



بنك فلسطين  
BANK OF PALESTINE

ESTABLISHED 1960



With You Every Step

ANNUAL REPORT & FINANCIAL STATEMENTS

2.0.1.1

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## The Late Haj Hashim Atta Shawa Founder of Bank of Palestine

He dedicated his life to the service of his country and people, stood firm in the face of adversity, and with courage and determination laid the foundations for the first national bank and one of today's leading drivers of economic change in Palestine.



## The Late Dr. Hani Hashim Shawa Chairman of the Board 2002-2007

He was a true champion of professionalism and modernization. We would not be Palestine's largest and most successful bank without his ardent dedication, wisdom and vision, which guide and inspire us to this day.

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## Our Commitment

To be with our customers every step of the way and  
to be a driver of economic and community development.



## Award Winning Performance

from Palestine's largest financial services provider & branch network

- EUROMONEY AWARD FOR EXCELLENCE 2011: BEST BANK IN PALESTINE
- GLOBAL FINANCE: BEST TRADE FINANCE BANK 2012 IN PALESTINE
- EMEA FINANCE: BEST BANK IN PALESTINE 2011
- THE NEW ECONOMY: BEST SUSTAINABLE BANKING GROUP (PALESTINE) 2011
- IFC: BEST BANK IN MIDDLE EAST & NORTH AFRICA FOR SME'S IN A CHALLENGING ENVIRONMENT 2011
- JP MORGAN: v ELITE QUALITY RECOGNITION AWARD FOR U.S. DOLLAR CLEARING - MT 103 99% 2001 – 2011



Award Winning Performance



## BOP KEY PERFORMANCE INDICATORS 2007-2011

Increase from 2010

12.82%

Increase In  
Net Profit

32.14%

Increase In  
Credit Facilities

18.62%

Increase In  
Shareholder  
Equity

20.00%

Increase In  
Paid Up Capital

1.72%

Non-Performing  
Loans

|   | 2007          | 2008             | 2009             | 2010             | 2011             |
|---|---------------|------------------|------------------|------------------|------------------|
| Net Profit (USD)                          | 20, 579, 398  | 23, 610, 956     | 26, 929, 168     | 30, 119, 469     | 33, 980, 673     |
| Assets (USD)                              | 847, 650, 800 | 1, 046, 532, 914 | 1, 283, 017, 502 | 1, 545, 038, 022 | 1, 653, 960, 732 |
| Customer Deposits (USD)                   | 679, 633, 662 | 840, 497, 297    | 1, 016, 683, 776 | 1, 251, 482, 935 | 1, 296, 568, 931 |
| Credit Facilities (USD)                   | 243, 587, 513 | 285, 337, 011    | 343, 311, 230    | 545, 026, 391    | 720, 173, 048    |
| Shareholder Equity (USD)                  | 90, 218, 428  | 123, 169, 873    | 150, 822, 464    | 163, 884, 250    | 194, 399, 762    |
| Paid-Up Capital (USD)                     | 59, 769, 737  | 81, 404, 137     | 100, 000, 000    | 100, 000, 000    | 120, 000, 000    |
| Net Interest and Commissions Income (USD) | 35, 532, 393  | 48, 419, 463     | 52, 865, 829     | 61, 843, 054     | 75, 982, 199     |
| No. of Employees                          | 695           | 752              | 864              | 943              | 1,061            |
| No. of Customers                          | 256, 240      | 376, 489         | 429, 149         | 483, 884         | 542, 199         |
| No. of Branches                           | 30            | 32               | 40               | 42               | 46               |
| Market Share: Deposits                    | 12.93%        | 14.03%           | 16.71%           | 18.44%           | 18.60%           |
| Market Share: Credit Facilities           | 14.84%        | 17.61%           | 17.26%           | 19.19%           | 20.54%           |



Ramallah Main Branch



Key Performance Indicators 2007-2011





Hashim Shawa  
General Manager  
Chairman of the Board

## An Award Winning Year

Dear Shareholders:

I am delighted to report to you yet another year of solid results for Bank of Palestine, and proud to announce that we have received international recognition for our excellent performance and contribution to our community.

Over the past five years, our key indicators have more than doubled, making us one of the fastest growing banks in the region. We have managed this growth while maintaining solid foundations and continuously enhancing our risk management framework, which has also guarded the bank from volatile global markets. In fact, our capital base has grown by over 230% over the same period.

As you will find in this report, 2011 was a very busy year, marked by substantial achievements and exciting prospects.

2011 was a year to get down to business, to provide real support to those underbanked communities most in need of our support, and who make up 87% of our economy. Our lending to MSME's in 2011 amounted to USD 117M - a 36% increase from 2010. This is in line with our strategy to bring a full range of banking products and services to Palestine, and to provide access to finance to help our community fulfil its potential.

Our commitment to modernisation, growth and innovation together with a large national network has helped us forge a leading market position in Palestine - a position I am confident we can maintain in the coming years.

We want to be true to our brand promise "With You Every Step", a promise that encompasses our vision to serve all segments of Palestinian society, and we believe that their prosperity and success is inseparable from ours. Thus in 2011, our focus was on three key areas: Building intimate relations with our clients locally, consolidating our strengths internally, and reaching out to Palestinians in the Diaspora.

As a national bank at the heart of an emerging economy, and with 50 years of experience, we are determined to focus on the opportunities ahead. We can report that 2011 - in addition to being an award winning one - marked a firm step towards Bank of Palestine's own transformation and march towards excellence.



### We Seek to Deliver on Seven Key Strategic Areas:

1. Delivering value to our shareholders
2. Embracing a holistic approach to customer service
3. Driving economic and community development
4. Promoting sustainable & responsible banking
5. Utilizing technological innovation
6. Empowering our people & improving efficiency
7. Expanding our reach beyond Palestine

## Banking Sector in Palestine Continues to Perform

Despite instability in the region, the banking sector in Palestine registered stable growth, with assets increasing by 6.5%, deposits by 2.9%, credit facilities by 30%, and owner's equity by 8%.

The Palestinian economy also experienced a good year; real growth of 10.7% in GDP, as well as 7.4% per capita growth. The services sector is the largest contributor to GDP at 20.3%, followed by industrial and agricultural services at 12.7% and 5.9% respectively.

Against this backdrop, **Bank of Palestine** has performed very solidly in 2011. Net profits reached USD 33.98M, up by 12.82%. Total assets reached USD 1.653BN making **Bank of Palestine** the largest Palestinian company in terms of financial assets. Total shareholder equity reached USD 194.4M (up by 18.62%), paid-up capital increased by 20% to reach USD 120M, deposits reached USD 1.297BN, and credit facilities reached USD 720M, compared with 545M at the end of 2010 - an increase of 32.1%.

**The Palestine Exchange (PEX)** was one of the best performing in the region this year. Despite operating under challenging political and economic conditions over the past 14 years, PEX has been able to position itself as a robust player compared to its emerging market peers. In fact, 2011 was a record year for PEX, with the number of listed companies increasing by 18%.

In 2011, **Standard & Poor's** launched a new index called the **S&P AFE 40** Index in response to the increase in popularity of investments in the Pan Arab (MENA) region - including Palestine.

The **World Bank's Doing Business Report** rated Palestine 46th globally (out of 183 countries) and third regionally in terms of protecting investors. **Bank of Palestine** participated in the Investor Road Show in London, organised by PEX and the **London Stock Exchange**, and organised investor road shows in Washington DC, and Santiago, Chile - home to around 500,000 Palestinians.

## Building a Better Bank

Several new products and services were introduced during the year, which you will read about in this report, most notably our pioneering E-money provider **PalPay®** - a subsidiary of BoP - which gives customers a wide range of electronic payment options, and our Bancassurance product.

Additionally, with 75% of the population under the age of 34, we finalised the development of our new mortgage product (to be launched Q1 2012) to meet the rising demand for new housing.

We also undertook a major Customer Relationship Management initiative - updating the records of 500,000 customers and upgrading contact channels, in order to better understand their needs and improve our delivery of service.

We continue our commitment to reach completely unbanked areas, and remote rural regions, to be present wherever we are most needed; helping local communities fulfil their untapped potential. In 2011 we added four new branches to our network, bringing the total to 46.

Included in these new branches are the new flagship regional branch in Hebron, one of Palestine's historic trade centres, and our first 24-hour electronic bank branch - Al Manara - in the heart of Ramallah's commercial district. Also planned is a flagship building in Bethlehem, to be opened in Q3 2012.

In the same spirit, we have established a dedicated Diaspora department, offering banking and business advisory services to Palestinians living abroad.

Finally, in 2011 with focus on the promotion of talent management and career development we turned our attention to our most valuable asset: our people. Employees attended a total of 166 workshops and courses and we have enhanced our employee orientation programme.

## Focus on Performance

To support our efforts to serve both our customers and shareholders to the best of our ability, **Bank of Palestine** has taken important steps this year with the addition of quality assurance & customer service, and investor relations departments to our operations.

**Bank of Palestine** is also intent on achieving high standards for risk management and corporate governance. During the first half of 2011, we began implementing the final phase of the Risk Management Programme in co-operation with the International Finance Corporation, a member of the World Bank Group.

This process will require the bank to apply rigorous risk management controls and procedures across its various operations. As a result, **Bank of Palestine** will be one of the first banks in the region to comply with Basel II standards.

BoP's achievements, growth, and contributions to the Palestinian economy received several awards, including the EUROMONEY Award for Excellence 2011—Best Bank in Palestine, the Global Finance Best Trade Finance Bank in Palestine, EMEA Finance—Best Bank in Palestine 2011, IFC Award—Best Bank in Middle East & North Africa for SMEs in a Challenging Environment 2011, the New Economy Best Sustainable Banking Group (Palestine) 2011 award, and the JP Morgan Elite Quality Recognition Award.

It has been an excellent year on many fronts for **Bank of Palestine**. But our work is not done. We have many plans for the years ahead. These include expanding our branch network by a further four branches in 2012, establishing new departments such as E-Channels, developing well tailored SME products, and continuing to play a leading role in providing syndicated loans to large projects.

Last and by no means least, we aim to extend the reach of our sustainability strategy and corporate social responsibility initiatives based on a dynamic and well studied community outreach programme. 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, and we continue to dedicate 5% of our profit to CSR. We are proud to have been able to make significant contributions towards the betterment of our society's well being, education, and cultural identity.

Finally, I would like to extend a hearty thank you to our shareholders for their continued confidence in us and our work, to our clients for their loyalty, and to our employees for their award winning performance. I would also like to thank the **Palestinian Monetary Authority** for its ongoing support and its efforts to improve the regulatory framework under which we operate and which contributes to the development of the Palestinian economy.

Hashim Shawa  
General Manager & Chairman of the Board



With thanks and gratitude to our shareholders for their trust and support and to our family at BoP for making 2011 an Award Winning Year

Hashim Shawa





## Market Share & Competitive Position

**20.54%**

market share of credit facilities

**18.60%**

market share of customer deposits

Bank of Palestine continues to increase its market share to an advanced position amongst banks operating in Palestine. Credit facilities grew by 32.14% from 2010, increasing our market share to 20.54% (19.19% in 2010).

Customer deposits increased from USD 1,251,482,935 in 2010 to reach USD 1,296,568,931 in 2011, raising BoP's market share to 18.60%.



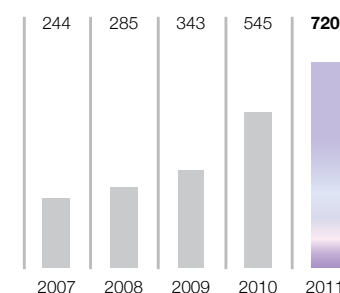
## Financial Highlights 2007-2011

In 2011 Bank of Palestine was able to achieve solid results in all aspects, preserving an upward trend despite all challenges surrounding our environment locally and internationally.

These results confirm the bank's prudent decisions and policies and indicate the growing trust of our clients and reflect the bank's understanding of customer needs and its efforts to meet those needs by providing the best banking services.

### Credit Facilities

**USD 720m**

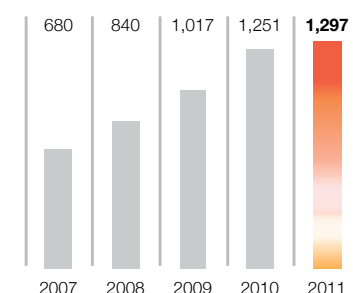


Net credit facilities in 2011 amounted to USD 720,173,048; an increase of 32.14% from 2010.

After a thorough revision of economic segments and potential for growth, BoP has further strengthened its resolve to provide access to finance - particularly to those small businesses and projects that promote economic growth and job creation.

### Customer Deposits

**USD 1,297m**

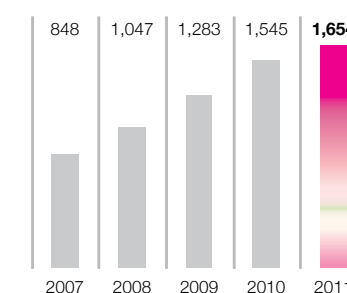


Total deposits in 2011 reached USD 1,296,568,931; up by 3.60% from USD 1,251,482,935 in 2010.

2011 witnessed volatility throughout the region and a tightening in liquidity in all markets. Nevertheless, BoP managed to grow its customer deposit base by 3.60% and outperformed the Palestinian banking sector - which grew by 2.90%.

### Assets

**USD 1,654m**

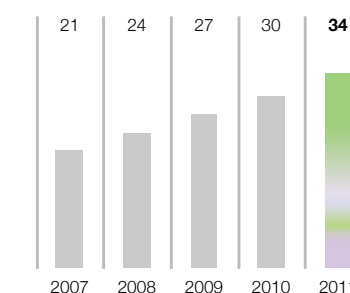


Total assets increased to reach USD 1,653,960,732 compared with USD 1,545,038,022 last year.

The increase of 7.05% is attributed to the expansion of our branch network, growing product portfolio and customer base.

### Profits

**USD 34m**

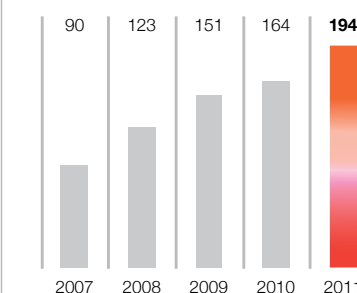


Total revenues in 2011 amounted to USD 88,790,445 as compared to USD 79,411,307 in 2010. Net profit for the year 2011 was USD 33,980,673 after deducting expenses and taxes (USD 30,119,469 in 2010) with a net increase of 12.82%.

BoP continues to deliver the highest return on equity (17.48%) amongst Palestinian banks.

### Shareholder Equity

**USD 194m**



The Bank's paid up authorized capital is USD 120,000,000 divided into 120,000,000 shares with a par value of one dollar per share. The statutory reserve is USD 19,813,156 after adding USD 3,405,775 from the profit.

Total shareholder equity increased by 18.26% from 2010 to USD 194,399,762 (a 115% growth over four years).

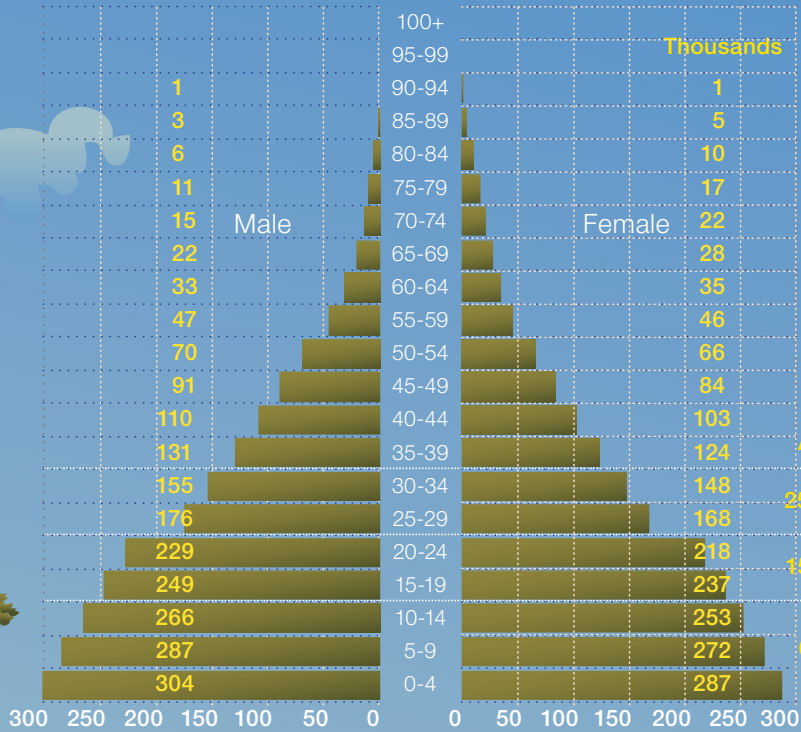
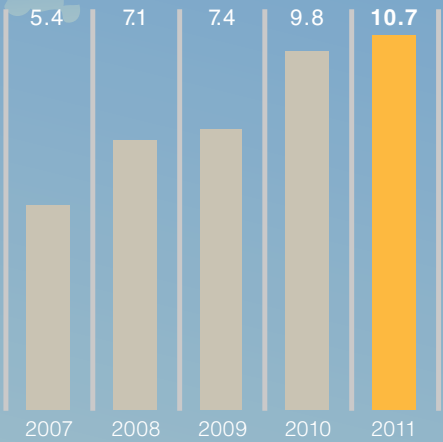


GDP/ Capita

| GDP per capita<br>( Constant USD ) | 2007   | 2008   | 2009   | 2010   | 2011   |
|------------------------------------|--------|--------|--------|--------|--------|
|                                    | 1, 303 | 1, 356 | 1, 415 | 1, 510 | 1, 614 |

10.7% GDP Growth

The total GDP growth for 2011 registered 10.7% compared to the total GDP level in 2010.



Currencies

US dollar  
Jordanian Dinar  
Israeli Shekel

Total Population  
4.23 Million

%

of total population

14.9 % 0.65 Million

21.5 % 0.93 Million

38.5 % 1.67 Million

74.9 %

60 %

# Economic landscape

7 Million Palestinians live in Diaspora

For decades, the Palestinian economy has operated under a challenging environment. However, in recent years we have been witnessing significant progress in institution-building and reform, in addition to improvements in the security and justice sectors, which have drastically improved economic governance in Palestine. Over the past five years, the Palestinian GDP has been steadily increasing and registered a growth of 10.7% in 2011. 4.23 Palestinians reside in Palestine (7 million live in Diaspora). Palestine's greatest asset is its young, educated and entrepreneurial population; 75% of the population is under the age of 34, and literacy rate is 95%.

10.7%  
GDP growth

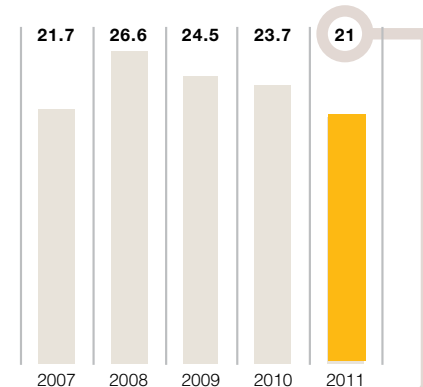
95%  
literacy rate

75%  
under 34 yrs



# Employers

- The private sector accounted for more than 90% of the growth in employment in Palestine in the first half of 2011.
- The services sector was the biggest employer in the local market after the public sector.
- Commerce, restaurants and hotels continued to provide the highest number of jobs (104,047).
- The construction industry was responsible for 70% of private sector job gains, and is the second most important sector in terms of private sector employment (92,663 jobs).
- The drop in public employment of 5.7% was offset by the rise in private-sector employment of 8.6% in terms of number of jobs available.
- The public sector comprises 22.6% of those in employment.



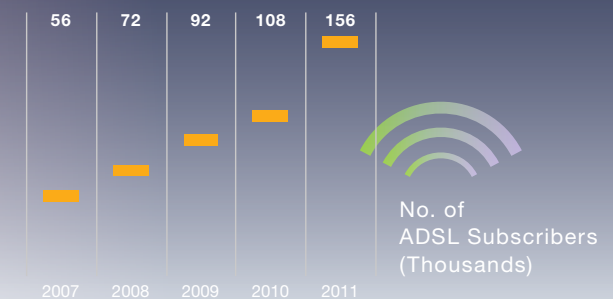
The construction industry was responsible for 70% of private sector job gains

## Unemployment Rate

The unemployment rate among the labour force participants was 21.0%.

## Imports & Exports

**Exports** increased in December 2011 by 12.8%, compared to December 2010, reaching USD 66.9 million. **Imports** decreased in December 2011 by 21.4%, compared to December 2010, reaching USD 318.1 million.



Al Reehan Neighbourhood, Ramallah

| ICT Tools        | % of Households |
|------------------|-----------------|
| Computer         | 50.9            |
| Telephone line   | 44.0            |
| Internet at home | 30.4            |
| Mobile phone     | 95.0            |
| TV set           | 96.7            |

# Technology Penetration in Palestine

Palestinians are becoming increasingly more technologically sophisticated, with over half of all households in possession of a computer. Internet penetration increased by 478% in the last five years in Palestine: 40% of individuals aged 10 years and over use the internet for access to information (86%), fun and entertainment (80%), communication (69%), studying (49%), and work (18%). 94% of households have a satellite dish; 44% have a phone line; and 95% have a mobile phone. This growing sophistication in technology is having an impact on Palestinians' banking preferences, in addition it is impacting Palestinian's ability to communicate and do business internationally.





## PCMA - Palestine Capital Market Authority

The Palestine Capital Market Authority was established in 2004. It is governed by a Board of Directors composed of seven members. Its jurisdiction encompasses securities, insurance, financial mortgages, and financial leasing sectors, along with other non-banking financial institutions.

In recent years, the PCMA chaired the National Committee for Corporate Governance in Palestine. During 2010, the PCMA embarked on a number of projects aimed at improving the internal working environment as well as enhancing the dissemination of information to the public. It has contracted a renowned company to prepare the standard operating procedures within the PCMA and has upgraded its dynamic website to include more relevant and up-to date information.

The PCMA signed a Memorandum of Understanding with the Palestinian Monetary Authority to enhance cooperation and coordination with the aim of lowering risks in the financial market.



## PEX - Palestine Exchange

The Palestine Exchange (PEX) was established in 1995 to promote investment in Palestine. PEX was fully automated upon establishment—a first among the Arab Stock Exchanges. PEX became a public shareholding company in February 2010 adhering to principles of transparency and good governance, and it operates under the supervision of the Palestinian Capital Market Authority.

PEX has maintained its presence under challenging political and economic conditions for the past 14 years and is recognized for its advanced and efficient working environment. PEX uses advanced systems for trading and surveillance such as: NASDAQ OMX and Smarts On-Line, respectively, and it enjoys high transparency, with 100% commitment to disclosure.

PEX has positioned itself as a robust exchange among its emerging market peers and is one of the most rewarding exchanges in the region in terms of return on investment (ROI). ROI averaged 6% over the last five years and 13.6% in 2010.

There are 46 listed companies on PEX as of 31 December 2011, with market capitalization of about USD 2.8 billion across five main economic sectors: banking and financial services, insurance, investments, industry, and services. Most of the listed companies are profitable and trade in US Dollars or Jordanian. Only stocks are currently traded on PEX, but there is the potential and readiness to trade other securities in the future.

## Investment and Business Environment

2011, Standard & Poor's (S&P) launched a new index called the S&P AFE 40 Index in response to the increase in popularity of investments in the Pan Arab (MENA) region.

The index is designed to measure the performance of the 40 leading companies in the region and has been designed in partnership with the Arab Federation of Exchanges (AFE).

The countries included in the index are Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Tunisia.

## STANDARD & POOR'S

The McGraw-Hill Companies



## Palestine Monetary Authority

The Palestine Monetary Authority (PMA) is the emerging Central Bank of Palestine. Its overall purpose is to ensure price stability and contribute to the stability and effectiveness of the Palestinian financial system.

The PMA was established in 1995 by a presidential decree as an independent institution and later by an act of the Palestine Legislative Council PMA Law Number (2) of 1997, which outlined the full authority and autonomy of the PMA. Since 2007, the PMA has made notable progress in institutional reform, enabling it to fulfil the core functions of a central bank.

According to the International Monetary Fund (IMF), reforms undertaken are outlined below.

**In 2010–11 the PMA has strengthened the supervision and regulatory framework and advanced toward the implementation of Basel II standards.**

In January 2010, a unit was established in the Supervision Department to implement the Fair Lending Regulations and conduct financial literacy campaigns.

In May 2010, the PMA issued Basel II compliant regulations governing the disclosure of information by financial institutions. In early 2011, the President approved regulations for licensing and supervision of Specialized Lending and Financial Companies, including microfinance institutions. In August 2010, the PMA adopted regulations governing mergers and acquisitions in line with best practices. These regulations have already been applied to bank mergers.

The PMA has also applied Basel standards and procedures when liquidating two banks in 2010. To further strengthen the banking system's capital base, the PMA introduced two measures in December 2010: (i) an increase in the minimum capital requirement to USD 50 million (from USD 35 million); and (ii) new counter-cyclical reserve requirements according to which banks should add 15% of their net (after tax) income to their Tier I capital as an additional bad times buffer.

In May 2011, the PMA established a Consumer Awareness and Market Discipline department to monitor closely developments in the mortgage and housing markets.

In March and June 2011, the PMA conducted stress tests of individual banks and the banking system to assess the robustness of the banks and the system to plausible shocks.

Full implementation of Basel II standards is expected by mid-2013.

**Establishing a modern payment infrastructure including bounced-checks tracking, credit scoring, and electronic payment systems.**

The bounced-check tracking, in operation since 2009, has contributed to the decline in bounced checks by an estimated 25%. The credit scoring system, which was integrated into the credit registry in July 2010, is considered

by banks to have been an important facilitator of the rise in the Palestine's bank credit to the private sector. A bank deposit insurance scheme, developed with World Bank assistance, is expected to be ready by mid-2012. The PMA installed the electronic payment system in November 2010. It includes a Real Time Gross Settlement system (RTGS) and a Clearance House. The payment system raised bank payments' efficiency and reduced liquidity risk.

**Enacting a new Banking Law to strengthen the financial sector's legal framework in November 2010.**

A new central bank law, which guarantees the independence of the PMA, is expected to be submitted to the cabinet for approval by end-March 2012, before Presidential approval. An Anti-Money Laundering (AML) law, prepared with technical assistance from the IMF, has been in force since October 2007. Since 2008, the PMA has been monitoring banks' compliance with the Basel committee compliant corporate governance code.

The International Monetary Fund (IMF) has stated in its reports in 2011 that the PMA is capable and ready to assume the role of the Palestinian central bank.



| TOTAL ASSETS      | 2007             | 2008             | 2009             | 2010             | 2011             |
|-------------------|------------------|------------------|------------------|------------------|------------------|
| Banking Sector    | 6, 489, 601, 402 | 7, 259, 387, 314 | 7, 718, 180, 756 | 8, 554, 270, 628 | 9, 110, 234, 260 |
| Bank of Palestine | 847, 650, 800    | 1, 046, 532, 914 | 1, 283, 017, 502 | 1, 545, 038, 022 | 1, 653, 960, 732 |
| DEPOSITS          |                  |                  |                  |                  |                  |
| Banking Sector    | 5, 333, 008, 017 | 5, 825, 154, 051 | 6, 203, 378, 593 | 6, 772, 696, 986 | 6, 972, 474, 546 |
| BOP               | 679, 633, 662    | 840, 497, 297    | 1, 016, 683, 776 | 1, 251, 482, 935 | 1, 296, 568, 931 |
| CREDIT FACILITIES |                  |                  |                  |                  |                  |
| Banking Sector    | 1, 476, 715, 389 | 1, 683, 043, 944 | 2, 033, 036, 514 | 2, 820, 594, 938 | 3, 552, 598, 651 |
| BOP               | 243, 587, 513    | 285, 337, 011    | 343, 311, 230    | 545, 026, 391    | 720, 173, 048    |

## The Palestinian Banking Sector

Eighteen banks operate within Palestine, eight of which are Palestinian. The growth potential for the banking sector in Palestine is very promising. There are currently 226 branches that serve the entire Palestinian population of 4.23 million. Without taking into account the growth in the Palestinian population, the number of bank branches in Palestine needs to double to meet the world standard of a maximum of one branch per 10,000 people.

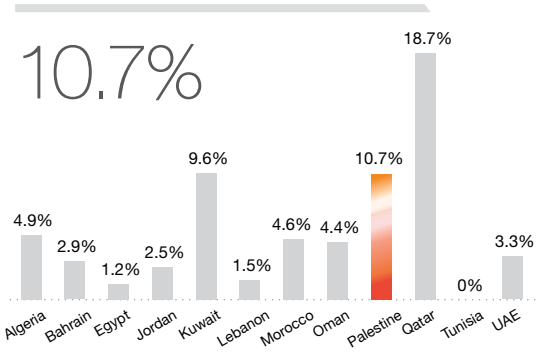
Bank of Palestine regards the relatively sparsely populated banking arena in Palestine as an opportunity both to extend the reach of its business and to provide high quality, innovative products and advisory services that improve the lives of its customers.

Bank of Palestine's potential for growth is strong. In 2011, Palestine's GDP growth was around 10.7%. Over 2011, the banking sector assets increased by 6.5%, deposits by 2.9%, credit facilities by 30%, and owners' equity by 8%. Furthermore, the share of non-performing and 'watch list' loans fell to 3% of total loans at the end of 2011, a significant drop from 11% at the end of 2006.

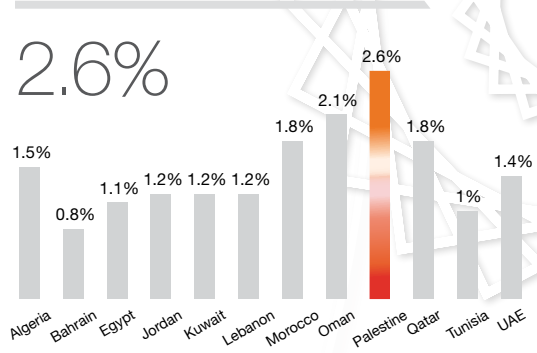
Looking at the trajectory over the last five years, assets have increased by 59%, deposits by 66%, and credit facilities by 87%.

At Bank of Palestine, we believe we are strongly positioned to maintain our position as the clear leader in the Palestinian banking sector. The effort we have put into building a highly respected financial institution with a strong brand has been rewarded by great customer loyalty, and this loyalty is reflected both in our results for the year and our positive outlook for the future.

