

Semi Annual Report 2011



Key Performance Indicators 2007 – 2011

	2007	2008	2009	2010	June 30 2011
Total Assets	847,650,800	1,046,832,914	1,283,017,502	1,545,038,022	1,559,110,802
Customer Deposits	679,633,662	840,497,297	1,016,683,776	1,251,482,935	1,200,359,528
Market Share of Customer Deposits	12.93 %	14.03 %	16.71 %	18.44 %	17.29 %
Paid Up Capital	59,769,737	81,404,137	100,000,000	100,000,000	120,000,000
Net Credit Facilities	243,587,513	285,337,011	343,311,230	545,026,391	739,214,262
Market Share of Credit Facilities	14.84 %	17.61 %	17.26 %	19.19 %	21.44 %
Net Profit	20,579,398	23,610,956	26,929,168	30,119,469	16,797,705
Net Interest and Commissions Income	35,532,393	48,419,463	52,865,829	61,843,054	31,976,279
Owners' Equities	90,218,428	123,169,873	150,822,464	163,884,250	182,312,995
Number of Branches	30	32	40	42	45
Number of Employees	695	752	864	943	1015

Table of Contents

04 Board of Directors

05 Executive Management

06 Chairman's Statement

08 Financial Statements

10 Interim Condensed Consolidated Financial Statements



Our Mission

We seek to be a leading financial institution with an international reach, and to provide the highest quality service to our customers.

Our Vision

We seek to be an outstanding banking and financial institution operating throughout the region.

Our Goals

- To achieve a progressive increase in our share of the Palestine banking sector.
- To provide comprehensive quality banking and financial services.
- To keep abreast of banking & financial technological advances for our clients' benefit.
- To contribute to the development of our community.
- To work for the constant improvement of administrative and professional capabilities.

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عاشرون عاما
YEARS OF BUILDING

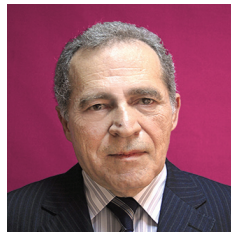
Board of Directors



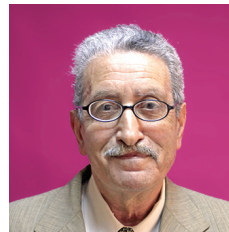
Mr. Hashim Hani Shawwa
Chairman of the Board



Mr. Mamoun Abu Shahla
Vice Chairman of the Board



Mr. Youssef Nijm
Board Member



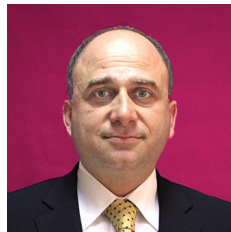
Dr. Awni Skaik
Board Member



Mr. Reyad Zimmou
Board Member



Mr. Maher Farah
Board Member



Mr. Faisal Shawwa
Board Member



Dr. Hani Nigim
Board Member



Mr. Tareq Shaka
Board Member
Representing Birzeit
Pharmaceutical Company



Mr. Mohammed Hirbawi
Board Member



Mr. John Khoury
Board Member
Nominated by International
Finance Corporation "IFC"

Executive Management



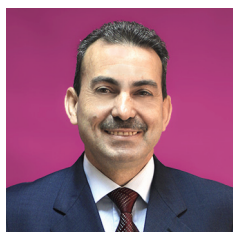
Mr. Hashim Shawa
General Manager



Mr. Alaa` Al-Redwan
Deputy General Manager
Chief Operation Officer



Mr. Rushdi Ghalayini
Deputy General Manager
Chief Risk Officer



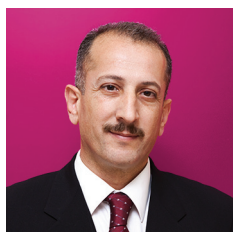
Mr. Ihsan Shaushaa
Assistant General Manager
Chief Treasurer



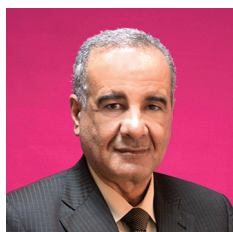
Mr. Salman Qemailah
Assistant General Manager
Chief Financial Officer



Mr. Wael Al Sourani
Assistant General Manager
for Gaza Strip Branches



Mr. Hani Nasser
Assistant General Manager
for West Bank Branches



Mr. Khamis Asfour
Legal Advisor

Chairman's Statement



Dear Shareholders,

On behalf of Bank of Palestine's (BoP's) board of directors, I present to you the results and achievements of the semiannual period ending June 30, 2011. I would also like to inform you of our shared honor at having been awarded the prestigious Euromoney Award for Excellence as "Best Bank in Palestine" for 2011. This award not only affirms Bank of Palestine's institutional strength, but Palestine as a whole – this is the first year that Euromoney considered the Palestinian financial sector in its awards. This honor highlights our impressive growth rate over our 50 years of operations and positions us to Palestinians and the rest of the world as the premier financial institution in Palestine.

During the first half of 2011 – despite regional instability and financial turmoil affecting global markets and economies – Bank of Palestine continued to be profitable, showing strong percent increases in several key performance indicators; Net profit reached USD \$16.8 million, compared with USD \$14.1 million at the end of June 2010 – an increase of 19.2%. Assets increased to reach USD \$1,559,110,802 compared to USD \$1,545,038,022 at the end of 2010. Owner's equity reached USD \$182,312,995 compared to USD \$163,884,250 at the end of 2010 – an increase of 11.2%.



In accordance with the bank's strategy to contribute to a more sustainable Palestinian economy, Bank of Palestine increased its credit portfolio by 35.7%, from USD \$545 million at the end 2010 to USD \$739 million at the end of June 2011. This increase was achieved by financing different projects of different sizes in several economic sectors. In addition to retail, SME, and Microfinance lending, BoP financed several large construction projects including the Al-Reehan neighborhood, and one of the main commercial towers in the Irsal Center in Ramallah.

