

Al Rafah Microfinance Bank
(Public Shareholding Company Ltd.)
Ramallah-Palestine

Financial Statements
And
Independent Auditor's Report
Year Ended December 31, 2011

**Al Rafah Microfinance Bank
Public Shareholding Company Ltd.
Ramallah-Palestine**

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Independent Auditor's Report

**To the Shareholders of
Al Rafah Microfinance Bank (Public Shareholding Company Ltd.)
Ramallah – Palestine**

Report on the Financial Statements:

We have audited the accompanying financial statements of **Al Rafah Microfinance Bank (Public Shareholding Co. Ltd)**, which comprise of the statement of financial position as of December 31, 2011, the statement of income, the statement of comprehensive income, the statement of changes in owners' equity and the cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 of 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 financial statements give a true and fair view of the financial position of "**Al Rafah Microfinance Bank**" as of December 31, 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Legal and Other Regulatory Matters:

The bank did not comply with the Palestinian Monetary Authority instructions number 7/2009 which determined the minimum amount of capital for banks operating in the Palestinian authority to be U.S Dollar 50 million by the end of year 2011.

Except for the issue mentioned in the preceding paragraph, satisfactory explanations and information have been provided to us by management in response to all of our requests. In our opinion, and to the best of our knowledge and belief, the Bank:

- Has maintained proper accounting records and the financial statements are in agreement thereon,
- No violations of applicable laws including the Banks Law No. (9) of 2010, the instructions issued by the Palestinian Monetary Authority, the Company's Law and the Bank's bylaws have occurred during the year that might have any material effect on the financial position of the Bank.



Saba & Co.
Ramallah - Palestine

February 16, 2012

Al Rafah Microfinance Bank
Public Shareholding Company, Ltd.
Statement of Financial Position
As of December 31, 2011
(Amounts Are Expressed in U.S. Dollar)

<u>Assets</u>	<u>Note</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Cash on hand and deposits with Palestinian Monetary Authority	4	26,185,208	32,085,474
Deposits with banks and financial institutions	5	114,898,239	65,632,158
Trading Securities	6	3,198,802	2,471,100
Credit facilities, Net	7	76,299,928	42,997,898
Available for sale securities	8	4,982,429	1,980,970
Held to maturity Investments	9	5,000,000	3,752,217
Property, plant and equipment, Net	10	7,257,183	2,853,165
Intangible assets	11	236,344	228,563
Other assets	12	9,340,990	6,138,192
Total assets		<u>247,399,123</u>	<u>158,139,737</u>
<u>Liabilities and Owners' Equity</u>			
Liabilities:			
Deposits of Palestine Monetary Authority	13	12,289,416	18,817,672
Deposits of Banks and financial institutions	14	66,236,042	25,696,418
Customers' deposits	15	115,890,037	66,994,629
Cash margins	16	13,785,458	13,293,867
Provision for taxes	18	69,601	613,236
Provision for end of service indemnity	17	579,574	389,710
Other credit balances	19	9,289,428	3,601,428
Total liabilities		<u>218,139,556</u>	<u>129,406,960</u>
Owners' Equity:			
Paid in capital	20	29,875,642	29,871,624
Compulsory reserve	21	405,826	349,000
General banking risk reserve	21	1,248,353	769,752
Cyclical reserve	20	116,902	31,663
Cumulative change in fair value	8	(251,045)	(205,555)
Accumulated losses (Statement-D)		(2,136,111)	(2,083,707)
Net Owners' equity		<u>29,259,567</u>	<u>28,732,777</u>
Total liabilities and Owners' equity		<u>247,399,123</u>	<u>158,139,737</u>

The accompanying notes constitute an integral part of these financial statements

Al Rafah Microfinance Bank
Public Shareholding Company, Ltd.
Statement of Income
Year Ended December 31, 2011
(Amounts Are Expressed in U.S. Dollar)

	<u>Note</u>	<u>Year Ended December 31,</u>	
		<u>2011</u>	<u>2010</u>
Interest income	22	6,073,197	5,169,152
Interest expense	23	(1,671,900)	(1,017,246)
Net interest income		4,401,297	4,151,906
Net commission income	24	1,406,285	849,559
Net interest and commission income		5,807,582	5,001,465
Gain from investments in securities	25	277,726	280,339
Gain from foreign currencies exchange		656,480	57,816
Revenues recognized from temporary restricted donations		25,000	49,000
Releases from provision for impairment loss in credit facilities	7	81,210	24,403
Other income		20,345	40,332
Gross income		6,868,343	5,453,355
Expenses:			
Personnel costs	26	2,888,963	2,516,486
Other operating expenses	27	1,608,366	1,361,354
Depreciation and amortization		746,374	699,267
Provision for impairment loss in credit facilities	7	846,378	665,161
Total expenses		6,090,081	5,242,268
Net Income before taxes		778,262	211,087
Taxes	18	210,000	-
Net Income for the year		568,262	211,087
Earning per share		0.0189	0.007

The accompanying notes constitute an integral part of these financial statements

Al Rafah Microfinance Bank
Public Shareholding Company, Ltd.
Statement of Comprehensive Income
Year Ended December 31, 2011
(Amounts Are Expressed in U.S. Dollar)

	<u>Year ended</u>	<u>December 31,</u>
	<u>2011</u>	<u>2010</u>
Net Income for the Year	568,262	211,087
Items of Other Comprehensive Income		
(Loss) Gain from Revaluation of Available for Sales Securities	(45,490)	(240,086)
	(45,490)	(240,086)
Gross Comprehensive Income (loss) for the Year	522,772	(28,999)

The accompanying notes constitute an integral part of these financial statements

Statement (D)

Al Rafah Microfinance Bank
Public Shareholding Company, Ltd.
Statement of Changes in Owners' Equity
Year Ended December 31, 2011
(Amounts Are Expressed in U.S. Dollar)

	Paid in capital	Compulsory Reserve	General Banking Risk Reserve	Cyclical Reserve	Cumulative Change in Fair Value	Accumulated Losses	Net Owners' Equity
<u>December 31, 2011</u>							
Balances as of January, 2011	29,871,624	349,000	769,752	31,663	(205,555)	(2,083,707)	28,732,777
Net income for the year	-	-	-	-	-	568,262	568,262
Change in fair value of available for Sales Securities	-	-	-	-	(45,490)	-	(45,490)
Total Comprehensive Loss	-	-	-	-	(45,490)	568,262	522,772
Compulsory reserve	-	56,826	-	-	-	(56,826)	-
General banking risk reserve	-	-	478,601	-	-	(478,601)	-
Reserve for periodic fluctuation	-	-	-	85,239	-	(85,239)	-
Paid in Capital	4,018	-	-	-	-	-	4,018
Balance as of December 31, 2011	29,875,642	405,826	1,248,353	116,902	(251,045)	(2,136,111)	29,259,567
<u>December 31, 2010</u>							
Balances as of January, 2010	29,871,624	327,028	740,495	-	34,531	(2,211,902)	28,761,776
Profit for the year	-	-	-	-	-	211,087	211,087
Change in fair value of Available for Sales Securities	-	-	-	-	(240,086)	-	(240,086)
Total Comprehensive Loss	-	-	-	-	(240,086)	211,087	(28,999)
Compulsory reserve	-	21,972	-	-	-	(21,972)	-
General banking risk reserve	-	-	29,257	-	-	(29,257)	-
Reserve for periodic fluctuation	-	-	-	31,663	-	(31,663)	-
Balances as of December 31, 2010	29,871,624	349,000	769,752	31,663	(205,555)	(2,083,707)	28,732,777

The accompanying notes constitute an integral part of these financial statements

Al Rafah Microfinance Bank
Public Shareholding Company, Ltd.
Statement of Cash Flows
Year Ended December 31, 2011
(Amounts Are Expressed in U.S. Dollar)

	<u>Year Ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Operating Activities:		
Net income before taxes	778,262	211,087
Non cash items:		
Provision for impairment loss in credit facilities	846,378	665,161
Recovery of impairment loss in credit facilities	(81,210)	(24,403)
Gains from disposal of property and equipment	(20,345)	(3,874)
Depreciation and amortization	746,374	699,267
Provision for end of service indemnity	254,556	288,522
(Gain) Loss from sale of trading and available for sale Securities	(478,003)	(507,012)
(Gain) Loss from impairment of available for sale Securities	288,201	288,142
Impairment loss in investments	141,198	(7,282)
Amortization of premium of held to maturity securities	(3,508)	(33,031)
	<u>2,471,903</u>	<u>1,576,577</u>
Changes in assets and liabilities		
Increase in compulsory reserve with PMA	(2,947,583)	(1,207,753)
(Increase) Decrease in deposits with banks and financial institutions maturing after three months	2,115,654	(2,115,658)
(Increase) Decrease in restricted deposits with banks and financial institutions	(3,383,796)	(360,326)
Decrease (Increase) in credit facilities	(34,067,198)	2,210,920
(Increase) Decrease in other assets	(3,202,798)	(824,658)
Increase in customers' deposits	48,895,408	2,868,424
Increase (Decrease) in cash margins	491,591	(1,744,734)
Increase in other credit balances	5,688,000	1,620,946
	<u>16,061,181</u>	<u>2,023,738</u>
Cash provided from operations	16,061,181	2,023,738
Payments toward end of service indemnity	(64,692)	(279,003)
Tax payments	(753,635)	(268,428)
Net cash available from operations	<u>15,242,854</u>	<u>1,476,307</u>