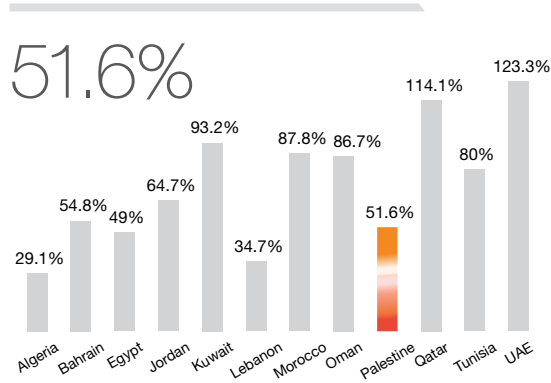
GDP Growth Vs. MENA: 2010-11



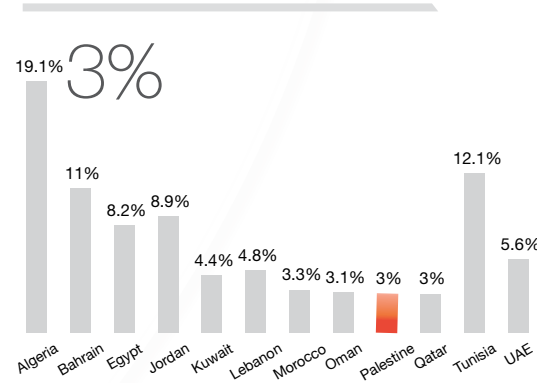
ROA Vs. MENA: 2010



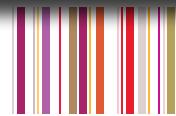
Loan to Deposit Ratio Vs. MENA: 2011



Non-Performing Loans Vs. MENA: 2010







## Banking on Growth

Bank of Palestine continues to be Palestine's leading bank in terms of presence, and has further pursued its strategic plans to provide services to both urban and rural areas. In addition to establishing branches in the main Palestinian cities, we have also opened branches in unbanked areas, to provide our clients with easy, convenient access. In 2011, we added four new branches to our network during the year, bringing the total to 46 branches.

In April 2011, a flagship branch serving the southern region was completed and opened in Hebron, in addition to a sub-branch in the village of Ni'leen - expected to serve more than 100,000 village residents in the western Ramallah governorate. Also launched was Palestine's first 24-hour E-Branch (located at Al Manara roundabout in the heart of Ramallah's commercial district) allowing customers to conduct all their transactions electronically. Furthermore, a sub-branch was opened at the University of Khadori in Tulkarem.

With fast growing demand in unbanked regions and traditional centres of commerce, an emerging youthful and industrious population (4.23 million), our strategy aims to satisfy the world standard of a maximum of 10,000 customers per branch. As such we aim to continue to expand our branch network.

In 2012 we will open our new nine-story flagship building in the city of Bethlehem. A similar project is under way in the city of Jericho to help meet the needs of the growing businesses in the area. We have also started preparing for the opening of another branch in the city of Ramallah, which will be located in the Masyoun neighbourhood.



Ramallah Headquarters under construction



Nablus City



Bethlehem City



Hebron City

- 46 Branches
- 88 ATMs
- 4,496 POS
- 1,061 Employees
- 542,000 Customers

- BoP Branches & Sub-Branches
- Branches Under Construction



Our Branch Network





Our aim is to be a world standard financial services provider operating at a consistent level of excellence. Our success in this will rely on the competence, skills and well being of our employees, and our strategy for performance has been further developed to ensure our level of service matches our growth.

Bank of Palestine has an equal opportunity and nondiscrimination employment policy.

Our HR strategy works towards the alignment of our training, reward, and recognition programmes with our customer satisfaction strategy - with the aim of training our staff to anticipate and exceed the needs and expectations of our clients. To this end, we are constantly evolving our HR policies and procedures.

In 2011, the number of employees grew by 12.5% to reach 1,061 working in 46 branches and serving 542,000 customers. This boost in personnel will help us meet the needs of our clients across our growing network.

Our people are crucial to the delivery of a sustainable business model. We focus on attracting the best talent and on enhancing employee engagement. Our efforts to establish a professional and open working environment have yielded promising results in the past year, and we continue to refine our employee performance programmes.

### Employee engagement

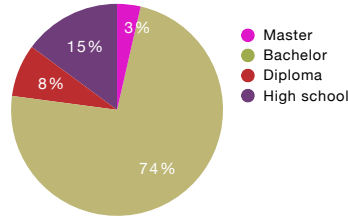
We believe that employee engagement is important for individuals to achieve high levels of productivity and motivation, and to instil amongst our staff a strong sense of ownership of the brand, and more importantly of customer needs.

In 2011, we conducted a company-wide survey that yielded valuable feedback about what we can do to create a more engaged workplace, in addition to allowing the bank's employees to play a part in setting our 2012 training plan by communicating their training needs.

Bank of Palestine has a transparent management system whereby employees are encouraged to take full part in improving the workplace, processes, procedures, products, and services. Employees who provide valuable insight are acknowledged and well rewarded.

|      | Total | Male | %   | Female | %   |
|------|-------|------|-----|--------|-----|
| 2007 | 695   | 483  | 84% | 111    | 16% |
| 2008 | 752   | 624  | 83% | 128    | 17% |
| 2009 | 864   | 697  | 81% | 167    | 19% |
| 2010 | 943   | 757  | 80% | 186    | 20% |
| 2011 | 1061  | 820  | 77% | 241    | 23% |

### Academic Qualifications



### Promoting & empowering women in the workforce

In Palestine the unemployment rate among labour force participants is higher for females (27%) than for males (19.3%).

We believe that empowering women to participate fully in the workplace is essential to building a sustainable economy and improving quality of life for families and communities.

In addition to raising financial awareness and offering products aimed at women, we have worked over the years to increase the percentage of women among our staff. We have reached a percentage of 23% female in 2011, compared with 16% in 2007. We aim to reach 50% female participation in the bank's workforce by 2020. Not only are we increasing the number and percentage of female employees at the bank, we are also working on increasing the number of women in management positions.





## Training & career development

Bank of Palestine is determined to continue to develop and refine the skills and abilities of its workforce through a mixture of internal and external training programmes, held in both local and international training institutions. We believe that training will help Bank of Palestine achieve its goals, both on an individual level for our employees and for the bank as a whole.

For us, it is a positive investment that will enable us to achieve our institutional objectives. In 2011, we invested around half a million US dollars on training programmes for employees resulting in 1,971 training opportunities for a total of 1,061 employees.

The past year was extremely active with regards to training activities. Not only did we offer more training courses to our employees, but we extended the range of training topics to keep pace with new trends and updates at the local, regional, and international level.

### Training Activities in 2011

| Programme                              | No. of Conducted Courses | Ratio to Total training | No. of Beneficiaries | Ratio to Total Workforce |
|--|--------------------------|-------------------------|----------------------|--------------------------|
| Banking Orientation Training Programme | 12                       | 7.2%                    | 297                  | 28%                      |
| Internal Training                      | 38                       | 22.9%                   | 1,205                | 113.5%                   |
| External Training                      | 48                       | 28.9%                   | 347                  | 33%                      |
| International Training                 | 63                       | 38%                     | 109                  | 10.3%                    |
| Professional Certificates and Diplomas | 5                        | 3%                      | 13                   | 1%                       |
| <b>Total</b>                           | <b>166</b>               |                         | <b>1,971</b>         |                          |

### Details of BoP's training centre activities

#### Preparation and orientation of new employees (Banking Orientation Training Programme)

| No. of Courses | No. of Participants | Total                                  | Institution                         |
|----------------|---------------------|--|-------------------------------------|
|                | New Employees       | Database Updating<br>Project Employees | Interns/<br>University Students     |
| <b>12</b>      | <b>154</b>          | <b>73</b>                              | <b>70</b>                           |
|                |                     | <b>297</b>                             | Bank of Palestine's Training Centre |

### Internal Courses - Cont.

| No. of Courses | No. of Participants |
|----------------|---------------------|
| 31             | 994                 |

### Internal Workshops

| No. of Workshops | No. of Participants | Institution                         |
|------------------|---------------------|-------------------------------------|
| 7                | 212                 | Bank of Palestine's Training Centre |

### External Training Programmes

| No. of Courses | No. of Participants | Institution   |
|----------------|---------------------|---|
| 42             | 290                 | Palestine Institute for Financial and Banking Studies |
|                |                     | European Training and Research Institute              |
|                |                     | General for training and consulting                   |
|                |                     | Ernst & Young   |
|                |                     | SMET – UNRWA  |
|                |                     | Jerusalem Electricity Company                         |

### External Workshops

| No. of Workshops | No. of Participants | Institution        |
|------------------|---------------------|--------------------|
| 5                | 57                  | CHF<br>AED<br>PCMH |

### International Training Programmes/ Conferences/ Seminars

| No. of Courses | No. of Participants | Location   |
|----------------|---------------------|--|
| 63             | 109                 | Egypt, France, Jordan, Lebanon, UAE, UK, and USA |

### Professional Certificates and Diplomas

| Certificate / Diploma      | Institution  | No. of Beneficiaries |
|----------------------------|--|----------------------|
| Six Sigma – Black Belt     | Arizona State University in cooperation with the Palestine Institute for Financial and Banking Studies | 1                    |
| Training of Trainers (TOT) | Palestine Institute for Financial and Banking Studies  | 4                    |
| Risk Mgt.                  | Palestine Institute for Financial and Banking Studies  | 4                    |
| Audit                      | Palestine Institute for Financial and Banking Studies  | 3                    |
| Anti Money Laundering      | Palestine Institute for Financial and Banking Studies  | 1                    |
| <b>Total</b>               |  | <b>13</b>            |





## Middle East Investor Relations Society

Bank of Palestine joined the Middle East Investor Relations Society (ME-IR Society) in 2011. The ME-IR Society is an independent not-for-profit organisation dedicated to promoting excellence in investor relations standards across the region. It is committed to fostering dialogue among its members as well as sharing and promoting best practice and techniques in the field of IR.

Through its membership programme and network of partners, the ME-IR Society works as a communications channel and provides support to listed firms, investors, regional governments, and exchanges.

## Quality Assurance & Customer Service

As a customer-driven organization, Bank of Palestine has taken important steps towards improving the quality of the client experience by adding a quality assurance and customer service department in 2011. This department is responsible for setting and measuring service standards, and reviewing processes and procedures to ensure efficiency, enabling the bank's employees to provide better and faster customer service.

## Investor Relations

As our shareholder base increased by more than 70% since we listed on the Palestine Exchange (PEX) in 2005, we established an investor relations department in 2011 to promote effective investor relations practices, to engage with current and potential shareholders on a regular basis, and to provide them with information on the bank's performance and on the market.



## Diaspora Relations

There are over seven million Palestinians living in the Diaspora, with an estimated total GDP of USD 70 billion. The Diaspora department was established with the aim of building relationships and offering a range of services, including retail and corporate banking, business advisory services, and investment and brokerage services for those who wish to invest in Palestine.



YOUR SUCCESS IS OUR BUSINESS

Al-Wasata Securities is a subsidiary of Bank of Palestine that works in the field of brokerage, underwriting management, and portfolio management. It was founded in 2007 with the aim of facilitating local and foreign investment in the Palestinian capital markets.

Al-Wasata's paid up capital is USD 3,560,000 and Bank of Palestine's shareholding is 87% of the total capital.

As a member of the Palestine Exchange (PEX), Al-Wasata provides securities brokerage services. It holds a license from the Palestine Capital Market Authority to trade in four regional financial markets in addition to PEX: the Egyptian Stock Exchange, the Amman Stock Exchange, the Dubai Stock Exchange, and the Abu Dhabi Securities Market.

During 2011, the volume of traded shares was USD 150 million in Palestine and surrounding markets, making Al-Wasata a leader in this sector. The company also leads the way in terms of innovation and technology; Al-Wasata's branches have been equipped with the latest technology in order to make doing business fast, secure, and easy for investors. Al-Wasata was also one of the first companies to introduce e-trading services in Palestine, giving investors all the tools they need to make the right investment decision and carry out their transactions easily and securely.



During 2011, Bank of Palestine made further use of its extensive Point of Sale (POS) merchant network by founding PalPay®—Palestine Payments: A unique service company, giving customers the ability to pay utility bills and top up mobile phone credit using the bank's 5,000 POS merchant terminals, spread throughout the country in shops, supermarkets, restaurants, and hotels. PalPay® will also

enable clients to pay bills using mobile telephones and computers – taking advantage of the high technology penetration among Palestinians (mobile and internet). The next step will be for clients to be able to pay their microfinance loan instalments using PalPay®'s different payment channels, saving hours of processing and waiting time.

For more information please see Page 38.



## Green Loans

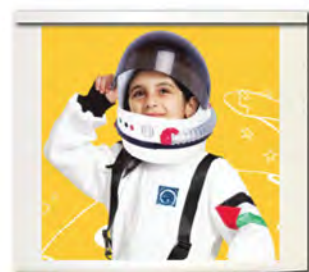
In 2010, Bank of Palestine launched the Green Loans program, the first of its kind in the region. Its objective is to encourage the introduction of more green systems, such as the building of water wells, the installation of wastewater management, reduction, and treatment systems that provide water for irrigating farmland, and alternative energy sources.



Bank of Palestine believes in providing both our individual customers and businesses of all sizes with opportunities, support, and advice to help them grow, prosper, and contribute to the Palestinian economy.

The philosophy driving our expansion has always been, and continues to be, the sustainability of economic growth at both the national and local level.

We believe in the tremendous potential of Palestine and its citizens who- despite modest resources and times of strife and hardship- have proved to be creative, innovative, and resourceful. At Bank of Palestine, we see ourselves as both mirroring and supporting their creativity and resourcefulness by providing a growing and increasingly diverse number of products and services that support these citizens' ability to play an active role in Palestinian society.



## Children's Saving Account

During 2012 we plan to launch a time deposit savings account tailored especially for parents wishing to save for their children on a trust fund basis. The account will also reward longer saving periods with higher interest as time goes on.



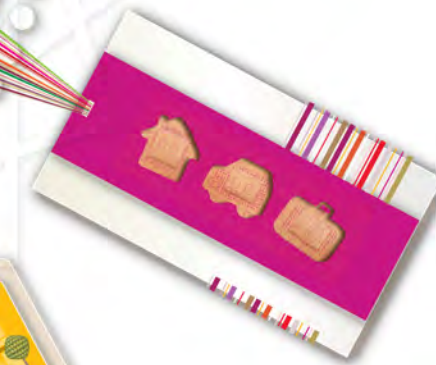
Bank of Palestine offers retail clients both current and savings accounts in US Dollar, Jordanian Dinar, Euro, and Israeli Shekel. Clients have a wide range of cheque cashing and bill payment services available to them through the bank's branches, and network of ATMs and POS merchant terminals. Bank of Palestine is also the largest issuer of Visa and MasterCard credit cards, as well as international debit cards that give customers access to their current accounts all over the world.

# total banking solutions for all of your financial needs



## Cards

Bank of Palestine offers its customers a full range of cards (Visa, MasterCard & EasyLife Installment Cards). In 2012 we will be introducing Prepaid Visa cards.



## Bancassurance

Adding to its services for customers, Bank of Palestine introduced Bancassurance in Q2 2011. This product, offered in partnership with the National Insurance Company, aims at providing customers with a range of insurance solutions through the branch network, including home, auto, and safe travel insurance.



## Car Loans

Bank of Palestine offers comfortable car loans to its clients, with good rates and payment period.



## Mortgages

There has been a major boom in the construction sector, reflecting the young Palestinian population's need for housing. Bank of Palestine developed the first mortgage program in Palestine, which will be introduced to the market in Q1 2012 and will make 25-year home loans available.



## Student Loans

Students are vital to the future of Palestine and it is important that they are well educated for our increasingly sophisticated job market. Bank of Palestine's student loan program offers

students an accessible and affordable loan program. To be eligible, students must be registered, or intending to register, at a Palestinian university. Several different programs are eligible, from business and finance to medical sciences, dentistry, information

technology, and agricultural studies. There is no interest during the period of the loan and for a year after graduation. During 2011, 1,150 student loans for a total amount of USD 700,000 were disbursed.

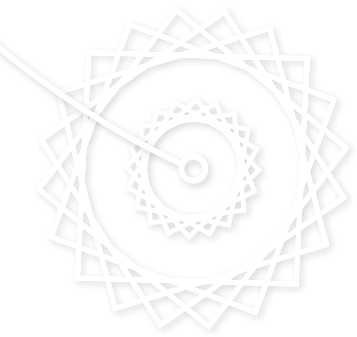


# Retail Banking





# Helping businesses reach their destination



Bank of Palestine continues to focus on financing and supporting micro, small, and medium sized enterprises (MSME), considering they are the engine of growth in an emerging economy like Palestine. According to the Palestinian Ministry of National Economy, as of 2010, 87% of the Palestinian workforce is employed in MSMEs in Palestine.

Around 200,000 formal SMEs currently exist in Palestine. In the past ten years there has been an increase of nearly 50% in new firms coming onto the market. Compared with other markets, the SME population is very stable and demand for SME financing is expected to increase by 17% in the next year.

Equally important to the Palestinian economy are the many micro entrepreneurs and family enterprises that make up a large segment of businesses in Palestine. Despite their importance to the economy, micro entrepreneurs often have limited access to financing through the traditional banking system. Bank of Palestine believes in the potential of these businesses to promote economic sustainability, create jobs, and raise living standards.

Accordingly we have established a specialist microfinance unit to help low income business owners develop their businesses across Palestine, including rural areas.

As these businesses grow, Bank of Palestine continues to work with them, responding to their growth and changing needs with more sophisticated products, services, and advice.

A closely linked referral partnership between our microfinance officers and business banking experts helps to ensure that smaller businesses receive the appropriate support needed to establish, upgrade or expand a business. Our staff are constantly out in the field building relationships and gaining insight into local communities in order to better develop solutions that suit our diverse customer base.

Bank of Palestine has financed MSMEs in several sectors including commerce, services, industry, agriculture, tourism, and construction.

In addition to providing access to finance, Bank of Palestine also helps these fledgling businesses survive and prosper by encouraging them to develop managerial, technical, entrepreneurial, and marketing skills.

Bank of Palestine's credit facilities to MSMEs increased by 36% in 2011. This sector now represents 23% of the bank's private sector credit facility portfolio, demonstrating its commitment to this vital sector.

## Harvesting Water With Help From A Green Loan

Victor Elias Michael used Bank of Palestine's green loan programme to create a water well in his house in Bethlehem that would allow him to harvest rain water. There is a shortage of water in the area where he lives, particularly in the summer. Without the well, Victor had to buy costly water tanks when water ran short. Victor's USD3,500 loan has helped him to save around USD100 each month in water bills.

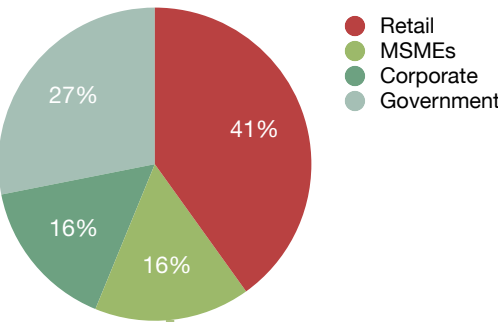


## Micro Loans Allowed A Kindergarten Teacher to Expand Her Business

Sabah Al-Ewese borrowed through the Bank of Palestine microfinance programme. She received her first micro loan to start a kindergarten for the children of working mothers in Gaza. As Sabah's business became established, she was able to borrow a larger micro loan through the bank's graduated borrowing programme. She used this money to buy additional toys, hire an assistant, and increase the enrolment of children in the programme. Recently, Sabah decided to further expand her business by opening a primary school, for which graduates of her kindergarten would be eligible to apply.

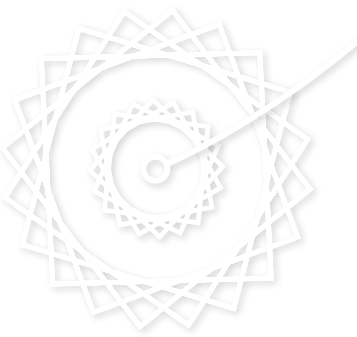
With a further loan exceeding the terms of the microfinance programme, like her students, Sabah was able to graduate from our microfinance programme into Bank of Palestine's SME banking segment.

## BoP Loan Portfolio: 2011



**USD 117 Million**

to 1,500 micro, small and business enterprises employing over 10,000 Palestinians.



## Microfinance & SME Banking







## A steel company prospers and opens regional branches with credit facilities from Bank of Palestine

Al-Baian Company - a steel company based in Gaza - has been banking with BoP since its founding in 1994.

The company started with capital of around USD 270,000 and has now reached USD 1.1M. Credit facilities from BoP have enabled Al-Baian to buy raw materials, rebuild the factory after being destroyed during the war on Gaza, and helped the company open a branch in Oman.



## Financing a New Wastewater Treatment Plant in Gaza

In March 2007, the Bait Lahia sewage and wastewater lake in North Gaza collapsed, killing six and displacing 2,000 residents. With some 300,000 people living in Beit Lahia, Beit Hanoun, Um Al Nasser, and Jabalya refugee camp, it was necessary to take action to prevent such a catastrophe from happening again. Hence, five international donors: World Bank, European Union, AFD, Sida, and the Belgian Cooperation; donated USD 40 million to launch a construction project of an emergency sewage treatment plant.

This project is considered the biggest project for wastewater treatment plants in Palestine.

Masoud and Ali Contracting Company being the contractor, has relied on Bank of Palestine for credit facilities to implement the project.



## Other products and services for business and corporate clients

To meet the needs of our corporate and business clients, Bank of Palestine has established specialized corporate branches in Ramallah and Nablus. Our plan is to roll out this concept to all our flagship buildings in the main Palestinian cities. Bank of Palestine offers commercial and business clients a full range of products and services to help them do business, including:

- Letters of Credit
- Letters of warranty
- Financing of commercial contracts
- Bill collection
- Credit facilities
- International money transfers
- Treasury services
- Electronic banking services
- POS merchant terminal
- Green loans

## Corporate Loans

Bank of Palestine offers credit facilities and loans to businesses of all sizes. In addition to loans granted to MSMEs, the bank also offers loans to larger businesses enabling them to expand or upgrade a business, or take on large scale contracts and projects.

## Syndicated Loans

Bank of Palestine is the leader in syndicated loans in Palestine and provides loans and large project financing to its corporate clients, particularly in the telecommunications, energy, real estate, and tourism industries. These loans include syndicated loans for Wataniya Mobile, the second leading mobile operator in Palestine, and the Movenpick Hotel in Ramallah.

### Wataniya Palestine Telecom (WPT) - Syndicated Loan

Bank of Palestine played a leading role in the first-of-its-kind private sector loan for Palestine's second mobile operator – Wataniya Palestine Telecom (WPT) – a joint venture between Qatar Telecom (Qtel) and the Palestine Investment Fund (PIF). The USD 85 million Senior Secured Syndicated Facility loan was agreed

between WPT and the lender group comprising of BoP, Al Quds Bank, Commercial Bank of Palestine Ltd., Ericsson Credit AB, International Finance Corporation (IFC), and Standard Bank Plc.

This loan has enabled WPT to address Palestine's telecommunications needs by increasing competition in this sector, resulting in reduced tariff charges offering customers high-quality services, and

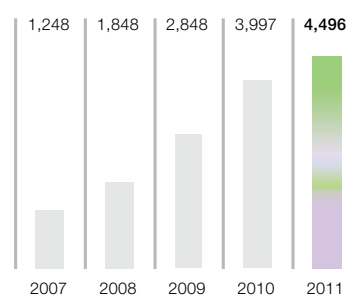
accelerating market growth. Through financing this project we have enabled the creation of 420 direct jobs and over 1,000 indirect jobs.

## Business & Corporate Banking

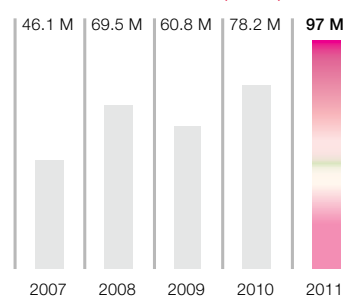




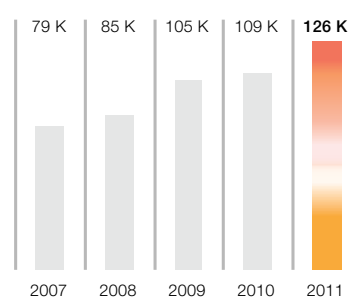
POS Merchant Terminals



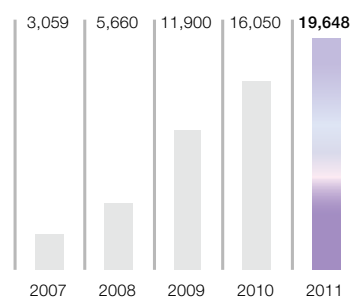
POS Transactions (USD)



Customer Debit Cards



Customer Credit Cards



## From cash to cards

Until recently, awareness in Palestine of the benefits of moving from cash to plastic money has been limited and under-marketed. However, in the past few years we have been very proactive in campaigning to raise awareness about the convenience, safety, and rewarding advantages of making a shift towards the use of cards with successful results.

BoP is the sole card issuer and merchant acquirer of Visa and MasterCard in Palestine and owns the largest card processing operations nationwide (5,000 POS merchant terminals). With over ten years of experience, we are able to quickly develop, test and deploy customized cards, such as our EasyLife instalment card, giving us a competitive advantage and enabling us to offer customers products suited to their needs and with comfortable repayment terms.

In 2011, the number of Visa Electron cards in circulation increased by 16% to reach 130,000, while the number of credit cards (Visa and MasterCard) increased by 23% to reach 20,000.

The EasyLife Installment card, which Bank of Palestine recently introduced, is the first of its kind in Palestine. Known as an instalment card, allowing customers to purchase goods, and repay in instalments up to 36 months. We plan to further develop the EasyLife brand to reach more customer segments and with added value features in the coming years.



## Innovating with E-Money

Leading Palestine into the age of digital transactions

During 2011, Bank of Palestine made further use of its extensive POS merchant network by introducing **PalPay®: Palestine Payments** - a unique e-payment solutions provider affording customers the ability to pay utility bills and top up mobile phone credit at shops, supermarkets, restaurants, gyms and hotels; in addition to mobile and online payment channels.

Next in the pipeline will be for clients to be able to pay their microfinance loan instalments using PalPay®'s various payment channels (POS, mobile, PC)- saving customers waiting time and the need to travel to branches for simpler transactions.

PalPay®y has signed many agreements with various service providers interested in extending this service to their clients across Palestine. In addition to offering high convenience and ease to their clients, service providers will also benefit from a fully transparent reporting system (inventory, payment history and soon credit rating) and from the ability to offer users special offers and rewards directly through the POS merchant network.

With a high technology penetration rate in Palestine, a good section of the population living in rural areas, and a majority youth population. PalPay® has tremendous potential to innovate and to transform the

payment and transaction arena.

Furthermore, PalPay® users will not need to be account holders at BoP to fully benefit from these payment solutions, making it easier to target those not yet able to hold bank accounts due to age or credit restrictions.

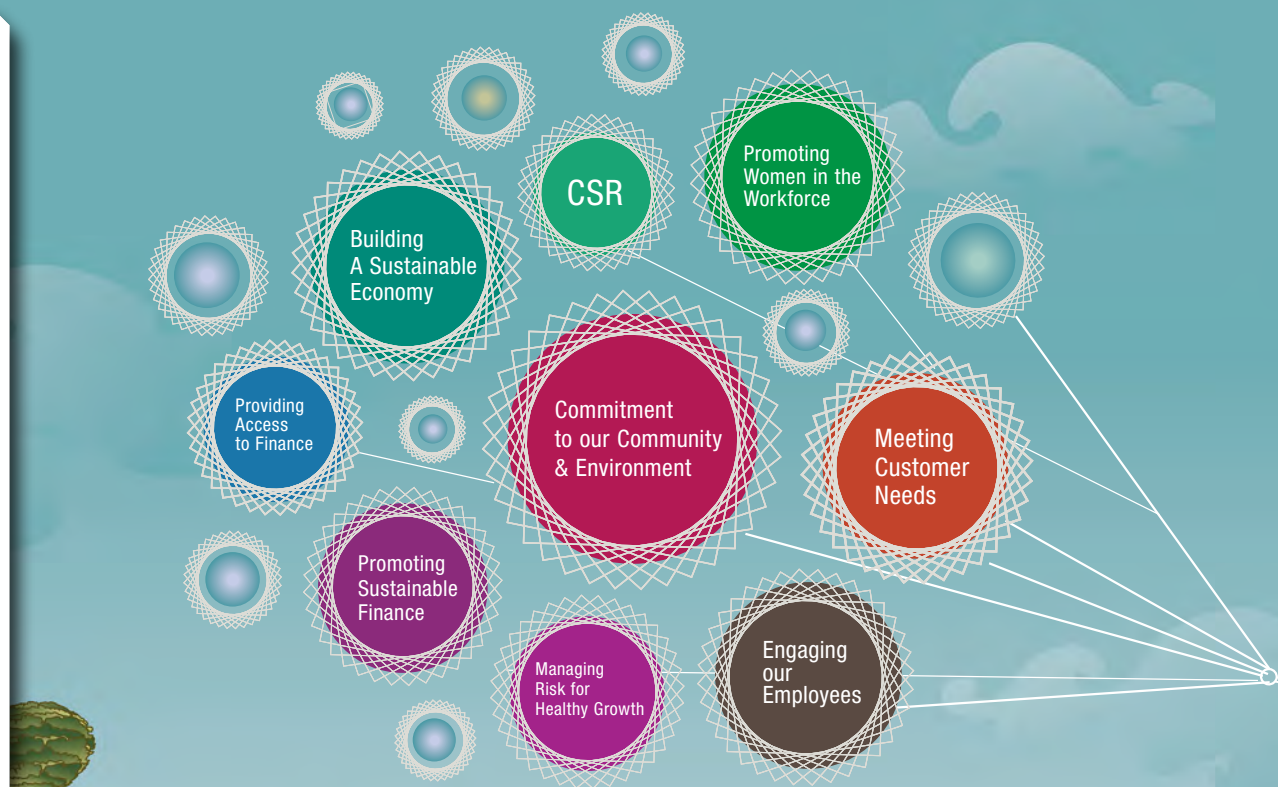
PalPay® is expected to launch in 2012, and we are very excited to evolve this company into a world class E-Money solutions provider that will one day serve clients beyond Palestine.



## Cards, POS & Payment Solutions







## It Pays To Do Good

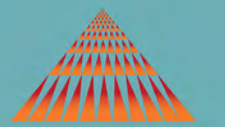
Social and environmental responsibility has been an integral part of the way Bank of Palestine operates since the bank was founded in 1960. Today, it is more important than ever before as we work to create a sustainable economy and society in Palestine. Bank of Palestine has been implementing an all-encompassing sustainability strategy, because we believe that true progress begins with social and economic development at a community level.

Out of strong, stable communities will grow sustainable businesses, and sustainable businesses will help strengthen the wider economy and infrastructure of Palestine.

We are committed to helping the communities we serve, by supporting individuals, families, institutions, and businesses during these challenging economic times. Through innovative partnerships and initiatives, we are generating new opportunities, opening new doors to success, and creating a solid foundation for Palestine's future.