Bank of Palestine continues to be Palestine's top bank in terms of both branch and ATM networks, and has further pursued its policy to proliferate and provide services to new urban and rural areas. Furthermore, BoP opened three new branches in the first half of 2011, increasing the total number of BoP branches to 45. On April 24, a flagship regional building was completed and opened in Hebron. On April 26, BoP opened a sub-branch in the village of Ni'leen, which is expected to serve more than 100,000 citizens in the villages in the west part of the governorate of Ramallah. Bank of Palestine also opened the first 24-hour "electronic bank branch" in Palestine, which is located on the famous Manara Square in the center of Ramallah. This branch's ATMs and Kiosks allow clients to conduct all their transactions electronically, long after in-person branches have closed.

As a customer-driven organization, BoP also introduced several new products and campaigns to meet various client needs and to increase client banking awareness. In cooperation with one of the leading insurance companies in Palestine, the National Insurance Company (NIC), BoP introduced the pioneering "Bancassurance" product, where clients are able to insure their homes, vehicles, and travels through the BoP branch network. In addition, a mortgage product developed by BoP was finalized and is expected to be introduced to the market during 2011. Bank of Palestine also launched a campaign called "Secure Your Family's Future" – to promote saving – in which savings account holders can enter a daily draw to win a \$10,000 cash prize.

Moreover, in 2011 BoP founded PalPay, a company that enables clients to electronically pay different utility bills and top up their mobile credit, using the bank's Point of Sale (POS) network of over 4,000 stations spread throughout Palestine. PalPay will also enable clients to pay their bills using computers and mobile telephones. The company has been signing agreements with different service providers, who are interested in offering this service to their clients around Palestine, and the PalPay service is expected to be unveiled to clients later this year.

An important element of our strategy is Risk Management. During the first half of this year, we began implementing phase II of the Risk Management Program in cooperation with the International Finance Corporation (IFC), a member of the World Bank Group. This phase focuses on "Operational Risk", which will enable BoP to institute rigorous risk management controls and procedures throughout its various operations and procedures. This project – which included a previous phase focusing on developing and enhancing corporate governance, general risk management, credit risk management, and treasury risk policies – will ensure that BoP is one of the first banks in the region to comply with Basel II standards.

Bank of Palestine has also taken important steps towards improving the quality of the client experience in Palestine and throughout the world. A Quality Assurance and Customer Service department was established in 2011. Furthermore, BoP is dedicated to reach out to clients wherever they may be located: BoP has built on its successes to date in reaching out to the Palestinian diaspora by establishing a dedicated Palestinian Diaspora Unit to serve diaspora members with banking products, business advisory service, investment facilitation, and B2B matching.

This year the bank also played an active role in promoting investment in Palestine. Bank of Palestine participated in an Investment Road Show in London, organized by PEX, and the London Stock Exchange (LSE). During the Road Show PEX's blue chip companies showcased success stories and investment opportunities in Palestine. BoP also held an Investment Road Show in Chile in 2009, a country that is home to over 500,000 diaspora members. After the Road Show, a mutual fund was set up in Chile specifically for investing in Palestinian equity on the Palestine Exchange (PEX). This fund (INVERSIONES VNT S.A – C) began operations in 2011 and enables any Chilean to invest in Palestine.

