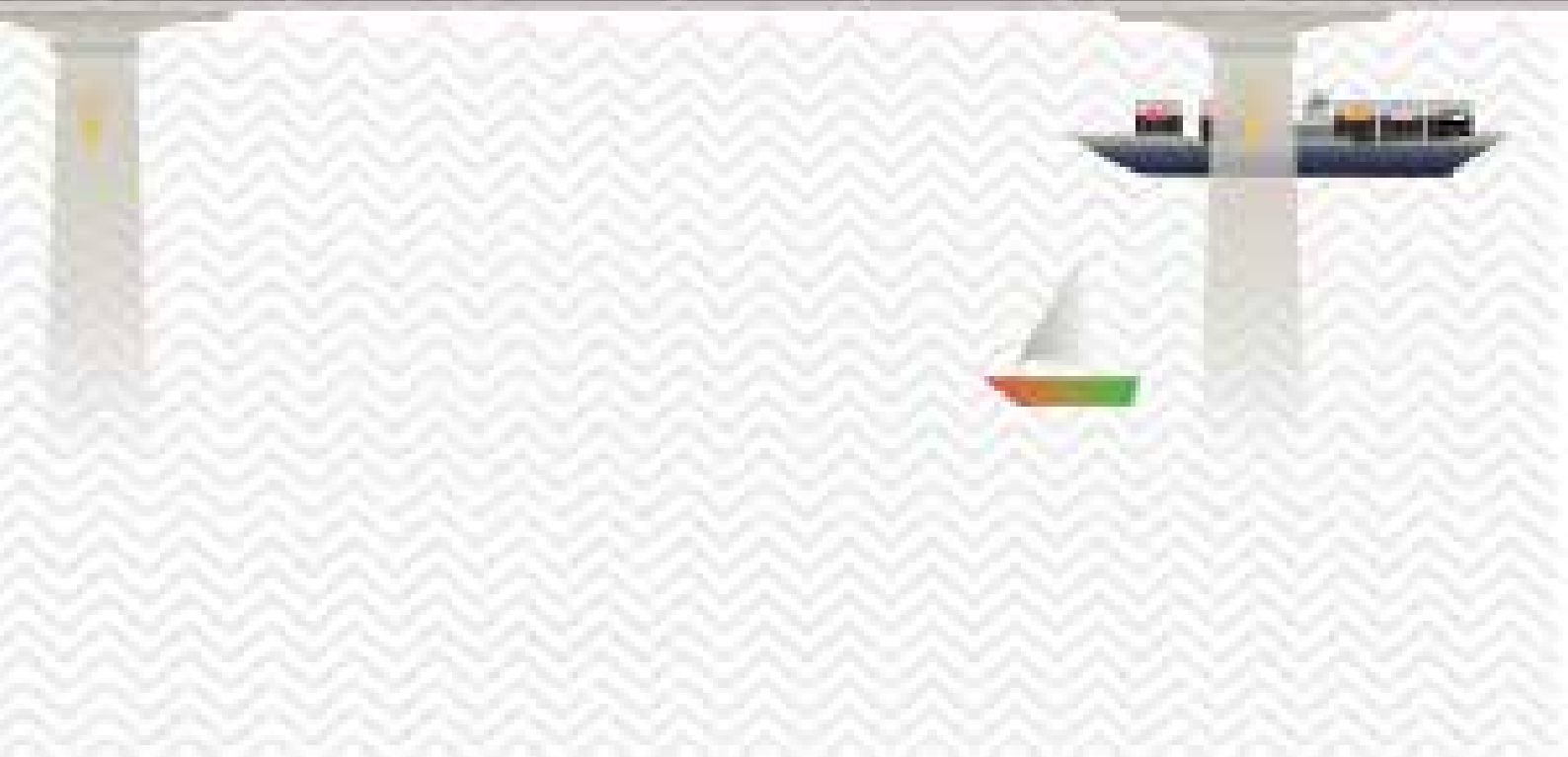


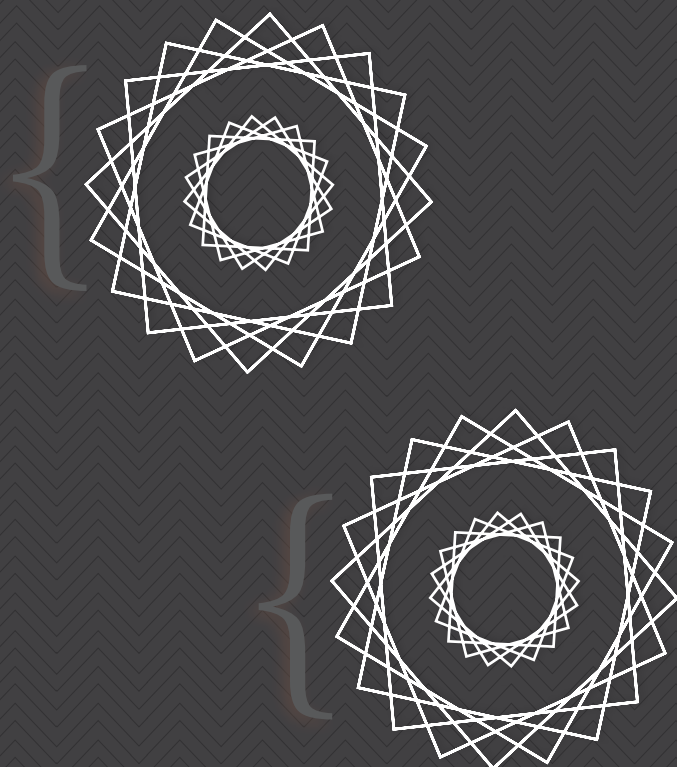


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# { 2014

Semi Annual Report





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Bank of Palestine (BOP) is the first and largest bank with a well-diversified branch network of 50 branches in Palestine, and a paid up capital of USD 160 million and assets of over USD 2.3 billion. Established in 1960, BOP has successfully expanded its presence and operations throughout the country and now has around 1,253 employees serving 675,374 customers. BOP has around 23% market share of deposits and loans in Palestine. Operating as a universal bank, BOP is engaged in retail, corporate, SME and Micro, and Diaspora banking operations, with the largest card processing operations in Palestine. BOP is the sole agent for issuing and acquiring Visa and MasterCard in Palestine with over 5,100 Point of Sale merchant terminals nationwide.

BOP has been very active in promoting the SME Finance and Micro Finance sector in Palestine and established dedicated units within the bank to service those customers with the aim of developing the economy through wider access to finance. Recently, BOP has also played a leading role in some of the largest project finance loan syndications in the country.

In the past few years, and in cooperation with the International Finance Corporation (IFC), BOP was the first bank in Palestine to develop a risk management structure, systems, procedures, and processes, as

well as promoted and strengthened its corporate governance practices. Bank of Palestine's stock (PEX: BOP) has been listed on the Palestine Exchange (PEX) since 2005. It is among the market's blue chip stocks, and represents 14% of total PEX market capitalization.

In 2007 BOP established a brokerage subsidiary, Al Wasata Securities Co, providing customers with trading access to stocks listed on the Palestinian Stock Exchange and regional markets, with offices in Gaza and Ramallah. Al Wasata has rapidly grown and is now one of the leading brokerage companies in Palestine.