By "doing good" banks can be influential contributors to economic and social progress. We aim to have a positive impact in three ways:

- ▶ Developing Communities
- ▶ Building a Sustainable Economy
- ▶ Promoting Sustainable Finance



**The NewEconomy**

**SUSTAINABLE FINANCE AWARDS**

**2011**

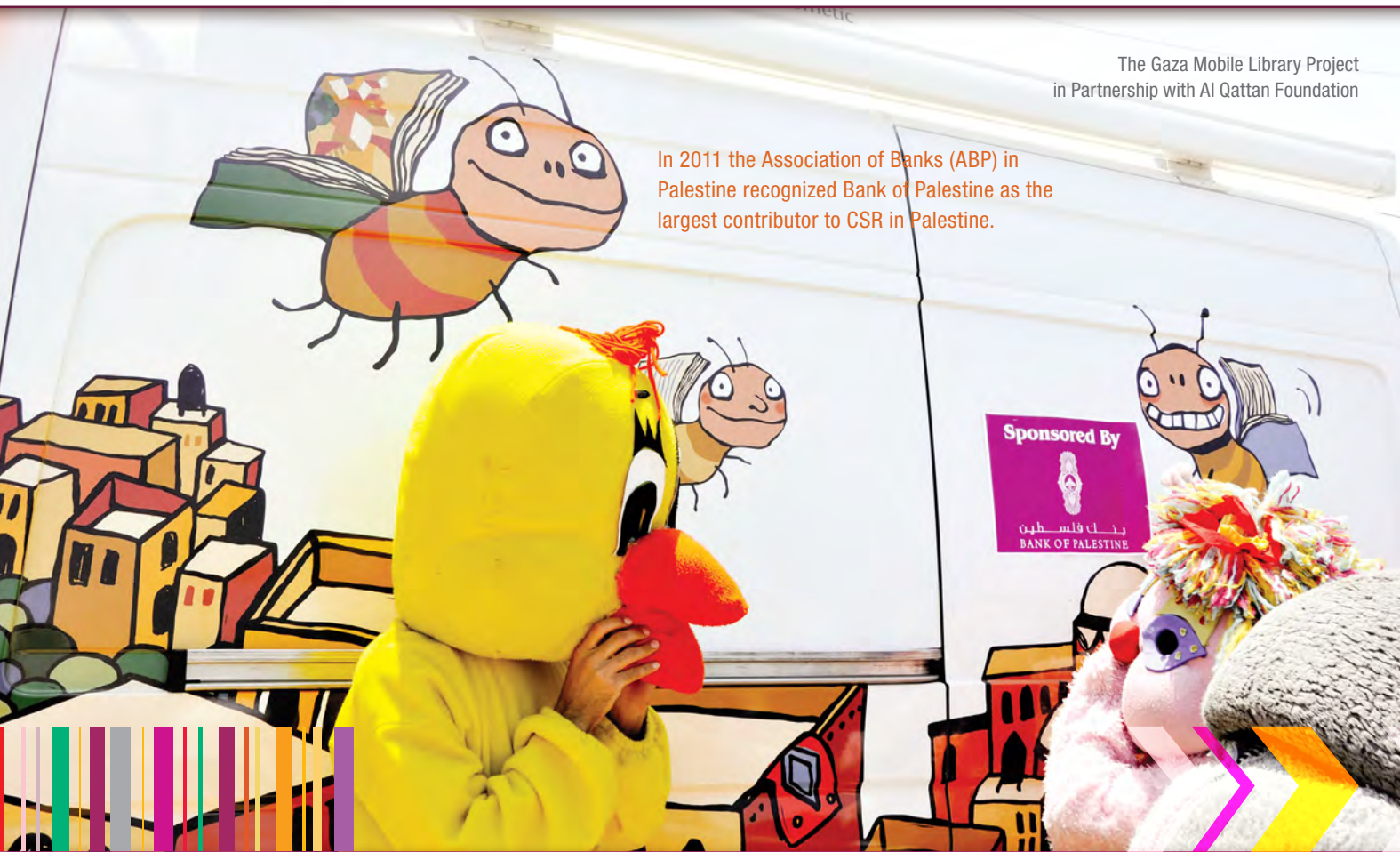


Adopting a holistic strategy in our quest for

# Sustainability







The Gaza Mobile Library Project  
in Partnership with Al Qattan Foundation

In 2011 the Association of Banks (ABP) in Palestine recognized Bank of Palestine as the largest contributor to CSR in Palestine.

## Corporate Social Responsibility

As the first and largest bank in Palestine, we believe that our role is to be a leader for businesses and communities. We do this in part by dedicating approximately 5% of our annual net profits to corporate social responsibility (CSR) projects. In 2011, we contributed over USD 1.7 million to CSR, which was allocated to youth, innovation and education; health and environment; sports; arts and culture; economic and Diaspora affairs; and social and humanitarian efforts.

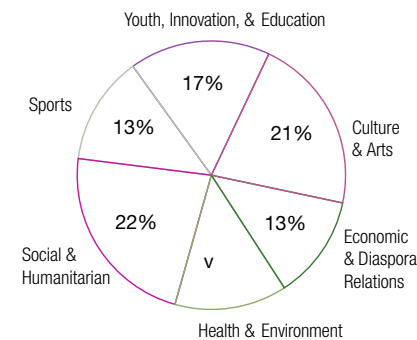
One of the main CSR projects launched in 2011 was the Zamalah Fellowship Programme. This large, national programme is aimed at raising the calibre of education in Palestinian universities by supporting professors to

visit other academic and professional institutions around the world so that they can upgrade their skills and capacity. Bank of Palestine is currently striving to expand this programme by inviting other private sector companies and individuals to contribute to the fund.

In addition to contributing to the above projects and activities, Bank of Palestine ensures that its employees are part of the community by encouraging them to volunteer with local and international NGO's. One of the NGO's BoP employees volunteer with is INJAZ Palestine, which is part of the global organization Junior Achievement Worldwide, in which over 9 million school students participate in over

124 countries annually. The purpose of INJAZ is to create an empowered generation of young entrepreneurs who will become the social and economic leaders of Palestine's future.

### CSR Contributions



As part of our CSR programme, Bank of Palestine has initiated, sponsored, and made donations to several projects, institutions, and causes, including the following:

### Youth, Innovation, & Education

- Zamalah fellowship fund
- The President Mahmoud Abbas Fund for supporting Palestinian university students in Lebanon
- TEDx Ramallah
- Startup weekend Gaza, in cooperation with Google, Source of Hope, and MercyCorps
- The "Celebration of Innovation" conference
- Falasteen Association for the construction of a children's library in Ni'leen village

- The young Palestinian poet Issam Basheety
- The festival of Noor El Ma'refa Association for Creativity and Excellence

### Health & Environment

- Equipment for the hospital of Al-Najah National University -Nablus
- The 5th Scientific conference for the Laboratory Medicine Association
- "Cycling4Gaza" initiative to raise funds for children's healthcare programmes in Gaza
- Invited doctors from abroad to build a cancer centre in Gaza
- An event for children with Thalassaemia

### Sports

- A football match between the Palestinian and the Bahraini national football teams
- Women's football match between Palestine & Japan national teams
- Athletic games championships for women with special needs
- The equestrian championships
- Paces Sports Organization

### Arts & Culture

- The Visitor's Information Centre in Manger Square -Bethlehem
- The Palestine National Orchestra
- The renovation of the Yabous Cultural Centre in Jerusalem
- Al-Funoun Folklore Dance Centre

- Young Artists Club in Ramallah
- The Palestinian International Dance and Music Festival
- Cultural projects in partnership with UNRWA
- The Apricot Festival- "Ayyam Jifnaweya"
- Jerusalem Summer Nights festival.
- Birzeit Nights festival 2011
- "Sayf Al-Deera 2011" festival in Gaza
- The Olive Festival in Khaduri University
- The Wheat Festival "Wadi Sha'eer" in Tulkarem



Students at UNRWA's Khan Younis Training Centre (KYTC) in Gaza created a Formula 1-style car out of mostly recycled parts

### Economic & Diaspora Affairs

- The "Ramallah Annual Convention" in Washington DC
- The conference of "The Reconstruction of Palestine" in Amman
- The Holy Land Christian Ecumenical Foundation (HCEF) economic conference in Washington DC
- "Know Thy Heritage" youth visit to Palestine programme in cooperation with HCEF
- The national conference in Bethlehem
- The annual national furniture exhibition in Gaza

### Social & Humanitarian Efforts

- The healthcare programme of the Mustaqbali Foundation for the orphans in Gaza in cooperation with the Welfare Association & Abraaj Capital
- Donation to UNICEF for the famine in Somalia
- The Palestine Policies Institute
- "Disabled Without Borders" organization.
- A mass wedding for 30 young couples in Gaza

## Developing Communities





## Sustaining income for over 1,700 olive growers.

### A Palestinian entrepreneur becomes a major exporter of Fair Trade olive oil.

In 2003, olive oil prices plummeted to below cost. The market suffered from years of intensified conflict and farmers were barely breaking even. Many abandoned their fields and migrated to the Palestinian cities.

Shocked at what was happening to the market, Dr Nasser Abufarha abandoned his plans to teach in America and started a company called Canaan Fair Trade. He offered growers nearly twice the going rate during the olive harvest and began shipping oil to Europe and the US, effectively bringing the fair trade concept to Palestine.

In 2008, Nasser received financing from Bank of Palestine to invest in olive pressing equipment from Sweden, which enabled him to offer growers guaranteed prices for their olives. In turn, over 1,700 growers and farmers from 43 villages had the confidence and the money to invest in their land, improve their trees, and increase production.

Beyond making a tangible difference in growers' lives, Nasser was able to build a successful Palestinian brand of olive oil and other products such as sundried tomatoes, tapenades, and herbs--a Canaan brand that now sells in some 16 countries around the world in large chain supermarkets including Whole Foods Market in the U.S. and J Sainsbury in Britain, as well as in other smaller shops.

Nasser hopes to double sales to USD 10 million over the next three years and build more olive presses to accommodate his growing list of growers. He sees his initiative as a model for other Palestinian businesses, which might also build bridges between Palestinian villages and worldwide markets.

Our aim is to promote sustainable economic growth, through our core business of banking.

### 1) Access to finance

#### • Branching out

Several Palestinian towns and villages are under-served by financial institutions and others are completely unbanked, restricting their economic activity. Widening the access to finance is a core part of our strategy. Bank of Palestine is committed to expanding its branch, sub-branch, ATM, and POS merchant network, not only in the main cities and towns, but in rural areas as well, where the populations have little access to banks and banking services. As a service to students, we have also opened sub-branches in Palestinian universities to help meet their banking needs and to be able to expand their knowledge of the banking services we provide.

#### • Building a sustainable base for MSMEs to grow

We continue to support micro, small, and medium- sized enterprises (MSMEs), which are key drivers of growth and employment across our markets. Again this year we increased our MSME lending substantially. Our approach to Micro and SME businesses are multi-tier, ensuring that we cover

these segments properly, as they represents 90% of the Palestinian Private sector, and employ 87% of the private sector labour force.

#### • Through our specialized microfinance division, we strive to help small businesses that do not normally have access to funding

By providing financial support to these businesses, Bank of Palestine is helping to improve the strength and stability of communities, thereby reducing poverty, raising living standards, and creating more job opportunities. In addition to lending directly to micro businesses, Bank of Palestine has also provided several Microfinance Institutions in Palestine with credit facilities, enabling us to disburse more than 1,000 micro loans creating and sustaining around 1,200 jobs.

Similarly, and in order to provide financial support to a higher number of SMEs, in addition to its lending programmes to this segment, Bank of Palestine also invested in Private Equity funds, such as Riyadh Enterprise Development (RED), a USD 650 million SME investment platform of the Abraaj group.

### 2) Building pillars of a sustainable economy

We have been playing a leading role in deepening the capital market in Palestine, introducing new asset classes, and providing investors with an array of investment choices. Bank of Palestine is a founding partner in the first private equity fund in Palestine – The Palestine Growth Capital Fund – an SME investment platform of the Abraaj group. We have also invested in the first private sector bonds (PADICO Holding bonds) to be issued in Palestine; we are also preparing to issue the second private sector bonds through our subsidiary Al-Wasata Securities in Q1 2012.

The bank has played a very proactive role in several fundamental initiatives in Palestine. We have mobilized the Palestinian private sector to launch the first private pension fund. It led the efforts to set up the fund and to advocate for the required legislative reforms. This fund will be the first private pension fund in the region. It will be based on a model similar to the Chilean model.

This pension fund is expected to contribute greatly to strengthening the Palestinian economy and society, through enabling access to finance for medium and long term projects, developing and investing in the Palestinian Capital Markets, creating employment and reducing poverty, providing stability and social security to citizens; leading to further spending and investments.

### 3) Anti-Money Laundering

Anti-money laundering (AML): We perform risk based due diligence on all new customers, including verification of their identity and, where appropriate, an assessment of the source of their wealth and funds. We use sophisticated software systems for questionable behaviour associated with AML.

We comply with all suspicious activity reporting required of us by our compliance programme, regulators and law enforcement agencies in Palestine (AML law of 2007). We provide training for our employees on our customer due diligence policies and procedures, including how to detect and report suspicious activity.

## Building a Sustainable Economy





Sustainable finance is fundamental to our aim of creating long-term value for our shareholders while having a positive impact on communities. Our approach is to manage the environmental, social, and governance risks that come with our financing decisions, working with our clients to encourage progress towards international standards.



Bank of Palestine has become a proud signatory of the UN Global Compact in 2011, which is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment, and anti-corruption. In this way, business becomes one of the main catalysts for globalization, and can help to ensure that markets, commerce, technology, and finance advance in ways that benefit economies and societies everywhere.

### 1) Commitment to social and environmental standards

Demonstrating respect for the environment and human rights is an essential part of behaving responsibly as a company.

We are currently incorporating a social and environmental risk management system that will have an impact on all our activities and business functions.

In addition, all Bank of Palestine policies are designed and written to ensure that the bank's operations do not damage the environment or cause social harm.

In 2008, Bank of Palestine adopted the International Finance Corporation's (IFC) social and environmental policies, which are applied when granting credit facilities at any of Bank of Palestine's branches and sub-branches.

These policies provide the bank with a framework for determining whether a client adheres to our sustainability strategy. All of the bank's credit officers use a standard checklist to confirm that loan applicants and the projects that require financing meet the requirements of these policies.

### 2) Meeting the needs of our environment

We focus on offering relevant products and services to our clients. Similar to our commitment to social and economic development through support for micro and small businesses, Bank of Palestine is equally committed to bringing about social and environmental improvements through its green loans programme.

As its name suggests, these are loans to individuals, families, and MSMEs for projects that lead to greater water or energy efficiency, waste water treatment, and the production of renewable energy, particularly in rural Palestine. The Middle East is one of the most water-stressed regions in the world. The World Health Organisation recommends that each person have 100 litres of water a day available. In Palestine, water availability is 60 litres per person, per day.

Hence, our green loan programme is very important to the overall health of our region. Education is an integral part of this programme, so that people—particularly farmers—are aware of the programme and the benefits it can bring. To this end, Bank of Palestine conducts workshops throughout rural Palestine to explain the benefits of energy and water efficiency.

### 3) Educating our own employees about sustainability is important to us at Bank of Palestine

We try to ensure that our own operations are as sustainable as possible through the way our buildings are constructed and operate, through the types of products and services we offer, and in the way we work to ensure that more and more people in Palestine have access to the financing they need to be able to contribute meaningfully to the ongoing health and prosperity of Palestine.

### 4) Risk management and corporate governance

Bank of Palestine strives to position itself as an international finance institution and to meet international best practices. For this reason, we have worked in co-operation with the International Finance Corporation (IFC) - a member of the World Bank Group - to develop an internationally acceptable risk management structure, systems, procedures, and processes, as well as to strengthen our corporate governance and risk management practices.

We have already completed three projects: Corporate governance, credit risk, and treasury risk. With the implementation of these projects

we have become one of the first banks in the Middle East to apply best international practices to managing all types of risks.

In 2011, we worked with the IFC on the operational risk management project. This project will enable the bank to manage one of the most important risk factors in the banking sector at a time when operations and technological advancements are expanding.

This project will also have an impact on Bank of Palestine's sustainability plan, helping it to respond to the changing environment in Palestine. It will also develop auditing methods according to best practices.

### Bank of Palestine's objectives with regard to the management of operational risk are:

- to understand the nature and drivers of the bank's operational risks
- to establish the bank's operational risk appetite for operational risks
- to be able to identify and monitor the bank's operational risks
- to ensure effective control and management of business processes and the growth of the bank

- to avoid or minimize losses and other, non-monetary, negative effects caused by operational risks.

The bank's system for managing operational risks combines the following instruments:

Bank of Palestine has a corporate culture based on shared beliefs and attitudes, consistent operation within the board-approved risk levels, clearly defined operating policies, bank-wide commitment to the risk management framework, training, and an open and honest culture.

The bank's governance framework helps to ensure that appropriate organisational measures are taken to establish an appropriate control framework, such as the formation of an audit committee and the documentation of processes and job descriptions.

Each function conducts risk assessments to establish a comprehensive operational risk profile of the institution and key operational risk indicators are reported regularly to assess the risk status of key areas. The bank implements a Risk Event Management process to ensure that operational risk events are handled appropriately.

## Promoting Sustainable Finance

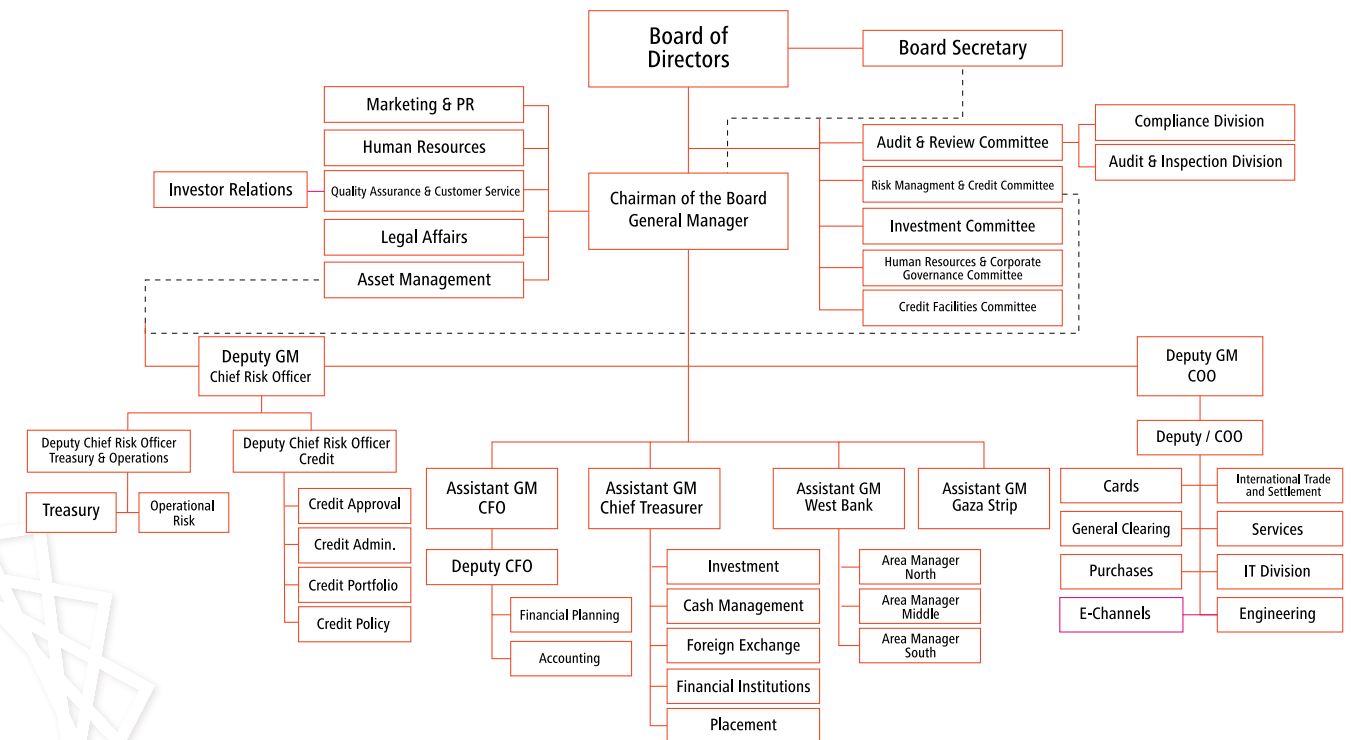




# Corporate Governance & Risk Management

The purpose of Bank of Palestine's ("BoP") Code of Corporate Governance ("Code") is to summarize the Bank's key corporate governance policies and provisions. By adopting this Code, BoP confirms its commitment to demonstrably lead and promote good corporate governance throughout bank's departments and activities. BoP understands corporate governance as a set of policies, systems and processes for the direction and control of companies, involving a set of relationships between the company's shareholders, board and executive bodies for the purpose of creating long-term shareholder value.

# Corporate Governance & Risk Management



In order to foster the confidence of its shareholders, employees, investors, and the general public, this Code goes beyond the established legal and regulatory framework by the Palestine Capital Markets Authority (PCMA), Palestinian Monetary Authority (PMA), and embraces internationally recognized corporate governance principles and practices.

## BoP's corporate governance framework is broadly based on the following principles:

- **Accountability:** This Code ensures BoP's accountability to all shareholders and guides the company's board in the important setting strategy function, and guiding and monitoring the company's management.
- **Fairness:** BoP obligates itself to protect shareholder rights and ensure the equitable treatment of all shareholders, including minority shareholders. All shareholders are to be granted effective redress for violation of their rights through the board.
- **Transparency:** BoP is to ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company, in a manner easily accessible to interested parties.

- **Responsibility:** BoP recognizes the rights of other stakeholders as established by laws and regulations, and encourages co-operation between the company and stakeholders in creating sustainable and financially sound enterprises.

## Following is a summary of BoP's key corporate governance policies and practices related to:

### I: Board Governance

BoP strives to maintain an effective, professional, and well-functioning board of directors given its key role for ensuring corporate governance in the Bank's departments and activities.

The Board shall bear overall accountability for the performance of Bank of Palestine.





The Board is elected by shareholders to oversee and guide management with the ultimate goal of creating long-term shareholder value for the Bank, while taking into account the interest of its stakeholders.

Members of the board act in good faith, with due care and in the best interest of the company and all its shareholders—and not in the interests of any particular shareholder—on the basis of all relevant information. Each director is expected to ensure full commitment to the director duties, attending all board and applicable committee meetings.

The number of Directors shall be between seven and thirteen; each director will be elected to serve a term of four years, which can be renewed. There is no maximum limit on the number of terms a director may serve, rather reappointment shall be based on the director's continued ability to perform the necessary director duties and maintain sufficient objectivity.

The board's composition (competencies, skills and appropriate mix) is such that it is adequate for oversight duties, and the development of the company's

direction and strategy. Each individual member of the board shall have the experience, knowledge, qualifications, expertise and integrity necessary to effectively discharge board duties and enhance the board's ability to serve the long-term interests of the company and its shareholders.

To ensure the impartiality of decisions and to maintain the balance of interests among various groups of shareholders, at least 25 percent of the board members are independent directors. BoP has established board committees. All committees have charters containing provisions on the scope of authority, competencies, composition, working procedures, as well as the rights and responsibilities of the committee members. All Directors are subject to re-election by the shareholders at the annual general meeting at least every four years.

The HR and Corporate Governance Committee shall oversee the non-executive director remuneration policy for the Bank. The remuneration policy shall seek to attract, motivate, reward, and retain directors of high integrity and superior ability who are focused

on enhancing and maintaining the long-term shareholder value. Further, the remuneration policy shall be such that it does not jeopardize a director's independence or encourage unjustified short-term risk taking.

The board meets according to a fixed schedule, which enables it to properly discharge its duties. As a rule, the board shall meet no less than six times a year.

## II: Management Control Practices

BoP strives to maintain sound management control frameworks to ensure integrity of its operations and provide assurance to its shareholders and stakeholders. BoP shall place great importance on risk management and it is the board of directors that is tasked with ensuring that appropriate risk management systems are established.

BoP shall place great importance on internal control and its board of directors is charged with ensuring the Bank has effective framework of internal control. BoP shall have an internal auditor who is a part of the Internal Audit and Inspection Department that provides assurance to the board as

to the effectiveness of the company's internal controls. BoP shall have an active compliance department that ensures proper compliance with all applicable external laws and regulations as well as internal codes and policies.

BoP shall engage a publicly recognized, licensed and independent auditing firm, which is fully independent from the company, the company's management, and major shareholders.

## III: Shareholder rights

BoP ensures that all shareholders have the right to participate in the governance and the earned profits of the Bank.

BoP's Articles of Association include particular provisions about the conduct of the general assembly. BoP shall have a system of registering shareholder complaints and effectively solve them.

BoP's directors and employees shall understand this Code as their joint obligation, and accordingly, obligate themselves to ensure that its provisions and its spirit are adhered to and acted upon throughout the company. Board members and executives shall not divulge or use confidential or insider information about the company and shall comply with the insider trading policy. All BoP directors and employees are expected to act ethically at all times and to acknowledge their adherence to the BoP Code of Ethics.

A potential conflict of interest exists if the company intends to enter into a transaction with a related party. When such a conflict exists, members of the board and management shall disclose information about the conflict of interest to the board, and shall abstain from deliberating and voting on such issues.

The audit committee shall resolve any such conflicts. Unless required to do so by law, no board member or employee shall, during his or her membership on the board or afterwards, disclose any information of a confidential nature regarding the business of the company and/or any companies in which it holds a stake, that came to his or her knowledge in the capacity of his or her work for the company and which he/she knows or should know to be of a confidential nature.

A board member shall not use such confidential information for his or her personal benefit.

## IV: Transparency and Information Disclosure

BoP strives to maintain a high-standard of corporate transparency to its shareholders and stakeholders, including timely and accurate information disclosure. BoP's policy is to disclose all material information, including the financial situation, performance, ownership

and the governance structure of the company to its shareholders and the broader public as appropriate.

The company shall publish a comprehensive annual report that includes a corporate governance section. The company shall also strive to disclose its corporate governance practices, corporate events calendar and other material information on its internet site in a timely manner.

## V: Corporate Social Responsibility

BoP is committed to making a positive difference in the communities in which we live and work.

Corporate Social Responsibility is the commitment of business to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve the community at large according to the board of directors approved strategy.

BoP fully considers social, cultural, environmental, governmental and economic factors when evaluating development opportunities.



# Board of Directors



**Hashim Hani Shawa**  
Chairman

Bachelor of Engineering - University College London - 1997  
Date of Birth: 25/01/1976  
Date of Membership: 2007

## Experience

1997 - 2002 - Assistant Vice President and Project Manager for Operations & Technology, CITIGROUP PRIVATE BANK, London - UK  
2002 - 2005 - Vice President and Senior Private Banker, Middle East Region Citigroup Private Bank, Geneva - Switzerland.  
2005 - 2007 - Associate Director & Officer of Developing Banking Business, the Middle East & North Africa, HSBC Private in the Gulf- HSBC Private Bank, Geneva - Switzerland  
April 2007 to present - Chairman and General Manager of Bank of Palestine PLC

## Memberships

Member of the Board of Directors - InvestBank - Jordan  
Secretary General - The International Chamber of Commerce (ICC) - Palestine  
Deputy Chairman of the Board of Directors - Palestine Institute for Financial and Banking Studies  
Member of the Board of Directors - Abraj Real Estate Investment and Development Company.  
Member of General Assembly - The Palestine Investment Fund (PIF)  
Member of the Board of Trustees - Bethlehem University



**Mamon AbdAlhadi Abu Shahla**  
Vice Chairman

Bachelor of Commerce - Accounting Division, Cairo University - Egypt 1964  
Chartered Accountant - City University, London, UK - 1996  
Date of Birth: 15/06/1942  
Date of Membership: 2002

## Experience

1971 - 1982 - General Manager of Industrial and Commercial Companies Group, Tripoli - Libya  
1982 - 2003 - Businessman in the UK, Egypt, and Canada

## Memberships

Chairman of the Board of Directors - Palestinian British Company for Trading & Contracting, Gaza - Palestine  
Chairman of the Board of Directors - Information Technology Company, Gaza - Palestine  
Vice Chairman of the Board of Director - Palestinian Pension Agency - Palestine  
Member of the Board of Directors - Palestinian Telecommunications Company - Palestine  
Member of the Board of Trustees - Al-Azhar University Gaza- Palestine  
Member of the Board of Directors - Food Industries Company - Palestine  
Member of the Board of Directors - Palestine Trade Centre - PalTrade Ramallah - Palestine



**Youssef Mahmoud Nijm**  
Member

Bachelor of Commerce - Business Administration, Cairo University, Egypt- 1967  
Date of Birth: 28/07/1945  
Date of Membership: 1989

## Memberships

Chairman of the Board of Directors - Nijm Company for Cosmetics & Perfumes Gaza - Palestine  
1991 to present - Member of the Board of Directors of Palestinian Chamber of Commerce Gaza - Palestine  
1997 to present - Member of the Palestinian National Council



**Dr. Awni Mohiuddin Skaik**  
Member

Bachelor of Medicine and Surgery - Cairo University -Egypt 1969  
Master of Cardiology - Cairo University, Egypt - 1975  
Date of Birth: 16/06/1946  
Date of Membership: 1989

## Experience

1977-1984 - Deputy Head of Internal Medicine Department, Al Shifa Hospital Gaza - Palestine  
1984 -2006 - Head of Cardiology Section, AL Shifa Hospital Gaza - Palestine



**Reyad Ali Zimmou**  
Member

Bachelor of Pharmacy - Karachi University, Pakistan -1973  
Date of Birth: 25/06/1950  
Date of Membership: 1989

## Memberships

Member of the Palestinian Pharmaceutical Society



**Maher Jawad Farah**  
Member

Bachelor of Civil Engineering - Cairo University - Egypt 1966  
Date of Birth: 21/03/1945  
Date of Membership: 2002

## Experience

1982 - 1997 - General Manager of Contractors Group Company - Kuwait  
1997 to present - Chairman of the International Contracting Company- Palestine

## Memberships

Member of the Board of Directors - Birzeit Pharmaceutical Company (BPC) Ramallah - Palestine  
Member of the Board of Directors - Arab Hotels Company (AHC) - Palestine



**Faysal Ghazi Shawa**  
Member

Bachelor of Civil Engineering - Memphis State University - United States of America - 1992  
Master of Business Administration - North Virginia State University - United States of America - 2009  
Date of Birth: 20/04/1968  
Date of Membership: 2003

## Experience

General Manager - Shawa General Trading & Contracting Co

## Memberships

Chairman of the Board of Directors - Shawa General Trading & Contracting - Co. Gaza - Palestine  
Vice-Chairman of the Board of Directors - The Middle East Pharmaceutical Industry Co - Gaza - Palestine  
Vice-Chairman - Al-Amal for the Asphalt Co. - Gaza - Palestine  
Member of the Board of Directors - Wataniya Mobile Telecommunication Company - Palestine  
Member of the Board of Directors - Palestinian Company for Electricity - Gaza - Palestine  
2005 - 2009 Member of the Board of Directors (Secretary General) - Businessmen Association Gaza - Palestine  
2006 - 2007 Member - Palestinian Shippers' Council - Palestine  
Vice Chairman of the Board of Directors - The Palestine Trade Centre- PalTrade - Ramallah - Palestine  
Member of the Engineers Syndicate (TBP) - USA  
Member of the Contractors Union - Palestine  
Member of the Engineers Syndicate Gaza - Palestine  
Member of the Palestinian Businessmen Association