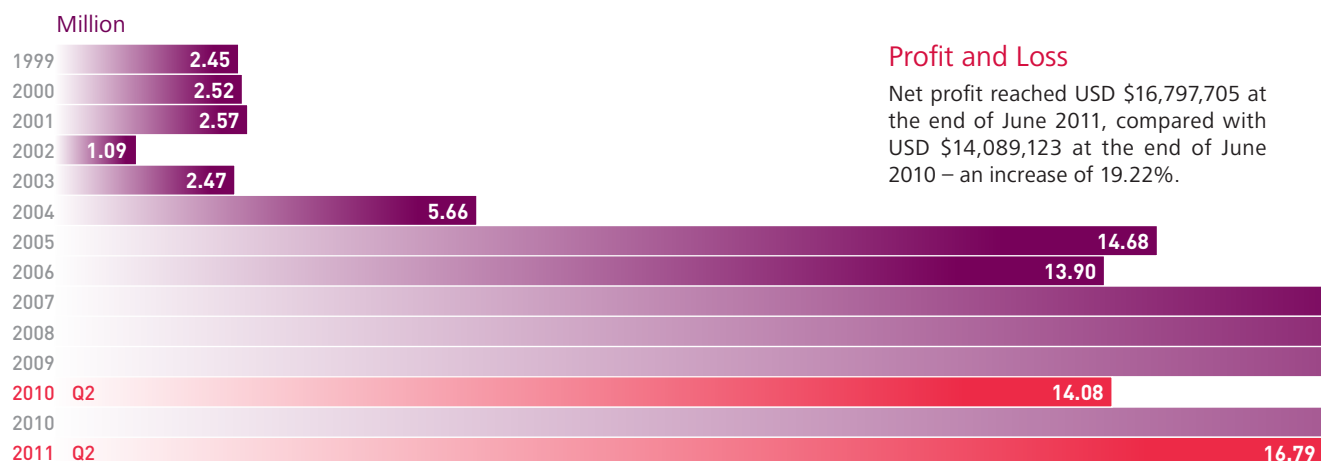
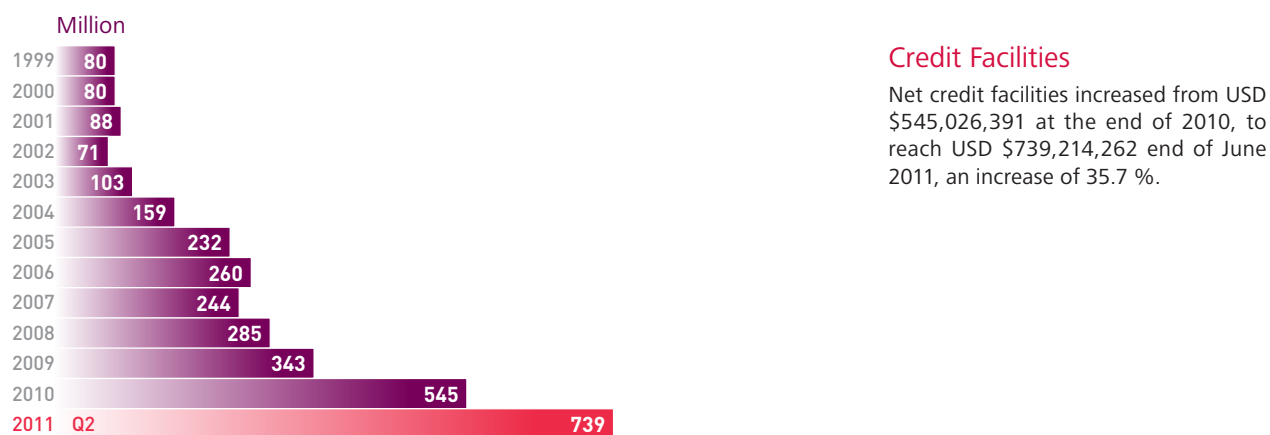
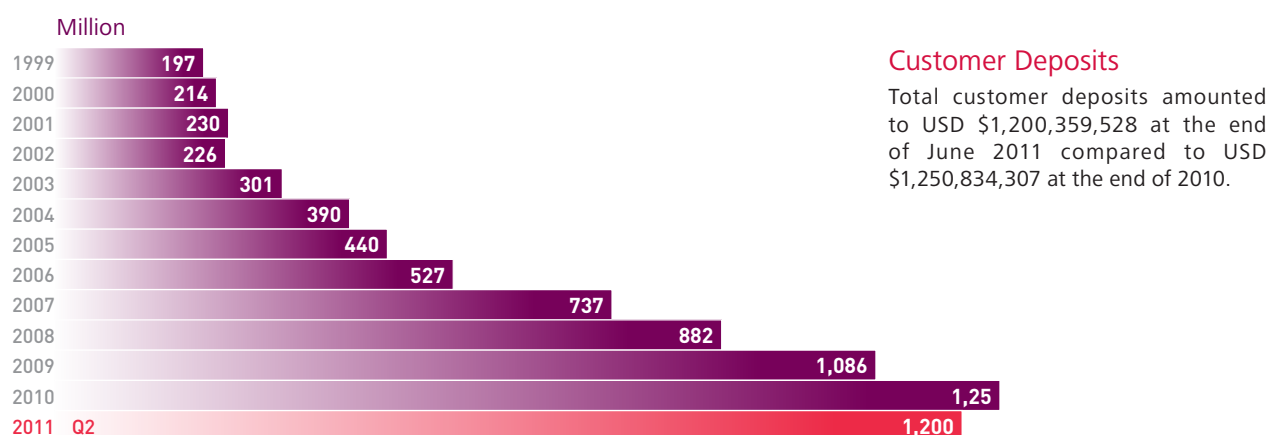
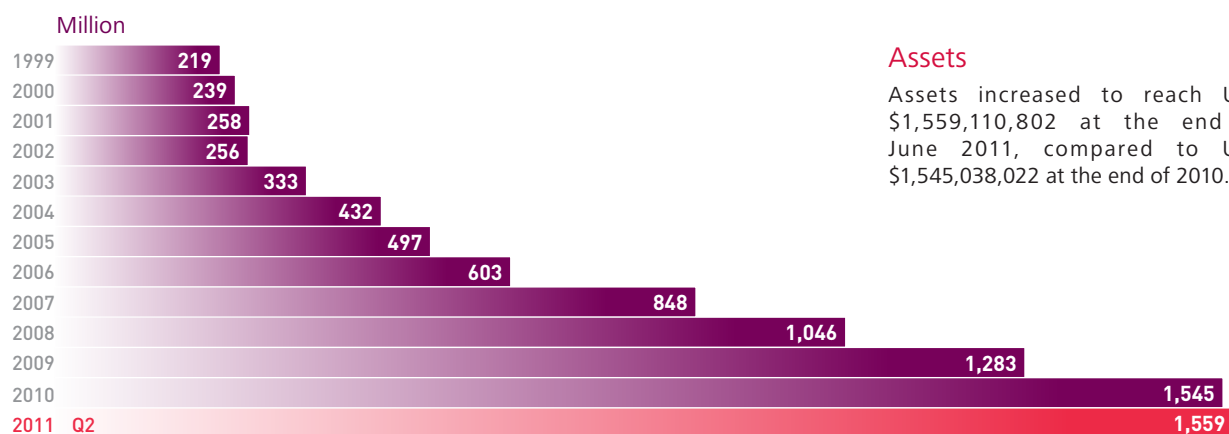
BoP continued to play an integral role in serving the Palestinian society, through sponsoring and funding several projects and initiatives in different areas. We believe that true progress begins with social and economic development on a community level. This has been our belief and commitment since our founding. We are still committed to dedicating 5% of our net profits to Corporate Social Responsibility (CSR) initiatives in different areas including youth and sports, education, health, arts, culture, tourism, and other humanitarian work.

On a final note, I would like to extend my gratitude to those truly responsible for BoP's success – our employees for their tremendous efforts; our clients for their loyalty and for giving us the opportunity to serve their needs; and you, our shareholders, for your continued faith and support. We shall continue our commitment to work tirelessly for a better bank, a stronger community, and for an institution that strives for empowerment and economic growth in Palestine. I would also like to thank the Palestine Monetary Authority (PMA) for their continuous support and efforts in developing the financial framework and building the Palestinian economy.

Hashim Shawa

Chairman of the Board and General Manager

Financial Statements



Financial Ratios

Credit Facilities/Customer Deposits: 61.58%

Credit Facilities/Total Assets: 47.41%

Return on Equity: 9.21%

Number of Issued Shares

The number of issued and paid shares is 120,000,000 with a par value of one US dollar per share.

Changes and Developments during the First Half of 2011

No changes were made to the Board of Directors or the Executive Management during the first half of 2011.

Changes to the External Auditor

The General Assembly elected Ernest & Young to be the as the external auditor for the year 2011.

Amendments to the Main Activities

There were no amendments to the main activities of the bank.

The Ordinary General Meeting

The Ordinary General Assembly ratified in its meeting held on April 29, 2011 the Board of Directors' report for the year 2010 and the financial statements for the same year. The Assembly also discharged the members of the Board of Directors for the year 2010. The Assembly approved the recommendation to raise the bank's capital by 20% through the distribution of \$20,000,000 as stock dividends from realized profits to shareholders in proportion to each shareholder's ownership of paid in capital, raising the bank's paid in capital from \$100 million to \$120 million.