In 2011, the bank established another subsidiary, PalPay® – Palestine. PalPay® offers bank and non-bank clients a unique service, enabling them to pay utility bills and top up mobile phone credit using the bank's 5,100 Point of Sales (POS) merchant terminals, spread throughout the country in shops, supermarkets, restaurants, and hotels.

Bank of Palestine has played a very proactive role in several fundamental initiatives in Palestine. The bank has 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 the Palestinian financial markets, creating employment and reducing poverty, and providing stability and reassurance to citizens, especially the elderly, leading to further spending and investments.

Bank of Palestine has been committed throughout the years to economic development on a community level.

Therefore the bank has adopted a holistic sustainability strategy and has been the leader in Corporate Social Responsibility (CSR) in Palestine dedicating 5% of its net profit to areas of Youth, Innovation & Education, Health & Environment, Sports, Arts & Culture, Women Empowerment, Economic & Diaspora Affairs, and Social & Humanitarian Efforts.

In the past few years, the bank's development, achievements, and contribution to the Palestinian society and economy have been recognized by several prestigious institutions including Euromoney and Global Finance as the "Best Bank in Palestine".

## Award Winning Performance



## Award Winning Performance

from Palestine's largest financial services provider and branch network

- EUROMONEY AWARD FOR EXCELLENCE: BEST BANK IN PALESTINE
- GLOBAL FINANCE: BEST BANK IN PALESTINE
- GLOBAL FINANCE: BEST TRADE FINANCE BANK IN PALESTINE
- THE BANKER: BEST BANK IN PALESTINE
- EMEA FINANCE: BEST BANK IN PALESTINE
- EMEA FINANCE: BEST CSR PROGRAM IN THE MIDDLE EAST
- CPI FINANCIAL/BANKER ME: BEST BANK IN PALESTINE
- RANKED AS ONE OF THE TOP 100 BANKS IN THE MIDDLE EAST BY CPI FINANCIAL 100