**Dr. Hani Hassan Nigim**  
Member

PhD, Mechanical Engineering - Leicester University, Leicester, England - 1981  
Date of Birth: 28/06/1952  
Date of Membership: 2004

## Experience :

1981 - Researcher, Leicester University Leicester, England  
1983 to present - Professor, Department of Mechanical Engineering, Birzeit University - Palestine  
1993 - 1998 - Dean of Engineering, Birzeit University - Palestine  
2004 - Consultant, Planning and Developing, Al- Aqsa University - Gaza - Palestine  
2005 - President of Al Azhar University Gaza - Palestine  
2006 - Coordinator of the higher education project supported by the World Bank and the European Union - Palestine  
Visiting Professor, Department of Mechanical Engineering, of many regional and international universities and a coordinator of many projects supported by the European Union

## Memberships :

Member of Board of Directors - Palestine Electricity Holding Company  
Member of Board of Directors- Palestine Real Estate Investment  
Member of General Assembly - The Palestine Investment Fund (PIF)  
Member of Board of Directors - Palestine Centre for Micro-Projects Development, Jerusalem - Palestine  
Member - Mediterranean Network on Water Reclamation and Reuse, Barcelona - Spain  
Member of the Board of Trustees - Al Azhar University Gaza - Palestine  
Member of the Board of Trustees - Al-Quds Open University, Jerusalem - Palestine  
Associate Fellow - American Institute of Aeronautics and Astronautics (AIAA)



## Board of Directors - cont.



**Tareq Taher Shaka**  
(Nominated by Birzeit  
Pharmaceutical Company)  
**Member**

Bachelor of Business Law – Ohio  
University Athens - USA 1987  
Date of Birth: 18/02/1964  
Date of Membership: 2010

### Experience

1987 – 1989 – Shaka Drug  
Store, Nablus - Palestine  
1989 - 1999 – Jerusalem Pharmaceutical  
Company, Ramallah - Palestine  
2000 - 2005 – Birzeit Pharmaceutical  
Company, Ramallah - Palestine  
2005 to present – General Manager of Lotus  
Financial Investment Ltd., Ramallah - Palestine

### Memberships

Member of Board of Directors – Lotus  
Financial Investment Ltd Ramallah - Palestine  
Member of Board of Directors – Eastern  
Chemical Company - Palestine  
Member of Board of Directors – Arab Hotels  
Company (AHC) Ramallah – Palestine  
Member of Board of Directors – Abraj  
Real Estate Investment Company



**Mohammed Nafiz**  
**Mohammed Hirbawi**  
**Member**

Business Administration Diploma –  
Community University - Jordan  
Date of Birth: 08/09/1954  
Date of Membership: 2006

### Experience

1978 to present – Chairman of the  
Board of Directors, Al Ahlia Carton  
Co., Hebron - Palestine  
1992 – 2002 – Vice Chairman of the  
Board of Directors, National Carton  
Industry, Nablus – Palestine  
1993 to present – Chairman of the  
Board of Directors, Paper Industries  
Co. Hebron - Palestine  
1996 to present – Chairman of the Board of  
Directors, Hirbawi Investment & International  
Trading Co., Hebron – Palestine  
2000 to present – Chairman of the  
Board of Directors, Almizan Tower  
Hotel, Hebron – Palestine

### Memberships

1995 – 2004 – Chairman of the Board  
of Directors, Palestinian Business  
Forum, Ramallah – Palestine  
2005 to present – Chairman of the  
Board of Directors, The Palestine  
Trade Centre-Paltrade – Ramallah  
Honorary President – AlAhli  
Club, Hebron - Palestine



**John Khoury**  
(Nominated by the International  
Finance Corporation “IFC”)  
**Member**

Bachelor of Economics and Political  
Science – Bowdoin College ,USA 1970  
An intensive management  
programme equivalent to Master of  
Business Administration 1980  
Advanced Management  
Programmes 1980 – 1993  
Date of Birth: 25/06/1949  
Date of Membership: 2010

### Experience

1976 – 1979 – Director of the  
Bank of Boston, USA  
1980 – 1981 – Assistant Vice  
President - Bank of Boston, USA  
1981 – 1985 – Vice President and General  
Manager of Bank of Boston, Nigeria  
1985 – 1989 – Vice President and General  
Manager of Bank of Boston, Netherlands  
1989 – 1992 – Chairman and General  
Manager of Bank of Boston, France  
1992 – 1993 – Vice President and General  
Manager of Bank of Boston, USA  
1993 to present – An administrative member  
in Boston Global Partners Company  
2005 to present – Manager of The European  
Palestinian Credit Guarantee Fund (EPCGF)



**Hashim Hani Shawa**  
**General Manager**

Bachelor of Engineering – University  
College London - UK 1997  
Date of Birth: 25/01/1976  
Date of Work: 2007



**Salman Mohammed**  
**Tuama Qemallah**  
**Assistant General Manager –**  
**Chief Financial Officer**

Bachelor of Commerce in Accounting –  
Ain Shams University, Cairo- Egypt 1981  
Date of Birth: 08/07/1958  
Date of Work: 1982



**Wael AbdAllatif Al Sourani**  
**Assistant General Manager**  
**for Gaza Strip Branches**

Bachelor of Biology & Chemistry –  
Sana'a University, Yemen - 1993  
Date of Birth: 07/02/1967  
Date of Work: 1995



**Alaa' El Din Mohammed Al-  
Redwa**  
**Deputy General Manager**  
**– Chief Operations Officer**

Bachelor of Accounting, Damascus  
University- Syria 1992  
Masters in Business Administration,  
Van Holland University  
Date of Birth: 22/06/1965  
Date of Work: 1993



**Ihsan Kamal Shaushaa**  
**Assistant General Manager**  
**– Chief Treasurer**

Bachelor of Business Administration -  
Computer Information Systems, Texas  
State University, Texas - United  
States of America - 1988.  
Date of Birth: 05/09/1963  
Date of Work: 1991



**Khamis Fawzy Asfour**  
**Legal Advisor**

Bachelor of Law – Alexandria  
University, Egypt - 1975  
Date of Birth: 29/05/1952  
Date of Work: 1979



**Rushdi Mahmoud Ghalayini**  
**Deputy General Manager –**  
**Chief Risk Officer**

Bachelor of Economics and Computer Science,  
American University, Cairo - Egypt 1986  
Date of Birth: 26/05/1962  
Date of Work: 1989



**Hani Salah Nasser**  
**Assistant General Manager**  
**for West Bank Branches**

Master of Public Administration and Law –  
Marie Curie University, Poland - 1993  
Date of Birth: 12/02/1967  
Date of Work: 1994





Gaza Port

## Board of Directors

The Board shall bear overall accountability for the performance of Bank of Palestine. The Board is elected by shareholders to oversee and guide management with the ultimate goal of increasing long-term shareholder value for the Bank, while taking into account the interest of its stakeholders.

The following functions are the common recurring activities of the Board in carrying out its guidance and oversight responsibility.

- Reviewing, approving, and monitoring BoP's long-term strategic objectives and business plans of executive management.
- Monitoring the overall performance of the Bank and progress towards its strategic objectives.

- Assessing the major risks facing the Bank's executive management and the steps taken by management to monitor and control such risks.
- Setting the level of 'Risk Appetite' of the Bank and ensuring there is a culture of risk through the organization.
- Overseeing the integrity of the financial statements, the ensuring compliance with legal and regulatory requirements, the performance, qualifications, and independence of the external auditor, and the performance of the internal audit function.
- Reviewing and approving major business transactions, including significant credit decisions, capital allocations and expenditures, in line with the approved chart of authorities.
- Overseeing investment and financing activities of the Bank and making major investment and financing decisions.
- Overseeing and approving the human resource policies, and framework and Corporate Governance of the Bank.

- Selecting and recommending Director Nominees for election by Shareholders.
- Selecting, developing, and evaluating potential candidates for senior executive officer positions and overseeing the development of senior executive officer succession plans.
- Determining remuneration policies for board of directors and senior executives.
- Evaluating the overall performance and effectiveness of the Board and its members and taking corrective actions as needed.
- Overseeing the Bank's corporate governance framework and ensuring compliance with agreed policies and provisions.
- Ensuring proper Shareholder relations are maintained, shareholder rights are protected, and shareholder meetings are conducted in accordance with applicable laws and regulations.
- Ensuring stakeholder interests are considered and the Bank conducts its business in a socially responsible manner to the extent practical.

## Audit Committee

### Committee Members

Mr. Mamon Abu Shahla - Chairman of the Committee, Dr. Hani Nijm - Vice Chairman of the Committee, Mr. Youssef Nijm, Dr. Awni Skaik, Mr. Reyad A. Zimmou, Mr. Tareq Al Shaka`.

The role of the Committee is to assist the board in overseeing the bank's financial controls with particular emphasis on:

**(a) the integrity of internal controls and financial reporting.**

**(b) the qualification and independence of the bank's external auditor.**

**(c) the performance of the bank's internal audit and compliance functions and of its external auditor.**

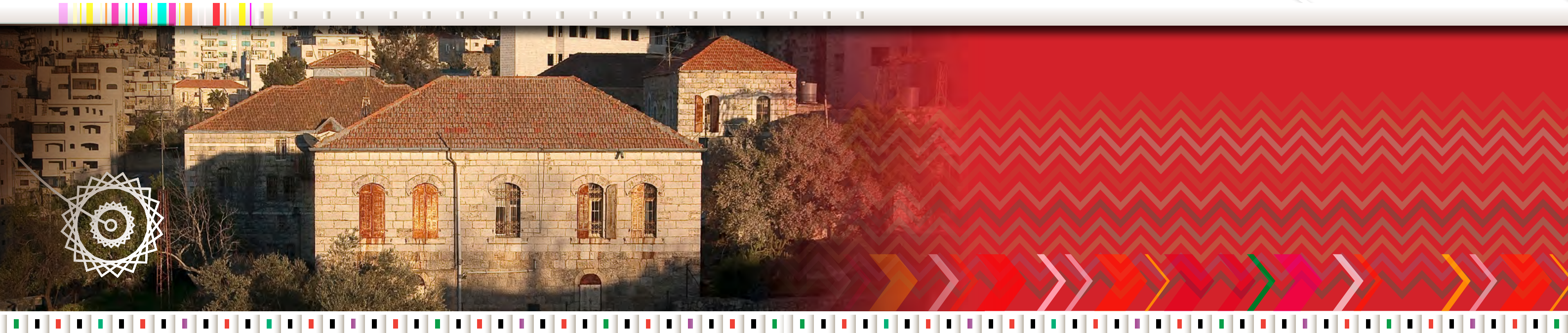
**In order to fulfill its role, the Committee shall have the following authorities and responsibilities:**

- Review Internal Control systems of the bank.

- Reviewing the reports of the Inspection and Audit department, internal auditor, and compliance control department including financial and non-financial issues, remedial procedures and means of controlling the risks faced by the bank.
- Reviewing accuracy of financial statements provided to the board, shareholders and other users.
- Reviewing the bank's commitment to laws and regulations of PMA, the Board, and other regulations applicable in Palestine.
- Reviewing external auditing plan and verifying that plan includes all activities of the bank.

- Ensuing the accuracy and integrity of accounting and compliance with laws and regulations applicable to the activities of the bank.
- Developing disclosure and transparency standards and submitting them to the board for approval.
- Reviewing notes mentioned at PMA's reports and offering recommendations to Board on the appropriate remedial steps.
- Coordinating with Risks Management and Credit Committee to present financial statements of the bank.
- Studying the financial system employed at the bank and making recommendations to improve it and guarantee that they fairly represent the situation and that no false data are reported.





- Putting in place a system that allows employees to report secretly on fears of potential violations and in a manner that makes it possible to investigate them independently and follow them up without supervisors penalizing them or colleagues looking down at them. The audit committee shall monitor the implementation of these procedures.

- Acting as a liaison between the board of directors and the external auditor, the board of directors and the internal auditor and between the internal and external auditors.

- Following up on the bank's adherence to its internal code of professional conduct and adherence to external laws and regulations.

- Informing the board of directors of issues that require its immediate intervention and offering recommendations on the appropriate remedial steps.

- The audit committee shall submit reports to the board of directors on all matters that fall within its scope of work thereby enabling it to carry out its function of monitoring the management of the bank and submitting to shareholders and investors factual and documented information.

## Credit and Risk Management Committee

### Committee Members

Mr. Faisal Ghazi Shawwa-  
Chairman of the Committee

Mr. Mohammed Nafiz Hirbawi -  
Vice Chairman of the Committee

Mr. Hashim Shawwa

Mr. Youssef Nijm

Dr. Awni M. Skaik

Mr. John Khoury

**The role of the Committee is to assist the Board of Directors of BoP in fulfilling its oversight responsibilities with regard to:**

- (a) The risks inherent in the business of the company and the control processes with respect to such risks.
- (b) The assessment and review of credit, market, and operational risks.
- (c) The risk management activities of the bank and its subsidiaries.

**In order to fulfil its role, the Committee shall have the following authorities and responsibilities:**

- Approve the overall risk management policies and ensure there is an effective Enterprise Risk Management framework in place to proactively identify, measure, mitigate, and monitor all types of risk in the Bank and to promote continuous dialogue about risk management throughout the organization (i.e., promoting a 'Risk Culture').
- Determine the overall 'Risk Appetite' of the Bank and ensure the overall risk profile and tolerances are in line with the agreed appetite.
- Obtain assurance from the executive management and internal auditing that the risk processes and systems are operating effectively, with sound controls, and compliance with approved policies.
- Obtain assurance that the bank is complying with applicable laws and regulations regarding all risk

management policies and procedures.

- Review the Bank's capital adequacy and provisions to ensure they are in compliance with regulatory guidelines and in line with the risk profile of the Bank.
- Review reports on a quarterly basis or as needed basis from the executive management on the status of the bank's risk portfolio, highlighting key risk areas, trends, forecasts, and management actions being taken to address particular issues.
- Review significant risk exposures and the steps management has taken to monitor, control, and report all types of risk, including, credit, market, operational, fiduciary, liquidity, compliance, reputational, strategic, and all other types of internal/ external risk impacting the Bank.
- Provide guidance to management, as needed, to help them improve their risk management practices and/ or mitigate particular risks, including

the existence of qualified personnel at the management level to carry out risk management activities effectively.

- Report to the board on a regular basis of the status of the bank's risk portfolio and immediately inform the board of any substantial changes to the bank risk portfolio status.
- Review and approve particular credit transactions above a defined threshold as per the defined credit policies.
- Review the appointment, responsibilities, performance, and replacement of the Chief Risk Officer and the monitor effectiveness of the Risk Management departments in general.
- Support the Audit Committee's efforts (with the help of Credit Risk Officer) to monitor and evaluate, as mandated by the PMA, "guidelines and policies to govern the process by which risk assessment and management is undertaken."





## Investment Committee

### Committee Members

Mr. Maher J. Farah -  
Chairman of the Committee  
Mr. Hashim Shawa –  
Vice Chairman of the Committee  
Mr. Faisal Ghazi Shawwa  
Mr. Mohammed Nafiz Hirbawi  
Mr. John Khoury

**The role of the Committee is to assist the Board of Directors of BoP in fulfilling its oversight responsibilities for the investment assets of BoP as:**

(a) The Committee is responsible for formulating the overall investment policies of BoP, subject to approval by the Board.

(b) Establishing investment guidelines in furtherance of those policies.

**In order to fulfil its role, the Committee shall have the following authorities and responsibilities:**

- Viewing all reports and studies related to the current bank investments status, conditions of local and international financial markets and all the data that enable the committee to perform its duties in a professional and efficient manner.
- Periodically informing the board of the bank's investment portfolios status, and informing it, without delay, of any substantial changes to such investments status.
- Developing, reviewing and periodically updating the bank investment policy, and ensuring that it complies with the effective laws and regulations, and with the banking standards; the committee

shall then present its output to the board for approval. Such policy must clearly specify a mechanism for taking investment decision, and ceilings on powers and the different positions.

- Approving particular investment transactions that are beyond the management's authorities and submitting to the full board recommendations on particular investment decisions that is beyond the committee powers.
- Ensuring that the executive management adheres to implementing the investment decisions, and the ceilings and powers determined by the committee.

## Human Resources & Corporate Governance Committee

### Committee Members

Dr. Hani Nijm- Chairman  
of the Committee  
Mr. Tareq Al Shaka` - Vice  
Chairman of the Committee  
Mr. Hashim Shawa  
Mr. Reyad A. Zimmou  
Mr. Mamon Abu Shahla  
Mr. Maher Farah

The role of the Committee is to oversee

(a) The Bank's corporate governance framework.

(b) Director nomination process, director and executive remuneration policies, board and executive evaluation processes.

(c) Succession planning, board education, and the Bank's human resources policies.

In order to fulfil its role, the Committee shall have the following authorities and responsibilities:

- Review and approve major HR policies to ensure they are fair, competitive, complete, and in the best long-term interest of BoP.
- Help oversee major changes and improvements in the HR function to ensure it is effectively serving as a strategic partner in the organization;
- Develop for the board's approval and annually review the chart of authorities and delegation of authorities to management;
- Consider possible conflicts of interests of directors and any related party transactions of directors and make relevant proposals to the board in accordance with the BoP's corporate governance code;
- Review any change in status (including fulfilment of independence requirements) and professional affiliation of current directors and make relevant proposals to the board in accordance with the company's corporate governance code;
- Oversee the development and implementation of a board induction process for new directors and a programme of continuing director development as needed;
- Review corporate governance policies and practices throughout the company and make relevant proposals to the board to improve their effectiveness.

## Risk Management

**Risk Management is an important cornerstone to Bank of Palestine. The bank manages its risk according to its internal policies and the instructions of the PMA. Due to its importance, the Bank signed an agreement with the IFC to apply best international practices. Credit Risk, Market Risk, and Operational Risk, are considered the major risks the Bank faces.**

**Risk Management Policy at the Bank is as follows:**

- Managing risks fully and evaluating, supervising and controlling all risks implicated to all products and services
- Managing systematic risk that is linked to environment, region, and regulations that cannot be eliminated but can be managed with a proper preparation of contingency plans and diversification in assets, investments, and funding sources.
- Managing non-systematic risk by having appropriate policies and procedures, internal control system, compliance, and improved supervisory system.
- Credit risk management for both individuals and corporations by using and applying the approved measures of the Board of Directors which are coherent with PMA instructions and Basel recommendations.
- Managing market risk which encompasses foreign exchange risk and interest rate risk by following the approved Board of Directors' measures, PMA instructions and Basel recommendations.

• Liquidity risk management to enable the bank to meet its obligations at its due dates.

• Operational risk management according to the Board of Directors' measures resulting from defaults by internal operations, individuals, and systems.

• Capital adequacy ratio is capable of facing difficult financial conditions and protecting stakeholders' rights.

The Risk Management Framework Policy of the Bank is under the authority of the Board of Directors. The Board is responsible for approving the Bank's risk appetite and strategy, and to formally review it annually or more often if required.

The Board delegates specific oversight of all risk management activities in the Bank to the Board Risk Management and Credit Committee While the Board delegates oversight authority to the BRMC, ultimate responsibility for the Bank's effective risk management and adherence to this Policy rests with the Board. The Board will formally review the Risk Management Framework Policy and all other risk policies at least annually or as internal or external events may dictate.

**Responsibilities of the Board include the following:**

- Develops business strategy
- Approves risk management strategy for the Bank
- Articulates risk appetite
- Approves risk appetite translation into risk tolerances and limits
- Establishes the risk governance structure

• Reviews significant risk issues highlighted by different Board committees

• Reviews and approves risk policies and procedures

• Delegates relevant authority to risk functionaries

• Reports to stakeholders on risk management

• Approves public disclosures

## Board Risk Management & Credit Committee

**The Board may delegate responsibility to the Board Risk Management and Credit Committee for the following:**

- Ensure development and implementation of the Bank's risk management framework
- Communicate the risk policies across the Bank
- Review risk management effectiveness and follow up of remedial actions
- Review significant risk issues highlighted by different Executive risk committees
- Ongoing oversight and monitoring of the Bank's risk exposures
- Monitor compliance with Bank policies, PMA regulations and any other external risk management requirements
- Approval of the appointment of the Chief Risk Officer

The Board will also regularly review and approve data, analyses, and transactions relating to the Bank's risk management activities.





## BoD Committees - Cont.

### The Executive Risk Management Committee

The Executive Risk Management Committee (ERMC) is a management committee that is delegated with authority from the Board to implement the Bank's risk management framework. Responsibilities include the following:

- Develop and recommend the Bank's risk appetite and strategy to the Board
- Oversee identification, assessment and management of Bank-wide material risks
- Assess the risk implications of the Bank's business strategies
- Consider the impact of changes in market, economic and competitive environments on the Bank's risk profile
- Review exceptions, if any, from approved risk guidelines / policies
- Review adequacy of the provisioning policy
- Monitor and review the Bank's progress towards implementation of the Risk Management Framework
- Monitor compliance with legal and regulatory requirements
- Report to the Board on all material matters arising from its review and monitoring functions
- Report monthly on the nature and magnitude of all significant risks
- Report to the Board on the overall effectiveness of the risk management process
- Develop risk awareness at all management and staff levels

- Initiate/oversee a formal training programme on Risk Management to entire bank staff
- Recommend to the Board relevant risk management policies
- Ensure sound risk management policies and practices are implemented
- Ensure adequate procedures are in place to manage identified risks
- Oversee risk and capital management plan

### Risk Management Departments

The Risk Management Departments, headed by the Deputy General Manager - Chief Risk Officer (CRO), is responsible for developing and implementing the Bank's Risk Management framework. Responsibilities include the following:

- Drafts risk policies and procedures
- Develop risk management standards and measurement tools
- Monitors the Bank's overall risk profile, including risk aggregation, reporting, trends, and change in material risk positions
- Monitors compliance with risk policies and procedures (in coordination with the Compliance function)
- Compiles risk across business units and escalates risk and control issues to senior management
- Periodically develops and presents reports on aggregate risk profile
- Supports the organization risk culture through development of a common risk language and Bank-wide risk training and support
- Provides interpretation of risk-related regulations/ leading practices and disseminates to business units

### Business Unit Responsibilities

As noted herein, the day-to-day risk management or implementation of the approved risk management strategy is the responsibility of the risk taker. Their responsibilities include the following:

- Identify, assess, measure, monitor and report various risks within their business lines
- Manage business activities within the parameters of relevant risk policies
- Recommend business proposals that meet the risk appetite and strategy criteria
- Assess the effectiveness of controls in line with documented risk policy
- Design, operate and monitor a suitable system of control
- Manage and review risks as part of day to day business activity
- Develop daily reports for the risk management departments
- Report risk issues to the risk management departments on a regular basis

The business units are charged with pricing and managing transactions to seek targeted risk adjusted returns on capital that is allocated to the product, profit centre, branch or other measurement unit.

### Senior Executive Management Salaries and Bonuses

Salaries and bonuses of the General Manager, Deputies and Assistants of the General Manager amounted to USD 1,561,223.

### Seminars Cost and Travel Expenses of Senior Executive Management

General Manager, Deputy General Managers and Assistant General Managers Seminars Cost and Travel Expenses amounted to USD 203,865.

### Credit Facilities Granted to Senior Executive Management:

Total credit facilities granted to Senior Executive Management was USD 4,032,044.

### Proposed Remuneration to Board of Directors

Proposed Board of Directors remuneration based on profits for the year 2011 is USD 990,000.

### Depending on Main Providers and Customers

There are no main local and foreign providers or customers who represent 10% or more of total purchases and/or sales.

### Privileges

The bank does not have any governmental protection or privilege to the company or any of its products by law, regulations or others.

### Extraordinary Transactions

There is no financial effect occurred because of extraordinary transactions during the financial year and not part of the Bank's main operations.

### Decisions with Material effect

Israeli Military orders are the major obstacles to Bank's operations, especially the siege on the Gaza Strip and military checkpoints spread across the West Bank. In spite of this situation, Bank of Palestine has the ability and experience to adapt with these orders.

Having the largest banking network in the Palestinian territories enables the bank to manage its transactions and their continuity effectively with prevailing conditions.

### Issues Requiring Voting by Shareholders

No issues requested a special voting by shareholders during the year 2011.

### Preliminary Financial Statements

There is no difference between the preliminary financial statements disclosed previously and the final financial statements.

### External Auditor

Ernst & Young Co. audited 2011 financial statements.

### Disseminating Information

The Annual Report will be sent to all shareholders at their registered address with an invitation form to attend the General Assembly. The report will also be available in all of our branches and an electronic version will be available on our website [www.bankofpalestine.com](http://www.bankofpalestine.com)

### Ordinary General Meeting Agenda and Board of Directors Recommendations

The Ordinary General Assembly is scheduled to take place on April 27, 2012.

### Agenda of the meeting

- Discuss the Board of Directors' Report and approve it.
- Discuss the financial statements for the year 2011 and approve them.
- Approval of auditor's report and the appointment of an auditor for the financial year 2012 and appropriating the Auditor's remuneration, or alternatively authorizing the board to do so.
- Discuss and approve the Board of Directors recommendations to distribute USD 23 million from realized profits to shareholders as follows:
  - USD 14 million as stock dividends in proportion to each shareholder's ownership in paid capital as of April 26, 2012.
  - USD 9 million as cash dividends in proportion to each shareholder's ownership in paid capital as of April 26, 2012.
- Discharge the chairman and members of the board of directors for the year 2011.



## Major Shareholders



## Major Shareholders

At the end of 2011, the number of shareholders was 3,582, compared with 3,299 shareholders at the end of 2010. The following schedule presents shareholders who own more than 5% as of December 31, 2011.

### Major Shareholders

| Name                                    | Number of Shares - End of 2011 | Ownership Percentage 2011 | Number of Shares - End of 2010 | Ownership Percentage 2010 |
|---|--------------------------------|---------------------------|--------------------------------|---------------------------|
| A. M. Al-Kharafi & Sons Trading Co.     | 9, 157, 542                    | 7.63%                     | 7, 631, 285                    | 7.63%                     |
| Mrs. Mahdiya Y. Shawa                   | 7, 545, 411                    | 6.29%                     | 6, 287, 843                    | 6.29%                     |
| Palestine Investment Fund               | 6, 754, 315                    | 5.63%                     | 6, 355, 092                    | 6.36%                     |
| Blakeney Management                     | 6, 300, 771                    | 5.25%                     | 6, 289, 603                    | 6.29%                     |
| International Finance Corporation (IFC) | 5, 980, 800                    | 5%                        | 5, 000, 000                    | 5%                        |

### Share Ownership of the Board of Directors, Executive Management and First Degree Relatives

| Member of the Board of Directors                             | Citizenship | Ownership Percentage | Number of Shares - End of 2011 | Number of Shares - End of 2010 |
|--|-------------|----------------------|--------------------------------|--------------------------------|
| Hashim H. H. Shawa - Chairman of the Board                   | Palestinian | 3.91%                | 4, 692, 906                    | 3, 858, 255                    |
| Mamon A. H. Abu Shahla - Vice Chairman of the Board          | Palestinian | 0.56%                | 666, 739                       | 516, 797                       |
| Maheer J. Farah  | Palestinian | 0.49%                | 587,964                        | 451, 032                       |
| Awni M. I. Skaik   | Palestinian | 0.20%                | 236, 000                       | 174, 980                       |
| Mohammed M. Hirbawi  | Palestinian | 0.12%                | 138, 817                       | 95, 681                        |
| Hani H. M. Nigim   | Palestinian | 0.10%                | 120, 296                       | 100, 247                       |
| Faysal G. Shawa  | Palestinian | 0.08%                | 92, 333                        | 16, 000                        |
| Youssef M. Y. Nijm   | Palestinian | 0.07%                | 80, 580                        | 67, 150                        |
| Reyad A. A. Zimmou   | Palestinian | 0.05%                | 61, 584                        | 61, 320                        |
| Tareq T. F. Al Shakaa - Representing Birzeit Pharmaceuticals | Palestinian | 0.02%                | 22, 011                        | 18, 343                        |
| John Khoury - Nominated by the IFC                           | American    | 0.02%                | 19, 200                        | 16, 000                        |

### Board of Directors First Degree Relatives Ownership

| Name                            | Citizenship | Number of Shares - End of 2011 | Number of Shares - End of 2010 |
|---------------------------------|-------------|--------------------------------|--------------------------------|
| Bernardita Vigano Shawa         | Swiss       | 75, 594                        | 54, 662                        |
| Genevieve Chantal Marie Boimond | French      | 16, 096                        | 15, 080                        |
| Amal Ali Ahmed Zimo             | Palestinian | 14, 004                        | 11, 670                        |
| Atezaz M. Skaik                 | Palestinian | 6, 000                         | 5, 000                         |

### Senior Management Ownership

| Name                        | Title                     | Citizenship | Number of Shares - End of 2011 | Number of Shares - End of 2010 |
|-----------------------------|---------------------------|-------------|--------------------------------|--------------------------------|
| Salman M. Qemallah          | Assistant General Manager | Palestinian | 46, 320                        | 16, 320                        |
| Hani Salah Nasser           | Assistant General Manager | Palestinian | 12, 880                        | 2, 400                         |
| Wael Abd Allatif Al Sourani | Assistant General Manager | Palestinian | 11, 634                        | 3, 862                         |
| Rushdi M. Ghalayini         | Deputy General Manager    | Palestinian | 11, 198                        | 6, 832                         |
| Alaa M. Al Redwan           | Deputy General Manager    | Palestinian | 10, 736                        | 4, 736                         |
| Ihsan K. Shuashaa           | Assistant General Manager | Palestinian | 6, 640                         | 11, 640                        |
| Khamis F. Asfoor            | Legal Advisor             | Palestinian | 4, 008                         | 3, 340                         |





# Trading Activity in 2011

BoP's share has been listed on the Palestine Exchange (PEX) in 2005. Since then, shareholder equity increased by 346%, and the number of shareholders during the same period increased by 70%; at the end of 2011 the number of shareholders reached 3,582. The table below presents the trading volume of BoP's share in 2011 compared with 2010. Bank of Palestine's market capitalization at the end of 2011 represented 12.51% of total market capitalisation of PEX.