Legal Actions

The number of legal cases filed against the bank was 22 cases at the end of June 2011, with a value of USD \$3,328,588 compared to USD \$1,252,525 at the end of 2010. According to BoP's legal advisor, the cases will not require any obligations from the bank expect for the amount that was allocated to handle them.

New Branches and Sub-Branches

BoP opened three new branches in the first half of 2011, increasing the total number of BoP branches to 45. On April 24, a flagship regional building was completed and opened in Hebron. On April 26, BoP opened a sub-branch in the village of Ni'leen, which is expected to serve more than 100,000 citizens in the villages in the west part of the governorate of Ramallah. Bank of Palestine also opened the first 24-hour "electronic bank branch" in Palestine, which is located on the famous Manara roundabout in the center of Ramallah.

Other Items

In 2011 BoP founded PalPay, a company that enables clients to electronically pay different utility bills and top up their mobile credit, using the bank's Point of Sale (POS) network of over 4,000 stations spread throughout Palestine. PalPay will also enable clients to pay their bills using computers and mobile telephones.

20.57

23.61

26.92

30.11

Interim Condensed Consolidated Financial Statements

June 30, 2011





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Report on review of Interim Condensed Consolidated Financial Statements To the Board of Directors of Bank of Palestine PLC

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Bank of Palestine PLC (the Bank) as at June 30, 2011, comprising of the interim consolidated statement of financial position as at June 30, 2011 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Emphasis of a Matter

Without qualification, as depicted in note (14) to the interim condensed consolidated financial statements, the Bank has not reached final tax settlements with tax authorities on its results of operations for the years from 2005 to 2010. In addition, the Bank provides for taxes in accordance with the tax laws prevailing in Palestine and the Presidential Decree issued in 2007 that exempts taxpayers in the southern governorates (Gaza) from taxes. Accordingly, tax provisions for the years from 2007 to June 30, 2011 do not account for the Bank's operations from Gaza branches.

August 11, 2011
Ramallah - Palestine

Interim Consolidated Statement of Financial Position

As at June 30, 2011

		June 30, 2011	December 31, 2010
		Unaudited	Audited
	Notes	U.S.\$	U.S.\$
Assets			
Cash and balances with Palestine Monetary Authority	4	289,316,640	320,225,462
Balances at banks and financial Institutions	5	212,363,388	361,818,124
Held-for-trading investments	6	12,544,112	9,620,467
Direct credit facilities	7	739,214,262	545,026,391
Available-for-sale investments	8	210,258,851	253,325,634
Investment in an associate	9	11,552,949	9,422,627
Investment properties		-	671,413
Property, plant and equipment		36,107,797	31,168,875
Other assets		47,752,803	13,759,029
Total Assets		1,559,110,802	1,545,038,022
Liabilities and Equity			
Liabilities			
Palestine Monetary Authority's deposits		48,218,351	41,867,735
Banks and financial institutions' deposits	10	59,623,728	19,926,307
Customers' deposits	11	1,149,215,211	1,208,302,323
Cash margins	12	51,144,317	45,531,980
Sundry provisions	13	11,320,228	9,902,447
Tax provisions	14	30,772,766	25,803,117
Other liabilities		26,503,206	29,819,863
Total Liabilities		1,376,797,807	1,381,153,772
Equity			
Paid-in share capital	1	120,000,000	100,000,000
Additional paid-in capital		9,034,692	9,034,692
Statutory reserve	15	16,407,381	16,407,381
Voluntarily reserve	15	88,418	88,418
General banking risks reserve	15	12,073,626	8,914,332
Pro-cyclicality reserve	8	4,604,991	4,604,991
Available-for-sale investment reserve		4,783,081	3,227,041
Retained earnings		14,700,705	21,033,056
		181,692,894	163,309,911
Non-controlling interests		620,101	574,339
Total Equity		182,312,995	163,884,250
Total Liabilities and Equity		1,559,110,802	1,545,038,022

Interim Consolidated Income Statement

For the six-month period ended June 30, 2011

		2011	2010
		Unaudited	Unaudited
	Notes	U.S.\$	U.S.\$
Interest income		26.173.429	19.045.635
Interest expense		(3.029.536)	(2.083.035)
Net interest income		23.143.893	16.962.600
Net commissions		8.832.386	7.238.826
Net interest and commissions income		31.976.279	24.201.426
Foreign currency gain		2.961.359	2.331.517
(Loss) gain from held-for- trading investments		(172.576)	209.494
Gain from available-for-sale investments		6.454.876	5.687.826
Recovery of suspended interest		-	1.500.446
Share of results of an associate	9	269.712	-
Other revenues		2.638.400	2.287.705
Gross income		44.128.050	36.218.414
Expenses			
Personnel expenses		11.993.958	10.137.311
Depreciation		1.758.148	1.576.898
Provision for impairment of credit facilities		2.000.000	-
Other operating expenses		6.467.467	6.442.049
Credit facilities written off		134.071	315.715
Palestine Monetary Authority fines		7.052	26.157
Total expenses		22.360.696	18.498.130
Profit before taxes		21.767.354	17.720.284
Tax expense		(4.969.649)	(3.631.161)
Profit for the period		16.797.705	14.089.123
Attributable to:			
Equity holders of the Bank		16.826.943	14.077.423
Non-controlling interests		(29.238)	11.700
		16.797.705	14.089.123
Basic and diluted earnings per share	18	0.14	0.12

Interim Consolidated Statement of Comprehensive income

For the six-month period ended June 30, 2011

	2011	2010
	Unaudited	Unaudited
	U.S.\$	U.S.\$
Profit for the period	16.797.705	14.089.123
Other comprehensive income:		
Unrealized gain (loss) on financial investments	1.556.040	(2.782.110)
Impairment of available-for-sale investments	-	547.146
Other comprehensive income for the period	1.556.040	(2.234.964)
Total comprehensive income for the period	18.353.745	11.854.159
Attributable to:		
Equity holders of the Bank	18.382.983	11.842.459
Non-controlling interests	(29.238)	11.700
	18.353.745	11.854.159