## Our Commitment

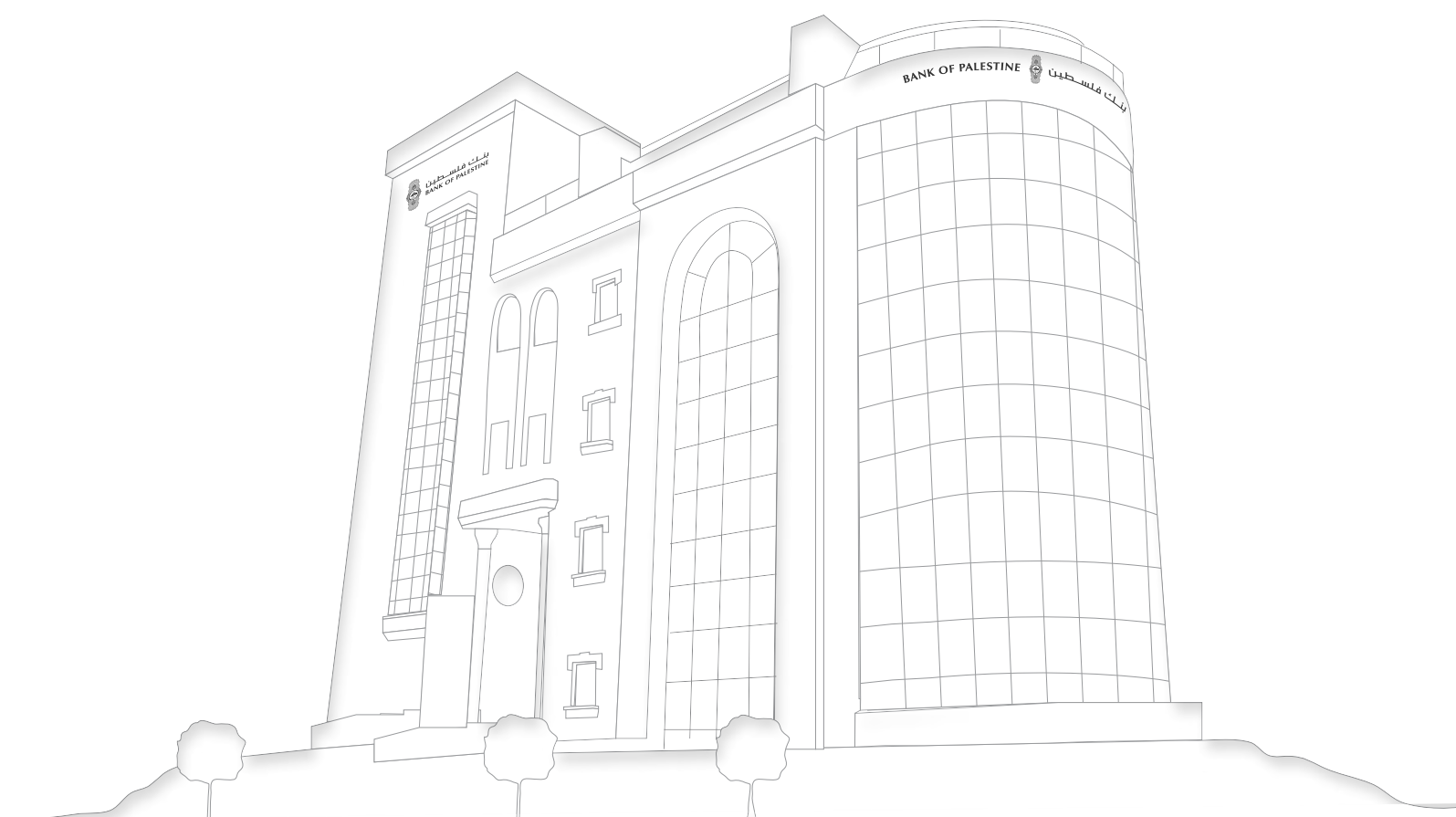
To be with our customers every step of the way and to be a driver of economic and community development.