The accompanying notes constitute an integral part of these financial statements

Al Rafah Microfinance Bank
Public Shareholding Company, Ltd.
Statement of Cash Flows
Year Ended December 31, 2011
(Amounts Are Expressed in U.S. Dollar)

	Year Ended December 31,	
	2011	2010
Investment Activities:		
Purchases of securities for trading	(5,767,143)	(2,383,132)
Sales of securities for trading	4,890,093	221,920
Purchase of available for sale securities	(6,171,543)	-
Sales of available for sale securities	2,903,901	4,158,556
Sale of held-to-maturity investments	5,273,124	1,667,900
Purchase of held-to-maturity investments	(6,098,753)	-
Acquisition of property, plant and equipment	(5,059,150)	(407,873)
Proceed from sale of property, plant and equipment	21,310	6,000
Acquisition of intangible assets	(99,988)	(10,754)
Net cash flow provided from (used in) investing activities	(10,108,149)	3,252,617
Financing activities		
Increase in capital	4,018	--
Net cash provided from financing activities	4,018	--
Net increase in cash and cash equivalent for the year	5,138,723	4,728,924
Cash and cash equivalent at beginning of the year	38,245,034	33,516,110
Cash and cash equivalent at end of the year (note-32)	43,383,757	38,245,034

The accompanying notes constitute an integral part of these financial statements

Al Rafah Microfinance Bank
Public Shareholding Company, Ltd.
Notes to Financial Statements
Year Ended December 31, 2011
(Amounts Are Expressed in U.S. Dollar)

1-General Information:

Al Rafah Microfinance Bank, “the bank” was established during 2005 as a public shareholding company in Ramallah – Palestine under registration No. 562601146 with a capital of U.S. Dollar 40,000,000 divided into 40,000,000 shares at par value of \$ 1 per share.

The Board of Directors decided to increase its paid in capital from U.S Dollar 29,871,624 as of 31 December 2009 to U.S Dollar 35 million in order to be in compliance with the Palestinian Monetary Authority regulations.

The bank is currently working through its main headquarter and its branches in Ramallah, Nablus, Hebron, Jenin and Dura.

In addition to the bank regular commercial banking, the bank finances the Palestinian microfinance sector.

The bank operates under the Palestinian Banking Law and the instructions of the Palestinian Monetary Authority.

The bank shares are listed for trading in the Palestine Securities Exchange.

The number of the bank’s employees is 112 as of December 31, 2010 and 120 as of December 31, 2009.

2- Financial Statements:

- The accompanying financial statements include the financial statements of the branches of the bank in addition to the headquarter in Ramallah. The financial statements were prepared after excluding the transactions and balances between headquarter and branches.
- The financial statements were approved by the Board of Directors on February 8, 2012.

3- Significant Accounting Policies:

New Standards, Amendments and Interpretations:

New Standards, Amendments and Interpretations Effective from 1 January 2011

-IAS 24, Related Party Disclosures (revised), the revised standard clarifies and simplifies the definition of related party and reduces the requirement for government related entities to disclose details of all transactions with the government and other government-related entities.

-IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, the interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.

-Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. Improvements to IFRS comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2011 with earlier adoption permitted. No changes to accounting policies are made as a result of these amendments.

New Standards, Amendments and Interpretations that are not yet Effective for the Year Ended 31 December 2011 and not yet adopted

A number of new standards, amendments to standards and interpretations have been issued that are not yet effective for the year ended 31 December 2011 and have not been applied in preparing these consolidated financial statements.

-IFRS 9, Financial Instruments, is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets amortized costs and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after 1 January 2015.

-IFRS 10, Consolidated Financial Statements.

-IFRS 11, Joint Arrangements.

-IFRS 12, Disclosure of Interest in Other Entities.

-IFRS 13, Fair Value Measurement.

The above standards are effective for annual periods beginning on or after 1 January 2013. The bank is currently assessing the impact of these standards on future periods.

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

- The financial statements have been prepared in accordance with the standards issued by the International Accounting Standards Board, and the interpretations issued by the Committee of International Financial Reporting Interpretations emanated from the Council of the International Accounting Standards and in accordance with the applicable local laws and the instructions of the Palestinian Monetary Authority.
- The financial statements have been prepared under the historical cost basis, except for available-for-sale and for trading investments which are stated at their fair values at the date of the financial statements.
- The financial statements have been presented in U.S. Dollar which is the Bank's functional currency.

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

Financial instruments

3-1 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 and customers and loans are recognized when the cash is received by the Bank or advanced to the customers.

3-2 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 values plus any directly attributable incremental costs of acquisition or issue in the case of financial assets and financial liabilities not at fair value through profit or loss.

3-3 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.

3-4 Available-for-sale Financial Assets

Available-for-sale financial investments are those which are designated "Available-for-Sale" and do not qualify to be appear as investments at fair value through profit and 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 the other comprehensive income and is accumulated in equity under the 'Change in Fair Values'. 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'.

3-5 Derecognizing of financial assets and financial liabilities

Financial assets

A financial asset is derecognized where:

- The expiration of right to receive cash flows from the asset, or
- 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 de-recognition 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.

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 technique, comparison to similar instruments for which market observable prices exist or internal pricing and valuation models.

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 recognizing the asset, and adjusting obligation on same time.

3-6 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, which requires an assessment whether the implementation of the agreement depend on using a specific asset or assets, or the agreement transfer the right of using the asset.

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

3-7 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.

3-8 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 amounts, 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 statement of income 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 indentified 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.

3-9 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.

Where there is an evidence of impairment in value, the total loss is converted (The difference between the acquisition cost and current fair value by deducting any loss in impairment in value of those financial assets that have been recognized previously in the statement of income) from Owners' Equity to the statement of Income. Impairment losses in the value of equity investments are not reversed in the statement of income, but the rise in the fair value is done directly after the decline in the statement of comprehensive income, and is presented "in total" within the Owners' Equity.

In the case of debt instruments that are classified as investments available-for-sale, the impairment in value is assessed based on the same standards used for financial assets carried at amortized cost. Interests continue to be measured at the effective interest rate on the reduced carrying value of the asset and are recorded as part of "Interest revenues". In the subsequent years, if the fair value of one of the debt instruments has increased, and the increase can be objectively linked to an event occurred after recognizing the loss impairment in value in the statement of income, and the impairment loss is reversed within the statement of income.

3-10 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 principle 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 is recognized when the right to receive the dividends has been announced.

3-11Property, Plant & Equipment

This item is stated at cost net of accumulated depreciation and any impairment in value, property and real-estate are depreciated according to the straight-line method over their estimated useful lives using rates ranging between 15% and 25%.

When the carrying amounts of the property 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 property 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 property is not recognized when disposed, and when there is no future economic benefits are expected from its use. Any gain or loss resulting from non-recognition of the property is inserted within other operating income in the statement of income in the year the asset is recognized.

3-12Assets acquired against settlement of customer debts

Assets acquired by the Bank are stated in the statement of financial position under "other assets" and is stated at the lower of acquired values or fair value. Assets are re-assessed on the date of financial statements at individual basis; any impairment in value of those assets is recorded in the statement of income. The subsequent increase is recorded in the statement of income to the extent that exceeds the impairment value which previously recorded.

In accordance with the Palestinian Monetary Authority instructions, all properties and real-estates that are acquired as settlement of debts are retained for the period of two years from acquisition date, and this period is allowed to be renewed for five years utmost and in accordance with Palestinian Monetary Authority approval.

3-13Provision for end of services indemnity

End-of-service indemnities are provided for in accordance with the labor law applied in Palestine. Amounts provided for are recorded in the statement of income and paid amounts for terminated employees are reduced from the provision for end of service indemnity.

3-14Other Provisions

Provisions are recognized when the bank has obligations on the date of the financial position as a result of past events, and it is probable that the bank will settle the obligations, and a reliable estimate can be made of the amount of the obligation. The bank made provisions deducted from the statement of income for any obligations or probable commitments in accordance with expected value and probability to be realized on the date of financial position.

3-15Taxation

Tax expense represents the accrued income tax and VAT. Accrued tax expense is calculated on the base of taxable net income. Taxable net income differs from what is reported in the financial statements, because the reported profit include a non-taxable revenues, or expenses that can't be allowed in the financial year or in subsequent years, or the accumulated losses that are acceptable for tax set off, or items that are non-taxable or can't be deducted for tax purposes.

Taxes are calculated using tax rates that have been enacted according to the prevailing laws and regulations in Palestine.

3-16 Foreign currencies

Foreign currency transactions are recorded during the year at the rates of exchange prevailing at the dates of each transaction.

Financial assets and liabilities balances denominated in foreign currencies are converted at the average exchange rate prevailing at the date of the financial statements and as declared by PMA.

Non-financial assets and liabilities denominated in foreign currencies are presented at fair value and are converted at the date of determining their fair value.

The resultant exchange gain (loss) is reflected in the statement of income. Exchange differences for non-monetary assets and liabilities denominated in foreign currencies are recorded as part of change in fair value.

3-17 Related Parties

Subsidiary companies, board of directors and head administrative officers are considered as related parties.