Interim Consolidated Statement of Change in Equity

For the six-month period ended June 30, 2011

	Paid-in share capital	Additional paid-in capital	Statutory
	U.S.\$	U.S.\$	U.S.\$
June 30, 2011			
Beginning balance	100.000.000	9.034.692	16.407.381
Total comprehensive income for the period -	-	-	-
Transfers to general banking risks reserves -	-	-	-
Payment of capital	-	-	-
Stock dividends (Note 17)	20.000.000	-	-
Ending Balance (Unaudited)	120.000.000	9.034.692	16.407.381
June 30, 2010			
Beginning balance	100.000.000	9.034.692	13.385.156
Total comprehensive income for the period -	-	-	-
Transfers to general banking risks reserves -	-	-	-
Cash dividends (Note 17)	-	-	-
Ending Balance (Unaudited)	100.000.000	9.034.692	13.385.156

Voluntarily	General banking risks	Pro-cyclicality	Available- for-sale- investments	Retained earnings	Total	Non- controlling interests	Total equity
U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
88.418	8.914.332	4.604.991	3.227.041	21.033.056	163.309.911	574.339	163.884.250
-	-	-	1.556.040	16.826.943	18.382.983	(29.238)	18.353.745
-	3.159.294	-	-	(3.159.294)	-	-	-
-	-	-	-	-	-	75.000	75.000
-	-	-	-	20.000.000	-	-	-
88.418	12.073.626	4.604.991	4.783.081	14.700.705	181.692.894	620.101	182.312.995
U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
85.268	5.733.235	-	(1.115.276)	23.173.086	150.296.161	583.656	150.879.817
-	-	-	(2.234.964)	14.077.423	11.842.459	11.700	11.854.159
-	1.743.416	-	-	(1.743.416)	-	-	-
-	-	-	-	21.400.000	(21.400.000)	-	(21.400.000)
85.268	7.476.651	-	(3.350.240)	14.107.093	140.738.620	595.356	141.333.976

Interim Consolidated Statement of Cash Flows

For the six-month period ended June 30, 2011

	2011	2010
	Unaudited	Unaudited
	U.S.\$	U.S.\$
Operating activities		
Profit before taxes	21.767.354	17.720.284
Adjustments for:		
Depreciation	1.758.148	1.576.898
Gains from financial investments	(1.152.906)	(2.255.212)
Impairment losses of available-for-sale investments	-	547.146
Impairment of credit facilities	2.000.000	-
Sundry provisions	1.763.677	1.024.423
Share of results of an associate	(269.712)	-
Gain (loss) on disposal of property, plant and equipment	7.416	(1.381)
	25.873.977	18.612.158
Changes in assets and liabilities:	(196.187.871)	(113.099.343)
Direct credit facilities	9.016.693	(4.947.951)
Statutory cash reserve at Palestine Monetary Authority	(33.993.774)	(23.015.715)
Other assets	(59.087.112)	117.163.402
Customers' deposits	5.612.337	5.026.525
Cash margins	(3.090.501)	7.052.826
Other liabilities	578.844	1.031.642
Investment income received	(345.896)	(22.171)
Sundry provisions paid	(251.623.303)	7.801.373
Net cash flows (used in) from operating activities		
Investing activities:	(35.710.382)	(17.575.632)
Purchase of available-for-sale investments	(4.533.702)	(1.794.819)
Purchase of held-for-trading investments	82.517.324	10.153.366
Proceeds from sale of trading and available-for-sale investments	-	
Purchase of held-to-maturity investments	(1.860.610)	(17.459.603)
Investment in associate	(6.105.478)	(3.318.892)
Purchase of property, plant and equipment	72.405	2.828
Proceeds from sale of property, plant and equipment	34.379.557	(29.992.752)
Net cash from (used in) investing activities		
Financing activities:	(226.156)	(18.033.916)
Cash dividends paid	75.000	-
Payments of non-controlling interest in subsidiary's capital	(151.156)	(18.033.916)
Net cash flows used in financing activities	(217.394.902)	(40.225.295)
Decrease in cash and cash equivalents		
Cash and cash equivalents, beginning of the period	503.821.812	507.725.468
Cash and cash equivalents, end of period	286.426.910	467.500.173

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2011

1. General

Bank of Palestine PLC (the Bank) was established in 1960 and is registered with the companies' controller office of the Palestinian National Authority in Gaza as a public shareholding limited company under registration no (563200096) in accordance with Companies Law of 1929 and its subsequent amendments.

The Bank's authorized capital is 200 million shares of U.S. \$ 1 par value for each share. The Bank's paid-in share capital is U.S.\$ 120 million as at June 30, 2011.

The Bank's shares were listed for trading with Palestine Exchange during 2005.

The Bank's main goals are carrying out all banking activities including opening current bank accounts, letter of credits and guarantees and granting credit facilities and other banking services through its 19 branches and 25 offices located in Palestine.

The Bank's number of personnel reached 1,015 as at June 30, 2011.

The interim condensed consolidated financial statements were authorized for issuance by the Bank's board of directors on Augusts 11, 2011.

2. Consolidated Financial Statements

The interim consolidated financial statements comprise of the financial statements of the Bank of Palestine and its subsidiaries as at June 30, 2011.

The financial statements for Al-Wasata Securities Private Limited Shareholding Company (Al-Wasata Company/subsidiary) and Investment 2000 Private Limited Shareholding Company (Investment 2000 Co./subsidiary) and Palpay for prepayment systems (Palpay/subsidiary) have been consolidated with the Bank's financial statements on a line-by-line basis after eliminating all intercompany balances and transactions between the Bank and its subsidiaries.

Subsidiaries are companies over which the Bank controls the financial and operational policies. The Bank and its subsidiaries operate in Palestine.

The Bank's direct and indirect ownership in the subsidiaries' capital is as follows:

Company	Country of incorporation	Ownership		Capital	
		%		U.S.\$	
		2011	2010	2011	2010
Al-Wasata Company	Palestine	87	87	3.560.000	3.560.000
Investment 2000 Co.	Palestine	100	100	100.000	100.000
Palpay *	Palestine	85		425.000	

* The capital of Palpay's comprises 1 million shares of U.S. \$ 1 par value for each share, of which the Bank owns 85%. Palpay is expecting to start its operation in the second half of 2011.