## Key Performance Indicators



### KEY PERFORMANCE INDICATORS

	2010	2011	2012	June 30, 2013	2013	June 30, 2014
Total Revenue	79,041,137	88,790,445	101,769,248	53,281,694	112,693,775	57,441,624
Profit Before Tax	37,732,105	41,868,275	49,966,888	24,717,737	53,037,996	24,522,676
Net Profit (USD)	30,119,469	33,980,673	38,347,397	18,712,082	40,438,831	18,981,198
Assets (USD)	1,545,038,022	1,653,960,732	2,004,494,095	2,181,799,362	2,348,045,943	2,625,933,331
Customer Deposits (USD)	1,251,482,935	1,296,568,931	1,554,493,702	1,695,961,011	1,745,563,265	1,864,902,552
Credit Facilities (USD)	545,026,391	720,173,048	976,394,928	1,025,609,900	1,103,641,018	1,190,840,238
Shareholder Equity (USD)	163,884,250	194,399,762	220,973,909	228,958,550	252,018,974	261,000,135
Paid-Up Capital (USD)	100,000,000	120,000,000	134,000,000	150,000,000	150,000,000	160,000,000
Net Interest and Commissions Income (USD)	61,843,054	75,982,199	83,681,034	49,680,559	99,619,607	50,334,632
No. of Employees	943	1061	1,139	1,156	1,212	1,253
No. of Customers	483,884	542,199	621,983	626,014	647,947	675,374
No. of Branches	42	46	48	48	50	50
Market Share: Deposits	18.44 %	18.60 %	20.77 %	21.66 %	21.00 %	21.27 %
Market Share: Credit Facilities	19.19 %	20.54 %	23.75 %	24.50 %	24.63 %	24.29 %







Hashim Shawa  
Chairman of the Board  
& General Manager

## Dear Shareholders:

I am happy to present to you, on behalf of the board of directors, our semi-annual report, summarizing Bank of Palestine's work and positive performance in the first half of the year 2014.

On April 25, 2014, Bank of Palestine's General Assembly held their ordinary annual meeting, and approved the recommendation of the bank's Board of Directors to distribute USD 22.5 million from realized profits in 2013 to shareholders; USD 10 million as stock dividends - raising the bank's paid-up capital to USD 160 million - and USD 12.5 million as cash dividends in proportion to each shareholder's ownership in paid capital as of April 24, 2014. During the meeting the assembly approved the suggested list of board members for the next four years, which includes three new members with a diverse set of background experiences, and leadership qualities that will positively contribute to the bank's development and growth mission. We are also proud that we now have a female board member for the first time since the bank was founded, as this is in line with the bank's gender inclusion strategy.

As for the bank's performance in the first half of 2014 – despite regional instability and a challenging macroeconomic environment in Palestine – Bank of Palestine continued to be profitable and resilient, showing strong increases in several key performance indicators; net profit reached USD 18.98 million, compared with USD 18.71 million at the end of June 2013 (an increase of 1.44%); assets increased to reach USD 2.626 billion compared to USD 2.348 billion at the end of 2013 (an increase of 11.83%); and owner's equity reached USD 261 million compared to USD 252 million at the end of 2013 (an increase of 3.56%).

The bank's market share has also significantly increased during the first half of 2014, to reach 24.29% and 21.27% in credit facilities and deposits respectively, compared with 24.63% and 21% as at end of 2013. During this period, the bank continued its efforts in playing a vital role in economic growth by increasing our lending to all segments of the economy, thus increasing the loans portfolio by 7.9% to reach USD 1.19 billion, compared with USD 1.1 billion as at end of December 2013. Deposits also witnessed a steady increase of 6.84% to reach USD1.86 billion at end of June 2014, compared with USD1.75 billion at end of 2013.

Bank of Palestine continues to be Palestine's leading bank in terms of banking network, and has further pursued its strategic plans to provide services to both urban and rural areas, helping local communities fulfil their untapped potential. In 2014 we opened two new sub-branches; one in the village of Bedyia in the governorate of Salfit and another in the town of Bani-Suheila in the governorate Khan Younis. We also continued the expansion and renovation works of some of our existing branches to meet the needs of our expanding customer base, and to provide them with comfortable state of the art banking services and facilities.

To continue in the direction of the bank's strategy to provide access to finance to all segments of society, BOP continued working on re-structuring and designing a programme for the SME segment, as 90% of the economy is made up of SMEs and this segment offers a very high labour employment force. Similarly the bank is working to target another untapped and under-banked segment, by developing a full banking programme for women

in order to meet their needs through our banking services. We want to go further in building this partnership with the SME and female segments, where we focus on providing them with the needed non financial advisory services to help them further develop their businesses. Our subsidiary company Al-Wasata Securities Co. has also been active with the female segment as they have conducted several workshops this year for women to increase their awareness about brokerage services and the Palestine and regional exchanges.

Moreover, several initiatives were undertaken to increase the awareness and to promote the usage of cards and Point of Sale (POS) merchant terminals in Palestine; we launched a large campaign that gives our clients, employees, and 5,100 merchants with POS terminals a chance to win attractive prizes if they use their BOP cards (prepaid, debit, credit, and local installment cards) or POS terminals. Also, along the lines of cards, Bank of Palestine introduced the Priority Pass card for our VIP card holders, which allows them to access 700 airport lounges around the world while they're traveling.

