493	--	197,838
Computer	788,418	88,607	(500)	876,525
Telecommunication Devices	84,488	8,366	--	92,854
Automated Teller Machines	242,594	99,355	--	341,949
Calculators and Printers	150,566	27,206	(962)	176,810
Safes	184,947	20,731	(258)	205,420
Decorations and Partitions	587,434	38,370	--	625,804
Electricity Substructures	247,491	22,497	--	269,988
Air Conditions and Heating	118,041	29,701	--	147,742
Alarm System	201,807	8,398	--	210,205
Motor Vehicles	117,538	32,693	(26,350)	123,881
Safety Doors	32,736	7,745	--	40,481
Real Estate	42,293	9,437	--	51,730
	2,976,698	412,599	(28,070)	3,361,227
Net Book Value	1,926,684			3,726,058

Intangible assets represent new computer software programs. The bank started using and depreciating them effective January 2011.

	Balance-Beginning	Additions/		Balance-End
December 31, 2009	of the Year	Depreciation	Disposals	Of the Year
	U.S.Dollar	U.S.Dollar	U.S.Dollar	U.S.Dollar
<u>Cost :</u>				
Furniture	293,218	28,210	(6,041)	315,387
Computers	1,020,781	37,779	(70,246)	988,314
Telecommunication Devices	118,797	8,363	(7,546)	119,614
Automated Teller Machines	452,828	27,480	--	480,308
Calculators and Printers	264,829	76,449	(671)	340,607
Safes	306,462	24,114	--	330,576
Decorations and Partitions	775,930	86,660	(46,353)	816,237
Electricity Substructures	393,002	36,529	(46,924)	382,607
Air Conditions and Heating	143,002	46,097	--	189,099
Alarm System	266,675	7,218	(36,125)	237,768
Motor Vehicles	196,451	--	--	196,451
Safety Doors	85,679	21,146	--	106,825
Real Estate *	399,589.	--	--	399,589
	4,717,243	400,045	(213,906)	4,903,382
<u>Accumulated Depreciation:</u>				
Furniture	159,251	20,265	(1,171)	178,345
Computer	742,831	84,568	(38,981)	788,418
Telecommunication Devices	84,347	7,687	(7,546)	84,488
Automated Teller Machines	149,738	92,856	--	242,594
Calculators and Printers	129,506	21,731	(671)	150,566
Safes	166,112	18,835	--	184,947
Decorations and Partitions	587,214	32,023	(31,803)	587,434
Electricity Substructures	275,219	19,194	(46,922)	247,491
Air Conditions and Heating	96,244	21,797	--	118,041
Alarm System	229,432	8,500	(36,125)	201,807
Motor Vehicles	88,070	29,468	--	117,538
Safety Doors	26,862	5,874	--	32,736
Real Estate *	34,301	7,992	--	42,293
	2,769,127	370,790	(163,219)	2,976,698
Net Book Value	1,948,116			1,926,684

* Represents real estate acquired by the bank in settlement of credit facilities and currently is being used by the bank

14. Land:

	Area/Sqm	December 31, 2010 U. S. Dollar	December 31, 2009 U. S. Dollar
Land	5,617	2,193,475	2,193,475

The purpose of EI – Bireh land is for construction of a building for the Bank's headquarters and a branch. Lands are stated at historical cost as of December 31, 2010 and 2009.

15. PMA Deposits:

	December 31, 2010 U.S. Dollar	December 31, 2009 U. S. Dollar
Deposits – Palestinian Monetary Authority	17,531,563	25,161,385
In Other Currencies	17,531,563	25,161,385

16. Banks and Financial Institutions Deposits:

	December 31, 2010 U.S. Dollar	December 31, 2009 U. S. Dollar
Demand Deposits-Local Banks	293,986	6,536,452
Demand Deposits- Foreign Banks	118,258	118,258
Fixed Deposits-Local Banks	13,096,562	6,656,584
Fixed Deposits – Foreign Banks	10,659,809	10,538,800
	24,168,615	23,850,094
In Other Currencies	21,811,433	22,216,852

17. Customers' Deposits :

	December 31 , 2010 U .S. Dollar	December 31, 2009 U. S. Dollar
Demand Deposits	62,121,838	50,647,185
Saving Accounts	30,109,747	21,974,281
Time Deposits	42,108,874	39,692,501
Debit Accounts – Accidentally Credit	836,102	359,471
Others	842,134	225,651
	136,018,695	112,899,089