3. Summary of significant accounting policies

Basis of preparation

The interim condensed financial statements of the Bank have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting and in accordance with PMA instructions.

The financial statements have been prepared under the historical cost basis, except for held-for-trading investments and available-for-sale investments that have been measured at fair value at the date of the financial statements.

The financial statements have been presented in United States Dollar, which is the functional currency of the Bank.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with Bank's annual financial statements as of December 31, 2010. The results for the period ended June 30, 2011 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2011.

Changes in accounting policies

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2010, except that the Bank has adopted the following new and amended IFRS and IFRIC Interpretations effective January 1, 2011. Adoption of these standards and interpretations did not have any effect on the results of operations or financial position of the Bank.

IAS 24 Related Party Disclosures (Amended).

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

IFRIC 14 Prepayments of a Minimum Funding Requirements (Amendment)

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

IFRS 9 Financial Instruments

IFRS 10 – Consolidated Financial Statements

IFRS 11 – Joint Arrangements

IFRS 12 – Disclosures of Interests in Other Entities

IFRS 13 – Fair Value Measurement

These standards shall be effective on January 1, 2013.

4. Cash and Balances with Palestine Monetary Authority

This item comprises the following:

	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$
Cash on hand	179.321.297	178.412.674
Balances with PMA:		
Current and demand accounts	184.304	22.690.056
Time deposits	2.400.000	2.695.000
Statutory cash reserve	107.411.039	116.427.732
	289.316.640	320.225.462

- In accordance with PMA circular (67/2010), the Bank shall maintain specific statutory restricted cash reserves with PMA as 9% of total customers' deposits. The statutory reserves are calculated at the end of each month.
- No interest is earned on these reserves and current accounts.
- Time deposits at PMA are interest-bearing deposits with interest rates based on current market interest rates less PMA's commission of 0.25%.

5. Balances at Banks and Financial Institutions

This item comprises the following:

	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$
Local banks and financial institutions		
Current and demand accounts	412.607	191.354
	412.607	191.354
Foreign banks and financial institutions		
Current and demand accounts	109.932.265	115.658.678
Deposits maturing within 3 months	102.018.516	245.968.092
	211.950.781	361.626.770
	212.363.388	361.818.124

- Non-interest bearing balances at banks and financial institutions as at June 30, 2011 and December 31, 2010 amounted to U.S. \$ 35,686,615 and U.S. \$ 80,820,841, respectively.
- Restricted balances at banks and financial institutions as at June 30, 2011 and December 31, 2010 amounted to U.S. \$601,198 and U.S. \$ 600,758, respectively. These amounts represent cash margins to Visa and Master Card companies.

6. Held-for-trading Investments

	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$
Quoted shares at Palestine Securities Exchange	10.640.048	7.794.199
Quoted bonds at foreign markets	1.904.064	1.826.268
	12.544.112	9.620.467

7. Direct Credit Facilities

This item comprises the following:

	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$
Individuals		
Loans	212.386.324	163.411.604
Overdraft accounts	5.109.987	6.083.438
Credit cards	25.526.511	22.329.992
Current overdraft	23.486.287	27.177.756
Corporate		
Loans	118.469.192	106.388.762
Overdraft accounts	47.366.265	43.982.522
Current overdraft	27.019.967	23.834.665
Small and medium companies		
Loans	14.103.849	10.244.625
Overdraft accounts	186.347	189.780
Current overdraft	205.315	300.563
Government and public sector		
Loans	44.763.435	28.190.227
Overdraft accounts	230.640.382	120.889.464
	749.263.861	553.023.398
Suspended interests and Commission	(533.627)	(554.683)
Provision for impairment of direct credit facilities	(9.515.972)	(7.442.324)
	739.214.262	545.026.391

Suspended interest

Summary of movement follows:

	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$
Balance, beginning of the period/year	554.683	2.045.241
Suspended interest transferred to revenues	-	(1.500.446)
Suspended interest written off	(19.128)	(26.062)
Foreign currency exchange	(1.928)	35.950
Balance, end of period/year	533.627	554.683

Provision for impairment of credit facilities

Summary of movement follows:

	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$
Balance, beginning of the period/year	7.442.324	7.174.445
Additions	2.000.000	-
Foreign currency exchange	73.648	267.879
Balance, end of period/year	9.515.972	7.442.324

8. Available-for-sale Investments

This item comprises the following:

	June 30, 2011			December 31, 2010		
	Local	Foreign	Total	Local	Foreign	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Quoted shares	-	17.439.454	17.439.454	-	16.255.732	16.255.732
Unquoted shares *	4.000.000	-	4.000.000	4.000.000	-	4.000.000
Quoted bonds	-	133.884.931	133.884.931	-	156.060.508	156.060.508
Treasury bills	-	54.589.563	54.589.563	-	76.477.965	76.477.965
Investment portfolios	-	344.903	344.903	-	531.429	531.429
	4.000.000	206.258.851	210.258.851	4.000.000	249.325.634	253.325.634

- * These shares are not quoted in an active market and are shown at cost less accumulated impairment, as their fair values cannot be reliably determined due to the unpredictable nature of future cash flows. The Bank management believes that the fair values of such investments are not materially different from their carrying amounts.