3-18 Cash and cash equivalent

This consists of cash and balances with the Palestinian Monetary Authority, deposits at banks and financial institutions, and is reduced by banks' deposits and financial institutions maturing within three months and restricted balances.

3-19 Accounting 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 is presented under 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 expense is charged according to applicable rules and regulations in effect in the area,
- End of service indemnity is calculated according to the labor law applied in the area.
- The 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 charged to the statement of income.
- The management frequently reviews the financial assets stated at fair value or cost to estimate any decline in their values. Impairment loss (if any) is charged to statement of income.
- The management periodically reviews the lawsuits raised against the bank, based on a legal study prepared by the bank's attorney and advisory,
- Provision for loans loss is made based on bases and hypotheses approved by the bank's management to estimate the provision that must be made according to International Financial Reporting Standards and the results of these bases and hypotheses is compared to provisions that must be made in accordance with PMA's instructions. The most conservative result is adopted by the bank.

3-20 Segment Information

Data of operating sectors is displayed in a manner consistent with internal reports which are presented to the administrator for making operating decisions. The Board of Directors is the responsible party for making operating decisions. This reporting is used for allocating resources to operating segments and assessing performance.

Income and expenses directly related to each sector are used in determining the performance of operating sectors. The internal reports that concern with credit concentrations and analysis of the results of work according to business sectors and economic and geographic sectors.

3-21 Financial commitments and contingent liabilities

Contingent liabilities, which may occur as a result of the bank practicing its normal activities, are recorded as contra accounts and presented as off-financial position items. These accounts include obligations caused by letters of credit and guarantees issued to customers.

Definition and classification

Financial instruments represent all 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.

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 is 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 measurement is derived from valuation techniques that include information about the assets or liabilities that are not based on obtainable market information.

3-22 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 sector through the process of strategic planning is managed, but not through the usual process of risks management.

Risk management process

The Board of Directors is responsible for identifying and controlling risks; in addition, there are several bodies responsible for managing and monitoring the bank risks.

Risks Committee

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

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 is analyzed 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 direct Manager of each department of the bank.

Internal Audit

Processes of risk management that are audited annually through internal audit department by testing all procedures and the compliance of required procedures. Internal audit department discusses audit results with the bank's management and respective department.

Credit Risk and Concentration of Assets and Liabilities

Credit risk is the risk that may result from the failure or inability of the other party of the financial instrument for the fulfillment of its obligations towards the bank, which leads to a loss. The Bank works on credit risk management through putting of ceilings for the amounts of direct credit facilities (an individual or an institution) and the total loans and debt granted to each sector and each geographical area, as well as controlling credit risk and works continuously to evaluate the credit case of customers, in addition to that, the bank have an appropriate safeguards from customers.

The granting of credit facilities is the responsibility of the credit facility committee in the bank and it conducts its work in accordance with the requirements of the credit policy which agrees with limits of applicable authorization. The committee studies each credit request separately from the reality of data provided by the client requesting the facility such as the audited financial statements , the statements of other explanations on the financial solvency of the client, guarantees which is attainable, economic feasibility studies for projects subject for financing and the size of required credits.

The credit committee and department follow-up credit in collaboration with the staff of internal audit to monitor the credit facilities granted to customers on a regular basis to identify any deviations that would expose the bank to the risk of non-fulfillment of obligations undertaken by the customers, and thus take the necessary procedures to protect the funds of the bank.

Balances with banks and financial institutions and investments in securities are the result of decisions taken by the bank for investing the cash surpluses with banks and financial institutions, in according to a system of policies and procedures that define the terms of definition and measurement and risk management that the bank is possibly exposed to, which includes adoption of credit rating system for banks, credit concentrations and determine the level of credit and the economic sector, geographical region, and analysis of economic fluctuations and to study the supposed harsh scenarios.

B/1 Risks Exposures (after impairment loss and interest is suspense and before guarantees and other risks are as follows:

	<u>December 31,</u> <u>2011</u> <u>US. \$</u>	<u>December 31,</u> <u>2010</u> <u>US. \$</u>
Items Inside Financial Statements:		
Cash on hand and deposits with PMA	13,137,750	9,589,462
Deposits with banks, financial institutions	114,898,239	65,632,158
Credit facilities:		
Public sector (PNA)	9,933,291	-
Individuals	44,592,425	30,646,549
Real estates loans	2,801,610	1,238,212
Corporate	13,901,709	6,366,077
Small and middle institutes	5,070,893	4,747,060
Available for sales securities	4,982,429	1,980,970
Held to maturity securities	5,000,000	3,752,217
Other assets	1,909,592	1,038,110
	<u>216,227,938</u>	<u>124,990,815</u>
Items Outside Financial Statements:		
Guarantees	7,438,498	6,155,229
Letters of credit	4,597,468	3,694,323
Acceptances	256,642	513,500
Unutilized direct facilities	8,478,122	5,196,730
	<u>20,770,730</u>	<u>15,559,782</u>
	<u>236,998,668</u>	<u>140,550,597</u>

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

2011	Real Estate	Individuals	Corporate	Small & Medium Companies	Public Sector	Total
	Loans					
Low risk	2,801,610	3,325,251	2,782,434	1,683,395	9,933,291	20,525,981
Acceptable risk	-	39,843,374	11,119,275	3,879,192	-	54,841,841
Of which is due:*						
Within 30 days	-	1,269,176	-	321,165	-	1,590,341
Under watch	-	462,831	-	56,537	-	519,368
Non-performing:	-	-	-	-	-	-
Below level	-	93,213	-	-	-	93,213
Bad debt	-	130,281	-	3,141	-	133,422
Write off	-	553,924	-	51,838	-	605,762
Total	2,801,610	45,678,050	13,901,709	5,995,268	9,933,291	78,309,928
Less: Interest in suspense	-	(209,026)	-	(185,974)	-	(395,000)
Less: Impairment provision	-	(876,599)	-	(738,401)	-	(1,615,000)
Net	2,801,610	44,592,425	13,901,709	5,070,893	9,933,291	76,299,928

2010	Individuals	Corporate	Small & Medium Companies	Total
Low risk	5,009,908	2,039,281	636,580	7,685,769
Acceptable risk	20,773,578	4,218,208	3,373,018	28,365,204
Of which is due:*				
Within 30 days	1,370,248	10,600	166,199	1,547,047
Under watch	3,702,312	97,588	409,422	4,209,322
Non-performing:				
Below level	498,767	-	52,160	550,927
Bad debt	1,288,274	-	56,276	1,344,550
Write off	140,599	-	309,208	449,807
Total	32,783,686	6,366,077	5,002,863	44,152,626
Less: Interest in suspense	(50,076)	-	(175,525)	(225,601)
Less: Impairment provision	(178,393)	-	(750,734)	(929,127)
Net	32,555,217	6,366,077	4,076,604	42,997,898

B/3 The following is the distribution of the guarantees for facilities at their fair values

2011	Individuals	Corporate	Small and Medium Companies	Total
	US Dollar	US Dollar	US Dollar	US Dollar
Guarantees against:				
Low risk	5,644,274	621,001	1,356,628	7,621,903
Acceptable risk	26,584,988	5,437,067	5,620,535	37,642,590
Non-performing:				
Below level	146,544	-	27,864	174,408
Bad debt	51,723	-	-	51,723
Write off	71,198	-	43,100	114,298
Total	32,498,727	6,058,068	7,048,127	45,604,922
Of it:				
Cash Margins	3,755,678	621,001	1,356,628	5,733,307
Real estate	9,077,134	2,145,596	3,828,493	15,051,223
Securities	1,999,079	2,244,576	1,015,870	5,259,525
Vehicles	15,778,240	1,046,895	847,136	17,672,271
Valuable Metals	1,888,596	-	-	1,888,596
Total	32,498,727	6,058,068	7,048,127	45,604,922
2010	Individuals	Corporate	Small and Medium Companies	Total
	US Dollar	US Dollar	US Dollar	US Dollar
Guarantees against:				
Low risk	5,009,908	2,039,281	636,580	7,685,769
Acceptable risk	18,494,481	2,194,724	5,485,484	26,174,689
Non-performing:				
Below level	263,293	-	22,440	285,733
Bad debt	39,932	-	24,000	63,932
Write off	9,633	-	71,173	80,806
Total	23,817,247	4,234,005	6,239,677	34,290,929
Of it:				
Cash Margins	3,482,745	2,039,281	636,580	6,158,606
Real estate	3,971,280	1,084,649	4,163,629	9,219,558
Securities	1,429,921	-	384,271	1,814,192
Vehicles	13,406,138	1,110,075	1,055,197	15,571,410
Valuable Metals	1,527,163	-	-	1,527,163
Total	23,817,247	4,234,005	6,239,677	34,290,929

Liquidity risk

Liquidity risk is the inability of the bank to provide the funding necessary to carry out its obligations in due dates with less costs. Liquidity management requires to keep a large and diversified ability to fund, and availability of liquid assets and other sources of cash in order to protect the bank from fluctuations in the levels of assets and liabilities resulting from events or unexpected turbulence in the market.