## Trading Activity in 2011 - Bank of Palestine

| Description                     | 2010        | 2011        |
|---------------------------------|-------------|-------------|
| Number of Traded Shares         | 8,506,736   | 13,012,389  |
| Value of Traded Shares (USD)    | 30,236,758  | 40,311,092  |
| Number of Executed Shares (USD) | 5,535       | 6,188       |
| Share Turnover Ratio            | 8.51%       | 10.84%      |
| Opening Price (USD)             | 3.65        | 3.40        |
| Closing Price (USD)             | 3.40        | 2.90        |
| Market Capitalisation (USD)     | 340,000,000 | 348,000,000 |
| Highest Trading Price (USD)     | 3.80        | 3.70        |
| Lowest Trading Price (USD)      | 3.05        | 2.79        |

### Data Sources

- Association of Banks in Palestine (ABP)
- International Monetary Fund (IMF)
- Palestine Capital Market Authority (PCMA)
- Palestine Exchange (PEX)
- Palestine Monetary Authority (PMA)
- Palestinian Central Bureau of Statistics (PCBS)
- Palestinian Ministry of National Economy
- World Bank



# Financial Statements & Auditor's Report

December 31, 2011





## Independent Auditors' Report to the Shareholders of Bank of Palestine PLC

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

### Board of Directors' Responsibility for Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

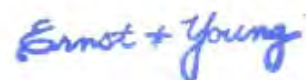
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

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

### Emphasis of Matters

Without qualifying our opinion, as depicted in note (18) and (43) to the accompanying consolidated financial statements, the Bank did not reach final settlements with the tax authorities for the years from 2005 to 2010, and appears as a defendant in two lawsuits filed by the Ministry of Finance - the General Directorates of Value Added Tax and Income Tax in Gaza. Further, the Bank bases its provision for taxes on the Presidential Decree, which exempts taxpayers in the southern governorates (Gaza) from taxes. Accordingly, tax provisions for the years 2007 to 2011 do not include the Bank's results of operations from branches operating in Gaza.



February 19, 2012  
Ramallah - Palestine

## Consolidated Statement of Financial Position

As at December 31, 2011

|   | Notes | 2011<br>U.S.\$       | 2010<br>U.S.\$       |
|---|-------|----------------------|----------------------|
| <b>Assets</b>                                       |       |                      |                      |
| Cash and balances with Palestine Monetary Authority | 4     | 255,870,747          | 320,225,462          |
| Balances at banks and financial institutions        | 5     | 388,400,504          | 361,818,124          |
| Held-for-trading investments                        | 6     | 11,891,657           | 9,620,467            |
| Direct credit facilities                            | 7     | 720,173,048          | 545,026,391          |
| Available-for-sale investments                      | 8     | 210,983,880          | 253,325,634          |
| Investment in an associate                          | 9     | 11,340,483           | 9,422,627            |
| Investment properties                               |       | -                    | 671,413              |
| Property, plant and equipment                       | 10    | 38,926,059           | 29,797,012           |
| Projects in progress                                | 11    | 1,962,116            | 3,160,590            |
| Other assets  | 12    | 14,412,238           | 11,970,302           |
| <b>Total Assets</b>                                 |       | <b>1,653,960,732</b> | <b>1,545,038,022</b> |
| <b>Liabilities and Equity</b>                       |       |                      |                      |
| <b>Liabilities</b>                                  |       |                      |                      |
| Palestine Monetary Authority's deposits             | 13    | 48,609,596           | 41,867,735           |
| Banks and financial institutions' deposits          | 14    | 32,904,572           | 19,926,307           |
| Customers' deposits                                 | 15    | 1,242,780,471        | 1,208,302,323        |
| Cash margins  | 16    | 53,788,460           | 45,531,980           |
| Sundry provisions                                   | 17    | 11,864,279           | 9,902,447            |
| Tax provisions                                      | 18    | 33,690,719           | 25,803,117           |
| Other liabilities                                   | 19    | 35,922,873           | 29,819,863           |
| <b>Total Liabilities</b>                            |       | <b>1,459,560,970</b> | <b>1,381,153,772</b> |
| <b>Equity</b>                                       |       |                      |                      |
| Paid-in share capital                               | 1     | 120,000,000          | 100,000,000          |
| Additional paid-in capital                          | 20    | 9,034,692            | 9,034,692            |
| Statutory reserve                                   | 21    | 19,813,156           | 16,407,381           |
| Voluntarily reserve                                 | 21    | 88,418               | 88,418               |
| General banking risks reserve                       | 21    | 12,073,625           | 8,914,332            |
| Pro-cyclicality reserve                             | 21    | 9,779,690            | 4,604,991            |
| Available-for-sale investment reserve               | 8     | (316,176)            | 3,227,041            |
| Retained earnings                                   |       | 23,354,098           | 21,033,056           |
|   |       | <b>193,827,503</b>   | <b>163,309,911</b>   |
| Non-controlling interests                           |       | 572,259              | 574,339              |
| <b>Total Equity</b>                                 |       | <b>194,399,762</b>   | <b>163,884,250</b>   |
| <b>Total Liabilities and Equity</b>                 |       | <b>1,653,960,732</b> | <b>1,545,038,022</b> |

The accompanying notes from 1 to 45 are an integral part of these consolidated financial statements



## Consolidated Income Statement

For the year ended December 31, 2011

|  |       | 2011                | 2010         |
|--|-------|---------------------|--------------|
|  | Notes | U.S.\$              | U.S.\$       |
| <b>Interest income</b>                                       | 23    | <b>65.478.636</b>   | 50.580.117   |
| Interest expense   | 24    | (7.257.322)         | (4.087.481)  |
| Net interest income  |       | <b>58.221.314</b>   | 46.492.636   |
| Net commissions  | 25    | <b>17.760.885</b>   | 15.350.418   |
| Net interest and commissions income                          |       | <b>75.982.199</b>   | 61.843.054   |
| Foreign currency gain  |       | <b>5.928.864</b>    | 4.585.200    |
| Gain from held-for-trading investments                       | 26    | <b>113.175</b>      | 1.353.142    |
| Gain from available-for-sale investments                     | 27    | <b>914.365</b>      | 3.145.746    |
| Recovery of impairment provision of direct credit facilities | 7     | <b>628.289</b>      | -            |
| Recovery of lawsuits provision                               | 17    | -                   | 1.990.000    |
| Other revenues   | 28    | <b>5.223.553</b>    | 6.123.995    |
| <b>Gross profit</b>  |       | <b>88.790.445</b>   | 79.041.137   |
| <b>Expenses</b>  |       |                     |              |
| Personnel expenses   | 29    | (25.542.980)        | (24.142.630) |
| Other operating expenses                                     | 30    | (16.430.803)        | (12.680.052) |
| Depreciation and amortization                                | 31    | (4.683.157)         | (3.383.350)  |
| Share of profit (loss) of an associate                       | 9     | <b>57.246</b>       | (574.974)    |
| Credit facilities written off                                |       | (315.424)           | (501.856)    |
| Palestine Monetary Authority fines                           | 32    | (7.052)             | (26.170)     |
| <b>Total expenses</b>  |       | <b>(46.922.170)</b> | (41.309.032) |
| <b>Profit before taxes</b>                                   |       | <b>41.868.275</b>   | 37.732.105   |
| Tax expense  | 18    | (7.887.602)         | (7.612.636)  |
| <b>Profit for the year</b>                                   |       | <b>33.980.673</b>   | 30.119.469   |
| <b>Attributable to:</b>                                      |       |                     |              |
| <b>Equity holders of the Bank</b>                            |       | <b>34.057.753</b>   | 30.121.967   |
| <b>Non-controlling interests</b>                             |       | <b>(77.080)</b>     | (2.498)      |
|  |       | <b>33.980.673</b>   | 30.119.469   |
| <b>Basic and diluted earnings per share</b>                  | 34    | <b>0.28</b>         | 0.25         |

The accompanying notes from 1 to 45 are an integral part of these consolidated financial statements

## Consolidated Statement of Comprehensive Income

For the year ended December 31, 2011

|  | 2011               | 2010       |
|--|--------------------|------------|
|  | U.S.\$             | U.S.\$     |
| <b>Profit for the year</b>   | <b>33.980.673</b>  | 30.119.469 |
| <b>Other comprehensive income:</b>   |                    |            |
| Unrealized (loss) gain on financial investments  | (3.543.217)        | 1.448.587  |
| Recovery of unrealized revaluation losses of financial investments reclassified into investment in an associate (note 9) | -                  | 2.346.584  |
| Impairment of available-for-sale investments   | -                  | 547.146    |
| <b>Other comprehensive income</b>  | <b>(3.543.217)</b> | 4.342.317  |
| <b>Total comprehensive income for the year</b>   | <b>30.437.456</b>  | 34.461.786 |
| <b>Attributable to:</b>  |                    |            |
| <b>Equity holders of the Bank</b>  | <b>30.514.536</b>  | 34.464.284 |
| <b>Non-controlling Interests</b>   | <b>(77.080)</b>    | (2.498)    |
|  | <b>30.437.456</b>  | 34.461.786 |

The accompanying notes from 1 to 45 are an integral part of these consolidated financial statements



## Consolidated Statement of Changes in Equity

For the year ended December 31, 2011

|   | Reserves              |                            |            |             |                       |              |                                 | Non-controlling interests | Total equity |
|---|-----------------------|----------------------------|------------|-------------|-----------------------|--------------|---------------------------------|---------------------------|--------------|
|   | Paid-in share capital | Additional paid-in capital | Statutory  | Voluntarily | General banking risks | Pro-cyclical | Available-for-sale- investments |                           |              |
| 2011                                    | U.S.\$                | U.S.\$                     | U.S.\$     | U.S.\$      | U.S.\$                | U.S.\$       | U.S.\$                          | U.S.\$                    | U.S.\$       |
| <b>At January 1, 2011</b>               | 100,000,000           | 9,034,692                  | 16,407,381 | 88,418      | 8,914,332             | 4,604,991    | 3,227,041                       | 574,339                   | 163,884,250  |
| Total comprehensive income for the year | -                     | -                          | -          | -           | -                     | -            | (3,543,217)                     | (77,080)                  | 30,437,456   |
| Transfers to reserves                   | -                     | -                          | 3,405,775  | -           | 3,159,293             | 5,174,699    | -                               | -                         | -            |
| Paid-in capital of a subsidiary         | -                     | -                          | -          | -           | -                     | -            | -                               | 75,000                    | 75,000       |
| Stock dividends (note 22)               | 20,000,000            | -                          | -          | -           | -                     | -            | -                               | -                         | -            |
| Fractions of stock dividends sold       | -                     | -                          | -          | -           | -                     | -            | -                               | -                         | 3,056        |
| <b>At December 31, 2011</b>             | 120,000,000           | 9,034,692                  | 19,813,156 | 88,418      | 12,073,625            | 9,779,690    | (316,176)                       | 572,259                   | 194,399,762  |
|   | Reserves              |                            |            |             |                       |              |                                 | Non-controlling interests | Total equity |
|   | Paid-in share capital | Additional paid-in capital | Statutory  | Voluntarily | General banking risks | Pro-cyclical | Available-for-sale- investments |                           |              |
| 2010                                    | U.S.\$                | U.S.\$                     | U.S.\$     | U.S.\$      | U.S.\$                | U.S.\$       | U.S.\$                          | U.S.\$                    | U.S.\$       |
| <b>At January 1, 2010</b>               | 100,000,000           | 9,034,692                  | 13,395,184 | 87,047      | 5,733,235             | -            | (1,115,276)                     | 576,837                   | 150,822,464  |
| Total comprehensive income for the year | -                     | -                          | -          | -           | -                     | -            | 4,342,317                       | (2,498)                   | 34,461,786   |
| Transfers to reserves                   | -                     | -                          | 3,012,197  | 1,371       | 3,181,097             | 4,604,991    | -                               | -                         | -            |
| Cash dividends (note 22)                | -                     | -                          | -          | -           | -                     | -            | -                               | -                         | (21,400,000) |
| <b>At December 31, 2010</b>             | 100,000,000           | 9,034,692                  | 16,407,381 | 88,418      | 8,914,332             | 4,604,991    | 3,227,041                       | 574,339                   | 163,884,250  |

The accompanying notes from 1 to 45 are an integral part of these consolidated financial statements

## Consolidated Statement of Cash Flows

For the year ended December 31, 2011

|  | Notes | 2011                 | 2010          |
|--|-------|----------------------|---------------|
|  |       | U.S.\$               | U.S.\$        |
| <b>Operating activities</b>  |       |                      |               |
| Profit before taxes  |       | <b>41,868,275</b>    | 37,732,105    |
| <b>Adjustments for:</b>  |       |                      |               |
| Depreciation and amortization  |       | <b>4,683,157</b>     | 3,383,350     |
| Gain from financial investments  |       | <b>(1,027,540)</b>   | (1,138,957)   |
| Impairment loss of financial investments   |       | -                    | 547,146       |
| Recovery of lawsuits provision   |       | -                    | (1,990,000)   |
| Recovery of impairment of available-for-sale investments   |       | -                    | (3,000,000)   |
| Amortization of bonds premium  |       | -                    | 763,775       |
| Recovery of impairment provision of credit facilities  |       | <b>(628,289)</b>     | -             |
| Recovery of impairment provision of defaulted credit facilities classified out of the financial position |       | <b>(193,667)</b>     | -             |
| Recovery of suspended interest   |       | <b>(28,991)</b>      | (1,500,446)   |
| Sundry provisions  |       | <b>2,370,748</b>     | 2,834,561     |
| Share of (profit) loss of an associate   |       | <b>(57,246)</b>      | 574,974       |
| Gain on disposal of property, plant and equipment  |       | <b>(86,751)</b>      | (6,141)       |
|  |       | <b>46,899,696</b>    | 38,200,367    |
| <b>Changes in assets and liabilities:</b>  |       |                      |               |
| Direct credit facilities   |       | <b>(174,295,710)</b> | (200,214,715) |
| Statutory cash reserve at Palestine Monetary Authority   |       | <b>6,075,893</b>     | (26,324,008)  |
| Other assets   |       | <b>(2,441,936)</b>   | (2,334,760)   |
| Customers' deposits  |       | <b>34,478,148</b>    | 227,003,360   |
| Cash margins   |       | <b>8,256,480</b>     | 7,795,799     |
| Other liabilities  |       | <b>6,042,583</b>     | 10,017,782    |
| Sundry provisions paid   |       | <b>(408,916)</b>     | (156,360)     |
|  |       | <b>(75,393,762)</b>  | 53,987,465    |
| <b>Net cash (used in) from operating activities</b>  |       |                      |               |
| <b>Investing activities:</b>   |       |                      |               |
| Purchase of available-for-sale investments   |       | <b>(31,068,369)</b>  | (17,508,331)  |
| Purchase of held-for-trading investments   |       | <b>(5,196,016)</b>   | (2,361,879)   |
| Purchase of held-to-maturity investments   |       | -                    | (70,440,220)  |
| Proceeds from sale of trading and available-for-sale investments   |       | <b>73,202,112</b>    | 14,304,233    |
| Disposals of held-to-maturity investments  |       | -                    | 43,193,592    |
| Investment in an associate   |       | <b>(1,860,610)</b>   | -             |
| Dividends income received  |       | <b>617,160</b>       | 907,077       |
| Projects in progress   |       | <b>(4,360,247)</b>   | (3,052,126)   |
| Purchase of property, plant and equipment  |       | <b>(7,357,193)</b>   | (3,427,105)   |
| Proceeds from sale of property, plant and equipment  |       | <b>206,424</b>       | 35,140        |
| <b>Net cash from (used in) investing activities</b>  |       | <b>24,183,261</b>    | (38,349,619)  |
| <b>Financing activities:</b>   |       |                      |               |
| Cash dividends paid  |       | <b>(284,123)</b>     | (19,541,502)  |
| Payments of non-controlling interests in a subsidiary's capital  |       | <b>75,000</b>        | -             |
| Proceeds from fractions of stock dividends sold  |       | <b>3,056</b>         | -             |
| <b>Net cash used in financing activities</b>   |       | <b>(206,067)</b>     | (19,541,502)  |
| <b>Decrease in cash and cash equivalents</b>   |       | <b>(51,416,568)</b>  | (3,903,656)   |
| <b>Cash and cash equivalents, beginning of the year</b>  |       | <b>503,821,812</b>   | 507,725,468   |
| <b>Cash and cash equivalents, end of year</b>  | 33    | <b>452,405,244</b>   | 503,821,812   |

The accompanying notes from 1 to 45 are an integral part of these consolidated financial statements



# Notes to the Consolidated Financial Statements

December 31, 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. Paid-in share capital amounted U.S.\$ 120 million as at December 31, 2011

The Bank's shares were listed for trading at the Palestine Securities Exchange during 2005.

The Bank is carrying out all of its banking and financial activities through its (19) branches and (26) offices located in Palestine.

The Bank's personnel reached (1061) and (943) as at December 31, 2011 and 2010, respectively.

The consolidated financial statements for the year ended December 31, 2011 were authorized for issuance by the Bank's board of directors during their meeting number 304 held on February 19, 2012.

## 2. Consolidated Financial Statements

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiaries as at December 31, 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.

The Bank's ownerships in the subsidiaries' share capital are as follows:

|                     | Country of in corporation | Ownership |      | Subscribed 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        | -    | 1.000.000          | -         |

Al Wasata Company was established in Gaza City, with a share capital of 3,650,000 shares of U.S. \$ 1 par value for each share of which the Bank owns 87 %.

Investment 2000 Company was established in Gaza City with a share capital of 1,000 shares of U.S. \$ 100 par value for each share and are fully owned by the Bank.

Palpay Company was established in the West Bank with a share capital of 1,000,000 shares of U.S. \$ 1 par value for each share of which the Bank owns 85 %. The Bank paid 50% of the subscribed share capital.

## 3. Accounting Policies

### 3.1 Basis of preparation of consolidated financial statements

The accompanying consolidated financial statements as December 31, 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by International Accounting Standards Board (IASB), and in conformity with Palestine Monetary Authority (PMA) regulations.

The consolidated 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 consolidated financial statements.

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

### 3.2 Basis of consolidation of financial statements

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

The consolidated financial statements of the Bank and its subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Bank obtains control, and continues to be consolidated until the date that such control ceases.

All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

### 3.3 Changes in accounting policies

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

IAS 24 – Related Party Disclosures (Amendment)

IAS 32 – Financial Instruments: Presentation (Amendment)

The following standards have been issued but are not yet mandatory, and have not been adopted by the Bank. These standards are those that the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt these standards when they become effective.



- IAS 1 – Presentation of Items of Other Comprehensive Income (Amendment)\*
- IAS 27 Separate Financial Statements (Reviewed)
- IAS 28 Investment in associates and Joint Ventures (Reviewed)
- IFRS 7 Financial Instruments: Disclosures (Amendment)
- IFRS 9 Financial Instruments \*\*
- IFRS 10 Consolidated Financial Statements \*\*\*
- IFRS 12 Disclosure of Involvement with Other Entities
- IFRS 13 Fair Value Measurement \*\*\*\*

\* The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or ‘recycled’) to income statement at a future date would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Bank’s financial position or performance. This amendment will be effective for financial year beginning on July 1, 2012.

\*\* IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities. The adoption of the first phase of will have an effect on the classification and measurement of the Bank’s financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. This standard will be effective for financial year beginning on January 1, 2015.

\*\*\* IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard will be effective for annual periods beginning on or after January 1, 2013.

\*\*\*\* IFRS 13 provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Bank is currently assessing the impact that this standard will have on the financial position and performance. This standard will be effective for financial year beginning on January 1, 2013.

### 3.4 Summary of significant accounting policies

## Revenues and expenses recognition

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

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

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

## Credit facilities

Credit facilities are carried at amortized cost net of allowance for impairment losses and interest in suspense.

Allowance for impairment losses is made when collection of amounts due to the Bank is not possible and when there is objective evidence that one or more events occurred after the initial recognition of the facilities that has a negative impact on the estimated future cash flows of the facilities and can be reliably estimated. Impairment loss is recognized in the consolidated income statement.

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

Credit facilities that are in default for more than 6 years together with related interest in suspense and impairment provisions are excluded from the consolidated financial statements in accordance with PMA regulations.

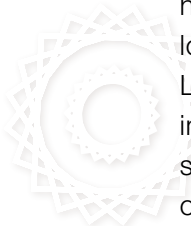
## Recognition of financial assets

Purchases and sales of financial assets are recognized on the trade date, (which is the date that the Bank commits to purchasing or selling the financial asset).

## Held-for-trading investments

Financial assets held-for-trading are initially recognized at fair value and subsequently recorded in the consolidated statement of financial position at fair value. All related realized and unrealized gains and losses resulting from the changes in fair value, including any gains or losses resulting from the translation of non-monetary assets in foreign currencies, are recognized in the consolidated income statement. Interest, dividends and acquisition costs are recognized in the consolidated income statement.





## Available-for-sale investments

Available-for-sale investments are measured at fair value plus cost of acquisition. After initial measurement, available-for-sale investments are subsequently measured at fair value. Unrealized gains and losses are reported in the consolidated statement of comprehensive income. When the investment or part of it is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated income statement. Losses arising from impairment of such investments are recognized in the consolidated income statement. Impairment losses recognized previously in the consolidated income statement could be recovered if there is objective evidence that the increase in fair value occurred in a subsequent period to the period in which the losses occurred. Impairment losses of equity investments could be recovered through the consolidated statement of comprehensive income.

Available-for-sale investments are stated at cost when their fair value cannot be reliably determined and any impairment loss is recognized in the consolidated income statement.

## Fair value

The fair value of investments that are actively traded in active financial markets is determined by reference to quoted market bid prices at the close of business.

For financial instruments where there is no active market, fair value is normally determined based on one of the following methods:

- Comparison with the current market value of a highly similar financial instrument.
- The estimated cash flows discounted at current rates applicable for items with similar terms and risk characteristics.

The estimation methods aim to obtain a fair value that reflects the market anticipation taking into consideration the market factors and any expected risks or benefits. In case the fair value of an investment cannot be reliably measured, it is stated at cost or amortized cost less any impairment in value.

## Offsetting

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

## Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If such evidence exists, the recoverable amount is estimated to determine the impairment loss that should be recognized in the consolidated income statement.

Impairment is determined as follows:

- Financial assets carried at amortized cost: impairment is the difference between carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.
- Financial assets carried at fair value: impairment is the difference between cost and fair value.
- Financial assets carried at cost: impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return of a similar financial asset.

## Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other costs are recognized in the consolidated income statement as incurred. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets (except for land) as follows:

|                         | Useful life<br>(Years) |
|-------------------------|------------------------|
| Real estate properties  | 50                     |
| Furniture and equipment | 6-17                   |
| Computers               | 5-10                   |
| Leasehold improvements  | 5                      |
| Vehicles                | 7                      |

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognized.





The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

## Intangible assets

The costs of intangible assets acquired in a business combination are their fair value as at the date of acquisition. Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and recorded the amortization expense in the consolidated income statement in the same period. Intangible assets with indefinite useful lives are tested for impairment annually at the reporting date and recorded the impairment in the consolidated income statement.

Intangible assets results from the Bank's operations are not capitalized and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

Any indications of impairment of intangible assets are reviewed annually at the date of the consolidated financial statements. The useful lives for those assets are reviewed, and any modifications are processed in the subsequent periods.

Intangible assets include computer software and banking systems. The Bank's management estimates the useful lives of items of intangible assets. Intangible assets are amortized on a straight line method over a period of 10 years.

## Investment properties

Investment properties are measured at cost less accumulated depreciation and any impairment in value. The carrying value of investment properties is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, investment properties are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated income statement in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

## Investment in associates

Investments in associates are accounted for using the equity method. An associate is an entity over which the Bank has significant influence.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost plus post acquisition changes in Bank's share of net assets of the associates. The Bank's share in associates' results is recorded in the consolidated income statement. Unrealized gains and losses resulting from transactions between the Bank and its associates are eliminated to the extent of its interest in the associates.

The reporting dates of the associate and the Bank are identical and the associate's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

## Provisions

Provisions are recognized when the Bank has obligation at the date of the consolidated financial statements arising from a past event and the costs to settle the obligation are both probable and can be reliably measured.

## Tax provisions

The Bank provides for income tax in accordance with IAS (12) and Palestinian Income Tax Law, and the Presidential Decree issued in 2007, which exempts taxpayers in the southern governorates (Gaza) from taxes. Accordingly, tax provisions for the years from 2007 to 2011 did not include the Bank's operations from Gaza branches.

International Accounting Standard (12) requires recognizing the temporary differences, at the consolidated statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, as deferred tax assets or liabilities.

Deferred tax is provided on temporary differences at the consolidated statement of financial position between the tax bases of assets and the liabilities and their carrying amounts for financial reporting purposes. The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Income tax expense represents the accrued income tax which is calculated based in the Bank's taxable income. Taxable income may differ from accounting income as the later includes non-taxable revenues or non-deductable expenses, such income/expense might be taxable/deductible in the following years.



## Provision for employees' indemnity

Provision for employees' indemnity is calculated in accordance with the Labor Law prevailing in Palestine.

## Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with PMA, balances with banks and financial institutions maturing within three months, less banks and financial institutions' deposits maturing within three months and restricted deposits.

## Segments information

A business segment consists of assets and operations providing goods or services that are exposed to risks and returns different from those of other business segments.

A geographic segment relates to goods or services within an economic environment exposed to risks and returns different from those of other segments working in other economic environments.

## Foreign currencies

Transactions dominated in foreign currencies occurring during the year, are recorded at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at reporting date.

Non-monetary items measured at fair value and denominated in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any foreign currency exchange gains or losses are recognized in the consolidated income statement.

Currency exchange differences for non-monetary assets and liabilities items stated at fair value (such as available-for-sale investment) are recognized in the consolidated statement of comprehensive income.

## Use of estimates

The preparation of consolidated financial statements and the application of accounting policies require management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These estimates and assumptions also affect the revenues and expenses and the resulting provisions as well as other comprehensive income items. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty. Therefore, actual results may differ resulting in future changes in such provisions.

Management believes that estimates used in the preparation of the consolidated financial statements are reasonable and are as follows:

- The Bank reviews the impairment provision for credit facilities according to PMA's regulations and IAS (39).
- Management reviews the useful lives of tangible and intangible assets on regular basis in order to assess the depreciation and amortizations for the year based on the assets' condition, useful lives and future economic benefits. Impairment, if any, is recognized in the consolidated income statement.
- Tax provisions are calculated annually based on prevailing tax laws in the territories in which the Bank operates and the accounting standards that the Bank follows.
- Management reviews, on a regular basis, the financial assets that are stated at cost to estimate impairments, if any. Impairment losses are reflected in the consolidated income statement.
- Lawsuits provision is established to provide for legal obligations, if any, based on the opinion of the Bank's lawyer.



## 4. Cash and Balances with Palestine Monetary Authority

This item comprises the following:

|                             | 2011               | 2010        |
|-----------------------------|--------------------|-------------|
|                             | U.S.\$             | U.S.\$      |
| <b>Cash on hand</b>         | <b>128.943.621</b> | 178.412.674 |
| <b>Balances with PMA:</b>   |                    |             |
| Current and demand accounts | 16.575.287         | 22.690.056  |
| Time deposits               | -                  | 2.695.000   |
| Statutory cash reserve      | 110.351.839        | 116.427.732 |
|                             | <b>255.870.747</b> | 320.225.462 |

According to PMA circular (67/2010), the Bank shall maintain statutory cash reserves with PMA at 9% of total customers' deposits. The statutory reserve is calculated at the end of each month.

Statutory cash reserves and current accounts are non-interest bearing 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:

|  | 2011               | 2010        |
|--|--------------------|-------------|
|  | U.S.\$             | U.S.\$      |
| <b>Local banks and financial institutions:</b>   |                    |             |
| Current and demand accounts                      | 340.392            | 191.354     |
| Deposits maturing within 3 months                | 1.050.531          | -           |
|  | <b>1.390.923</b>   | 191.354     |
| <b>Foreign banks and financial institutions:</b> |                    |             |
| Current and demand accounts                      | 123.169.339        | 115.658.678 |
| Deposits maturing within 3 months                | 263.840.242        | 245.968.092 |
|  | <b>387.009.581</b> | 361.626.770 |
|  | <b>388.400.504</b> | 361.818.124 |

Non-interest bearing balances at banks and financial institutions as at December 31, 2011 and 2010 amounted to U.S. \$ 71,320,032 and U.S. \$ 80,820,841, respectively.

Restricted balances at banks and financial institutions as at December 31, 2011 and 2010 amounted to U.S. \$ 601,426 and U.S. \$ 600,758, respectively.

## 6. Held-for-trading Investments

|  | 2011              | 2010      |
|--|-------------------|-----------|
|  | U.S.\$            | U.S.\$    |
| Quoted shares at Palestine Securities Exchange | 11.125.390        | 7.794.199 |
| Quoted bonds at foreign markets                | 766.267           | 1.826.268 |
|  | <b>11.891.657</b> | 9.620.467 |



## 7. Direct Credit Facilities

This item comprises the following:

|  | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|--|----------------|----------------|
| <b>Individuals</b>                                   |                |                |
| Loans  | 237.619.402    | 163.411.604    |
| Overdraft accounts                                   | 4.153.610      | 6.083.438      |
| Credit cards   | 28.250.665     | 22.329.992     |
| Current overdraft                                    | 21.640.341     | 27.177.756     |
| <b>Corporations</b>                                  |                |                |
| Loans  | 131.121.133    | 106.388.762    |
| Overdraft accounts                                   | 57.513.178     | 43.982.522     |
| Current overdraft                                    | 28.580.217     | 23.834.665     |
| <b>Non-for-profit organizations</b>                  |                |                |
| Loans  | 12.091.589     | 10.244.625     |
| Overdraft accounts                                   | 365.292        | 189.780        |
| Current overdraft                                    | 1.234.365      | 300.563        |
| <b>Public sector</b>                                 |                |                |
| Loans  | 32.435.514     | 28.190.227     |
| Overdraft accounts                                   | 172.589.384    | 120.889.464    |
|  | 727.594.690    | 553.023.398    |
| Suspended interests and commission                   | (540.962)      | (554.683)      |
| Provision for impairment of direct credit facilities | (6.880.680)    | (7.442.324)    |
|  | 720.173.048    | 545.026.391    |

## Suspended interest

Summary of movement is as follows:

|  | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|--|----------------|----------------|
| Balance, beginning of the year             | 554.683        | 2.045.241      |
| Suspended interest transferred to revenues | (28.991)       | (1.500.446)    |
| Suspended interest written off             | (49.361)       | (26.062)       |
| Foreign currency exchange                  | 64.631         | 35.950         |
| Balance, end of year                       | 540.962        | 554.683        |

## Provision for doubtful credit facilities

Summary of movement is as follows:

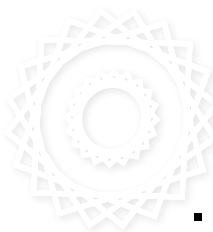
|  | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|--|----------------|----------------|
| Balance, beginning of the year                                 | 7.442.324      | 7.174.445      |
| Recovered during the year                                      | (628.289)      | -              |
| Credit facilities in default for more than 6 years written off | (46.410)       | (29.216)       |
| Provision written off  | (71.832)       | (145.081)      |
| Foreign currency exchange                                      | 184.887        | 442.176        |
| Balance, end of year   | 6.880.680      | 7.442.324      |

The following is a summary of provision for doubtful credit facilities in default for more than 6 years:

|                                | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|--------------------------------|----------------|----------------|
| Balance, beginning of the year | 3.628.071      | 3.895.950      |
| Additions                      | 46.410         | 29.216         |
| Recovered during the year      | (193.667)      | -              |
| Provision written off          | (72.166)       | (242.818)      |
| Foreign currency exchange      | (40.889)       | (54.277)       |
| Balance, end of year           | 3.367.759      | 3.628.071      |

- Credit facilities excluding unearned interest and commissions amounted to U.S.\$ 1,885,735 and U.S.\$ 1,517,274 as at December 31, 2011 and 2010, respectively.
- Downgraded direct credit facilities net of suspended interest according to PMA regulations as at December 31, 2011 and 2010 amounted to U.S.\$ 14,159,704 and U.S.\$ 7,911,239 representing (1.95%) and (1.43%) of gross credit facilities, respectively.