The bank launched the e-commerce service this year, offering our business banking clients including MSMEs and large corporates the ability to accept online payments from their customers, providing them with a channel to further expand their businesses locally and internationally. The bank also installed deposit ATMs in most of our main branches, enabling customers to deposit cash and checks 24 hours a day seven days a week. Regarding our subsidiary companies, Al-Wasata

was ranked as the number one brokerage company – out of eight brokerage companies in Palestine- for attracting new investors in the first half of 2014 with a market share of 26.5%. Its total trading volume reached USD 264 million in the local and regional exchanges. The company's assets under management reached approximately USD 450 million during 2013. Its profit during this period reached USD 487,710.

PalPay®, our e-payments subsidiary that began operations in 2012, was also highly active and successful during the first half of 2014. The number of electronic transactions conducted during this period through PalPay® exceeded USD 4.7 million, an increase of 32% compared with the same period last year. Also in 2014, PalPay® sponsored the Cards and Payments Middle East conference, which took place in the United Arab Emirates. This sponsorship further promoted PalPay® regionally and internationally.

In order to maintain sustainable and long-term performance and growth, Bank of Palestine continued to focus on risk management. BOP is now working - in cooperation with the International Finance Corporation (IFC) - on implementing advanced methods in risk management to apply best international practices.

As a tribute to the bank's consistent performance, solid balance sheet, range and quality of its services, strong risk management and corporate governance, and positive impact on the Palestinian economy and society, Bank of Palestine has been recognized once again by several prestigious

## Our Strategy



international institutions (including Euromoney, Global Finance, The Banker, The Banker ME, and several others) as the “Best Bank in Palestine”. Also, as recognition of the bank’s Corporate Social Responsibility (CSR) initiatives that are based on a dynamic and well studied community outreach program, EMEA Finance awarded BOP the award of “Best CSR program in the Middle East”.

These achievements define the basis of our success and underpin the trust that our clients and shareholders have in us, and therefore we will continue to strive to constantly improve customer satisfaction, operational efficiency, and shareholder return, to deliver sustainable value over the long term.

Finally, I would like to extend our gratitude 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



# Financial Highlights 2010-1H2014



## 24.29 %    21.27 %

Market share of credit facilities

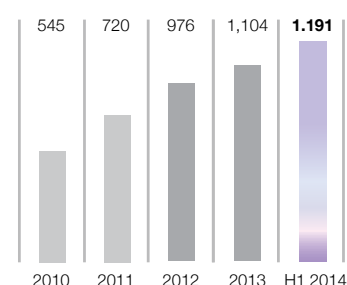
Market share of customer deposits

During the first half of 2014, the bank's market share reached 24.29% and 21.27% in loans and deposits respectively compared with 24.63% and 21% as at end of 2013.

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 demonstrate 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.

### Loans

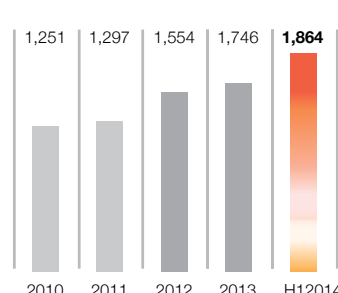
## USD 1.19b



Loans in the first half of 2014 amounted to USD 1,190,840,238; an increase of 7.9% from 2013. After a thorough revision of economic sectors and segments and the potential for growth, BOP has further strengthened its efforts to provide access to finance - particularly to those small businesses and projects that promote economic growth and job creation.

### Customer Deposits

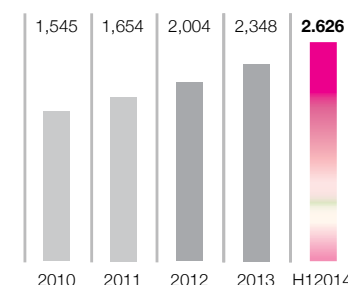
## USD 1.86b



Total customer deposits in the first half of 2014 increased to reach USD 1,864,902,552; up by 6.84% from USD 1,745,563,265 in 2013.

### Assets

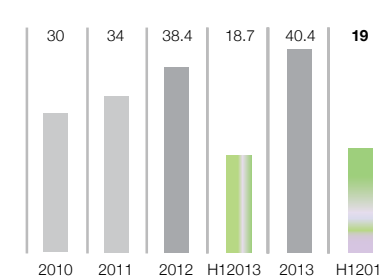
## USD 2.63b



Total assets in the first half of 2014 increased to reach USD 2,625,933,331; up by 11.83% from USD 2,348,045,943 at end of 2013.