Liquidity risk management aims primarily to provide a plan and find mechanisms to deal with unexpected changes while the request or requirement of liquidity resulting from the actions of customers or market conditions that is not natural. The Bank's management is committed to achieve the maximum level of customers' deposits and other funding sources and conserving them. This committee monitors the bank deposits rates, levels, trends, significant changes and plans for marketing the deposits which constantly monitored to ensure consistency with the requirements of the liquidity policy. On the other hand, the committee emphasizes on the commitment of the Palestinian Monetary Authority's instructions on the limits of cash to be kept, and emphasizes on the commitment about the legal liquidity minimum level as instructed by the Palestinian Monetary Authority.

The following schedules depict the liquidity status as of 31 December 2010 and 2009.

C/1 The following table shows the assets and liabilities analysis according to recovery of settlement period:

<u>2011</u>	<u>Up to a Year</u>	<u>More than One</u>	<u>With No</u>	<u>Total</u>
	<u>US. \$</u>	<u>Year</u>	<u>Maturity</u>	<u>US. \$</u>
	<u>US. \$</u>	<u>US. \$</u>	<u>US. \$</u>	<u>US. \$</u>
Assets:				
Cash on hand and deposits with PMA	14,936,003	-	11,249,205	26,185,208
Deposits at banks, financial institutions	112,782,583	2,115,656	-	114,898,239
Trading Securities	3,198,802	-	-	3,198,802
Available for Sale Securities	-	4,982,429	-	4,982,429
Held to Maturity Securities	-	5,000,000	-	5,000,000
Credit Facilities, Net	46,085,531	30,214,397	-	76,299,928
Property, plant and equipment, Net	-	-	7,257,183	7,257,183
Intangible Assets	-	-	236,344	236,344
Other assets	9,340,990	-	-	9,340,990
Total Assets	186,343,909	42,312,482	18,742,732	247,399,123
Liabilities:				
PMA Deposits	12,289,416	-	-	12,289,416
Deposits of banks, financial institutions	66,236,042	-	-	66,236,042
Customer Deposits	115,890,037	-	-	115,890,037
Cash Margins	6,298,756	7,486,302	-	13,785,058
Provision for end of service	-	579,574	-	579,574
Provision for taxes	69,601	-	-	69,601
Other credit balances	5,714,707	3,574,721	-	9,289,428
Total Liabilities	206,498,559	11,640,597	-	218,139,156
Net	(20,154,650)	30,671,885	18,742,732	29,259,967

2010	Up to a Year	More than One Year	With No Maturity	Total
	US. \$	US. \$	US. \$	US. \$
Assets:				
Cash on hand and deposits with PMA	23,783,852	-	8,301,622	32,085,474
Deposits at banks, financial institutions	63,516,502	2,115,656	-	65,632,158
Trading Securities	2,471,100	-	-	2,471,100
Credit Facilities, Net	25,754,199	17,243,699	-	42,997,898
Available for Sale Securities	-	1,980,970	-	1,980,970
Held to Maturity Securities	-	3,752,217	-	3,752,217
Property, plant and equipment, Net	-	-	2,853,165	2,853,165
Intangible Assets	-	-	228,563	228,563
Other assets	6,138,192	-	-	6,138,192
Total Assets	121,663,845	25,092,542	11,383,350	158,139,737
Liabilities:				
PMA Deposits	18,817,672	-	-	18,817,672
Deposits of banks, financial institutions	25,696,418	-	-	25,696,418
Customer Deposits	66,994,629	-	-	66,994,629
Cash Margins	7,046,455	6,247,412	-	13,293,867
Provision for Taxes	613,236	-	-	613,236
Provision for end of service	-	389,710	-	389,710
Other credit balances	1,970,668	1,630,760	-	3,601,428
Total Liabilities	121,139,078	8,267,882	-	129,406,960
Net	524,767	16,824,660	11,383,350	28,732,777

C/2 The table below shows the maturity of the Bank's major assets and liabilities as of December 31, 2010 based on the contractual repayment arrangements on the date of the financial statements:

2011	Within one Month	One to three Months	Three to six months	Six months to one year	One to 3 Years	More than 3 Years	No specific maturity	Total
<u>Assets</u>								
Cash on hand	13,047,458							13,047,458
Deposits with Palestinian Monetary Authority	1,888,545						11,249,205	13,137,750
Deposits with banks and financial institutions	108,079,621	4,702,962	-		2,115,656			114,898,239
Trading Securities	3,198,802				-		-	3,198,802
Available for sale securities					4,982,429	-	-	4,982,429
Held to maturity securities					5,000,000			5,000,000
Credit facilities, Net	18,652,202	5,260,231	9,003,708	13,169,390	19,923,184	10,291,213		76,299,928
Property, plant and equipment, Net							7,257,183	7,257,183
Intangible asset							236,344	236,344
Other assets	8,459,443		200,640	680,907				9,340,990
Total Assets	153,326,071	9,963,193	9,204,348	13,850,297	32,021,269	10,291,213	18,742,732	247,399,123
<u>Liabilities and Equity</u>								
Liabilities -								
Deposits of Palestine Monetary Authority	12,289,416	-	-	-	-	-	-	12,289,416
Deposits of Banks and financial institutions	64,592,154	1,643,888	-	-	-	-	-	66,236,042
Customers' deposits	92,970,782	13,558,837	3,290,998	5,569,777	499,643	-	-	115,890,037
Cash margins	-	2,177,429	-	4,121,327	7,486,702	-	-	13,785,458
Provisions for end of service	-	-	-	-	-	579,574	-	579,574
Provisions for taxes	69,601	-	-	-	-	-	-	69,601
Other credit balances	5,461,245	253,462	-	-	905,744	2,668,977	-	9,289,428
Owners' Equity	-	-	-	-	-	-	29,259,567	29,259,567
Total liabilities and Equity	175,383,198	17,633,616	3,290,998	9,691,104	8,892,089	3,248,551	29,259,567	247,399,123
Net liquidity gap	(22,057,127)	(7,670,423)	5,913,350	4,159,193	23,129,180	7,042,662	(10,516,835)	-
Cumulative liquidity gap	(22,057,127)	(29,727,550)	(23,814,200)	(19,655,007)	3,474,173	10,516,835	-	-

C/2 The table below shows the maturity of the Bank's major assets and liabilities as of December 31, 2009 based on the contractual repayment arrangements on the date of the financial statements:

2010	Within one Month	One to three Months	Three to six months	Six months to one year	One to 3 Years	More than 3 Years	No specific maturity	Total
<u>Assets</u>								
Cash on hand	22,496,012	-	-	-	-	-	-	22,496,012
Deposits with Palestinian Monetary Authority	1,287,840	-	-	-	-	-	8,301,622	9,589,462
Deposits with banks and financial institutions	50,975,271	10,425,575	2,115,656	-	2,115,656	-	-	65,632,158
Trading Securities	2,471,100	-	-	-	-	-	-	2,471,100
Credit facilities, Net Available for sale securities	3,752,925	4,106,437	4,875,536	13,019,301	12,491,498	4,752,201	-	42,997,898
Held to maturity securities	-	-	-	-	1,980,970	-	-	1,980,970
Property, plant and equipment, Net Intangible asset	-	-	-	-	3,752,217	-	-	3,752,217
Other assets	-	-	-	-	-	-	2,853,165	2,853,165
	-	-	-	-	-	-	228,563	228,563
Other assets	5,690,496	-	200,640	247,056	-	-	-	6,138,192
Total Assets	86,673,644	14,532,012	7,191,832	13,266,357	20,340,341	4,752,201	11,383,350	158,139,737
<u>Liabilities and Equity</u>								
Liabilities -								
Deposits of Palestine Monetary Authority	18,817,672	-	-	-	-	-	-	18,817,672
Deposits of Banks and financial institutions	25,696,418	-	-	-	-	-	-	25,696,418
Customers' deposits	58,479,198	7,283,401	675,805	556,225	-	-	-	66,994,629
Cash margins	-	2,806,942	-	4,239,513	6,247,412	-	-	13,293,867
Provision for taxes	613,236	-	-	-	-	-	-	613,236
Provisions for end of service	-	-	-	-	-	389,710	-	389,710
Other credit balances	1,771,686	198,982	-	-	427,976	1,202,784	-	3,601,428
Owners' Equity	-	-	-	-	-	-	28,732,777	28,732,777
Total liabilities and Equity	105,378,210	10,289,325	675,805	4,795,738	6,675,388	1,592,494	28,732,777	158,139,737
Net liquidity gap	(18,704,566)	4,242,687	6,516,027	8,470,619	13,664,953	3,159,707	(17,349,427)	-
Cumulative liquidity gap	(18,704,566)	(14,461,879)	(7,945,852)	524,767	14,189,720	17,349,427	-	-

Market risk

The nature of the bank's activities is mainly exposed to the risk of fluctuation in foreign exchange rates, and also the risk of fluctuation in the interest prices. The Bank works to diversify its investments to control the level of exposure to the risk of foreign currency exchange rates fluctuation and the risk of interest rates fluctuation.

Interest rate risks

These risks arise from the likely changes in interest rates which may affect the value of financial assets or bank's cash flows. The Bank is exposed to interest rate risk as a result of differences in the values of assets and liabilities and off-financial position instruments that mature or re-priced in a given period.