18. Cash Margins:

	December 31, 2010 U .S. Dollar	December 31, 2009 U. S. Dollar
Cash Margins against Direct Credit Facilities	16,576,984	15,595,263
Cash Margins against Indirect Credit Facilities	3,992,431	2,707,844
	20,569,415	18,303,107
In Other Currencies	11,464,252	10,659,210

19. Sundry Provisions :

December 31,2010 U .S. Dollar	December 31, 2009 U. S. Dollar
1,463,175	1,365,655
1,463,175	1,365,655

Movement in provision for staff vacations and end of service indemnity was as follows:

	December 31, 2010 U .S. Dollar	December 31,2009 U. S. Dollar
Balance-Beginning of the Year	1,365,655	1,286,626
Additions During the Year	516,929	276,588
Payments Made During the Year	(419,409)	(197,559)
Balance – End of the Year	1,463,175	1,365,655

20. Provisions for Taxes :

Movement in provision for taxes was as follows:

	December 31, 2010 U .S. Dollar	December 31, 2009 U. S. Dollar
Balance-Beginning of the Year	1,287,756	1,130,977
Additions During the Year	1,293,046	1,952,189
Payments Against Prior Years	(1,330,046)	(1,336,690)
Advance Payments	(460,000)	(458,720)
Balance- End of the Year	790,756	1,287,756

Provision for taxes appearing on the statement of income represents the following:

	December 31, 2010	December 31, 2009
Accrued Taxes	1,293,046	1,182,992
Prior Year Taxes	--	769,197
Deferred Tax Asset	(683,292)	(138,806)
Deferred Tax Amortized	159,781	74,075
	769,535	1,887,458

The bank obtained final tax settlements to the year 2009 from the Income Tax Authority and the Value Added Tax Authority. The balance of provision for Taxes as of December 31,2010 in addition to the taxes paid in advance represent the bank's liability towards tax authorities for an amount of U.S. Dollar 1,250,756.

The bank is subject for tax on income at 15% in accordance with the Income Tax Law, and subject to VAT on profit and on salaries at 14.5%.

21. Other Liabilities:

	December 31, 2010 U.S. Dollar	December 31, 2009 U.S. Dollar
Accrued Interest Expenses	140,750	146,696
Accrued Expenses	597,899	308,778
Accrued Remuneration	279,500	247,000
Accounts Payable	521,462	433,860
Certified Bank Checks Issued	507,933	353,845
Certified Transfers and Checks	64,773	63,697
Other Credit Balances	97,123	83,529
Dividends Payable	24,229	24,659
Inter – Bank Accounts	11,169	10,032
	2,244,838	1,672,096

22. Paid-up Capital:

The paid-up capital of the Bank is U.S.Dollar 20,000,000 which has been collected through public offering of 2,000,000 ordinary shares at a par value of U.S.Dollar 10 per share. On June 11, 2000, the general assembly of the Bank in its extra-ordinary meeting resolved to split the share par value to U.S.Dollar 1 per share. Accordingly, the Bank's authorized and paid-up capital became 20,000,000 shares at a par value of U.S.Dollar 1 per share. On July 18, 2000, the companies' registrar approved this share split.

On May 14, 2006, the general assembly of the Bank in its extra – ordinary meeting resolved to increase the capital by an amount of U. S. Dollar 20,000,000 through capitalizing the amount from retained earnings as of December 31, 2005. Thus, the share capital of the Bank reached U. S. Dollar 40,000,000 as of December 31, 2006 and comprised 40,000,000 shares of U. S. Dollar (1) par value / share (Refer to note 36 regarding capital increases).

Capital Risk Management:

The Bank's Policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the banking business. The impact of the level of capital on shareholders' return is also recognized and the bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with the capital requirements imposed by the Palestinian Monetary Authority which require that the ratio of regulatory capital to assets weighted by risks and market risks (capital adequacy ratio) to be not less than 12%.

The Bank's primary capital and regulatory capital are as follows:

	December 31, 2010		December 31, 2009	
	U.S. Dollar	Percentage	U.S. Dollar	Percentage
Primary Capital	59,459,502	40.31%	44,218,824	40.60%
Regulatory Capital	42,778,137	29.0%	57,410,919	52.70%

23. Reserves:

Statutory Reserve

In accordance with the Bank's Bylaws and the Companies' Law, 10% of the Bank's annual net profit before taxes should be transferred to a statutory reserve account until the reserve balance equals the Bank's share capital. The statutory reserve cannot be appropriated to shareholders.

Voluntary Reserve

The Bank's general assembly, based on the Board of Directors recommendation, can appropriate up to 20% of the annual net profit before taxes as a voluntary reserve.