### Profits

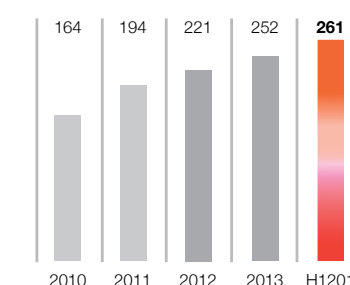
## USD 19m



Net profits in the first half of 2014 increased to reach USD 18,981,198; up by 1.44% from USD 18,712,082 in the first half of 2013.

### Shareholder Equity

## USD 261m



The Bank's paid up authorized capital is USD 160,000,000 divided into USD 160,000,000 shares with a par value of one dollar per share.

Total shareholder equity increased from USD 252,018,974 end of 2013 to USD 261,000,135 end of June 2014; an increase of 3.56%.





## Financial Ratios

Credit Facilities/Customer Deposits: 63.8%

Credit Facilities/Total Assets: 45.3%

## Number of Issued Shares

The number of issued and paid shares is 160 million shares, with a par value of one US dollar per share.

## Changes and Developments during the First Half of the Year

A new board of directors was elected for the next four years during our 2014 Assembly General Meeting held on April 25, 2014.

For more details: Page 13

## Changes to the External Auditor

The General Assembly elected Ernst & Young to be the bank's external auditor for the year 2014.

## Amendments to the main activities

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

## The Ordinary General Meeting

The ordinary General Assembly ratified in its meeting held on 25/04/2014 the Board of Directors report for the year 2013, and the financial statements for the same year, as well as the external auditor's report. Moreover, they approved the recommendation to distribute USD 22.5 million from realized profits to shareholders as follows:

- USD 10 million as stock dividends, equivalent to 6.66% of the nominal value of the share.
- USD 12.5 million as cash dividends, equivalent to 8.33% of the nominal value of the share.

In proportion to each shareholder's ownership in paid capital as of April 24, 2014.

And during the meeting a new board of directors was elected for the next four years.

## Legal actions

The number of legal cases filed against the bank was 34 cases at the end of June 2014, and 35 cases at the end of December 2013, with a value of USD 11,505,437 compared to USD 6,765,167 at the end of 2013. According to BOP's legal advisor, the cases will not require any obligations from the bank expect for the amount that was allocated to handle them.

## New Branches

In the first half of 2014, two new sub-branches were established; one in the village of Bedya in the Salfit Governorate, and another in town of Bani-Suheila in the Khan Younis Governorate. With this, the bank remains the leading bank in Palestine in terms of branch network, with 50 branches and sub-branches spread throughout Palestine.



## Board of Directors



Hashim Hani Shawa  
Chairman



Mamon AbdAlhadi  
Abu Shahla\*  
Vice Chairman



Maher Jawad Farah  
Member



Dr. Hani Hassan Nigim  
Member



Faysal Ghazi Shawa  
Member



Mohammed Nafiz  
Mohammed Hirbawi  
Member



Tareq Taher Shaka  
Member



John Khoury  
Member



Tarek Aggad  
Member



Lana Abu Hijleh  
Member



Abdullah Al-Ghanim  
Member

## Executive Management



Alaa' El Din Mohammed  
Al-Redwan  
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  
Started working at BOP in: 1993



Rushdi Mahmoud Ghalayini  
Deputy General Manager

Bachelor of Economics and  
Computer Science, American  
University, Cairo - Egypt 1986  
Date of Birth: 26/05/1962  
Started working at BOP in: 1989



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  
Started working at BOP in: 1991



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  
Started working at BOP in: 1994



Hashim Hani Shawa  
General Manager

Bachelor of Engineering –  
University College  
London - UK 1997  
Date of Birth: 25/01/1976  
Started working at BOP in: 2007



Salman Mohammed  
Tuama Qemailah  
Assistant General Manager  
– Chief Financial Officer

Bachelor of Commerce in Accounting –  
Ain Shams University, Cairo- Egypt 1981  
Date of Birth: 08/07/1958  
Started working at BOP in: 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  
Started working at BOP in: 1995



Susan George Samaan  
Khoury  
Assistant General  
Manager - Credit

Bachelor of Mathematics  
and Management–  
London University - UK 1983  
Date of Birth: 02/06/1961  
Started working at BOP in: 2012



Khamis Fawzy Asfour  
Legal Advisor

Bachelor of Law – Alexandria  
University, Egypt - 1975  
Date of Birth: 29/05/1952  
Started working at BOP in: 1979

\* His membership was frozen on 01/06/2014 as he was assigned as the Palestinian minister of labour



Bank of Palestine PLC  
Unaudited Interim Condensed Consolidated  
Financial Statements  
June 30, 2014

Report on Review of Interim Condensed Consolidated Financial Statements

To the Board of Directors of the Bank of Palestine PLC

We have reviewed the accompanying interim condensed consolidated financial statements of Bank of Palestine PLC (the Bank), which comprise the interim consolidated statement of financial position as at June 30, 2014 and the related interim consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and explanatory notes.