The Bank measures interest rate risk by putting levels for this risk by setting minimum and maximum limits to the interest rate differences for stipulated periods, and matching the re-pricing of assets and liabilities through risk management strategies including the use of various off-financial position instruments. The following schedules depict the sensitivity analysis of interest rates:

Interest price sensitivity

The table below shows re-pricing interest gap, classified on the basis of interest re-pricing periods or maturity:

Sensitivity of Interest Rates- December 31 2011:

Assets	Up to one month	One to three months	Three to six months	Six months to one year	More than one year	Non interest bearing	Total
	US. \$	US. \$	US. \$	US. \$	US. \$	US. \$	US. \$
Cash on hand	-	-	-	-	-	13,047,458	13,047,458
Deposits with Palestinian Monetary Authority	-	-	-	-	-	13,137,750	13,137,750
Deposits with banks and financial institutions	100,702,074	4,702,962	-	-	2,115,656	7,377,547	114,898,239
Trading Securities	-	-	-	-	-	3,198,802	3,198,802
Available for sale securities	-	-	-	-	-	4,982,429	4,982,429
Held to securities maturity	-	-	-	-	5,000,000	-	5,000,000
Credit facilities, Net	18,652,202	5,260,231	9,003,708	13,169,390	30,214,397	-	76,299,928
Property, plant and equipment, Net	-	-	-	-	-	7,257,183	7,257,183
Intangible asset	-	-	-	-	-	236,344	236,344
Other assets	-	-	-	-	-	9,340,990	9,340,990
Total assets	119,354,276	9,963,193	9,003,708	13,169,390	37,330,053	58,578,503	247,399,123
<u>Liabilities and Owners' equity</u>							
Deposits of Palestine Monetary Authority	12,289,416	-	-	-	-	-	12,289,416
Deposits of Banks and financial institutions	64,579,735	1,643,888	-	-	-	12,419	66,236,042
Customers' deposits	32,611,433	13,558,837	3,290,998	4,784,676	499,643	61,144,450	115,890,037
Cash margins	-	-	-	4,906,428	6,701,601	2,177,429	13,785,458
Provisions for end of service	-	-	-	-	-	579,574	579,574
Provisions for taxes	-	-	-	-	-	69,601	69,601
Other credit balances	-	-	-	-	2,668,977	6,620,451	9,289,428
Owners' Equity	-	-	-	-	-	29,259,567	29,259,567
Total liabilities and Owners' equity	109,480,584	15,202,725	3,290,998	9,691,104	9,870,221	99,863,491	247,399,123
Interest rate sensitivity gap	9,873,692	(5,239,532)	5,712,710	3,478,286	27,459,832	(41,284,988)	-
Cumulative interest rate sensitivity gap	9,873,692	4,634,160	10,346,870	13,825,156	41,284,988	-	-

Sensitivity of Interest Rates- December 31 2010:

Assets	Up to one month	One to three months	Three to six months	Six months to one year	More than one year	Non interest bearing	Total
	US. \$	US. \$	US. \$	US. \$	US. \$	US. \$	US. \$
Cash on hand	-	-	-	-	-	22,496,012	22,496,012
Deposits with Palestinian Monetary Authority	-	-	-	-	-	9,589,462	9,589,462
Deposits with banks and financial institutions	45,451,520	8,000,000	2,115,656	-	2,115,656	7,949,326	65,632,158
Trading Securities	-	-	-	-	-	2,471,100	2,471,100
Credit facilities, Net	3,752,925	4,106,437	4,875,536	13,019,301	17,243,699	-	42,997,898
Available for sale securities	-	-	-	-	-	1,980,970	1,980,970
Held to securities maturity	-	-	-	-	3,752,217	-	3,752,217
Property, plant and equipment, Net	-	-	-	-	-	2,853,165	2,853,165
Intangible asset	-	-	-	-	-	228,563	228,563
Other assets	-	-	-	-	-	6,138,192	6,138,192
Total assets	49,204,445	12,106,437	6,991,192	13,019,301	23,111,572	53,706,790	158,139,737
<u>Liabilities and Owners' equity</u>							
Deposits of Palestine Monetary Authority	18,817,672	-	-	-	-	-	18,817,672
Deposits of Banks and financial institutions	25,547,676	-	-	-	-	148,742	25,696,418
Customers' deposits	25,582,119	7,283,401	675,805	556,226	-	32,897,078	66,994,629
Cash margins	-	-	-	4,239,513	6,222,412	2,831,942	13,293,867
Provision for taxes	-	-	-	-	-	613,236	613,236
Provisions for end of service	-	-	-	-	-	389,710	389,710
Other credit balances	-	-	-	-	1,202,784	2,398,644	3,601,428
Owners' Equity	-	-	-	-	-	28,732,777	28,732,777
Total liabilities and Owners' equity	69,947,467	7,283,401	675,805	4,795,739	7,425,196	68,012,129	158,139,737
Interest rate sensitivity gap	(20,743,022)	4,823,036	6,315,387	8,223,562	15,686,376	(14,305,339)	-
Cumulative interest rate sensitivity gap	(20,743,022)	(15,919,986)	(9,604,599)	(1,381,037)	14,305,339	-	-

Foreign currency risks

The foreign currency transactions of the Bank are made in a specific way, and the Treasury Department focuses to meet the requirements of the bank's customers to manage their own foreign currency accounts, the transactions of the bank in the financial markets, if any, covered by similar transactions to customers.

The following table shows the bank foreign currencies position:

<u>Currency Type</u>	<u>2011</u>	<u>2010</u>
Jordanian Dinar	(771,144)	(200,820)
Israeli Shekel	583,461	(386,754)
Others	577,875	3,396

The Jordanian Dinar exchange rate is tied up with the US Dollar, and hence the change in its exchange rate has immaterial effect on the financial statements.

<u>Currency</u>	<u>2011</u>		<u>2010</u>	
	<u>Change in Exchange Rate %</u>	<u>Effect on Profit/loss</u>	<u>Change in Exchange Rate %</u>	<u>Effect on Profit/loss</u>
Israeli Shekel	10%	58,346	10%	(38,675)
Other Currencies	10%	57,787	10%	340

Risks of Stocks prices

Risk of stocks prices is resulting from the change in the fair value of investments in those stocks. The Bank manages this risk by diversifying investments in several geographic regions and economic segments.

The effect on the comprehensive income and owners' equity when there is a possibility for change in the prices of listed investments, assuming all other factors remaining unchanged is as follows:

	<u>2011</u>		
	<u>Change in index</u>	<u>Effect on Statement of Income</u>	<u>Effect on Ownership Equity</u>
Available for Sale Securities	10%	-	498,242
Trading Securities	10%	319,880	-
	<u>2010</u>		
	<u>Change in index</u>	<u>Effect on Statement of Income</u>	<u>Effect on Ownership Equity</u>
Available for Sale Securities	10 %	-	198,097
Trading Securities	10 %	247,110	-

Operation 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 effective segregation of duties, authorities and procedures of conformity, in addition to that, increasing the employees' awareness of these risks and methods of evaluation.

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 relating to the reputation of the bank, in addition to that, issuing instructions and specific policies wherever appropriate.

4- Cash on hand and Deposits with Palestinian Monetary Authority:

Composition:

	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Cash on hand	13,047,458	22,496,012
Balances with PMA:		
Current/ on demand accounts	1,888,545	1,287,840
Compulsory reserve	11,249,205	8,301,622
Total	<u>26,185,208</u>	<u>32,085,474</u>
Total in other currencies	<u>14,733,086</u>	<u>26,046,113</u>

- According to PMA instructions (No. 67 / 2010), dated July 5, 2010), the bank is required to keep compulsory reserves at 9% of all of customers' deposits. Also 20% of the compulsory reserve is required to be transferred to non-fixed balance and is added to the current accounts with PMA and the remaining 80% as fixed account. PMA doesn't pay interest on these reserves according to its instructions.
- Except for the compulsory reserve, no balances are restricted as of December 31, 2011 and December 31, 2010.

5- Deposits with Banks:

Composition:

	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Balances at local banks and financial institutions		
Current/ on demand accounts	309,911	4,681,087
Deposits maturing within 3 months	51,544,941	14,500,263
	<u>51,854,852</u>	<u>19,181,350</u>
Balances at foreign banks and financial institutions		
Current/ on demand accounts	41,572,214	21,501,450
Deposits maturing within 3 months	19,355,517	20,718,048
Deposits maturing more than 3 months	2,115,656	4,231,310
	<u>63,043,387</u>	<u>46,450,808</u>
Total	<u>114,898,239</u>	<u>65,632,158</u>
In foreign currencies	<u>72,311,823</u>	<u>24,711,337</u>

- Restricted deposits at banks and financial institutions as of December 31, 2011 amounted to U.S Dollar 5,809,371 against U.S Dollar 2,425,575 as of December 31, 2010.