Movement on available-for-sale reserve is as follows:

	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$
Balance, beginning of the period/year	3.227.041	(1.115.276)
Unrealized gains (losses) on financial investments	1.556.040	(3.644.658)
Unrealized gains from financial assets reclassified from held-to-maturity investments	-	5.093.245
Recovery of unrealized revaluation losses of financial investments reclassified into investment in an associate	-	2.346.584
Impairment of available-for-sale investments recognized in the consolidated income statement	-	547.146
Balance, end of the period/year	4.783.081	3.227.041

9. Investment in an Associate

Details of investments in an associate as at June 30, 2011 and December 31, 2010 are as follows:

		Equity	June 30, 2011	December 31, 2010
	Country of incorporation	%	U.S.\$	U.S.\$
Arab Islamic Bank	فلسطين	20	11.858.211	9.997.601

Increase in investment in associate comprises the Bank share in the increase of capital of the Arab Islamic Bank as part of the private offering occurred during the period. Further, the Bank share in the profit of the associate for the period amounted to U.S. \$ 269,712.2

10. Banks and Financial Institutions' Deposits

This item represents the following:

	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$
Local banks and financial institutions		
Term deposits maturing within 3 months	59.165.695	14.000.000
	59.165.695	14.000.000
Foreign banks and financial institutions		
Current and demand deposits	458.033	5.926.307
	458.033	5.926.307
	59.623.728	19.926.307

11. Customer Deposits

This item represents the following:

	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$
Current and demand deposits	483.035.320	538.430.648
Saving deposits	399.813.640	379.725.790
Time deposits	266.366.251	290.145.885
	1.149.215.211	1.208.302.323

12. Cash Margins

This item represents cash margins against:

	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$
Direct credit facilities	17.096.600	14.015.035
Indirect credit facilities	28.104.860	26.265.455
Others	5.942.857	5.251.490
	51.144.317	45.531.980

13. Sundry Provisions

This item includes the following provisions:

	Balance, beginning of the period/ year	Provided during the period/year	Used/ recovered during period/year	Balance, end of period/year
	U.S.\$	U.S.\$	U.S.\$	U.S.\$
June 30, 2011				
End of service provision	8.386.575	1.763.677	(345.896)	9.804.356
Lawsuits provision	1.515.872	-	-	1.515.872
	9.902.447	1.763.677	(345.896)	11.320.228
December 31, 2010				
End of service provision	5.708.374	2.834.561	(156.360)	8.386.575
Lawsuits provision	3.505.872	-	(1.990.000)	1.515.872
	9.214.246	2.834.561	(2.146.360)	9.902.447

14. Tax Provisions

Movement on tax provisions during the period ended June 30, 2011 and year ended December 31, 2010 are as follows:

	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$
Balance, beginning of the period/year	25.803.117	18.190.481
Provision for the period/year	4.969.649	7.612.636
Balance, end of period/year	30.772.766	25.803.117

Reconciliation between accounting income and taxable income is as follows:

	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$
Accounting profit for the bank	21.687.047	37.732.105
Non-taxable income	(1.293.182)	(7.124.957)
Non-deductible expenses	4.341.077	6.502.849
Gross income subject to Value Added Tax (VAT)	24.734.942	37.109.997
Net income subject to VAT*	19.970.591	28.111.541
Less: VAT (14.5 %)	(2.529.027)	(3.559.977)
VAT on payroll	(1.170.749)	(2.200.500)
Income subject to income tax	16.270.815	22.351.064
Income tax (15 %)	2.440.622	3.352.660
Provision for the period\ year	4.969.649	6.912.637
Provision made	4.969.649	7.612.637
Effective tax rate	23%	20%

- * This item represents taxable income for Bank's branches operating in northern governorates (West Bank) as the Presidential Decree issued on June 26, 2007 exempts tax payers in the southern governorates (Gaza) from taxes. Allocation of branches' income and expenses is based on estimates determined by management.

As of the date of the interim condensed consolidated financial statements, the Bank did not reach final settlements with VAT and income tax departments for the Bank's results of operations for the years from 2005 to 2010.

15. Reserves

Statutory reserve

As required by the Companies' and Banking Law, 10% of net profit is transferred to the statutory reserve. The reserve is not to be utilized nor available for distribution to shareholders without PMA's prior approval. The Bank did not make any transfer to the statutory reserve during the period, as these are interim financial statements.

Voluntarily reserve

Voluntarily reserve represents cumulative transfers of 10% of subsidiaries' net profit after taxes according to the subsidiaries' internal bylaws. The Bank did not make any transfer to the voluntarily reserve during the period, as these are interim financial statements.

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 Banks' capital against banking risks. The reserve is not to be utilized or reduced without PMA's prior approval. The Bank did not make any transfer to the pro-cyclicality reserve during the period, as these are interim financial statements.

16. Additional paid-in capital

The Bank's general assembly resolved in its extraordinary meeting held on April 6, 2007 to offer 13 million shares exclusively for Banks' shareholders at U.S. \$ 1 par value plus U.S. \$ 0.05 of additional paid-in capital. Total additional paid-in capital amounted to U.S. \$ 650,000.

In addition and in its meeting held on June 15, 2008, the Bank's board of directors approved the admission of International Finance Corporation as a strategic partner with 5% of the share capital which amounted to 4,070,239 shares of U.S.\$ 1 par value U.S. \$ 1 each and a additional paid-in capital of U.S. \$ 2.06 for each share. Total additional paid-in capital amounted to U.S. \$ 8,384,692.

17. Dividends

During its meeting held on April 29, 2011, the Bank's general assembly approved dividend distribution of U.S. \$ 20,000,000 for the year 2010 results as stock dividends to shareholders on pro-rata basis of their shares in the Bank's Capital.

During its meeting held on April 30, 2010, the Bank's general assembly approved cash dividends distribution of U.S. \$ 21,400,000, the equivalent to 21.4% of paid-in capital for the year 2009 results.

18. Cash and Cash Equivalents

Cash and cash equivalents in the interim consolidated statement of cash flows from the amounts in the interim consolidated statement of financial position comprises the following:

	June 30, 2011	June 30, 2010
	U.S.\$	U.S.\$
Cash and balances with PMA	289.316.640	226.040.175
Add:		
Balances at banks and financial institutions maturing within 3 months	212.363.388	375.503.982
	501.680.028	601.544.157
Less:		
PMA deposits	(48.218.351)	(30.255.562)
Due to banks and financial institutions	(59.623.728)	(8.736.747)
Statutory cash reserve	(107.411.039)	(95.051.675)
	286.426.910	467.500.173

19. Basic and Diluted Earnings Per Share

	June 30, 2011	June 30, 2010
	U.S.\$	U.S.\$
Profit for the period	16,797,705	14,089,123
	Shares	Shares
Weighted average of subscribed shares	120,000,000	120,000,000
	U.S.\$	U.S.\$
Basic and diluted earnings per share	0,14	0,12