Special Reserve

The special reserve has been appropriated based on certain parentages recommended by the Bank's Board of Directors to fulfill any future needs of the Bank. The special reserve could be used or distributed to shareholders based on the Board of Directors resolution.

General Banking Risks Reserve

This item represents the amount of general banking risk deducted in accordance with PMA's regulations (5/2008) based on 1.5% of direct credit facilities after deducting provision for doubtful credit facilities and suspended interest and 0.5% of indirect credit facilities after deducting checks under collection, letters of guarantees, acceptances, and financial derivatives. The reserve is not to be utilized or reduced without PMA's prior approval.

Pro-cyclicality Reserve

This reserve represents 15% of net profit after tax deducted in accordance with PMA instruction (1/2011) to support Bank's capital against banking risks. The reserve is not to be utilized or reduced without PMA's prior approval.

24. Cumulative Change in Fair Value of Financial Assets Available for Sale:

	December 31, 2010 U .S. Dollar	December 31, 2009 U. S. Dollar
Balance – Beginning of the Year	(1,694,995)	(2,456,825)
Unrealized gain from change in fair value	166,205	387,839
Transferred to Income Statement	43,281	373,991
	209,486	761,830
Balance – End of the Year	(1,485,509)	(1,694,995)

25. Retained Earnings :

	December 31, 2010 U .S. Dollar	December 31, 2009 U. S. Dollar
Balance – Beginning of the Year	4,608,418	2,915,419
Income for the Year	1,569,530	2,928,340
Transferred to Capital	(3,328,096)	--
Transferred to Statutory Reserve	(156,953)	(481,580)
Transferred to General Reserve for Loan Losses	(230,000)	(506,761)
Transferred to Pro- cyclicality Reserve	(235,430)	--
Board of Directors Remuneration	(279,500)	(247,000)
Balance – End of the Year	1,947,969	4,608,418

Retained earnings as of December 31, 2010 and 2009 include an amount of U.S. Dollar 1,783,766 and an amount of U.S. Dollar 1,259,255 respectively being deferred tax asset. Utilizing these tax benefits is restricted unless they realize partially or totally.

26. Interest Income:

	Year Ended December 31, 2010 U.S. Dollar	Year Ended December 31, 2009 U.S. Dollar
Direct credit facilities :		
Individuals (Retail):		
Overdrafts Facilities	1,687,439	922,434
Loans and Advances	2,537,625	1,695,832
Others	1,608	3,961
	4,226,672	2,622,227
Companies :		
Overdraft Facilities	1,146,297	1,298,217
Loans and Advances	521,048	230,241
	1,667,345	1,528,458
Public Sector	1,573,868	1,551,019
Palestine Monetary Authority	622	4,742
Banks and Financial Institutions	1,649,592	1,667,003
	9,118,099	7,373,449

27. Commission Income :

	Year Ended December 31, 2010 U.S.Dollar	Year Ended December 31, 2009 U.S.Dollar
Commission from Direct Credit Facilities	519,425	589,479
Commission from Indirect Credit Facilities	582,645	502,653
Others	1,653,298	1,228,119
	2,755,368	2,320,251

28. Interest Expense:

	Year Ended December 31, 2010 U.S. Dollar	Year Ended December 31, 2009 U.S. Dollar
Banks and Financial Institutions Deposits	487,706	259,762
Current Accounts and Demand Deposit	1,899	4,887
Saving Accounts	36,173	50,242
Time Deposits	569,783	538,214
Cash Margin	163,520	200,540
	1,259,081	1,053,645

29. Gain from Trading and Revaluation of Foreign Currencies:

	Year Ended December 31,2010 U.S. Dollar	Year Ended December 31,2009 U.S. Dollar
Gain from Trading	143,032	109,006
Gain from Revaluation	514,106	620,086
	657,138	729,092

30. Gain from Sale of Financial Assets and Dividends :

a. During the year ended December 31, 2010 , the bank realized gain from sale of financial assets and received dividends on shares as per the below details:

	2010			2009		
	Gain from Sale of Financial Assets	Dividends Received	Total	Gain from Sale of Financial Assets	Dividends Received	Total
	USD	USD	USD	USD	USD	USD
Pal Tel	4,907	644,614	649,521	10,247	769,253	779,500
Padico	59,050	--	59,050	48,706	11,913	60,619
Arab Paints Industries Co.	--	1,504	1,504	--	--	--
Al- Salam International Co.	--	15,560	15,560	--	13,082	13,082
Arab Bank Plc	--	--	--	--	5,289	5,289
Palestine for Real Estate Investment Co.	6,988	7,798	14,786	--	7,446	7,446
Others	147	--	147	4,119	414	4,533
	71,092	669,476	740,568	63,072	807,397	870,469

b. Impairment loss in securities represents the following:

	December 31, 2010 U.S. Dollar	December 31, 2009 U.S. Dollar
Padico	2,400	12,614
Grand Park Hotel	--	13,011
Palestine for Tourism Investment Co.	--	29,866
Palestine for Real Estate Investment Co.	40,881	318,500
	43,281	373,991

c. Provision recovered from impairment in securities represents the following:

	December 31, 2010 U.S. Dollar	December 31, 2009 U.S. Dollar
Palestine for Real Estate Investment Co.	180,115	--
Padico	--	92,313
	180,115	92,313

31. Employees Expenses:

	Year Ended December 31, 2010 U.S.Dollar	Year Ended December 31, 2009 U.S.Dollar
Salaries and Related Expenses	2,746,815	2,080,634
Staff Annual Leave & End of Service Indemnity	516,929	276,588
Medical Expenses	104,197	98,938
Value Added Tax on Salaries	389,459	285,696
Provident Fund	116,878	104,700
Training	14,652	11,141
	3,888,930	2,857,697

Salaries and related expenses include the Bank's contribution into the employees' provident fund. In accordance with the provident fund policy, the Bank deducts monthly 5% from the basic salary of each employee and contributes 10% of the employee's basic salary. The provident fund is maintained in a special account under customers' deposits. The average interest rate paid to the provident fund was 2.2% for the years ended December 31, 2010 (3.5% for the year ended December 31, 2009). The provident fund balance as of December 31, 2010 amounted to U.S.Dollar 677,638 (U.S.Dollar 601,713 as of December 31, 2009).

32. General and Administrative Expenses:

	Year Ended December 31, 2010 U.S.Dollar	Year Ended December 31, 2009 U.S.Dollar
Delegations and Assignments	8,900	40,108
Travel and Transportation	104,844	69,032
Rent	341,846	301,730
Water and Electricity	156,863	119,203
Telecommunications	205,781	130,522
Insurance	46,398	34,063
Advertisement	84,610	52,609
Professional Fees	96,863	208,313
Licenses and Membership Fees	298,614	209,068
Stationery and Printing	93,264	115,224
Fuel	36,929	39,759
Maintenance and Repairs	136,111	69,808
Hospitality	63,412	39,407
Cleaning Expenses	61,370	47,741
Donations	15,643	2,989
Other Expenses	32,138	35,658
Establishment of New Branches Expenses	270,178	193,346
	2,053,764	1,708,580

During the year ended December 31, 2010 an amount of U.S. Dollar 12,052 represents fines charged by the PMA as a result of non – compliance with the PMA instructions. The fines were shown in the statement of income.

33. Earnings per Share:

	Year Ended December 31, 2010 U.S.Dollar	Year Ended December 31, 2009 U.S.Dollar
Net income for the year	1,569,530	2,928,340
Comprehensive income for the year	1,779,016	3,690,170
Average number of outstanding shares	50,000,000	40,000,000
Earnings per share – Net income	0.0314	0.0732
Earnings per share – Comprehensive income	0.0356	0.0923

34. Related Party Transactions:

These represent transactions with related parties, i.e. shareholders, directors and senior management and companies of which they are principle owners.

The following represent the balances of transactions that have been entered into with related parties:

	December 31, 2010 U.S. Dollar	December 31, 2009 U.S. Dollar
Credits and Deposits Items -		
Direct credit facilities	3,677,560	3,658,625
Deposits and margin accounts	2,507,093	1,169,750
Indirect Facilities -		
Letters of guarantee	2,115,656	2,115,656
Income Statement Items -		
Interest and commission income	154,113	165,492
Interest and commission expense	21,350	6,212
Additional Information -		
Non-performing credit facilities	1,084,698	29,738
Provision for impairment losses	339,775	17,099
Interest and commission in suspense	17,590	12,639
nuses) for the General Manger Benefits (Salaries, wages, and bo	157,500	134,246
Remunerations for Board of Directors	279,500	247,000

35. Commitments and Contingent Liabilities:

	December 31, 2010 U.S. Dollar	December 31, 2009 U.S. Dollar
Unutilized Credit Facilities	8,615,671	6,540,704
Letters of Guarantee	16,649,707	14,841,059
Letters of Credit	3,065,837	2,282,631
Acceptances	5,338,172	2,898,276
Commitments on Contracts	4,199,973	4,686,593
	37,869,360	31,249,263

36. Board of Directors Remuneration:

An amount of U.S. Dollar 247,000 was paid during the year ended December 31, 2010 to the Chairman and members of the BODs for their remunerations of 2009 in accordance with the Bank's Article of Association. Moreover, during the current year 2010, an amount of U.S. Dollar 279,500 was provided for the Chairman and the members of the BODs for their remunerations of 2010. This amount was shown under other liabilities as accrued expenses (Note 21).