6- Trading Securities:

The details of this item are as follow:

	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Local market	3,171,502	2,383,074
Foreign markets	27,300	88,026
	<u>3,198,802</u>	<u>2,471,100</u>

7- Credit Facilities – Net:

	December 31, 2011	December 31, 2010
<u>Public Sector (PNA) :</u>		
Loans and discounted bills	9,933,291	-
	9,933,291	-
<u>Individuals(Retail) :</u>		
Overdrafts accounts	4,232,502	3,092,342
Loans and discounted bills	44,247,158	29,691,344
	48,479,660	32,783,686
<u>Corporate:</u>		
Overdrafts accounts	4,493,164	4,877,126
Loans and discounted bills	9,408,545	1,488,951
	13,901,709	6,366,077
<u>Medium and Small Companies :</u>		
Overdrafts accounts	1,344,356	1,606,793
Loans and discounted bills	4,650,912	3,396,070
	5,995,268	5,002,863
Total	78,309,928	44,152,626
Interest in suspense	(395,000)	(225,601)
Provision for impairment loss	(1,615,000)	(929,127)
Net direct credit facilities	76,299,928	42,997,898

- The gross non performing direct credit facilities according to PMA instructions as of December 31, 2011 was USD 2,509,388 which represents (3.2%) of the gross credit facilities compared to USD 2,344,316 as of December 31,2010 which represents (5.3%) of gross credit facilities.
- Credit facilities include non-performing credit facilities in the amount of US Dollar 7,987,205 net of interest in suspense which represents (10.25%) of the overall credit facilities as of December 31,2011 (USD 6,329,005 which represent (14.4%) as of December 31, 2010).
- The non-performing credit facilities, net of interest in suspense are USD 2,117,818 as of December 31, 2011. (USD 2,119,683 as of December 31, 2010).
- Direct credit facilities granted against mortgages collaterals was in the amount of USD 15,051,223 as of December 31, 2011 (USD 9,219,558 as of December 31, 2010).
- The fair value of the collaterals obtained from borrowers is USD 45,604,922 as of December 31, 2011. (USD 34,290,929 as of December 31, 2010).
- Credit facilities include loans and overdraft to the Palestine authority's employees of USD 4,175,697 as of December 31, 2011 (USD 2,641,611 as of December 31, 2010).

- **The composition of credit facilities by sector are as follows:**

	December 31, 2011	December 31, 2010
Public sector	9,933,291	-
Private sector:		
Corporate & Organizations	19,896,977	11,368,941
Individuals	48,479,660	32,783,685
Total	78,309,928	44,152,626

- Classification of credit facilities according to the economic sector are as follows (Net of interest in suspense):

	December 31,2011	December 31,2010
Public Sector	9,933,291	-
Construction	7,616,565	6,168,416
Industry and General Trading	30,811,353	14,786,743
Agriculture	1,057,260	1,337,570
Transportation	6,234,868	4,708,376
Services and Tourism	2,007,660	3,736,113
Securities	11,563	-
Car financing loans	6,371,603	6,352,643
Consumable loans	13,870,765	6,837,164
Total	77,914,928	43,927,025

- Provision for direct credit facilities impairments:

The Movements in the provision for non performing credit facilities are as follows:

<u>December 31, 2011</u>	<u>Individuals</u>	<u>Corporate</u>	<u>Total</u>
Balance at beginning of year	178,393	750,734	929,127
Provision for the year	779,416	66,962	846,378
Write off during the year	(81,210)	-	(81,210)
Currency Variance	-	(79,295)	(79,295)
Balance at end of year	876,599	738,401	1,615,000
<u>December 31, 2010</u>			
Balance at beginning of year	116,118	167,100	283,218
Provision for the year	63,963	601,198	665,161
Write off during the year	(1,688)	(22,715)	(24,403)
Currency Variance	-	5,151	5,151
Balance at end of year	178,393	750,734	929,127

- Interest in suspense:

December 31, 2011

	Individuals	Corporate	Total
Balance at beginning of year	50,076	175,525	225,601
Interest suspended during the year	176,693	30,131	206,824
Transferred to Revenues	(17,743)	-	(17,743)
Write off	-	(19,682)	(19,682)
Balance at end of year	209,026	185,974	395,000

December 31, 2010

	Individuals	Corporate	Total
Balance at beginning of year	20,758	46,553	67,311
Interest suspended during the year	36,187	127,215	163,402
Transferred to Revenues	(6,869)	-	(6,869)
Write off	-	1,757	1,757
Balance at end of year	50,076	175,525	225,601

8. Available for Sale Securities:

The details of this item are as follow:

	Local	Foreign	Total
<u>December 31, 2011:</u>			
Quoted Financial Assets:			
Companies Shares	289,961	996,474	1,286,435
Companies Bonds	-	2,688,521	2,688,521
	289,961	3,684,995	3,974,956
Unquoted Financial Assets			
Companies Shares	1,007,473	-	1,007,473
Total of financial assets available for sale	1,297,434	3,684,995	4,982,429

	Local	Foreign	Total
<u>December 31, 2010:</u>			
Quoted Financial Assets:			
Companies Stocks	307,782	1,266,855	1,574,637
	307,782	1,266,855	1,574,637
Unquoted Financial Assets			
Companies shares	406,333	-	406,333
Total of financial assets available for sale	714,115	1,266,855	1,980,970

A. Cumulative change in fair value :

	December 31,2011	December 31,2010
Balance at beginning of year	(205,555)	34,531
Revaluation of available for sale investment	(539,246)	(271,030)
Gain (loss) From sale of available for sale investments	-	(387,600)
Gain(loss) From sale of held to maturity investments	205,555	130,402
Impairment loss charged to the statement of income	288,201	288,142
	(45,490)	(240,086)
Balance at end of year	(251,045)	(205,555)

9. Securities Held to Maturity:

The details of this item are as follow:

	December 31,2011	December 31,2010
Traded securities in financial markets:		
Government securities	-	1,859,209
Others	5,000,000	1,893,008
Balance at end of year	5,000,000	3,752,217

10- Property, Plant and Equipment-Net:

Composition:

	Leasehold improvements	Equipment and Furniture	Computers and Supplies	Leased Vehicles	Real Estate	Total
<u>December 31, 2011:</u>						
Beginning balance	1,973,583	1,627,897	959,399	55,030		4,615,909
Additions	11,028	35,660	51,845	89,460	(*) 4,871,157	5,059,150
Disposals		(2,523)		(55,030)		(57,553)
December 31, 2011	<u>1,984,611</u>	<u>1,661,034</u>	<u>1,011,244</u>	<u>89,460</u>	<u>4,871,157</u>	<u>9,617,506</u>
Accumulated Depreciation						
January 1, 2011	735,843	586,795	385,076	55,030		1,762,744
Additions	296,988	186,841	152,447	17,891		654,167
Disposals		(1,558)		(55,030)		(56,588)
December 31, 2011	<u>1,032,831</u>	<u>772,078</u>	<u>537,523</u>	<u>17,891</u>	<u>-</u>	<u>2,360,323</u>
Net book value	951,780	888,956	473,721	71,569	4,871,157	7,257,183
December 31, 2011						
<u>December 31, 2010:</u>						
Beginning balance	1,971,204	1,591,954	606,632	55,030	-	4,224,820
Additions	2,379	52,727	352,767	-	-	407,873
Disposals	-	(16,784)	-	-	-	(16,784)
December 31, 2010	<u>1,973,583</u>	<u>1,627,897</u>	<u>959,399</u>	<u>55,030</u>	<u>-</u>	<u>4,615,909</u>
Accumulated Depreciation						
January 1, 2010	440,013	416,641	245,673	55,030	-	1,157,357
Additions	295,830	184,812	139,403	-	-	620,045
Disposals	-	(14,658)	-	-	-	(14,658)
December 31, 2010	<u>735,843</u>	<u>586,795</u>	<u>385,076</u>	<u>55,030</u>	<u>-</u>	<u>1,762,744</u>
Net book value:						
December 31, 2010	<u>1,237,740</u>	<u>1,041,102</u>	<u>574,323</u>	<u>-</u>	<u>-</u>	<u>2,853,165</u>

(*): Represents total acquisition cost of the headquarters building. During 2011, the bank purchased this building in Al Masyoun Area to be used as the bank headquarters.

11- Intangible Assets:

The movement in this account is as follows:

	December 31, 2011		
	Computers	Key Money Right	Total
Balance at beginning of year	178,563	50,000	228,563
Additions during the year	99,988	-	99,988
Disposals during the year	(82,207)	(10,000)	(92,207)
Balance at end of year	196,344	40,000	236,344

	December 31, 2010		
	Computers	Key Money Right	Total
Balance at beginning of the year	237,031	60,000	297,031
Additions during the year	10,754	-	10,754
Disposals during the year	(69,222)	(10,000)	(79,222)
Balance End of the year	178,563	50,000	228,563

12- Other Assets

Composition:

	December 31, 2011	December 31, 2010
Interest receivable	1,032,602	597,361
Advance payments to vendors	516,144	91,177
Incoming clearance checks	7,426,841	5,093,135
Tax advances	200,640	200,640
Prepaid expenses	160,206	148,932
Stationery and office supplies	-	4,148
Others	4,557	2,799
Total	9,340,990	6,138,192

13- Deposits of Palestine Monetary Authority

Composition:

	December 31, 2011	December 31, 2010
Time deposits maturing within three months	12,289,416	18,817,672
Total	12,289,416	18,817,672

14- Deposits of Banks and other Financial Institutions:

Composition:

	December 31, 2011	December 31, 2010
Local banks and financial institutions		
Current accounts	12,419	148,742
Deposits maturing within 3 months	33,373,939	16,237,775
Foreign banks and financial institutions		
Current accounts	32,849,684	9,309,901
Total	66,236,042	25,696,418
Foreign currencies	28,385,408	21,560,829

15- Customers' Deposits:

<u>2011</u>	Individuals	Corporate	Small & Medium Companies	Government & Public Sector	Total
Current Accounts	24,362,247	36,271,766	-	95,884	60,729,897
Savings Accounts	11,634,707	-	-	-	11,634,707
Time Deposits	16,026,650	27,120,327	-	-	43,146,977
Debt Accounts – Temporarily Credit	105,634	272,822	-	-	378,456
	52,129,238	63,664,915	-	95,884	115,890,037
<u>2010</u>					
Current Accounts	19,777,136	8,468,228	3,689,004	173,389	32,107,757
Savings Accounts	9,971,371	-	237,342	-	10,208,713
Time Deposits	12,183,320	8,290,873	790,053	2,624,591	23,888,837
Debt Accounts – Temporarily Credit	21,109	-	768,213	-	789,322
	41,952,936	16,759,101	5,484,612	2,797,980	66,994,629

- Non-interest bearing deposits amounted to U.S Dollar 53,282,989 as of December 31, 2011 representing (79.50%) of total deposits against U.S Dollar 35,729,020 as of December 31, 2010 representing (53%) of total deposits.
- Dormant deposits amounted to U.S Dollar 401,175 as of December 31, 2011 representing 0.3 % of total deposits against U.S Dollar 484,563 as of December 31, 2010 representing 0.7 % of total deposits.
- Deposits of the public sector amounted to U.S Dollar 95,884 as of December 31, 2011 representing (0.082%) of total deposits against U.S Dollar 2,797,980 as of December 31, 2010 representing (4.18%) of total deposits.

Customers' deposits classified by currency as of December 31, 2011 and 2010 are as follows:

	Expressed in USD				Total
	NIS	JOD	USD	EUR	
2011	48,614,134	16,875,792	47,234,606	3,165,505	115,890,037
2010	21,561,861	13,941,679	27,722,314	3,768,775	66,994,629

16 - Cash Margins:

Composition:

	December 31, 2011	December 31, 2010
Cash margins against direct facilities	11,608,029	10,486,925
Cash margins against indirect facilities	2,171,329	2,802,442
Cash margins	6,100	4,500
	13,785,458	13,293,867

17 - Provision for end of service indemnity:

Composition:

The movement in the provision for end of service indemnity is as follows:

	December 31, 2011	December 31, 2010
Balance at beginning of year	389,710	380,191
Provision for the year	254,556	288,522
Payments during the year	(64,692)	(279,003)
Balance at end of year	579,574	389,710

18 - Provision for Taxes

The movement in the provision for taxes is as follows:

	December 31, 2011	December 31, 2010
Balance at beginning of year	613,236	681,024
Paid during the year	(753,635)	(67,788)
Current year taxes	210,000	-
Balance at end of year	69,601	613,236

The bank obtained the final clearance from the tax authorities for the years ended December 31, 2009 and is currently negotiating to obtain the clearance for the year 2010.

Financial Net Income & Taxable Net Income:

Particulars of financial net income and taxable net income are detailed in the below table:

	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Net accounting income	778,262	211,087
Non taxable revenues	(707,125)	(965,020)
VAT on salaries	299,838	243,033
Disallowed expenses	189,865	9,528
Impairment in available for sale securities	429,399	288,142
Income (Loss) subject to VAT	990,239	(213,230)
Vat on net income	(125,401)	-
VAT on salaries	(299,838)	(243,033)
Other revenues	-	-
Net income for income tax purposes	565,000	(456,263)
Tax on income	84,599	-
Total Taxes	210,000	-

19-Other Credit Balances:

Composition:

	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Outward transfers and Certified checks	4,907,687	1,404,022
Temporary margins	2,668,977	1,202,784
Interest received in advance	839,295	364,562
Accounts payables	253,462	198,982
Accrued interest payable	195,215	91,374
Accrued expenses	39,301	34,932
Restricted grants	125,159	-
Value added tax on salaries	66,449	113,739
Capital overpayments	22,691	63,414
Income tax on salaries	158,093	18,538
Other credit balances	13,099	109,081
Total	9,289,428	3,601,428

20- Paid-up Capital:

Capital Risk Management

The primary objectives of the bank capital risk management are to ensure that the bank complies with externally imposed requirements and that the bank maintains strong credit rating and healthy capital ratio in order to support its business with other banks and its customers and to maximize the owners value.

During 2008, the authorized capital of the bank was increased to USD 40,000,000 and the Board of Directors is seeking to increase the paid in capital to USD 50,000,000 in order to comply with the requirements of PMA.

Capital Adequacy:

According to PMA regulations, the bank should maintain a minimum capital adequacy ratio of 12%. As of December 31, 2011 and 2010, the bank was compliant with this ratio. Particulars of capital ratio are as follows:

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	Amount U.S Dollar	Ratio to assets by weighted risk	Amount U.S Dollar	Ratio to assets by weighted risk
Core (primary) capital	28,025,915	11.32%	27,940,017	17,67%
Regulatory capital	23,781,557	9.61%	24,257,697	15,34%

21- Reserves:

Compulsory Reserve:

In accordance with the Bank's Bylaws, the company's law and the banks' laws, 10% of the Bank's annual net income should be appropriated to the compulsory reserve until the reserve balance equals the Bank's share capital. The distribution of this reserve is restricted.

Optional Reserve:

The Bank's General Assembly, based on the Board of Directors recommendation, can appropriate up to 20% of the annual net income to optional reserve. This reserve is distributable to the shareholders after the approval of the General Assembly of the bank.

General Banking Risk Reserve:

According to PMA regulations, the general banking risks reserve on credit facilities is calculated at 1.5% of the performing direct credit facilities and 0.5% of the indirect credit facilities and this reserve cannot be reduced without PMA pre-approval.

Cyclical Reserve:

According to PMA regulations, this reserve is to be provided for at 15% of annual net income and to be accumulated up to 20% of paid capital.

22-Interest Income:

	<u>2011</u>	<u>2010</u>
Public Sector (PNA) :		
Loans and discounted bills	381,702	-
	381,702	-
Direct credit facilities :		
Individuals (Retail):		
Overdrafts facilities	459,086	421,286
Loans and discounted bills	2,706,955	2,991,345
	3,166,041	3,412,631
Corporate:		
Overdraft facilities	668,441	436,392
Loans and discounted bills	636,909	328,455
	1,305,350	764,847
	4,853,093	4,177,478
Balances and deposits at banks and financial institutions	915,678	551,440
Available for sale financial assets	117,331	99,000
Held to maturity financial assets	187,095	341,234
	6,073,197	5,169,152

23-Interest Expense:**Composition:**

	<u>2011</u>	<u>2010</u>
Customers' deposits:		
Time and term deposits	741,605	578,386
Saving accounts	11,738	12,287
Current and demand accounts	38,275	4,148
Cash margins	45,065	50,702
Others	79,239	44,837
PMA deposits	450,769	183,949
Banks' and financial institutions' deposits	305,209	142,937
	1,671,900	1,017,246

24 -Net Commission:**Composition:**

	<u>2011</u>	<u>2010</u>
Commission income:		
Commission from direct credit facilities	861,179	379,703
Commission from indirect credit facilities	269,173	180,837
Other commissions	659,183	436,873
	1,789,535	997,413
Less :Commission expenses	(383,250)	(147,854)
Net commission income	1,406,285	849,559

25- Net Profit (Loss) from financial assets :

Composition:

	<u>2011</u>	<u>2010</u>
Impairment of available for sale financial assets	(288,201)	(288,142)
Revaluation (loss) gain of trading securities	(141,198)	7,282
Gain (loss) from sale of trading securities	(8,151)	13,661
Gain from sale of available for sale financial assets	273,064	889,888
(Loss) from sale of held to maturity financial assets	213,090	(396,538)
Dividends income	229,122	54,188
	<u>277,726</u>	<u>280,339</u>

26 – Personnel Costs:

Composition:

	<u>2011</u>	<u>2010</u>
Salaries, benefits and related costs	2,070,606	1,748,347
Value add tax on salaries	299,838	243,033
End of service provision	254,556	288,522
Bank's share in provident fund(*)	143,240	134,254
Medical	80,089	65,564
Training	9,945	13,957
Travel and transportation	7,155	6,521
Others	23,534	16,288
	<u>2,888,963</u>	<u>2,516,486</u>

(*) Represents Bank contribution into the employees provident fund which is 10% of the employees basic salaries. Employees contribution represents 5% of the basic salary that is deducted each month.