- Defaulted credit facilities net of suspended interest as at December 31, 2011 and 2010 amounted to U.S.\$ 12,531,075 and U.S.\$ 6,448,492 representing (1.72%) and (1.17%) of gross credit facilities, respectively.
- According to PMA circular number (1/2008), defaulted credit facilities for more than six years were excluded from the consolidated financial statements. These defaulted facilities amounted to U.S.\$ 3,907,852 as at December 31, 2011. The balance of impairment provision and suspended interest for defaulted accounts amounted to U.S.\$ 3,367,759 and U.S. \$ 540,093, respectively.
- Direct credit facilities granted to Palestine National Authority as at December 31, 2011 and 2010 amounted to U.S.\$ 205,024,898 and U.S.\$ 149,079,691 representing (28.18%) and (26.96%) of gross direct credit facilities, respectively.
- Direct credit facilities guaranteed by Palestine National Authority as at December 31, 2011 and 2010 amounted to U.S.\$ 34,793,470 and U.S.\$ 32,796,376 representing (4.78%) and (5.93%) of gross direct credit facilities, respectively.
- The fair value of collaterals against direct credit facilities amounted to U.S.\$ 156,568,689 and U.S.\$ 94,812,051 as at December 31, 2011 and 2010, respectively.
- Credit facilities granted to non-residents amounted to U.S.\$ 8,281,772 and U.S.\$ 6,325,000 as at December 31, 2011 and 2010, respectively.

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

|                              | 2011        | 2010        |
|------------------------------|-------------|-------------|
|                              | U.S.\$      | U.S.\$      |
| Industry and trade           | 19.147.183  | 22.804.560  |
| Services                     | 78.784.348  | 60.282.299  |
| Retail and whole sales       | 65.014.306  | 35.406.248  |
| Real estate and construction | 72.797.326  | 46.206.875  |
| Transportation               | 830.377     | 1.350.844   |
| Agriculture                  | 3.595.493   | 18.204.023  |
| Tourism                      | 12.186.584  | 9.385.159   |
| Financial services           | 19.809.990  | 29.061.830  |
| Public sector                | 205.024.898 | 269.297.514 |
| Others                       | 249.863.223 | 60.469.363  |
|                              | 727.053.728 | 552.468.715 |

## 8. Available-for-sale Investments

This item comprises the following:

|                       | 2011       |             |             | 2010      |             |             |
|-----------------------|------------|-------------|-------------|-----------|-------------|-------------|
|                       | Local      | Foreign     | Total       | Local     | Foreign     | Total       |
|                       | U.S.\$     | U.S.\$      | U.S.\$      | U.S.\$    | U.S.\$      | U.S.\$      |
| Quoted shares         | -          | 17.721.654  | 17.721.654  | -         | 16.255.732  | 16.255.732  |
| Quoted bonds          |            | 120.499.519 | 120.499.519 | -         | 156.060.508 | 156.060.508 |
| Treasury bills        | -          | 56.705.219  | 56.705.219  | -         | 76.477.965  | 76.477.965  |
| Investment portfolios | -          | 279.703     | 279.703     | -         | 531.429     | 531.429     |
| Unquoted bonds *      | 10.000.000 | -           | 10.000.000  | -         | -           | -           |
| Unquoted shares *     | 5.777.785  | -           | 5.777.785   | 4.000.000 | -           | 4.000.000   |
|                       | 15.777.785 | 195.206.095 | 210.983.880 | 4.000.000 | 249.325.634 | 253.325.634 |

\* These financial assets 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's management believes that the fair values of such investments are not materially different from their carrying amounts.

Movement on available-for-sale reserve during the year is as follows:

|  | 2011        | 2010        |
|--|-------------|-------------|
|  | U.S.\$      | U.S.\$      |
| Balance, beginning of the year   | 3.227.041   | (1.115.276) |
| Unrealized (losses) gains  | (3.543.217) | 1.448.587   |
| Recovery of unrealized revaluation losses of financial investments reclassified into investment in an associate (note 9) | -           | 2.346.584   |
| Impairment of available-for-sale investments recognized in the consolidated income statement                             | -           | 547.146     |
| Balance, end of year   | (316.176)   | 3.227.041   |





## 9. Investment in an Associate

The details of this item are as following:

|                   | Country of<br>Incorporation | Equity<br>% | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|-------------------|-----------------------------|-------------|----------------|----------------|
| Arab Islamic Bank | Palestine                   | 20          | 11.340.483     | 9.422.627      |

Arab Islamic Bank (AIB) was incorporated in Al-Bireh, and started its banking activities in the early 1996, through providing banking services, financing, trading and investing activities in accordance with the directives of the Islamic Shari'a Rules through its head-quarter in Al-Bireh City and its branches in Palestine.

During 2010, the Bank changed the accounting treatment of available-for-sale investment in the shares of AIB into an investment in an associate. The Bank reversed the available-for-sale investment reserve of U.S. \$ 2,346,584 (note 8) back to the investment carrying amount and carried the investment in the associate at its original cost of U.S \$ 9,997,601. The additions to the investment in the associate comprise the Bank share of AIB share capital increase offered in a private offering during 2011.

Following is the movement of the investment in an associate:

|   | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|---|----------------|----------------|
| Balance, beginning of the year                | 9.422.627      | -              |
| Transfers from available-for-sale investments | -              | 9.997.601      |
| Additions                                     | 1.860.610      | -              |
| Bank's share in the associate results         | 57.246         | (574.974)      |
| Balance, end of year                          | 11.340.483     | 9.422.627      |

Following is the Bank's share in assets and liabilities of the associate:

|             | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|-------------|----------------|----------------|
| Assets      | 60.017.712     | 57.178.917     |
| Liabilities | 48.767.189     | 47.538.371     |

Following is the Bank's share in the associate revenues and results of operations:

|               | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|---------------|----------------|----------------|
| Revenues      | 2.672.622      | 468.116        |
| Profit (loss) | 57.246         | (574.974)      |



## 10. Property, Plant and Equipment

|                                  | Real estate<br>properties | Furniture<br>and<br>equipment | Comput-<br>ers | Leasehold<br>improve-<br>ments | Vehicles       | Total             |
|----------------------------------|---------------------------|-------------------------------|----------------|--------------------------------|----------------|-------------------|
| <b>2011</b>                      | U.S.\$                    | U.S.\$                        | U.S.\$         | U.S.\$                         | U.S.\$         | U.S.\$            |
| <b>Cost:</b>                     |                           |                               |                |                                |                |                   |
| At January 1, 2011               | 19.392.134                | 23.703.860                    | 5.887.405      | 2.615.928                      | 1.291.147      | 52.890.474        |
| Additions                        | 7.826.125                 | 4.699.637                     | 315.611        | 203.854                        | 542.100        | 13.587.327        |
| Disposals                        | -                         | (47.934)                      | -              | -                              | (292.832)      | (340.766)         |
| At December 31, 2011             | 27.218.259                | 28.355.563                    | 6.203.016      | 2.819.782                      | 1.540.415      | 66.137.035        |
| <b>Accumulated depreciation:</b> |                           |                               |                |                                |                |                   |
| At January 1, 2011               | 2.843.401                 | 12.524.897                    | 5.257.587      | 1.660.491                      | 807.086        | 23.093.462        |
| Depreciation charge              | 403.237                   | 2.851.000                     | 311.608        | 354.728                        | 418.034        | 4.338.607         |
| Disposals                        | -                         | (15.571)                      | -              | -                              | (205.522)      | (221.093)         |
| At December 31, 2011             | 3.246.638                 | 15.360.326                    | 5.569.195      | 2.015.219                      | 1.019.598      | 27.210.976        |
| <b>Net book value</b>            | <b>23.971.621</b>         | <b>12.995.237</b>             | <b>633.821</b> | <b>804.563</b>                 | <b>520.817</b> | <b>38.926.059</b> |

|                                  | Real estate<br>properties | Furniture<br>and<br>equipment | Comput-<br>ers | Leasehold<br>improve-<br>ments | Vehicles       | Total             |
|----------------------------------|---------------------------|-------------------------------|----------------|--------------------------------|----------------|-------------------|
| <b>2010</b>                      | U.S.\$                    | U.S.\$                        | U.S.\$         | U.S.\$                         | U.S.\$         | U.S.\$            |
| <b>Cost:</b>                     |                           |                               |                |                                |                |                   |
| At January 1, 2010               | 19.078.885                | 19.989.288                    | 5.700.696      | 1.969.283                      | 1.136.116      | 47.874.268        |
| Additions                        | 313.249                   | 3.815.371                     | 230.471        | 646.645                        | 213.978        | 5.219.714         |
| Disposals                        | -                         | (100.799)                     | (43.762)       | -                              | (58.947)       | (203.508)         |
| At December 31, 2010             | 19.392.134                | 23.703.860                    | 5.887.405      | 2.615.928                      | 1.291.147      | 52.890.474        |
| <b>Accumulated depreciation:</b> |                           |                               |                |                                |                |                   |
| At January 1, 2010               | 2.528.005                 | 10.403.204                    | 5.115.730      | 1.368.090                      | 691.487        | 20.106.516        |
| Depreciation charge              | 315.396                   | 2.213.096                     | 185.619        | 292.401                        | 154.943        | 3.161.455         |
| Disposals                        | -                         | (91.403)                      | (43.762)       | -                              | (39.344)       | (174.509)         |
| At December 31, 2010             | 2.843.401                 | 12.524.897                    | 5.257.587      | 1.660.491                      | 807.086        | 23.093.462        |
| <b>Net book value</b>            | <b>16.548.733</b>         | <b>11.178.963</b>             | <b>629.818</b> | <b>955.437</b>                 | <b>484.061</b> | <b>29.797.012</b> |

Property, plant and equipment comprise parcels of lands owned by the Bank to carry out its banking activities amounting to U.S. \$ 9,759,579 and U.S. \$ 6,045,729 as at December 31, 2011 and 2010, respectively.

Property, plant and equipment include U.S. \$ 15,009,515 and U.S. \$ 10,906,539 of fully depreciated assets that are still operational as at December 31, 2011 and 2010, respectively.

Additions during 2011 include investment property in the amount of U.S.\$ 671,413 transferred to property, plant and equipment for the Bank use.

Additions include project in progress completed and transferred to property, plant and equipment for the Bank use in the amount of U.S.\$ 5,558,721 and U.S.\$ 1,792,609 for 2011 and 2010, respectively.



## 11. Projects in Progress

The item includes the cost of new branches expansion, renovation and leasehold improvements. Movement on the projects in progress as follows:

|  | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|--|----------------|----------------|
| Balance, beginning of the year             | 3.160.590      | 1.901.073      |
| Additions                                  | 4.360.247      | 3.052.126      |
| Transfers to property, plant and equipment | (5.558.721)    | (1.792.609)    |
| Balance, end of year                       | 1.962.116      | 3.160.590      |

## 12. Other Assets

This item comprises the following:

|  | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|--|----------------|----------------|
| Accrued interest and commissions       | 2.668.225      | 2.093.119      |
| Stationery and printings stock         | 1.973.073      | 1.545.859      |
| * Intangible assets                    | 1.418.672      | 1.371.862      |
| Prepayments                            | 1.402.894      | 1.443.175      |
| Trade receivables of subsidiaries, net | 5.623.358      | 5.361.356      |
| Others                                 | 1.326.016      | 154.931        |
|  | 14.412.238     | 11.970.302     |

- This item represents the Bank's computer software. Movement of this item during the year follows:

|                                | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|--------------------------------|----------------|----------------|
| Balance, beginning of the year | 1.371.862      | 1.272.558      |
| Additions                      | 391.360        | 321.199        |
| Amortization                   | (344.550)      | (221.895)      |
| Balance, end of year           | 1.418.672      | 1.371.862      |

## 13. Palestine Monetary Authority's Deposits

This item represents PMA's deposits maturing within three months in the amount of U.S.\$ 48,609,596 and U.S.\$ 41,867,735 as at December 31, 2011 and 2010 respectively.

## 14. Banks' and Financial Institutions' Deposits

This item comprises the following:

|             | Current deposits<br>U.S.\$ | Term deposits<br>maturing within 3<br>months<br>U.S.\$ | Total<br>U.S.\$ |
|-------------|----------------------------|--|-----------------|
| <b>2011</b> |                            |  |                 |
| Local       | -                          | 32.309.122   | 32.309.122      |
| Foreign     | 595.450                    | -  | 595.450         |
|             | 595.450                    | 32.309.122   | 32.904.572      |
| <b>2010</b> |                            |  |                 |
| Local       | -                          | 14.000.000   | 14.000.000      |
| Foreign     | 5.926.307                  | -  | 5.926.307       |
|             | 5.926.307                  | 14.000.000   | 19.926.307      |

## 15. Customers' Deposits

This item comprises the following:

|                                     | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|-------------------------------------|----------------|----------------|
| Current and demand deposits         | 464.119.549    | 532.913.603    |
| Saving deposits                     | 446.856.327    | 379.725.790    |
| Time deposits                       | 323.908.096    | 290.145.885    |
| Debit balances – temporarily credit | 7.896.499      | 5.517.045      |
|                                     | 1.242.780.471  | 1.208.302.323  |

- Public sector deposits amounted to U.S.\$ 126,113,757 and U.S.\$ 253,398,956 representing 10.15% and 20.97% of total deposits as at December 31, 2011 and 2010, respectively.
- Non-interest bearing deposits amounted to U.S.\$ 919,169,640 and U.S.\$ 919,342,582 representing 73.96% and 76.09% of total deposits as at December 31, 2011 and December 31, 2010, respectively.
- Dormant deposits amounted to U.S.\$ 40,726,400 and U.S.\$ 84,915,050 representing 3.28% and 7.03% of total deposits as at December 31, 2011 and 2010, respectively.
- Restricted deposits amounted to U.S.\$ 1,175,362 and U.S.\$ 1,017,563 representing 0.09% and 0.08% of total deposits as at December 31, 2011 and 2010, respectively.



## 16. Cash Margins

This item represents cash margins against:

|                            | 2011       | 2010       |
|----------------------------|------------|------------|
|                            | U.S.\$     | U.S.\$     |
| Direct credit facilities   | 20,944,238 | 14,015,035 |
| Indirect credit facilities | 26,940,508 | 26,265,455 |
| Others                     | 5,903,714  | 5,251,490  |
|                            | 53,788,460 | 45,531,980 |

## 17. Sundry Provisions

This item includes the following provisions:

|                          | Balance, beginning of the year | Provided during the year | Used/ recovered during year | ,Balance end of year |
|--------------------------|--------------------------------|--------------------------|-----------------------------|----------------------|
|                          | U.S.\$                         | U.S.\$                   | U.S.\$                      | U.S.\$               |
| <b>December 31, 2011</b> |                                |                          |                             |                      |
| End of service provision | 8,386,867                      | 2,370,748                | (408,916)                   | 10,348,699           |
| Lawsuits provision       | 1,515,580                      | -                        | -                           | 1,515,580            |
|                          | 9,902,447                      | 2,370,748                | (408,916)                   | 11,864,279           |

### December 31, 2010

|                          |           |           |             |           |
|--------------------------|-----------|-----------|-------------|-----------|
| End of service provision | 5,708,666 | 2,834,561 | (156,360)   | 8,386,867 |
| Lawsuits provision       | 3,505,580 | -         | (1,990,000) | 1,515,580 |
|                          | 9,214,246 | 2,834,561 | (2,146,360) | 9,902,447 |

## 18. Tax Provisions

Movement on tax provisions during the 2011 and 2010 are as follows:

|                                | 2011       | 2010       |
|--------------------------------|------------|------------|
|                                | U.S.\$     | U.S.\$     |
| Balance, beginning of the year | 25,803,117 | 18,190,481 |
| Provision for the year         | 7,887,602  | 7,612,636  |
| Balance, end of year           | 33,690,719 | 25,803,117 |

Reconciliation between accounting income and taxable income is as follows:

|                              | 2011        | 2010        |
|------------------------------|-------------|-------------|
|                              | U.S.\$      | U.S.\$      |
| Accounting profit            | 41,868,275  | 37,732,105  |
| Non-taxable income           | (805,471)   | (7,124,957) |
| Non-deductible expenses      | 5,903,478   | 7,492,849   |
| Gross income subject to VAT  | 46,966,282  | 38,099,997  |
| Net income subject to VAT*   | 32,063,602  | 28,111,539  |
| Less: VAT (14.5 %)           | (4,060,456) | (3,559,977) |
| VAT on payroll               | (2,488,836) | (2,200,500) |
| Income subject to income tax | 25,514,310  | 22,351,062  |
| Income tax (15 %)            | 3,827,146   | 3,352,659   |
| Provision for the year       | 7,887,602   | 6,912,636   |
| Provision for prior years    | -           | 700,000     |
| Total provision              | 7,887,602   | 7,612,636   |
| Effective tax rate           | 19 %        | 20 %        |

- This item represents taxable income for Bank's branches operating in northern governorate (West Bank) based on the Presidential Decree issued in June 2007 exempting 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 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.

## 19. Other Liabilities

This item comprises the following:

|   | 2011       | 2010       |
|---|------------|------------|
|   | U.S.\$     | U.S.\$     |
| Transactions in-transit with PMA                                    | 11,743,442 | 4,762,714  |
| Tax payables  | 10,499,359 | 7,937,012  |
| Certified checks  | 4,588,381  | 4,292,880  |
| Dividends payable   | 1,574,375  | 1,858,498  |
| Temporarily deposits  | 1,171,410  | 313,391    |
| Accrued interest  | 681,494    | 428,622    |
| Accounts under settlement   | 655,408    | 530,211    |
| Due to employees' saving fund *                                     | 209,894    | 882,916    |
| Board of directors remuneration                                     | 990,000    | 990,000    |
| Payable to shares subscribers of Al Wataniya Mobile public offering | -          | 4,280,088  |
| Payables – subsidiaries   | 1,310,416  | 1,460,244  |
| Others  | 2,498,694  | 2,083,287  |
|   | 35,922,873 | 29,819,863 |



- According to the Bank's employees saving fund scheme, on monthly basis, the Bank deducts %5 of each employee's monthly basic salary and matches it with %5 as the Bank's contribution which are together transferred to the saving fund. The fund is managed by committee from the Bank's personnel and its accounts are maintained outside of the Bank's accounts. The item represents amounts due to the saving fund.

## 20. 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 each and an additional paid-in capital of U.S. \$ 2.06 for each share. Total additional paid-in capital amounted to U.S. \$ 8,384,692.

## 21. Reserves

### Statutory reserve

As required by the Companies' and Banking Law, the Bank shall deduct and transfer 10% of net profit to the statutory reserve until the reserve equals the share capital. The reserve is not to be utilized nor available for distribution to shareholders without PMA's prior approval.

### Voluntarily reserve

Voluntarily reserve represents cumulative transfers of 10% of subsidiaries' net profit according to the subsidiaries' internal bylaws.

### General banking risks reserve

This item represents the amount of general banking risk reserve 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 in accordance with PMA's instruction (1/2011) to support Banks' capital against banking risks. The reserve is not to be utilized or reduced without PMA's prior approval.

## 22. Dividends

The Bank's general assembly, during its meeting held on April 29, 2011, approved dividends distribution of U.S.\$ 20,000,000, for the 2010 results, as stock dividends to shareholders based on pro-rata ownership of Bank's share capital.

The Bank's general assembly, during its meeting held on April 30, 2010, approved cash dividends distribution of U.S. \$ 21,400,000 for the year 2009 results.

## 23. Interest Income

This item comprises interest revenues earned on the following accounts:

|  | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|--|----------------|----------------|
| Loans  | 23.515.882     | 18.140.134     |
| Overdraft accounts                           | 18.469.252     | 12.948.133     |
| Current overdrafts                           | 8.650.518      | 6.821.487      |
| Credit cards                                 | 1.961.086      | 1.460.000      |
| Balances with PMA                            | 1.914          | 1.723          |
| Balances at banks and financial institutions | 2.718.585      | 3.251.870      |
| Available-for-sale and trading bonds         | 10.161.399     | 7.956.770      |
|  | 65.478.636     | 50.580.117     |

## 24. Interest Expense

This item comprises interest expense incurred on the following accounts:

|  | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|--|----------------|----------------|
| Interest on customers' deposits:                       |                |                |
| Time deposits  | 3.886.662      | 3.005.818      |
| Saving accounts  | 1.903.459      | 422.503        |
| Current and demand accounts                            | 83.701         | 114.443        |
|  | 5.873.822      | 3.542.764      |
| Interest on banks and financial institutions' deposits | 1.383.500      | 544.717        |
|  | 7.257.322      | 4.087.481      |

## 25. Net Commissions

This item comprises commissions against the following:

|                               | 2011       | 2010       |
|-------------------------------|------------|------------|
|                               | U.S.\$     | U.S.\$     |
| <b>Credit commissions</b>     |            |            |
| Direct credit facilities      | 4.865.541  | 3.260.948  |
| Indirect credit facilities    | 3.170.876  | 2.765.822  |
| Salaries commission           | 2.962.880  | 2.706.081  |
| Transfers                     | 2.914.824  | 3.425.743  |
| Checks                        | 1.693.373  | 1.121.010  |
| Accounts management           | 1.363.185  | 1.290.855  |
| Other banking services        | 1.214.237  | 1.207.898  |
|                               | 18.184.916 | 15.778.357 |
| <b>Less: Commissions paid</b> | (424.031)  | (427.939)  |
|                               | 17.760.885 | 15.350.418 |

## 26. Gain from Held-for-trading Investments

This item comprises the following:

|  | 2011      | 2010      |
|--|-----------|-----------|
|  | U.S.\$    | U.S.\$    |
| Dividends from investments   | 612.608   | 907.077   |
| Gain from sale of held-for-trading investments                           | 48.203    | 380.415   |
| Unrealized (loss) gains from revaluation of held-for-trading investments | (547.636) | 65.650    |
|  | 113.175   | 1.353.142 |

## 27. Gain from Available-for-sale Investments

This item comprises the following:

|  | 2011      | 2010      |
|--|-----------|-----------|
|  | U.S.\$    | U.S.\$    |
| Gain from sale of available-for-sale investments | 1.339.227 | 1.011.608 |
| Dividends from investments                       | 4.552     | -         |
| Investment management commissions                | (429.414) | (318.716) |
| Recovery of impairment of financial assets       | -         | 3.000.000 |
| Impairment of available-for-sale investments     | -         | (547.146) |
|  | 914.365   | 3.145.746 |

## 28. Other Revenues

This item comprises the following:

|  | 2011      | 2010      |
|--|-----------|-----------|
|  | U.S.\$    | U.S.\$    |
| Visa and Master cards issuance fees  | 3.934.535 | 3.299.560 |
| Gain from sale of property, plant and equipment  | 86.751    | 6.141     |
| Safety deposit rental  | 57.410    | 45.680    |
| Recovery of impairment of defaulted credit facilities classified out of the financial position | 193.667   | -         |
| Recovery of suspended interest   | 28.991    | 1.500.446 |
| Securities trading commissions   | 502.207   | 777.080   |
| Recovery of a tax provision of a subsidiary  | -         | 230.462   |
| Sundry   | 419.992   | 264.626   |
|  | 5.223.553 | 6.123.995 |

## 29. Personnel Expenses

|                                    | 2011       | 2010       |
|------------------------------------|------------|------------|
|                                    | U.S.\$     | U.S.\$     |
| Salaries and related benefits      | 17.734.890 | 15.664.546 |
| Provision for employees' indemnity | 2.370.748  | 2.834.562  |
| VAT on salaries                    | 2.488.836  | 2.200.500  |
| Bonuses and rewards                | 1.059.804  | 1.855.273  |
| Clothing allowances                | 579.764    | 436.136    |
| Travel and transportation          | 137.075    | 125.555    |
| Training expenses                  | 303.059    | 230.443    |
| Medical expenses                   | 585.464    | 540.761    |
| Bank's contribution to saving fund | 283.340    | 254.854    |
|                                    | 25.542.980 | 24.142.630 |



### 30. Other Operating Expenses

|                                       | 2011       | 2010       |
|---------------------------------------|------------|------------|
|                                       | U.S.\$     | U.S.\$     |
| Advertising                           | 3.563.973  | 2.857.731  |
| Social responsibility                 | 1.824.245  | 764.018    |
| Telephone, postage and fax            | 1.468.906  | 1.083.649  |
| Stationery and printings              | 1.384.123  | 1.215.516  |
| Maintenance and repairs               | 1.303.716  | 1.074.794  |
| Rent                                  | 1.099.976  | 933.338    |
| Board of directors remuneration       | 990.000    | 990.000    |
| Utilities                             | 799.983    | 637.399    |
| Travel and seminars                   | 622.379    | 506.277    |
| License fees                          | 525.061    | 313.455    |
| Subscriptions fees                    | 470.888    | 411.461    |
| Fuel                                  | 431.584    | 361.257    |
| Professional fees                     | 264.205    | 307.913    |
| Insurance                             | 249.560    | 255.711    |
| Cash transport expense                | 237.313    | 167.262    |
| Hospitality                           | 193.377    | 199.685    |
| Vehicles expense                      | 113.481    | 64.603     |
| Printing checks                       | 105.392    | 88.690     |
| Board of directors meeting allowances | 3.491      | 3.863      |
| Sundry                                | 779.150    | 443.430    |
|                                       | 16.430.803 | 12.680.052 |

### 31. Depreciation and Amortization

|   | 2011      | 2010      |
|---|-----------|-----------|
|   | U.S.\$    | U.S.\$    |
| Depreciation of property, plant and equipment (note 10) | 4.338.607 | 3.161.455 |
| Amortization of intangible assets (note 12)             | 344.550   | 221.895   |
|   | 4.683.157 | 3.383.350 |

### 32. Palestinian Monetary Authority Fines

This item represents a fine imposed by the Palestinian Monetary Authority in the amount of U.S.\$ 7,052 as a result of granting checkbooks to customers classified (C) on the returned check system.

### 33. Cash and Cash Equivalents

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

|   | 2011          | 2010          |
|---|---------------|---------------|
|   | U.S.\$        | U.S.\$        |
| Cash and balances with PMA  | 255.870.747   | 320.225.462   |
| <b>Add:</b>   |               |               |
| Balances at banks and financial institutions maturing within 3 months | 388.400.504   | 361.818.124   |
|   | 644.271.251   | 682.043.586   |
| <b>Less:</b>  |               |               |
| PMA deposits  | (48.609.596)  | (41.867.735)  |
| Due to banks and financial institutions                               | (32.904.572)  | (19.926.307)  |
| Statutory cash reserve  | (110.351.839) | (116.427.732) |
|   | 452.405.244   | 503.821.812   |

### 34. Basic and Diluted Earnings Per Share

|   | 2011        | 2010        |
|---|-------------|-------------|
|   | U.S.\$      | U.S.\$      |
| Profit for the year attributable to equity holders of the Bank                  | 34.057.753  | 30.121.967  |
|   |             |             |
|   | Shares      | Shares      |
| Weighted average subscribed shares  | 120.000.000 | 120.000.000 |
|   |             |             |
|   | U.S.\$      | U.S.\$      |
| Basic and diluted earnings per share attributable to equity holders of the Bank | 0.28        | 0.25        |

## 35. 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 year represented by deposits and credit facilities are as follows:

**2011**

### Statement of financial position items:

|                          | Board of directors and executive management | Major share-holders | Others    | Total      |
|--------------------------|---|---------------------|-----------|------------|
|                          | U.S.\$                                      | U.S.\$              | U.S.\$    | U.S.\$     |
| Direct credit facilities | 5,142.376                                   | 4,050.000           | 7,353.300 | 16,545.676 |
| Deposits                 | 1,527.758                                   | -                   | 1,836.398 | 3,364.156  |

### Commitments and contingencies

|                       |           |   |         |           |
|-----------------------|-----------|---|---------|-----------|
| Letters of credit     | 300.000   | - | -       | 300.000   |
| Letters of guarantees | 1,058.322 | - | 9.392   | 1,067.714 |
| Unutilized credit     | 94.245    | - | 351.806 | 446.051   |

### Income statement items:

|                                 |         |         |         |         |
|---------------------------------|---------|---------|---------|---------|
| Interest and commissions earned | 119.134 | 389.595 | 235.502 | 744.231 |
| Interest and commissions paid   | 4.405   | 7.870   | 5.184   | 17.459  |

### Additional information:

|  |   |   |        |        |
|--|---|---|--------|--------|
| Credit facilities classified watch list" | - | - | 28.624 | 28.624 |
|--|---|---|--------|--------|

**2010**

### Statement of financial position items

|                          | Board of directors and executive management | Major share-holders | Others    | Total      |
|--------------------------|---|---------------------|-----------|------------|
|                          | U.S.\$                                      | U.S.\$              | U.S.\$    | U.S.\$     |
| Direct credit facilities | 5,910,329                                   | 4,500,000           | 4,882,491 | 15,292,820 |
| Deposits                 | 1,266.173                                   | -                   | 1,243.587 | 2,509.760  |

### Commitments and contingencies

|                       |           |   |         |           |
|-----------------------|-----------|---|---------|-----------|
| Letters of credit     | 50.457    | - | -       | 50.457    |
| Letters of guarantees | 177.486   | - | -       | 177.486   |
| Unutilized credit     | 3,841.718 | - | 243.499 | 4,085.217 |

### Income statement items

|                                 |        |         |         |         |
|---------------------------------|--------|---------|---------|---------|
| Interest and commissions earned | 84.619 | 431.220 | 232.755 | 748.594 |
| Interest and commissions paid   | 4.510  | -       | 13.968  | 18.478  |

- Net direct credit facilities granted to related parties as at December 31, 2011 and 2010 represent 2.30% and 2.81%, respectively, from the net direct credit facilities.
- Net direct credit facilities granted to related parties as at December 31, 2011 and 2010 represent 14.26% and 16.10%, 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:

|  | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|--|----------------|----------------|
| Bank's General Manager                             | 481.223        | 388.549        |
| Executive management salaries and related benefits | 942.611        | 805.816        |
| Executive management end of service indemnity      | 137.389        | 197.792        |
| Board of directors' remuneration                   | 990.000        | 990.000        |
| Board of directors' meeting allowance              | 3.491          | 3.863          |



### 36. Fair Value of Financial Instruments

The table below represents a comparison between the carrying amounts and fair values of financial instruments as at December 31, 2011 and 2010:

|  | Carrying amount      |                      | Fair value           |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | 2011                 | 2010                 | 2011                 | 2010                 |
|  | U.S.\$               | U.S.\$               | U.S.\$               | U.S.\$               |
| <b>Financial assets</b>                      |                      |                      |                      |                      |
| Cash and balances with PMA                   | 255.870.747          | 320.225.462          | 255.870.747          | 320.225.462          |
| Balances at banks and financial institutions | 388.400.504          | 361.818.124          | 388.400.504          | 361.818.124          |
| Held-for-trading investments                 | 11.891.657           | 9.620.467            | 11.891.657           | 9.620.467            |
| Direct credit facilities                     | 720.173.048          | 545.026.391          | 720.173.048          | 545.026.391          |
| Available-for-sale investments:              |                      |                      |                      |                      |
| Quoted stocks                                | 17.721.654           | 16.255.732           | 17.721.654           | 16.255.732           |
| Unquoted stocks                              | 5.777.785            | 4.000.000            | 5.777.785            | 4.000.000            |
| Quoted bonds                                 | 120.499.519          | 156.060.508          | 120.499.519          | 156.060.508          |
| Unquoted bonds                               | 10.000.000           | -                    | 10.000.000           | -                    |
| Investment portfolios                        | 279.703              | 531.429              | 279.703              | 531.429              |
| Governmental treasury bills                  | 56.705.219           | 76.477.965           | 56.705.219           | 76.477.965           |
| Other financial assets                       | 9.617.599            | 7.609.406            | 9.617.599            | 7.609.406            |
| <b>Total assets</b>                          | <b>1.596.937.435</b> | <b>1.497.625.484</b> | <b>1.596.937.435</b> | <b>1.497.625.484</b> |
| <b>Financial liabilities</b>                 |                      |                      |                      |                      |
| PMA deposits                                 | 48.609.596           | 41.867.735           | 48.609.596           | 41.867.735           |
| Banks and financial institutions' deposits   | 32.904.572           | 19.926.307           | 32.904.572           | 19.926.307           |
| Customers' deposits                          | 1.242.780.471        | 1.208.302.323        | 1.242.780.471        | 1.208.302.323        |
| Cash margins                                 | 53.788.460           | 45.531.980           | 53.788.460           | 45.531.980           |
| Other financial liabilities                  | 25.423.514           | 21.882.851           | 25.423.514           | 21.882.851           |
| <b>Total liabilities</b>                     | <b>1.403.506.613</b> | <b>1.337.511.196</b> | <b>1.403.506.613</b> | <b>1.337.511.196</b> |

The fair value of the financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

- Fair values of balances with PMA, balances at banks and financial institutions, other financial assets, due to banks and financial institutions, customers' deposits, cash margins, and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair values of the quoted available-for-sale investments and held-for-trading investments are based on price quotations at the reporting date.