37. Other Losses:

Other losses amounted to U.S. Dollar 451,250 resulting from trading in quoted foreign securities, a bank guarantee issued to a foreign party and other charges. Subsequent to the financial statements date, the PMA imposed a financial fine on the bank for an amount of U.S. Dollar 200,000 as a result of granting credit facilities to finance transactions of trading in foreign securities outside Palestine and other non-compliance issues with the Banks' Law as well as the PMA instructions. The fine was recorded in 2011 (Note 38).

The Bank appealed to the PMA to reconsider and cancel the fine, but no response was obtained from the PMA as of the date of the financial statements.

38. Developmental Policies:

During the year 2010, the bank completed its IT project of changing the old computer system with a new modern and advanced system. The new system was tested during December and found to operate effectively. This project aimed to develop and enhance banking services, render new quality services to customers, simplify internal processes and thus achieve better customers' satisfaction.

39. Application of New and Revised International Financial Reporting Standards (IFRSs):

a. Standards and Interpretations effective in the current year

At the date of authorization of these financial statements, the following standards and interpretations were effective:

(i) Revised standards:

• IFRS 1 (Revised)	First time adoption of International Financial Reporting Standards
• IFRS 2 (Revised)	Share-based Payment
• IFRS 3 (Revised)	Business combinations
• IFRS 5 (Revised)	Non Current assets Held for Sale & Discontinued Operations
• IFRS 8 (Revised)	Operating Segments
• IAS 1 (Revised)	Presentation of Financial Statements.
• IAS 7 (Revised)	Statement of cash flows
• IAS 17 (Revised)	Leases
• IAS 27 (Revised)	Consolidated and Separate Financial Statements
• IAS 28 (Revised)	Investment in associates
• IAS 31 (Revised)	Investment in joint ventures
• IAS 36 (Revised)	Impairment of Assets
• IAS 38 (Revised)	Intangible Assets
• IAS 39 (Revised)	Financial Instruments : Recognition and Measurement

(ii) Revised Interpretations

• IFRIC 9	Reassessment of Embedded Derivatives
• IFRIC 16	Hedges of Net Investment in Foreign Operations

(iii) Withdrawn Interpretations

• IFRIC 8	Scope of IFRS 2
• IFRIC 11	Group and Treasury Share Transactions

(iv) New Interpretations

• IFRIC 17	Distributions of Non-cash Assets to Owners
• IFRIC 18	Transfers of Assets from Customers

The adoption of these standards and Interpretations had no significant effect on the financial statements of the Bank for the year ended December 31, 2010, other than certain presentation and disclosure changes.

b. Standards and Interpretations in issue not yet effective

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

(i) Revised Standards

Effective for annual periods beginning on or after February 1, 2010	
• IAS 32 (Revised)	Financial Instruments : Presentation

Effective for annual periods beginning on or after July 1, 2010	
• IFRS 1 (Revised)	First time adoption of International Financial Reporting Standards.
• IFRS 3 (Revised)	Business combinations
• IAS 27 (Revised)	Consolidated and Separate Financial Statements

Effective for annual periods beginning on or after January 1, 2011	
• IFRS 1 (Revised)	First time adoption of International Financial Reporting Standards
• IFRS 7 (Revised)	Financial Instruments disclosures IAS 1 (Revised) Presentation of Financial Statements
• IAS 24 (Revised)	Related Party Disclosures
• IAS 34 (Revised)	Interim Financial Reporting.

(ii) New Standard:

Effective for annual periods beginning on or after January 1, 2013 (Early adoption allowed)	
• IFRS 9	Financial Instruments –Classification and Measurement

(iii) Revised Interpretations

Effective for annual periods beginning on or after January 1, 2011	
• IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

iv) New Interpretations

Effective for annual periods beginning on or after July 1, 2010	
IFRIC 19 •	Extinguishing Financial Liabilities with Equity Instruments

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Bank in the period of initial application, other than certain presentation and disclosure changes. General Administration and Head Office

Al-Bireh / Ramallah

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