20. Related Party Transactions

Related parties represent major shareholders, the board of directors, key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties during the period/ year represented by deposits and credit facilities are as follows:

June 30, 2011

	Board of directors and executive management	Major shareholders	Others	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Statement of financial position items				
Direct credit facilities	3.753.526	6.325.007	4.180.323	14.258.856
Deposits	265.266	400.027	469.430	1.134.723
Commitments and contingencies				
Letters of credit	197.412	-	-	197.412
Letters of guarantees	466.404	-	-	466.404
Unutilized credit facilities	1.877.455	-	315.201	2.192.656

December 31, 2010

	Board of directors and executive management U.S.\$	Major shareholders U.S.\$	Others U.S.\$	Total U.S.\$
Statement of financial position items				
Direct credit facilities	8.444.629	4.500.000	3.445.009	16.389.638
Deposits	1.266.173	-	1.243.587	2.509.760
Commitments and contingencies				
Letters of credit	50.457	-	-	50.457
Letters of guarantees	2.137.099	-	156.042	2.293.141
Unutilized credit facilities	1.598.943	-	139.002	1.737.945

June 30, 2011

	Board of directors and executive management U.S.\$	Major shareholders U.S.\$	Others U.S.\$	Total U.S.\$
Income statement items				
Interest and commissions earned	40.698	441.900	59.919	542.517
Interest and commissions paid	2.848	-	901	3.749

June 30, 2010

	Board of directors and executive management U.S.\$	Major shareholders U.S.\$	Others U.S.\$	Total U.S.\$
Income statement items				
Interest and commissions earned	22.776	20.036	75.571	118.383
Interest and commissions paid	10.559	35.322	15.621	61.502

- Net direct credit facilities granted to related parties as at June 30, 2011 and December 31, 2010 represent 1.93% and 3% respectively from the net direct credit facilities.
- Net direct credit facilities granted to related parties as at June 30, 2011 and December 31, 2010 represent 12.63% and 16% respectively from the Bank's regulatory capital.
- Interest on U.S. \$ direct credit facilities ranges between 2% to 14.4%.
- Interest on ILS direct credit facilities ranges between 10% to 16%.
- Interest on U.S. \$ deposits ranges between 0.75% to 1.25%.

Compensation of key management personnel:

	June 30, 2011 U.S.\$	June 30, 2010 U.S.\$
General Manager	147.540	143.853
Executive management salaries and related benefits	336.764	300.658
Executive management end of service indemnity	21.616	25.469
Board of directors' meeting allowance	1.687	2.068

21. Segment Information

A. Information on the Bank's business segments

For management purposes, the Bank is organized into four major business segments:

Retail banking: Includes handling individual customers' deposits, and providing consumer type loans, overdrafts, credit cards facilities and other services.

Corporate banking: Includes handling loans, credit facilities, deposits and current accounts for corporate and institutional customers.

Treasury: Includes providing trading, treasury services, managing Bank's funds, and investment.

Government and public sector: Includes government and public sectors' deposits, credit facilities and other banking services.

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

							Total
	Retail	Corporate	Treasury	Government & Public	Other	June 30, 2011	June 30, 2010
	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Gross revenues	15.129.503	12.318.678	10.148.971	6.603.322	2.957.112	47.157.586	38.301.449
Segment results	13.421.456	11.687.992	9.458.167	6.603.322	2.957.112	44.128.050	35.613.869
Unallocated expenses	-	-	-	-	-	(22.360.696)	(18.498.130)
Profit before taxes	-	-	-	-	-	21.767.354	17.720.284
Tax expense	-	-	-	-	-	(4.969.649)	(3.631.161)
Profit for the period	-	-	-	-	-	16.797.705	14.089.123
Other segment information:							
Depreciation	-	-	-	-	-	1.758.148	1.576.898
Capital expenditures	-	-	-	-	-	6.105.478	3.318.892
						30 حزيران 2011	30 حزيران 2010
Segment total assets	256.459.510	529.236.528	401.560.424	275.403.817	96.450.523	1.559.110.802	1.545.038.022
Segment total liabilities	694.781.581	485.384.724	-	129.662.476	66.969.026	1.376.797.807	1.381.153.772

B. Geographical distribution information

The following is the distribution of the Bank's assets and revenues according to geographical sector.

	Domestic		Foreign		Total	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Gross revenues	40.672.886	31.973.400	6.484.700	6.328.049	47.157.586	38.301.449
	Domestic		Foreign		Total	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Total assets	1.130.195.940	933.437.105	428.914.862	428.914.862	1.559.110.802	1.545.038.022

22. Capital Management

The primary objective of the Bank's capital management is to ensure that it maintains adequate capital ratios in order to support its business and maximize shareholders value.

The Bank manages its capital structure and makes adjustments to it in light of changes in business conditions. The Bank did not make any adjustments on goals, policies, and actions concerning to capital management for current and prior year, except for increasing capital by U.S. \$ 20,000,000 during 2011 through stock dividends to reach U.S. \$ 120 million.

The capital adequacy ratio is computed in accordance with the PMA's regulations derived from Basel Committee regulations; the following is the capital adequacy ratio for the period compared with previous ratio:

	June 30, 2011			December 31, 2010		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S.\$	%	%	U.S.\$	%	%
Regulatory capital	110.528.828	7.10	13.85	94.998.297	6.15	12.88
Basic capital	120.000.000	7.70	14.99	100.000.000	6.47	13.56

23. Commitments and Contingent Liabilities

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

	June 30, 2011	December 31, 2010
	U.S.\$	U.S.\$
Letters of credit	105.356.697	101.576.689
Letters of guarantees	22.449.640	22.943.640
Acceptances	12.520.944	6.999.005
Unutilized credit facilities	42.300.599	8.600.498
	182.627.880	140.119.832

24. Lawsuits Against the Bank

In the normal course of business, 22 litigations were filed against the Bank as at June 30, 2011. The total amount of claims filed against the Bank amounted to U.S. \$ 3,328,588 and U.S. \$ 1,252,525 as at June 30, 2011 and December 31, 2010, respectively.

The Bank's management and lawyer believe that provision made against these litigations is sufficient.