- Unquoted available-for-sale investments are stated at cost less accumulated impairment as their fair values cannot be reliably determined.

The hierarchy of fair values:

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

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Using inputs other than quoted prices that are observable, either directly or indirectly.
- Level 3: Using input that are not based on observable market data.

During the year, the Bank used only Level 1 to determine and disclose the fair values of the investments held-for-trading and available-for-sale investment. Levels 2 and 3 were not used during the year.

### 37. Concentration of Assets and Liabilities

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

|                                  | 2011                 |                        |  | 2010                 |                        |  |
|----------------------------------|----------------------|------------------------|--|----------------------|------------------------|--|
|                                  | Assets               | Liabilities and equity | Items out of statement of financial position | Assets               | Liabilities and equity | Items out of statement of financial position |
|                                  | U.S.\$               | U.S.\$                 | U.S.\$                                       | U.S.\$               | U.S.\$                 | U.S.\$                                       |
| <b>By geographical area</b>      |                      |                        |  |                      |                        |  |
| Palestine                        | 1.062.697.133        | 1.575.257.869          | 142.874.548                                  | 923.314.116          | 1.487.332.813          | 111.881.941                                  |
| Israel                           | 86.054.996           | -                      | 2.208.436                                    | 71.978.810           | -                      | 2.694.072                                    |
| Jordan                           | 144.000.761          | 11.091.370             | 3.857.571                                    | 190.638.203          | 6.561.233              | 891.499                                      |
| Europe                           | 227.481.991          | 21.868.589             | 15.430.283                                   | 175.496.229          | 14.614.820             | 23.925.628                                   |
| USA                              | 72.826.054           | 11.984.394             | 1.157.271                                    | 113.999.831          | 5.748.346              | 537.476                                      |
| Others                           | 60.899.797           | 33.758.510             | 18.795.991                                   | 69.610.833           | 30.780.810             | 3.304.871                                    |
| <b>Total</b>                     | <b>1.653.960.732</b> | <b>1.653.960.732</b>   | <b>184.324.100</b>                           | <b>1.545.038.022</b> | <b>1.545.038.022</b>   | <b>143.235.487</b>                           |
| <b>By sector</b>                 |                      |                        |  |                      |                        |  |
| Individuals                      | 287.927.184          | 837.262.145            | 24.325.173                                   | 212.275.436          | 608.631.572            | 24.226.283                                   |
| Companies and other institutions | 432.888.240          | 459.610.486            | 143.859.640                                  | 332.750.955          | 643.366.997            | 102.981.663                                  |
| Treasury                         | 881.729.189          | 81.514.168             | -  | 957.434.910          | 61.794.042             | -  |
| Others                           | 51.416.119           | 275.573.933            | 16.139.287                                   | 42.576.721           | 231.245.411            | 16.027.541                                   |
| <b>Total</b>                     | <b>1.653.960.732</b> | <b>1.653.960.732</b>   | <b>184.324.100</b>                           | <b>1.545.038.022</b> | <b>1.545.038.022</b>   | <b>143.235.487</b>                           |

## 38. Risk Management

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

### Risk management framework

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

### Risk management process

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

### Risk and credit management committee

Risk and credit management committee are responsible for developing risks strategies and applying the principles, general framework and allowed limits.

### Risk measurement and reporting system

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

### Risks

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

## I. Credit Risks

Credit risks are those risks resulting from the default of counterparties to the financial instrument to repay their commitment to the Bank. The Bank, through credit risk management, sets ceilings for direct credit facilities (retail or corporate) and total loans granted to each sector and each geographical area. The Bank also monitors credit risks and continuously evaluates the credit standing of customers. The Bank also obtains appropriate collaterals from customers.

### Exposures to credit risks

|  | 2011<br>U.S.\$ | 2010<br>U.S.\$ |
|--|----------------|----------------|
| <b>Consolidated statement of financial position items</b>        |                |                |
| Balances with PMA  | 126.927.126    | 141.812.788    |
| Balances at banks and financial institutions                     | 388.400.504    | 361.818.124    |
| Held-for-trading investment                                      | 766.267        | 1.826.268      |
| Direct credit facilities:  |                |                |
| Retail   | 291.123.056    | 218.448.107    |
| Corporate  | 217.214.528    | 174.205.949    |
| Non-for-profit organizations                                     | 13.691.246     | 10.734.968     |
| Public sector  | 205.024.898    | 149.079.691    |
| Available-for-sale investments                                   | 187.204.738    | 232.538.473    |
| Other assets   | 9.617.599      | 7.609.406      |
|  | 1.439.969.962  | 1.298.073.774  |
| <b>Out of consolidated statement of financial position items</b> |                |                |
| Letters of guarantees  | 98.193.522     | 103.692.344    |
| Letters of credit  | 22.370.967     | 22.943.640     |
| Acceptances  | 16.204.740     | 6.999.005      |
| Unutilized credit facilities limits                              | 47.554.871     | 9.600.498      |
|  | 184.324.100    | 143.235.487    |



## Credit risk exposure for each risk rating

Credit risk exposure for each risk rating is distributed as follows:

| <b>December 31, 2011</b>        | <b>Retail</b> | <b>Corporate and other institutes</b> | <b>Public sector</b> | <b>Total</b>  |
|---------------------------------|---------------|---------------------------------------|----------------------|---------------|
| <b>U.S.\$</b>                   | <b>U.S.\$</b> | <b>U.S.\$</b>                         | <b>U.S.\$</b>        | <b>U.S.\$</b> |
| Low risk                        | 11.018.017    | 74.161.647                            | 203.891.806          | 289.071.470   |
| Acceptable risk                 | 273.131.053   | 150.691.501                           | -                    | 423.822.554   |
| From which is due:              |               |                                       |                      |               |
| Until 30 days                   | 4.766.074     | 3.288.504                             | -                    | 8.054.578     |
| Watch list                      | 1.083.963     | 544.666                               | -                    | 1.628.629     |
| Non-performing:                 |               |                                       |                      |               |
| Substandard                     | 1.649.072     | 4.396.974                             | 1.133.092            | 7.179.138     |
| Doubtful                        | 4.781.913     | 1.110.986                             | -                    | 5.892.899     |
| Total                           | 291.664.018   | 230.905.774                           | 205.024.898          | 727.594.690   |
| Suspended interest              | (540.962)     | -                                     | -                    | (540.962)     |
| Provision for credit facilities | (3.458.505)   | (2.860.695)                           | (561.480)            | (6.880.680)   |
|                                 | 287.664.551   | 228.045.079                           | 204.463.418          | 720.173.048   |

| <b>December 31, 2010</b>        | <b>Retail</b> | <b>Corporate and other institutes</b> | <b>Public sector</b> | <b>Total</b>  |
|---------------------------------|---------------|---------------------------------------|----------------------|---------------|
| <b>U.S.\$</b>                   | <b>U.S.\$</b> | <b>U.S.\$</b>                         | <b>U.S.\$</b>        | <b>U.S.\$</b> |
| Low risk                        | 6.178.859     | 65.088.268                            | 149.079.691          | 220.346.818   |
| Acceptable risk                 | 206.320.398   | 117.890.260                           | -                    | 324.210.658   |
| From which is due:              |               |                                       |                      |               |
| Until 30 days                   | 7.148.614     | -                                     | -                    | 7.148.614     |
| Watch list                      | 770.011       | 692.736                               | -                    | 1.462.747     |
| Non-performing:                 |               |                                       |                      |               |
| Substandard                     | 1.850.326     | 942.197                               | -                    | 2.792.523     |
| Doubtful                        | 3.883.196     | 327.456                               | -                    | 4.210.652     |
| Total                           | 219.002.790   | 184.940.917                           | 149.079.691          | 553.023.398   |
| Suspended interest              | (554.683)     | -                                     | -                    | (554.683)     |
| Provision for credit facilities | (6.172.671)   | (1.269.653)                           | -                    | (7.442.324)   |
|                                 | 212.275.436   | 183.671.264                           | 149.079.691          | 545.026.391   |

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

| <b>December 31, 2011</b>    | <b>Retail</b> | <b>Corporate</b> | <b>Total</b>  |
|-----------------------------|---------------|------------------|---------------|
| <b>U.S.\$</b>               | <b>U.S.\$</b> | <b>U.S.\$</b>    | <b>U.S.\$</b> |
| <b>Collaterals against:</b> |               |                  |               |
| Low risk                    | 11.286.992    | 39.610.553       | 50.897.545    |
| Acceptable risk             | 14.235.353    | 88.283.500       | 102.518.853   |
| Watch list                  | 206.380       | -                | 206.380       |
| Non-performing:             |               |                  |               |
| Substandard                 | 348.815       | 1.651.059        | 1.999.874     |
| Doubtful                    | 383.935       | 562.102          | 946.037       |
| <b>Total</b>                | 26.461.475    | 130.107.214      | 156.568.689   |
| Comprising :                |               |                  |               |
| Cash margins                | 11.352.895    | 27.017.079       | 38.369.974    |
| Precious metals             | -             | 86.111           | 86.111        |
| Quoted stocks               | 420.000       | 26.690.890       | 27.110.890    |
| Vehicles and equipment      | 12.487.910    | 5.349.271        | 17.837.181    |
| Real estate                 | 2.200.670     | 70.963.863       | 73.164.533    |
|                             | 26.461.475    | 130.107.214      | 156.568.689   |

| <b>December 31, 2010</b>    | <b>Retail</b> | <b>Corporate</b> | <b>Total</b>  |
|-----------------------------|---------------|------------------|---------------|
| <b>U.S.\$</b>               | <b>U.S.\$</b> | <b>U.S.\$</b>    | <b>U.S.\$</b> |
| <b>Collaterals against:</b> |               |                  |               |
| Low risk                    | 6.178.859     | 32.291.592       | 38.470.451    |
| Acceptable risk             | 22.462.023    | 31.910.415       | 54.372.438    |
| Watch list                  | 100.000       | 230.000          | 330.000       |
| Non-performing:             |               |                  |               |
| Substandard                 | 43.779        | 550.000          | 593.779       |
| Doubtful                    | 731.561       | 313.822          | 1.045.383     |
| <b>Total</b>                | 29.516.222    | 65.295.829       | 94.812.051    |
| Comprising :                |               |                  |               |
| Cash margins                | 5.780.379     | 6.588.042        | 12.368.421    |
| Precious metals             | 221.863       | 9.257            | 231.120       |
| Quoted stocks               | 358.072       | 25.694.293       | 26.052.365    |
| Vehicles and equipment      | 10.471.274    | 5.861.502        | 16.332.776    |
| Real estate                 | 12.684.634    | 27.142.735       | 39.827.369    |
|                             | 29.516.222    | 65.295.829       | 94.812.051    |

### Concentration of risk exposures according to the geographical area as follows:

|  | Palestine   | Arab Coun-tries | Israel     | Europe      | USA         | Others     | Total         |
|--|-------------|-----------------|------------|-------------|-------------|------------|---------------|
| <b>2011</b>                                  | U.S.\$      | U.S.\$          | U.S.\$     | U.S.\$      | U.S.\$      | U.S.\$     | U.S.\$        |
| Cash and balances with PMA                   | 126.927.126 | -               | -          | -           | -           | -          | 126.927.126   |
| Balances at banks and financial institutions | 1.390.923   | 78.473.909      | 86.054.996 | 189.743.306 | 32.724.237  | 13.133     | 388.400.504   |
| Held-for-trading invest-ments                | -           | -               | -          | 548.709     | 217.558     | -          | 766.267       |
| Direct credit facilities                     | 718.771.956 | 8.281.772       | -          | -           | -           | -          | 727.053.728   |
| Available-for-sale invest-ments              | 10.000.000  | 69.529.716      | -          | 37.189.976  | 39.884.260  | 30.600.786 | 187.204.738   |
| Other assets                                 | 9.617.599   | -               | -          | -           | -           | -          | 9.617.599     |
| <b>Total as at December 31, 2011</b>         | 866.707.604 | 156.285.397     | 86.054.996 | 227.481.991 | 72.826.055  | 30.613.919 | 1.439.969.962 |
| <b>Total as at December 31, 2010</b>         | 695.810.805 | 224.061.814     | 71.564.588 | 154.860.886 | 120.429.086 | 31.346.595 | 1.298.073.774 |

### Concentration of risk exposures according to economic sectors:

|   | Financial   | Industrial | Com-merce  | Properties | Financial securities | Public sector | Others      | Total         |
|---|-------------|------------|------------|------------|----------------------|---------------|-------------|---------------|
| <b>2011</b>                                   | U.S.\$      | U.S.\$     | U.S.\$     | U.S.\$     | U.S.\$               | U.S.\$        | U.S.\$      | U.S.\$        |
| Cash and balances with PMA                    | 126.927.126 | -          | -          | -          | -                    | -             | -           | 126.927.126   |
| Balances at banks and financial insti-tutions | 388.400.504 | -          | -          | -          | -                    | -             | -           | 388.400.504   |
| Held-for-trad-ing invest-ments                | -           | -          | -          | -          | 766.267              | -             | -           | 766.267       |
| Direct credit facilities                      | 19.809.990  | 19.147.183 | 65.014.306 | 72.797.326 | -                    | 205.024.898   | 345.260.025 | 727.053.728   |
| Available-for-sale invest-ments               | -           | -          | -          | -          | 187.204.738          | -             | -           | 187.204.738   |
| Other assets                                  | -           | -          | -          | -          | -                    | -             | 9.617.599   | 9.617.599     |
| <b>Total as at December 31, 2011</b>          | 535.137.620 | 19.147.183 | 65.014.306 | 72.797.326 | 187.971.005          | 205.024.898   | 354.877.624 | 1.439.969.962 |
| <b>Total as at December 31, 2010</b>          | 539.941.914 | 22.804.557 | 35.406.246 | 46.206.873 | 234.364.741          | 269.297.514   | 150.051.929 | 1.298.073.774 |

## II. Market risk

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

### Interest rate risk

Interest rate risk arises from the effects of changes in interest rates on the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatch or the existence of a gap between assets and liabilities according to their maturities, or re-pricing interest rates in certain periods. The Bank manages this risk by reviewing the interest rate on assets and liabilities through its strategy on risk management.

Interest rates on assets and liabilities are reviewed periodically and the Bank regularly follows up the actual cost of funds and takes appropriate decisions regarding pricing based on the prevailing prices.

The effect of decreases in interest rate is expected to be equal and opposite to the effect of the increase shown below:

|                       | 2011                      |   | 2010                      |   |
|-----------------------|---------------------------|---|---------------------------|---|
|                       | increase in interest rate | Interest income sensitivity (in-(come statement | increase in interest rate | Interest income sensitivity (in-(come statement |
|                       | basis) (points)           | U.S.\$  | (basis points)            | U.S.\$  |
| Currency              |                           |   |                           |   |
| US Dollar             | + 10                      | 493.897   | + 10                      | 415.637   |
| Jordanian Dinar       | + 10                      | 93.021  | + 10                      | 90.236  |
| Israeli Shekels (ILS) | + 10                      | 182.433   | + 10                      | 86.015  |
| EURO                  | + 10                      | 40.100  | + 10                      | 34.127  |
| Other currencies      | + 10                      | 11.067  | + 10                      | 13.225  |





Interest rate re-pricing sensitivity gap

December 31, 2011

|  | Interest rate re-pricing sensitivity gap |                          |                                |                              |                      |
|--|--|--------------------------|--------------------------------|------------------------------|----------------------|
|  | Less than 1 Month                        | From 1 month to 3 months | More than 3 months to 6 months | More than 6 months to 1 year | More than a year     |
|  | U.S.\$                                   | U.S.\$                   | U.S.\$                         | U.S.\$                       | U.S.\$               |
| <b>Assets</b>                                |  |                          |                                |                              |                      |
| Cash and balances with PMA                   | -  | -                        | -                              | -                            | 255,870,747          |
| Balances at banks and financial institutions | 291,835,268                              | 21,651,253               | 3,526,093                      | 67,858                       | 71,320,032           |
| Held -for -trading investments               | -  | -                        | -                              | 766,266                      | 11,125,391           |
| Direct credit facilities                     | 181,369,763                              | 38,232,289               | 69,806,757                     | 199,114,416                  | 231,649,823          |
| Available-for-sale investments               | -  | -                        | 27,642,850                     | 10,088,663                   | 23,779,142           |
| Investment in an associate                   | -  | -                        | -                              | -                            | 11,340,483           |
| Property, plant and equipment                | -  | -                        | -                              | -                            | 38,926,059           |
| Projects in progress                         | -  | -                        | -                              | -                            | 1,962,116            |
| Other assets                                 | -  | -                        | -                              | -                            | 14,412,238           |
| <b>Total Assets</b>                          | <b>473,205,031</b>                       | <b>59,883,542</b>        | <b>100,975,700</b>             | <b>210,037,203</b>           | <b>428,736,208</b>   |
| <b>Liabilities</b>                           |  |                          |                                |                              |                      |
| PMA deposits                                 | 48,609,596                               | -                        | -                              | -                            | -                    |
| Banks and financial institutions' deposits   | 32,486,089                               | -                        | -                              | -                            | 418,483              |
| Customers' deposits                          | 240,469,219                              | 43,716,955               | 21,547,475                     | 17,081,887                   | 919,169,640          |
| Cash margins                                 | -  | -                        | -                              | -                            | 53,788,460           |
| Sundry provisions                            | -  | -                        | -                              | -                            | 11,864,279           |
| Tax provisions                               | -  | -                        | -                              | -                            | 33,690,719           |
| Other liabilities                            | -  | -                        | -                              | -                            | 35,922,873           |
| <b>Total Liabilities</b>                     | <b>321,564,904</b>                       | <b>43,716,955</b>        | <b>21,547,475</b>              | <b>17,081,887</b>            | <b>1,054,854,454</b> |
|  |  |                          |                                |                              | <b>1,459,560,970</b> |

Equity

|  |                    |                   |                   |                   |                      |
|--|--------------------|-------------------|-------------------|-------------------|----------------------|
| Paid-in share capital                    |                    |                   |                   |                   |                      |
| Additional paid-in capital               | -                  | -                 | -                 | -                 | 120,000,000          |
| Statutory reserve                        | -                  | -                 | -                 | -                 | 9,034,692            |
| Voluntarily reserve                      | -                  | -                 | -                 | -                 | 19,813,156           |
| General banking risks reserve            | -                  | -                 | -                 | -                 | 88,418               |
| Pro-cyclicality reserve                  | -                  | -                 | -                 | -                 | 12,073,625           |
| Available-for-sale investment reserve    | -                  | -                 | -                 | -                 | 9,779,690            |
| Retained earnings                        | -                  | -                 | -                 | -                 | (316,176)            |
|  | -                  | -                 | -                 | -                 | 23,354,098           |
| Non-controlling interests                | -                  | -                 | -                 | -                 | 193,827,503          |
| <b>Total Equity</b>                      | <b>-</b>           | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>572,259</b>       |
| <b>Total liabilities and equity</b>      | <b>-</b>           | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>194,399,762</b>   |
|  | <b>321,564,904</b> | <b>43,716,955</b> | <b>21,547,475</b> | <b>17,081,887</b> | <b>1,653,960,732</b> |
| Interest rate re-pricing sensitivity gap | 151,640,127        | 16,166,587        | 79,428,225        | 192,955,316       | (820,518,008)        |
|  |                    |                   |                   |                   | -                    |

December 31, 2010

|  | Interest rate re-pricing sensitivity gap |                          |                                |                              |                    |
|--|--|--------------------------|--------------------------------|------------------------------|--------------------|
|  | Less than 1 Month                        | From 1 month to 3 months | More than 3 months to 6 months | More than 6 months to 1 year | More than a year   |
|  | U.S.\$                                   | U.S.\$                   | U.S.\$                         | U.S.\$                       | U.S.\$             |
| <b>Total assets</b>                      | <b>245,469,414</b>                       | <b>85,774,398</b>        | <b>155,805,582</b>             | <b>70,324,814</b>            | <b>560,454,688</b> |
| Total liabilities and equity             | 284,458,551                              | 14,885,962               | 19,142,084                     | 26,801,730                   | 1,199,694,911      |
| Interest rate re-pricing sensitivity gap | (38,989,137)                             | 70,888,436               | 136,663,498                    | 43,523,084                   | (639,240,223)      |
|  |  |                          |                                |                              | -                  |



## Foreign currency risk

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

The Jordanian Dinar (JOD) exchange rate is pegged to US Dollar exchange rate, so foreign currency risk of JOD is not material on the Bank's consolidated financial statements. The effect of the expected decrease in exchange rates is equal and opposite to the effect of the increase stated below:

| Currency              | 2011                         |                                 | 2010                         |                               |
|-----------------------|------------------------------|---------------------------------|------------------------------|-------------------------------|
|                       | Increase in<br>currency rate | Effect on in-<br>come statement | Increase in<br>currency rate | Effect on income<br>statement |
|                       | (%)                          | U.S.\$                          | ( %)                         | U.S.\$                        |
| EURO                  | + 10                         | 5.379                           | + 10                         | 81.964                        |
| ILS                   | + 10                         | 225.579                         | + 10                         | 224.408                       |
| Other curren-<br>cies | + 10                         | 3.019                           | + 10                         | 109.795                       |

Following is the foreign currencies position of the Bank:

|  | JOD                | EURO              | ILS                | Others            | Total              |
|--|--------------------|-------------------|--------------------|-------------------|--------------------|
|  | U.S.\$             | U.S.\$            | U.S.\$             | U.S.\$            | U.S.\$             |
| <b>December 31, 2011</b>                                   |                    |                   |                    |                   |                    |
| <b>Assets</b>  |                    |                   |                    |                   |                    |
| Cash and balances with PMA                                 | 45.470.213         | 4.360.059         | 127.928.822        | 3.246             | 177.762.340        |
| Balances at banks and financial institutions               | 70.236.739         | 41.456.958        | 206.140.512        | 9.621.492         | 327.455.701        |
| Held- for- trading investments                             | 9.519.217          | -                 | -                  | -                 | 9.519.217          |
| Direct credit facilities                                   | 74.620.379         | 6.040.570         | 168.655.157        | 75.620            | 249.391.726        |
| Available-for-sale investments                             | 75.095.587         | 8.603.220         | -                  | 1.474.085         | 85.172.892         |
| Other assets   | 1.036.643          | 422.411           | 1.321.913          | 35.777            | 2.816.744          |
| <b>Total Assets</b>  | <b>275.978.778</b> | <b>60.883.218</b> | <b>504.046.404</b> | <b>11.210.220</b> | <b>852.118.620</b> |
| <b>Liabilities</b>   |                    |                   |                    |                   |                    |
| PMA deposits   | -                  | 1.618.216         | 46.991.379         | -                 | 48.609.595         |
| Banks and financial institu-<br>tions' deposits            | 11.208.329         | -                 | 3.519.277          | -                 | 14.727.606         |
| Customers' deposits  | 263.794.326        | 55.145.226        | 419.384.906        | 10.813.632        | 749.138.090        |
| Cash margins   | 3.277.795          | 3.697.506         | 10.308.337         | 331.498           | 17.615.136         |
| Other liabilities  | 1.366.375          | 368.479           | 21.586.715         | 34.901            | 23.356.470         |
| <b>Total Liabilities</b>                                   | <b>279.646.825</b> | <b>60.829.427</b> | <b>501.790.614</b> | <b>11.180.031</b> | <b>853.446.897</b> |
| <b>Statement of financial posi-<br/>tion concentration</b> | <b>(3.668.047)</b> | <b>53.791</b>     | <b>2.255.790</b>   | <b>30.189</b>     | <b>(1.328.277)</b> |
| <b>Commitments and contin-<br/>gencies</b>                 | <b>3.318.135</b>   | <b>29.483.278</b> | <b>16.020.303</b>  | <b>308.804</b>    | <b>49.130.520</b>  |
|  | JOD                | EURO              | ILS                | Others            | Total              |
|  | U.S.\$             | U.S.\$            | U.S.\$             | U.S.\$            | U.S.\$             |
| <b>December 31, 2010</b>                                   |                    |                   |                    |                   |                    |
| <b>Total assets</b>  | <b>264.013.141</b> | <b>61.671.082</b> | <b>491.548.378</b> | <b>14.717.753</b> | <b>831.950.354</b> |
| <b>Total liabilities and Equity</b>                        | <b>264.695.304</b> | <b>60.851.439</b> | <b>489.304.298</b> | <b>13.619.803</b> | <b>828.470.844</b> |
| <b>Statement of financial posi-<br/>tion concentration</b> | <b>(682.163)</b>   | <b>819.643</b>    | <b>2.244.080</b>   | <b>1.097.950</b>  | <b>3.479.510</b>   |
| <b>Commitments and contin-<br/>gencies</b>                 | <b>3.367.765</b>   | <b>38.926.308</b> | <b>18.760.071</b>  | <b>50.046</b>     | <b>61.104.190</b>  |

## Equity price risk

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

|                                    | 2011                     |                                 | 2010                |                                  |
|------------------------------------|--------------------------|---------------------------------|---------------------|----------------------------------|
|                                    | Increase in<br>Indicator | Effect on in-<br>come statement | Effect on<br>equity | Effect on<br>income<br>statement |
|                                    | ( %)                     | U.S.\$                          | U.S.\$              | U.S.\$                           |
| Market                             |                          |                                 |                     |                                  |
| Palestine Securities Ex-<br>change | + 10                     | 1.112.539                       | -                   | 779.420                          |
| Foreign markets                    | + 10                     | -                               | 1.800.136           | -                                |



### III. Liquidity risk

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

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

| December 31, 2011                            | U.S.\$             | Less than 1 month  | U.S.\$             | More than 1 month to 3 months | U.S.\$             | More than 3 months to 6 months | U.S.\$               | More than 6 months up to 1 year | U.S.\$            | More than 1 year to 3 years | U.S.\$             | More than 3 years  | U.S.\$             | Without maturity   | U.S.\$             | Total              | U.S.\$             |
|--|--------------------|--------------------|--------------------|-------------------------------|--------------------|--------------------------------|----------------------|---------------------------------|-------------------|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Assets</b>                                |                    |                    |                    |                               |                    |                                |                      |                                 |                   |                             |                    |                    |                    |                    |                    |                    |                    |
| Cash and balances with PMA                   | 145,518,908        | -                  | -                  | -                             | -                  | -                              | -                    | -                               | -                 | -                           | -                  | -                  | -                  | 110,351,839        | -                  | 255,870,747        | -                  |
| Balances at banks and financial institutions | 361,503,362        | 26,295,716         | -                  | -                             | -                  | -                              | -                    | -                               | -                 | -                           | -                  | -                  | -                  | 601,426            | -                  | 388,400,504        | -                  |
| Held -for -trading investments               | -                  | -                  | -                  | -                             | -                  | -                              | -                    | 766,267                         | -                 | -                           | -                  | -                  | -                  | 11,125,390         | -                  | 11,891,657         | -                  |
| Direct credit facilities                     | 85,321,261         | 46,172,091         | -                  | 79,986,862                    | 223,843,238        | 162,131,016                    | -                    | -                               | -                 | 122,718,580                 | -                  | -                  | -                  | -                  | -                  | 720,173,048        | -                  |
| Available-for-sale investments               | -                  | -                  | -                  | 25,449,770                    | 10,088,662         | 76,843,919                     | -                    | -                               | -                 | 74,822,387                  | -                  | -                  | -                  | 23,779,142         | -                  | 210,983,880        | -                  |
| Investment in an associate                   | -                  | -                  | -                  | -                             | -                  | -                              | -                    | -                               | -                 | -                           | -                  | -                  | -                  | 11,340,483         | -                  | 11,340,483         | -                  |
| Property, plant and equipment                | -                  | -                  | -                  | -                             | -                  | -                              | -                    | -                               | -                 | -                           | -                  | -                  | -                  | 38,926,059         | -                  | 38,926,059         | -                  |
| Project in progress                          | -                  | -                  | -                  | -                             | -                  | -                              | -                    | -                               | -                 | -                           | -                  | -                  | -                  | 1,962,116          | -                  | 1,962,116          | -                  |
| Other assets                                 | 571,596            | 2,668,225          | -                  | -                             | -                  | -                              | -                    | -                               | -                 | -                           | -                  | -                  | -                  | 11,172,417         | -                  | 14,412,238         | -                  |
| <b>Total assets</b>                          | <b>592,915,127</b> | <b>75,136,032</b>  | <b>105,436,632</b> | <b>234,698,167</b>            | <b>238,974,935</b> | <b>197,540,967</b>             | <b>1,653,960,732</b> | <b>11,864,279</b>               | <b>33,690,719</b> | <b>13,585,244</b>           | <b>225,196,536</b> | <b>709,715,373</b> | <b>225,196,536</b> | <b>228,212,210</b> | <b>228,212,210</b> | <b>228,212,210</b> | <b>228,212,210</b> |
| <b>Liabilities:</b>                          |                    |                    |                    |                               |                    |                                |                      |                                 |                   |                             |                    |                    |                    |                    |                    |                    |                    |
| PMA deposits                                 | 48,609,596         | -                  | -                  | -                             | -                  | -                              | -                    | -                               | -                 | -                           | -                  | -                  | -                  | -                  | -                  | 48,609,596         | -                  |
| Banks and financial institutions' deposits   | 32,904,572         | -                  | -                  | -                             | -                  | -                              | -                    | -                               | -                 | -                           | -                  | -                  | -                  | -                  | -                  | 32,904,572         | -                  |
| Customers' deposits                          | 605,863,576        | 225,196,536        | 175,805,119        | 144,380,155                   | 91,348,129         | 186,956                        | -                    | -                               | -                 | -                           | -                  | -                  | -                  | -                  | -                  | 1,242,780,471      | -                  |
| Cash margins                                 | -                  | -                  | 5,131,128          | 2,589,733                     | 40,231,353         | 5,836,246                      | -                    | -                               | -                 | -                           | -                  | -                  | -                  | -                  | -                  | 53,788,460         | -                  |
| Sundry provisions                            | -                  | -                  | -                  | -                             | -                  | -                              | -                    | -                               | -                 | -                           | -                  | -                  | -                  | 11,864,279         | -                  | 11,864,279         | -                  |
| Tax provisions                               | -                  | -                  | 33,690,719         | -                             | -                  | -                              | -                    | -                               | -                 | -                           | -                  | -                  | -                  | -                  | -                  | 33,690,719         | -                  |
| Other liabilities                            | 22,337,629         | -                  | 13,585,244         | -                             | -                  | -                              | -                    | -                               | -                 | -                           | -                  | -                  | -                  | -                  | -                  | 35,922,873         | -                  |
| <b>Total liabilities</b>                     | <b>709,715,373</b> | <b>225,196,536</b> | <b>228,212,210</b> | <b>146,969,888</b>            | <b>131,579,482</b> | <b>6,023,202</b>               | <b>1,459,560,970</b> | <b>11,864,279</b>               | <b>33,690,719</b> | <b>13,585,244</b>           | <b>225,196,536</b> | <b>709,715,373</b> | <b>225,196,536</b> | <b>228,212,210</b> | <b>228,212,210</b> | <b>228,212,210</b> | <b>228,212,210</b> |