The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

Emphasis of a Matter

Without qualification, as depicted in note (15) to the accompanying interim condensed consolidated financial statements, the Bank did not reach final settlements with the tax authorities for the years from 2005 to 2013. Further, the Bank bases its provision for taxes on prevailing tax laws and the Presidential Decree, which exempts taxpayers in the southern governorates (Gaza Strip) from taxes. Accordingly, tax provisions for the period from the year 2007 to June 30, 2014 do not include the Bank’s results of operations from branches operating in Gaza Strip. Actual taxes depend on the results of tax reviews conducted by formal tax authorities.

Ernst & Young – Middle East  
August 10, 2014  
Ramallah – Palestine

Interim Consolidated Statement of Financial Position

As at June 30, 2014

		June 30, 2014	December 31, 2013
		Unaudited	Audited
	Notes	\$ .U.S	\$ .U.S
<u>ASSETS</u>			
Cash and balances at Palestine			
Monetary Authority	4	755,915,282	638,406,726
Balances at banks and financial Institutions	5	357,680,266	350,748,099
Financial assets at fair value through profit and loss	6	7,071,404	7,085,308
Direct credit facilities	7	1,190,840,238	1,103,641,018
Financial assets at fair value through other comprehensive income	8	24,806,045	22,313,964
Financial assets at amortized cost	9	167,853,757	146,594,774
Investment in associates	10	17,605,491	17,070,699
Property, plant and equipment		39,428,970	39,587,275
Projects in progress		9,423,130	8,291,148
Other assets	11	55,308,748	14,306,932
Total Assets		2,625,933,331	2,348,045,943
<u>LIABILITIES AND EQUITY</u>			
Liabilities			
Palestine Monetary Authority's deposits		116,247,811	90,206,966
Banks' and financial institutions' deposits	12	173,986,038	142,399,691
Customers' deposits	13	1,783,337,519	1,668,535,234
Cash margins	14	81,565,033	77,028,031
Sundry provisions		17,310,790	16,373,477
Tax provisions	15	63,450,853	57,909,375
Other liabilities	16	129,035,152	43,574,195
Total Liabilities		2,364,933,196	2,096,026,969
Equity			
Paid-in share capital	1	160,000,000	150,000,000
Additional paid-in capital	18	9,034,692	9,034,692
Statutory reserve	17	28,006,564	28,006,564
Voluntary reserve	17	95,845	95,845
General banking risks reserve	17	25,435,478	23,565,172
Pro-cyclicality reserve	17	22,005,031	22,005,031
Fair value reserve	8	(2,663,790)	(5,159,800)
Retained earnings		18,394,653	23,839,731
		260,308,473	251,387,235
Non-controlling interests		691,662	631,739
Total Equity		261,000,135	252,018,974
Total Liabilities and Equity		2,625,933,331	2,348,045,943



## Interim Consolidated Income Statement

For the six-month period ended June 30, 2014

		Six Months Ended June 30	
		2014	2013
		Unaudited	Unaudited
		\$ .U.S	\$ .U.S
	Notes		
Interest income		46,781,088	45,171,536
Interest expense		(8,497,158)	(6,883,653)
Net interest income		38,283,930	38,287,883
Net commissions		12,050,702	11,392,676
Net interest and commissions income		50,334,632	49,680,559
Recovery from provision for credit facilities	7	617,070	-
Foreign currency gain		827,399	2,379,549
Gains (losses) from financial assets		881,811	(2,345,594)
Share of results of associates	10	534,792	376,289
Other revenues	20	4,245,920	3,190,891
Gross profit		57,441,624	53,281,694
Expenses			
Personnel expenses		(16,208,107)	(15,671,335)
Other operating expenses	21	(12,307,914)	(8,288,073)
Depreciation and amortization		(2,410,776)	(2,210,793)
Provision for impairment of credit facilities	7	(1,821,461)	(1,994,205)
Credit facilities written off		(165,690)	(399,551)
Palestine Monetary Authority fines		(5,000)	-
Total expenses		(32,918,948)	(28,563,957)
Profit before taxes		24,522,676	24,717,737
Tax expense	15	(5,541,478)	(6,005,655)
Profit for the period		18,981,198	18,712,082
Attributable to:			
Equity holders of the Bank		18,921,275	18,731,235
Non-controlling interests		59,923	(19,153)
		18,981,198	18,712,082
Basic and diluted earnings per share	22	0.118	0.117