27-Other Operating Expenses:

Composition:

	<u>2011</u>	<u>2010</u>
Rent	200,861	200,200
Dues and subscriptions	409,313	314,151
Professional fees	113,135	168,619
Advertising including awards to depositors	102,706	38,498
Maintenance	150,690	133,289
Stationery and printings	145,199	100,325
Electricity and water	114,371	84,685
Telephone and postage	103,747	91,519
Hospitality	19,511	12,869
Travel and transportation	37,315	29,301
Cash transfer costs	18,481	11,768
Insurances	78,841	78,862
General assembly expenses	10,786	10,480
Board of directors remunerations	75,000	62,000
Others	28,410	24,788
	<u>1,608,366</u>	<u>1,361,354</u>

28. Information about bank operations segments:

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

	Individuals	Corporate	Financing/ Treasury	Others	2011	2010
Gross income	4,441,520	2,282,319	2,154,309	45,345	8,923,493	6,618,453
Expenses	(1,141,672)	(540,749)	(372,729)	-	(2,055,150)	(1,603,185)
Provision for credit facilities	(779,416)	(66,962)			(846,378)	(665,161)
Gross profit	<u>2,520,432</u>	<u>1,674,608</u>	<u>1,781,580</u>	<u>45,345</u>	<u>6,021,965</u>	<u>4,350,107</u>
Undistributed expenses					(5,243,703)	(4,139,020)
Profit before taxes					778,262	211,087
Taxes					(210,000)	-
Profit after taxes					<u>568,262</u>	<u>211,087</u>
Additional Information:						
Sector's Assets	<u>48,290,614</u>	<u>29,750,122</u>	<u>161,864,861</u>	<u>7,493,526</u>	<u>247,399,123</u>	<u>158,139,737</u>
Sector's Liabilities	<u>59,662,012</u>	<u>74,939,431</u>	<u>78,045,640</u>	<u>5,492,473</u>	<u>218,139,556</u>	<u>129,406,960</u>
Capital expenditures					<u>5,159,138</u>	<u>418,627</u>
Depreciation and Amortization					<u>746,374</u>	<u>699,267</u>

B) Bank revenues, assets and capital expenditures According to Geographical Area:

	Inside Palestine		Outside Palestine		Total	
	2011	2010	2011	2010	2011	2010
Gross Revenues	8,491,810	5,531,331	431,683	637,122	8,923,493	6,168,453
Total Assets	154,530,890	107,706,525	66,905,850	50,433,212	221,436,740	158,139,737
Capital Expenditures	5,159,138	418,627	-	-	5,159,138	418,627

29. Credit Risk Exposure According to Sector:

a. Credit Risk Exposure According to Geographical Area:

December 31, 2011

Geographical Area	Inside Palestine	Middle East Countries	Europe	America	Total
Deposits with PMA	13,137,750	-	-	-	13,137,750
Deposits with banks and financial institutions	51,854,852	14,048,580	44,635,719	4,359,088	114,898,239
Credit facilities:					
Individuals	45,678,050	-	-	-	45,678,050
Real estate loans	2,801,610	-	-	-	2,801,610
Corporate	13,901,709	-	-	-	13,901,709
Small and medium companies	5,995,268	-	-	-	5,995,268
Government & Public Sector	9,933,291	-	-	-	9,933,291
Available for sale financial assets	1,297,434	1,402,668	2,041,774	240,553	4,982,429
Held to Maturity	5,000,000	-	-	-	5,000,000
Trading asset	3,171,502	27,300	-	-	3,198,802
Other assets	1,759,424	99,118	49,748	1,302	1,909,592
Total for the current year	154,530,890	15,577,666	46,727,241	4,600,943	221,436,740
Total for the previous year	76,916,577	18,526,076	27,788,113	5,385,878	128,616,644

December 31, 2010

Geographical Area	Inside Palestine	Middle East Countries	Europe	America	Total
Deposits with PMA	9,589,462	-	-	-	9,589,462
Deposits with banks and financial institutions	19,181,350	13,289,444	27,775,486	5,385,878	65,632,158
Credit facilities:					
Individuals	31,545,474	-	-	-	31,545,474
Real estate loans	1,238,212	-	-	-	1,238,212
Corporate	6,366,077	-	-	-	6,366,077
Small and medium companies	5,002,863	-	-	-	5,002,863
Available for sale financial assets	714,115	1,266,855	-	-	1,980,970
Held to Maturity	-	3,752,217	-	-	3,752,217
Trading asset	2,383,074	88,027	-	-	2,471,101
Other assets	895,950	129,533	12,627	-	1,038,110
Total for the current year	76,916,577	18,526,076	27,788,113	5,385,878	128,616,644
Total for the previous year	76,341,447	35,218,194	15,068,313	2,374,934	129,002,888

b. Exposure According to Economic Sector:

	Financial	Industrial	Trade	Real Estates	Agricultural	Individuals	Total
<u>December 31, 2011</u>	US. \$	US. \$	US. \$	US. \$	US. \$	US. \$	US. \$
Deposits with PMA	13,137,750	-	-	-	-	-	13,137,750
Deposits with banks & financial institutions	114,898,239	-	-	-	-	-	114,898,239
Credit facilities	11,563	2,854,033	27,957,320	7,616,565	1,057,260	38,813,187	78,309,928
Securities available for sale	4,982,429	-	-	-	-	-	4,982,429
Held to Maturity	5,000,000	-	-	-	-	-	5,000,000
Trading securities	3,198,802	-	-	-	-	-	3,198,802
Others assets	1,909,592	-	-	-	-	-	1,909,592
Total	143,138,375	2,854,033	27,957,320	7,616,565	1,057,260	38,813,187	221,436,740
<u>December 31, 2010</u>							
Deposits with PMA	9,589,462	-	-	-	-	-	9,589,462
Deposits with banks & financial institutions	65,632,158	-	-	-	-	-	65,632,158
Trading securities	2,471,101	-	-	-	-	-	2,471,101
Credit facilities	-	2,971,766	11,814,977	6,168,416	1,337,570	21,859,897	44,152,626
Securities available for sale	1,980,970	-	-	-	-	-	1,980,970
Held to Maturity	3,752,217	-	-	-	-	-	3,752,217
Others assets	1,038,110	-	-	-	-	-	1,038,110
Total	84,464,018	2,971,766	11,814,977	6,168,416	1,337,570	21,859,897	128,616,644

c. Concentration of Assets and Liabilities

	2011			2010		
	Assets	Liabilities	Off Balance Sheet Items	Assets	Liabilities	Off Balance Sheet Items
	US. \$	US. \$	US. \$	US. \$	US. \$	US. \$
A. According to Geographic Area						
Inside Palestine	180,554,147	184,667,648	20,770,730	106,311,535	119,857,942	15,559,782
Jordan	14,939,468	-	-	14,682,317	-	-
Gulf Countries	577,324	622,224	-	2,013,257	239,117	-
Africa	-	-	-	1,958,637	-	-
Europe	46,727,241	32,849,684	-	27,788,113	9,309,901	-
America	4,600,943	-	-	5,385,878	-	-
Total	247,399,123	218,139,556	20,770,730	158,139,737	129,406,960	15,559,782
B. According to Sector						
Companies and Institutions	29,750,122	74,939,431	16,122,381	11,113,137	32,153,196	14,261,586
Individuals	48,290,614	59,662,012	4,648,349	31,884,761	48,135,301	1,298,196
Treasury	161,864,861	78,045,640	-	111,243,519	44,514,090	-
Others	7,493,526	5,492,473	-	3,898,320	4,604,373	-
Total	247,399,123	218,139,556	20,770,730	158,139,737	129,406,960	15,559,782

30- Related Parties:

Transactions and balances with related parties are as follows:

	Executive Management and Board of Directors	Other Related Parties	Total	Percentage to Net Facilities	Percentage to capital
<u>Year Ended 31 December 2011:</u>					
<u>Financial Position items:</u>					
Direct credit facilities	2,081,255	2,198,355	4,279,610	5.60%	17.99%
Deposits	1,474,087	23,887,978	25,362,065		
Cash Margins	-	333,103	333,103		
<u>Off balance sheet items:</u>					
Letter of guarantees	-	1,695,253	1,695,253		
Unutilized credit limits	192,048	2,801,053	2,993,101	6.10%	19.71%
<u>Statement of Income:</u>					
Interest and commission income	289,014	-	289,014		
Interest and commission expense	135,036	-	135,036		
<u>Year Ended 31 December 2010:</u>					
<u>Financial Position items:</u>					
Direct credit facilities	1,350,099	1,324,216	2,674,315	6.22%	11.02%
Deposits	144,432	11,190,808	11,335,240		
Cash Margins	-	267,401	267,401		
<u>Off balance sheet items:</u>					
Letter of guarantees	-	1,317,231	1,317,231		
Unutilized credit limits	93,994	1,750,250	1,844,244	20%	13.03%
<u>Statement of Income:</u>					
Interest and commission income	216,401	-	216,401		
Interest and commission expense	100,244	-	100,244		

31 – Contra Accounts:

Composition:

	December 31, 2011	December 31, 2010
	Due within One year	Due within One year
Letters of credit	4,597,468	3,694,323
Acceptances	256,642	513,500
Letters of guarantees	7,438,498	6,155,229
Unutilized credit limits	8,478,122	5,196,730
Total	20,770,730	15,559,782

32- Cash and Cash Equivalent:

The balance is composed of the following:

	For the Period Ended December 31	
	2011	2010
Deposits with Palestinian Monetary Authority	26,185,208	32,085,474
Deposits with banks due within three months	112,782,583	61,400,847
Deposits of PMA and Banks due within three months	(78,525,458)	(44,514,090)
Restricted Deposits	(5,809,371)	(2,425,575)
Compulsory Reserve	(11,249,205)	(8,301,622)
	43,383,757	38,245,034

33- Lawsuits against the Bank:

There are lawsuits held against the bank to abolish the bank's claims on others and /or damage claims and / or labor claims. The total amount of the reserve established for any potential loss was in the amount of U.S Dollar 62,048 as of 31 December 2011.

34- Comparative Figures:

Certain comparative figures were reclassified to conform to the current year presentation.