#### Equity

|                                       |                      |                      |                      |                      |                      |                    |                      |                   |                   |                   |                    |                    |                    |                    |                    |                    |                    |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|--------------------|----------------------|-------------------|-------------------|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Paid-in share capital                 | -                    | -                    | -                    | -                    | -                    | -                  | -                    | -                 | -                 | -                 | -                  | -                  | -                  | 120,000,000        | -                  | 120,000,000        | -                  |
| Additional paid-in capital            | -                    | -                    | -                    | -                    | -                    | -                  | -                    | -                 | -                 | -                 | -                  | -                  | -                  | 9,034,692          | -                  | 9,034,692          | -                  |
| Statutory reserve                     | -                    | -                    | -                    | -                    | -                    | -                  | -                    | -                 | -                 | -                 | -                  | -                  | -                  | 19,813,156         | -                  | 19,813,156         | -                  |
| Voluntarily reserve                   | -                    | -                    | -                    | -                    | -                    | -                  | -                    | -                 | -                 | -                 | -                  | -                  | -                  | 88,418             | -                  | 88,418             | -                  |
| General banking risks reserve         | -                    | -                    | -                    | -                    | -                    | -                  | -                    | -                 | -                 | -                 | -                  | -                  | -                  | 12,073,625         | -                  | 12,073,625         | -                  |
| Pro-cyclicality reserve               | -                    | -                    | -                    | -                    | -                    | -                  | -                    | -                 | -                 | -                 | -                  | -                  | -                  | 9,779,690          | -                  | 9,779,690          | -                  |
| Available-for-sale investment reserve | -                    | -                    | -                    | -                    | -                    | -                  | -                    | -                 | -                 | -                 | -                  | -                  | -                  | (316,176)          | -                  | (316,176)          | -                  |
| Retained earnings                     | -                    | -                    | -                    | -                    | -                    | -                  | -                    | -                 | -                 | -                 | -                  | -                  | -                  | 23,354,098         | -                  | 23,354,098         | -                  |
| Non-controlling interests             | -                    | -                    | -                    | -                    | -                    | -                  | -                    | -                 | -                 | -                 | -                  | -                  | -                  | 193,827,503        | -                  | 193,827,503        | -                  |
| <b>Total equity</b>                   | <b>-</b>             | <b>-</b>             | <b>-</b>             | <b>-</b>             | <b>-</b>             | <b>-</b>           | <b>-</b>             | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>572,259</b>     | <b>-</b>           | <b>572,259</b>     | <b>-</b>           |
| <b>Total liabilities and equity</b>   | <b>709,715,373</b>   | <b>225,196,536</b>   | <b>228,212,210</b>   | <b>146,969,888</b>   | <b>131,579,482</b>   | <b>6,023,202</b>   | <b>1,653,960,732</b> | <b>11,864,279</b> | <b>33,690,719</b> | <b>13,585,244</b> | <b>225,196,536</b> | <b>709,715,373</b> | <b>225,196,536</b> | <b>228,212,210</b> | <b>228,212,210</b> | <b>228,212,210</b> | <b>228,212,210</b> |
| <b>Maturity gap</b>                   | <b>(116,800,246)</b> | <b>(150,060,504)</b> | <b>(122,775,578)</b> | <b>87,728,279</b>    | <b>107,395,453</b>   | <b>191,517,765</b> | <b>-</b>             | <b>2,994,831</b>  | <b>-</b>          | <b>-</b>          | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>194,399,762</b> | <b>-</b>           | <b>194,399,762</b> | <b>-</b>           |
| <b>Cumulative gap</b>                 | <b>(116,800,246)</b> | <b>(266,860,750)</b> | <b>(389,636,328)</b> | <b>(301,908,049)</b> | <b>(194,512,596)</b> | <b>(2,994,831)</b> | <b>-</b>             | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>194,399,762</b> | <b>-</b>           | <b>194,399,762</b> | <b>-</b>           |



| <b>December 31, 2010</b>                     | <b>Less than 1 month</b> | <b>More than 1 month to 3 months</b> | <b>More than 3 months to 6 months</b> | <b>More than 6 months up to 1 year</b> | <b>More than 1 year to 3 years</b> | <b>More than 3 years</b> | <b>Without maturity</b> | <b>Total</b>         |
|--|--------------------------|--------------------------------------|---------------------------------------|--|------------------------------------|--------------------------|-------------------------|----------------------|
|  | U.S.\$                   | U.S.\$                               | U.S.\$                                | U.S.\$                                 | U.S.\$                             | U.S.\$                   | U.S.\$                  | U.S.\$               |
| <b>Assets</b>                                |                          |                                      |                                       |  |                                    |                          |                         |                      |
| Cash and balances with PMA                   | 203,797,730              | -                                    | -                                     | -                                      | -                                  | -                        | 116,427,732             | 320,225,462          |
| Balances at banks and financial institutions | 324,456,492              | 36,760,874                           | -                                     | -                                      | -                                  | -                        | 600,758                 | 361,818,124          |
| Held -for -trading investments               | -                        | 1,826,268                            | -                                     | -                                      | -                                  | -                        | 7,794,199               | 9,620,467            |
| Direct credit facilities                     | 77,038,086               | 26,922,365                           | 152,947,512                           | 62,236,534                             | 116,663,323                        | 109,218,571              | -                       | 545,026,391          |
| Available-for-sale investments               | -                        | 22,103,361                           | 1,019,600                             | 8,088,280                              | 85,205,347                         | 116,121,885              | 20,787,161              | 253,325,634          |
| Investment in an associate                   | -                        | -                                    | -                                     | -                                      | -                                  | -                        | 9,422,627               | 9,422,627            |
| Investment properties                        | -                        | -                                    | -                                     | -                                      | -                                  | -                        | 671,413                 | 671,413              |
| Property, plant and equipment                | -                        | -                                    | -                                     | -                                      | -                                  | -                        | 29,797,012              | 29,797,012           |
| Project in progress                          | -                        | -                                    | -                                     | -                                      | -                                  | -                        | 3,160,590               | 3,160,590            |
| Other assets                                 | 975,822                  | 1,723,602                            | -                                     | 12,779                                 | -                                  | -                        | 9,258,099               | 11,970,302           |
| <b>Total assets</b>                          | <b>606,268,130</b>       | <b>89,336,470</b>                    | <b>153,967,112</b>                    | <b>70,337,593</b>                      | <b>201,868,670</b>                 | <b>225,340,456</b>       | <b>197,919,591</b>      | <b>1,545,038,022</b> |
| <b>Liabilities:</b>                          |                          |                                      |                                       |  |                                    |                          |                         |                      |
| PMA deposits                                 | 41,867,735               | -                                    | -                                     | -                                      | -                                  | -                        | -                       | 41,867,735           |
| Banks and financial institutions' deposits   | 19,926,307               | -                                    | -                                     | -                                      | -                                  | -                        | -                       | 19,926,307           |
| Customers' deposits                          | 593,820,293              | 196,829,133                          | 173,793,779                           | 154,584,582                            | 88,656,012                         | 618,524                  | -                       | 1,208,302,323        |
| Cash margins                                 | -                        | -                                    | 3,982,571                             | 2,364,806                              | 33,984,683                         | 5,199,920                | -                       | 45,531,980           |
| Sundry provisions                            | -                        | -                                    | -                                     | -                                      | -                                  | -                        | 9,902,447               | 9,902,447            |
| Tax provisions                               | -                        | -                                    | 25,803,117                            | -                                      | -                                  | -                        | -                       | 25,803,117           |
| Other liabilities                            | 17,526,379               | -                                    | -                                     | 12,293,484                             | -                                  | -                        | -                       | 29,819,863           |
| <b>Total liabilities</b>                     | <b>673,140,714</b>       | <b>196,829,133</b>                   | <b>203,579,467</b>                    | <b>169,242,872</b>                     | <b>122,640,695</b>                 | <b>5,818,444</b>         | <b>9,902,447</b>        | <b>1,381,153,772</b> |

**Equity**

|                                       |                     |                      |                      |                      |                      |                     |                    |                      |
|---------------------------------------|---------------------|----------------------|----------------------|----------------------|----------------------|---------------------|--------------------|----------------------|
| Paid-in share capital                 | -                   | -                    | -                    | -                    | -                    | -                   | 100,000,000        | 100,000,000          |
| Additional paid-in capital            | -                   | -                    | -                    | -                    | -                    | -                   | 9,034,692          | 9,034,692            |
| Statutory reserve                     | -                   | -                    | -                    | -                    | -                    | -                   | 16,407,381         | 16,407,381           |
| Voluntarily reserve                   | -                   | -                    | -                    | -                    | -                    | -                   | 88,418             | 88,418               |
| General banking risks reserve         | -                   | -                    | -                    | -                    | -                    | -                   | 8,914,332          | 8,914,332            |
| Pro-cyclicality reserve               | -                   | -                    | -                    | -                    | -                    | -                   | 4,604,991          | 4,604,991            |
| Available-for-sale investment reserve | -                   | -                    | -                    | -                    | -                    | -                   | 3,227,041          | 3,227,041            |
| Retained earnings                     | -                   | -                    | -                    | -                    | -                    | -                   | 21,033,056         | 21,033,056           |
| Non-controlling interests             | -                   | -                    | -                    | -                    | -                    | -                   | 163,309,911        | 163,309,911          |
| <b>Total equity</b>                   | <b>-</b>            | <b>-</b>             | <b>-</b>             | <b>-</b>             | <b>-</b>             | <b>-</b>            | <b>574,339</b>     | <b>574,339</b>       |
| <b>Total liabilities and equity</b>   | <b>673,140,714</b>  | <b>196,829,133</b>   | <b>203,579,467</b>   | <b>169,242,872</b>   | <b>122,640,695</b>   | <b>5,818,444</b>    | <b>163,884,250</b> | <b>1,545,038,022</b> |
| <b>Maturity gap</b>                   | <b>(66,872,584)</b> | <b>(107,492,663)</b> | <b>(49,612,355)</b>  | <b>(98,905,279)</b>  | <b>79,227,975</b>    | <b>219,522,012</b>  | <b>24,132,894</b>  | <b>-</b>             |
| <b>Cumulative gap</b>                 | <b>(66,872,584)</b> | <b>(174,365,247)</b> | <b>(223,977,602)</b> | <b>(322,882,881)</b> | <b>(243,654,906)</b> | <b>(24,132,894)</b> | <b>-</b>           | <b>-</b>             |





## 39. Segment Information

### Information on the Bank's business segments

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

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

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

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

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

|   | Retail      | Corporate   | Treasury    | Other      | Total         |               |
|---|-------------|-------------|-------------|------------|---------------|---------------|
|   | 2011        | 2010        |             |            | 2011          | 2010          |
|   | U.S.\$      | U.S.\$      | U.S.\$      | U.S.\$     | U.S.\$        | U.S.\$        |
| Gross revenues                              | 32,919,019  | 24,532,664  | 19,337,794  | 18,630,001 | 95,419,478    | 83,128,618    |
| Recovery of impairment of credit facilities | 628,289     | -           | -           | -          | 628,289       | -             |
| Segment results                             | 28,370,736  | 23,872,121  | 17,954,294  | 18,593,294 | 88,790,445    | 79,041,137    |
| Unallocated expenses                        |             |             |             |            | (46,922,170)  | (41,309,032)  |
| Profit before taxes                         |             |             |             |            | 41,868,275    | 37,732,105    |
| Tax expense                                 |             |             |             |            | (7,887,602)   | (7,612,636)   |
| Profit for the year                         |             |             |             |            | 33,980,673    | 30,119,469    |
| <b>Other segment information:</b>           |             |             |             |            |               |               |
| Depreciation and amortization               |             |             |             |            | 4,683,157     | 3,383,350     |
| Capital expenditures                        |             |             |             |            | 11,717,440    | 6,479,231     |
|   |             |             |             |            | 2011          | 2010          |
|   |             |             |             |            | U.S.\$        | U.S.\$        |
| Total assets                                | 287,927,184 | 432,888,240 | 881,729,189 | 51,416,119 | 1,653,960,732 | 1,545,038,022 |
| Total liabilities                           | 837,262,145 | 459,610,486 | 81,514,168  | 81,174,171 | 1,459,560,970 | 1,381,153,772 |

### Geographical distribution information

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

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

|                      | Domestic      |               | Foreign     |             | Total         |               |
|----------------------|---------------|---------------|-------------|-------------|---------------|---------------|
|                      | 2011          | 2010          | 2011        | 2010        | 2011          | 2010          |
|                      | U.S.\$        | U.S.\$        | U.S.\$      | U.S.\$      | U.S.\$        | U.S.\$        |
| Gross revenues       | 81,613,759    | 69,418,573    | 13,805,719  | 13,710,045  | 95,419,478    | 83,128,618    |
| Total assets         | 1,062,697,133 | 923,314,116   | 591,263,599 | 621,723,906 | 1,653,960,732 | 1,545,038,022 |
| Total liabilities    | 1,380,858,107 | 1,323,448,563 | 78,702,863  | 57,705,209  | 1,459,560,970 | 1,381,153,772 |
| Capital expenditures | 11,717,440    | 6,479,231     | -           | -           | 11,717,440    | 6,479,231     |

## 40. Maturities of Assets and Liabilities

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

|  | Up to 1 year         | More than 1 year   | Without maturity   | Total                |
|--|----------------------|--------------------|--------------------|----------------------|
| <b>December 31, 2011</b>                     | <b>U.S.\$</b>        | <b>U.S.\$</b>      | <b>U.S.\$</b>      | <b>U.S.\$</b>        |
| <b>Assets</b>                                |                      |                    |                    |                      |
| Cash and balances with PMA                   | 145.518.908          | -                  | 110.351.839        | 255.870.747          |
| Balances at banks and financial institutions | 387.799.078          | -                  | 601.426            | 388.400.504          |
| Held –for- trading investments               | 766.267              | -                  | 11.125.390         | 11.891.657           |
| Direct credit facilities                     | 435.323.452          | 284.849.596        | -                  | 720.173.048          |
| Available-for-sale investments               | 35.538.432           | 151.666.306        | 23.779.142         | 210.983.880          |
| Investment in an associate                   | -                    | -                  | 11.340.483         | 11.340.483           |
| Property, plant and equipment                | -                    | -                  | 38.926.059         | 38.926.059           |
| Project in progress                          | -                    | -                  | 1.962.116          | 1.962.116            |
| Other assets                                 | 3.239.821            | -                  | 11.172.417         | 14.412.238           |
| <b>Total Assets</b>                          | <b>1.008.185.958</b> | <b>436.515.902</b> | <b>209.258.872</b> | <b>1.653.960.732</b> |
| <b>Liabilities</b>                           |                      |                    |                    |                      |
| PMA deposits                                 | 48.609.596           | -                  | -                  | 48.609.596           |
| Banks and financial institutions' deposits   | 32.904.572           | -                  | -                  | 32.904.572           |
| Customers' deposits                          | 1.151.245.386        | 91.535.085         | -                  | 1.242.780.471        |
| Cash margins                                 | 7.720.861            | 46.067.599         | -                  | 53.788.460           |
| Sundry Provisions                            | -                    | -                  | 11.864.279         | 11.864.279           |
| Tax provisions                               | 33.690.719           | -                  | -                  | 33.690.719           |
| Other liabilities                            | 35.922.873           | -                  | -                  | 35.922.873           |
| <b>Total Liabilities</b>                     | <b>1.310.094.007</b> | <b>137.602.684</b> | <b>11.864.279</b>  | <b>1.459.560.970</b> |
| <b>Equity</b>                                |                      |                    |                    |                      |
| Paid-in share capital                        | -                    | -                  | 120.000.000        | 120.000.000          |
| Additional paid-in capital                   | -                    | -                  | 9.034.692          | 9.034.692            |
| Statutory reserve                            | -                    | -                  | 19.813.156         | 19.813.156           |
| Voluntarily reserve                          | -                    | -                  | 88.418             | 88.418               |
| General banking risks reserve                | -                    | -                  | 12.073.625         | 12.073.625           |
| Pro-cyclicality reserve                      | -                    | -                  | 9.779.690          | 9.779.690            |
| Available-for-sale investment reserve        | -                    | -                  | (316.176)          | (316.176)            |
| Retained earnings                            | -                    | -                  | 23.354.098         | 23.354.098           |
| <b>Non-controlling interests</b>             | -                    | -                  | 572.259            | 572.259              |
| <b>Total equity</b>                          | -                    | -                  | 194.399.762        | 194.399.762          |
| <b>Total Liabilities and Equity</b>          | <b>1.310.094.007</b> | <b>137.602.684</b> | <b>206.264.041</b> | <b>1.653.960.732</b> |
| <b>Maturity gap</b>                          | <b>(301.908.049)</b> | <b>298.913.218</b> | <b>2.994.831</b>   | <b>-</b>             |
| <b>Cumulative maturity gap</b>               | <b>(301.908.049)</b> | <b>(2.994.831)</b> | <b>-</b>           | <b>-</b>             |

|  | Up to 1 year         | More than 1 year    | Without maturity   | Total                |
|--|----------------------|---------------------|--------------------|----------------------|
| <b>December 31, 2010</b>                     | <b>U.S.\$</b>        | <b>U.S.\$</b>       | <b>U.S.\$</b>      | <b>U.S.\$</b>        |
| <b>Assets</b>                                |                      |                     |                    |                      |
| Cash and balances with PMA                   | 203.797.730          | -                   | 116.427.732        | 320.225.462          |
| Balances at banks and financial institutions | 361.217.366          | -                   | 600.758            | 361.818.124          |
| Held –for- trading investments               | 1.826.268            | -                   | 7.794.199          | 9.620.467            |
| Direct credit facilities                     | 319.144.497          | 225.881.894         | -                  | 545.026.391          |
| Available-for-sale investments               | 31.211.241           | 201.327.232         | 20.787.161         | 253.325.634          |
| Investment in an associate                   | -                    | -                   | 9.422.627          | 9.422.627            |
| Investment properties                        | -                    | -                   | 671.413            | 671.413              |
| Property, plant and equipment                | -                    | -                   | 29.797.012         | 29.797.012           |
| Project in progress                          | -                    | -                   | 3.160.590          | 3.160.590            |
| Other assets                                 | 2.712.203            | -                   | 9.258.099          | 11.970.302           |
| <b>Total Assets</b>                          | <b>919.909.305</b>   | <b>427.209.126</b>  | <b>197.919.591</b> | <b>1.545.038.022</b> |
| <b>Liabilities</b>                           |                      |                     |                    |                      |
| PMA deposits                                 | 41.867.735           | -                   | -                  | 41.867.735           |
| Banks and financial institutions' deposits   | 19.926.307           | -                   | -                  | 19.926.307           |
| Customers' deposits                          | 1.119.027.787        | 89.274.536          | -                  | 1.208.302.323        |
| Cash margins                                 | 6.347.377            | 39.184.603          | -                  | 45.531.980           |
| Sundry Provisions                            | -                    | -                   | 9.902.447          | 9.902.447            |
| Tax provisions                               | 25.803.117           | -                   | -                  | 25.803.117           |
| Other liabilities                            | 29.819.863           | -                   | -                  | 29.819.863           |
| <b>Total Liabilities</b>                     | <b>1.242.792.186</b> | <b>128.459.139</b>  | <b>9.902.447</b>   | <b>1.381.153.772</b> |
| <b>Equity</b>                                |                      |                     |                    |                      |
| Paid-in share capital                        | -                    | -                   | 100.000.000        | 100.000.000          |
| Additional paid-in capital                   | -                    | -                   | 9.034.692          | 9.034.692            |
| Statutory reserve                            | -                    | -                   | 16.407.381         | 16.407.381           |
| Voluntarily reserve                          | -                    | -                   | 88.418             | 88.418               |
| General banking risks reserve                | -                    | -                   | 8.914.332          | 8.914.332            |
| Pro-cyclicality reserve                      | -                    | -                   | 4.604.991          | 4.604.991            |
| Available-for-sale investment reserve        | -                    | -                   | 3.227.041          | 3.227.041            |
| Retained earnings                            | -                    | -                   | 21.033.056         | 21.033.056           |
| <b>Non-controlling interests</b>             | -                    | -                   | 163.309.911        | 163.309.911          |
| <b>Total equity</b>                          | -                    | -                   | 574.339            | 574.339              |
| <b>Total Liabilities and Equity</b>          | <b>1.242.792.186</b> | <b>128.459.139</b>  | <b>173.786.697</b> | <b>1.545.038.022</b> |
| <b>Maturity gap</b>                          | <b>(322.882.881)</b> | <b>298.749.987</b>  | <b>24.132.894</b>  | <b>-</b>             |
| <b>Cumulative maturity gap</b>               | <b>(322.882.881)</b> | <b>(24.132.894)</b> | <b>-</b>           | <b>-</b>             |



## 41. 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 computed as follows:

|                    | 2011               |                      |                                      | 2010        |                      |                                      |
|--------------------|--------------------|----------------------|--------------------------------------|-------------|----------------------|--------------------------------------|
|                    | Amount             | Percentage to assets | Percentage to risk – weighted assets | Amount      | Percentage to assets | Percentage to risk – weighted assets |
|                    | U.S.\$             | %                    | %                                    | U.S.\$      | %                    | %                                    |
| Regulatory capital | <b>116.064.813</b> | <b>7.02</b>          | <b>13.57</b>                         | 94.998.297  | 6.15                 | 12.88                                |
| Basic capital      | <b>157.167.750</b> | <b>9.50</b>          | <b>18.38</b>                         | 129.961.924 | 8.41                 | 17.62                                |

## 42. Commitments and Contingent Liabilities

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

|                              | 2011               | 2010        |
|------------------------------|--------------------|-------------|
|                              | U.S.\$             | U.S.\$      |
| Letters of guarantees        | <b>98.193.522</b>  | 103.692.344 |
| Letters of credit            | <b>22.370.967</b>  | 22.943.640  |
| Acceptances                  | <b>16.204.740</b>  | 6.999.005   |
| Unutilized credit facilities | <b>47.554.871</b>  | 9.600.498   |
|                              | <b>184.324.100</b> | 143.235.487 |

During the year 2010, the Bank subscribed in 350,000 shares of Amal Company for Loans and Mortgages of U.S. \$ 1 par value for each share. As of the date of consolidated financial statements, the Bank paid U.S. \$ 150,000 for these shares. These shares are pledged for the benefit of other parties.

## 43. Lawsuits Against the Bank

In the normal course of business, the number of litigations filed against the Bank as at December 31, 2011 and 2010 were 24 and 26 amounted to U.S.\$ 3,292,177 and U.S.\$ 1,252,525 respectively, the Bank's management and lawyer believe that provision made against these litigations is sufficient.

In addition, the Bank appears as defendant in two lawsuits filed by the Ministry of Finance - the General Directorates of the Value Added Tax and the Income Tax in Gaza with an approximate claim value of U.S.\$ 146 million for VAT and income tax including delinquency interest and penalties for the years from 2004 to 2010. The Bank in its responses to the VAT litigation stated that the contents of the claim has no logic or legal ground and it shall be dismissed in the basis of formality according to the Presidential Decree issued in June 2007 exempting tax payers in the southern governorates (Gaza) from taxes, especially that no legislation was issued by the Palestinian Legislative Counsel to cancel the Presidential Decree. In addition, the Bank must comply with the regulations of the Palestinian Monetary Authority and operates as part of a global banking system.

## 44. Concentration of Risk in Geographical Area

The Bank carries out its activities in Palestine. The political and economical destabilization in the area increases the risk of carrying out business and could adversely affect performance.

## 45. Comparative Figures

Some of corresponding figures for 2010 have been reclassified in order to conform with the presentation for the current year, such reclassifications do not affect previously reported results and equity.

## Branches

### Bethlehem

Bethlehem Branch  
Tel: +970 (02) 2765515/6  
Fax: +970 (02) 2765517

Beit Jala Sub-branch  
Tel: +970 (02) 2746303/4  
Fax: +970 (02) 2746308

### Hebron

Hebron Branch  
Tel: +970 (02) 2257881  
Fax: +970 (02) 2257886

Doura Sub-branch  
Tel: +970 (02) 2285402  
Fax: +970 (02) 2285422

Sa'eer Sub-branch  
Tel: +970 (02) 2563544  
Fax: +970 (02) 2563547

Yatta Sub-branch  
Tel: +970 (02) 2273551  
Fax: +970 (02) 2273555

Tarqumya Sub-branch  
Tel: +970 (02) 2574388  
Fax: +970 (02) 2584387

Al-Salam Street Sub-branch  
Tel: +970 (02) 2250001  
Fax: +970 (02) 2250004

### Gaza Strip

General Management HQ  
Tel: +970 (08) 2843059  
Fax: +970 (08) 2846025

Al-Rimal Branch  
Tel: +970 (08) 2832800  
Fax: +970 (08) 2861755

Al-Saraya Sub-branch  
Tel: +970 (08) 2835866  
Fax: +970 (08) 2865787

Main Branch  
Tel: +970 (08) 2823272  
Fax: +970 (08) 2865667

Omar Al-Mokhtar Sub-branch  
Tel: +970 (08) 2835411  
Fax: +970 (08) 2865786

Al-Naser Branch  
Tel: +970 (08) 2854711  
Fax: +970 (08) 2854717

Jabalya Branch  
Tel: +970 (08) 2481122  
Fax: +970 (08) 2481124

Al-Nusairat Branch  
Tel: +970 (08) 2555933  
Fax: +970 (08) 2555922

Deir Al-Balah Branch  
Tel: +970 (08) 2532032  
Fax: +970 (08) 2532031

Khanyounis Branch  
Tel: +970 (08) 2052932  
Fax: +970 (08) 2052931

Rafah Branch  
Tel: +970 (08) 2138840  
Fax: +970 (08) 2136071

Karni Crossing Sub-branch  
Telefax: +970 (08) 2803466

### Jenin

Jenin Branch  
Tel: +970 (04) 2439521/2  
Fax: +970 (04) 2439520

Qabatya Sub-branch  
Tel: +970 (04) 2511521/2  
Fax: +970 (04) 2511520

Methaloun Sub-branch  
Tel: +970 (04) 2519002/3  
Fax: +970 (04) 2519005

Ya'bad Sub-branch  
Tel: +970 (04) 2462422/6  
Fax: +970 (04) 2462423

Al-Yamoun Sub-branch  
Tel: +970 (04) 2441660/2  
Fax: +970 (04) 2441661

### Jericho

Jericho Branch  
Tel: +970 (02) 2321083  
Fax: +970 (02) 2321085

Al Karamah Sub-branch  
Tel: +970 (02) 9944464  
Fax: +970 (02) 9944464

### Jerusalem

Abu Dees Branch  
Tel: +970 (02) 2794770/3  
Fax: +970 (02) 2794775

### Nablus

Nablus Branch  
Tel: +970 (09) 2382030  
Fax: +970 (09) 2382923

Al-Hisba Sub-branch  
Tel: +970 (09) 2311460/1  
Fax: +970 (09) 2311922

Huwwara Sub-branch  
Tel: +970 (09) 2591124/5  
Fax: +970 (09) 2591127

### Ramallah and Al-Bireh

General Management HQ  
Tel: +970 (02) 2965010  
Fax: +970 (02) 2964703

Ramallah Branch  
Tel: +970 (02) 2985921/2  
Fax: +970 (02) 2985920

Al-Irsal Sub-branch  
Tel: +970 (02) 2966860/3  
Fax: +970 (02) 2966864

Al-Manara Electronic Branch  
Tel: +970 (02) 2966023  
Fax: +970 (02) 2966029

Tannous Sub-branch  
Tel: +970 (02) 2972170/1  
Fax: +970 (02) 2972172

Deir Dibwan Sub-branch  
Tel: +970 (02) 2897144  
Fax: +970 (02) 2897143

Turmus'ayya Sub-branch  
Tel: +970 (02) 2805272  
Fax: +970 (02) 2805274

Birzeit University Sub-branch  
Tel: +970 (02) 2819441  
Fax: +970 (02) 2819442

Silwad Sub-branch  
Tel: +970 (02) 2891233  
Fax: +970 (02) 2891235

Nileen Sub-branch  
Tel: +970 (02) 2482845/6  
Fax: +970 (02) 2482847

### Qalqilia

Qalqilia Branch  
Tel: +970 (09) 2947921/2  
Fax: +970 (09) 2947924

A'zoun Sub-branch  
Tel: +970 (09) 2902941/2  
Fax: +970 (09) 2902943

### Salfeet

Salfeet Branch  
Tel: +970 (09) 2519950/1  
Fax: +970 (09) 2519953

### Tulkarem

Tulkarem Branch  
Tel: +970 (09) 2686622  
Fax: +970 (09) 2686625

Khadori University Sub-branch  
Tel: +970 (09) 2680491  
Fax: +970 (09) 2683226

### Tubas

Tubas Branch  
Tel: +970 (09) 2573801/2  
Fax: +970 (09) 2573804