## Interim Consolidated Statement of Comprehensive income

For the six-month period ended June 30, 2014

		Six Months Ended June 30	
		2014	2013
		Unaudited	Unaudited
		\$ .U.S	\$ .U.S
	Notes		
Profit for the period		18,981,198	18,712,082
Other comprehensive income:			
Items not to be reclassified to the income statement in subsequent periods:			
Change in fair value of financial assets at fair value through other comprehensive income	8	2,496,010	(677,441)
Other comprehensive income		2,496,010	(677,441)
Total comprehensive income for the period		21,477,208	18,034,641
Attributable to:			
Equity holders of the Bank		21,417,285	18,053,794
Non-controlling Interests		59,923	(19,153)
		21,477,208	18,034,641

Interim Consolidated Statement of Changes in Equity

For the six-month period ended June 30, 2014

	Reserves													
	Paid-in share capital		Additional paid-in capital		Statutory	Voluntary	General banking risks	Pro-cyclicality	Fair value	Retained earnings	Equity	Non-controlling interests	Total equity	
	\$ U.S		\$ U.S		\$ U.S		\$ U.S		\$ U.S		\$ U.S		\$ U.S	
June 30, 2014														
Balance, beginning of period	150,000,000		9,034,692		28,006,564	95,845		23,565,172	22,005,031	(5,159,800)	23,839,731	251,387,235	631,739	252,018,974
Profit for the period	-		-		-	-		-	-	-	18,921,275	18,921,275	59,923	18,981,198
Other comprehensive income	-		-		-	-		-	-	2,496,010	-	2,496,010	-	2,496,010
Total comprehensive income	-		-		-	-		-	-	2,496,010	18,921,275	21,417,285	59,923	21,477,208
Transfers to general banking risks reserve	-		-		-	-		1,870,306	-	-	(1,870,306)	-	-	-
(Stock dividends (note 19	10,000,000		-		-	-		-	-	-	(10,000,000)	-	-	-
(Cash dividends (note 19	-		-		-	-		-	-	-	(12,500,000)	(12,500,000)	-	(12,500,000)
Fraction of stock dividends distributed	-		-		-	-		-	-	-	3,953	3,953	-	3,953
Balance, end of period (un-audited)	160,000,000		9,034,692		28,006,564	95,845		25,435,478	22,005,031	(2,663,790)	18,394,653	260,308,473	691,662	261,000,135

Interim Consolidated Statement of Changes in Equity

For the six-month period ended June 30, 2014

	Reserves											
	Paid-in share capital		Additional paid-in capital	Statutory	Voluntary	General banking risks	Pro-cyclicality	Fair value	Retained earnings	Equity	Non-controlling interests	Total equity
	\$ .U.S	\$ .U.S	\$ .U.S	\$ .U.S	\$ .U.S	\$ .U.S	\$ .U.S	\$ .U.S	\$ .U.S	\$ .U.S	\$ .U.S	\$ .U.S
June 30, 2013												
Balance, beginning of the period	134,000,000	9,034,692	23,959,969	88,418	15,886,367	16,029,367	(6,222,738)	27,613,975	220,390,050	583,859	220,973,909	
Profit for the period	-	-	-	-	-	-	-	18,731,235	18,731,235	(19,153)	18,712,082	
Other comprehensive income	-	-	-	-	-	-	(677,441)	-	(677,441)	-	(677,441)	
Total comprehensive income for the period	-	-	-	-	-	-	(677,441)	18,731,235	18,053,794	(19,153)	18,034,641	
Transfers to general banking risks reserve	-	-	-	-	-	-	423,590	(423,590)	-	-	-	
Paid-in capital of a subsidiary	-	-	-	-	6,157,547	-	-	(6,157,547)	-	-	-	
(Stock dividends (note 19	16,000,000	-	-	-	-	-	-	(16,000,000)	-	-	-	
(Cash dividends (note 19	-	-	-	-	-	-	-	(10,050,000)	(10,050,000)	-	(10,050,000)	
Balance, end of period (un-audited)	150,000,000	9,034,692	23,959,969	88,418	22,043,914	16,029,367	(6,476,589)	13,714,073	228,393,844	564,706	228,958,550	

## Interim Consolidated Statement of Cash Flows

For the six-month period ended June 30, 2014

		Six Months Ended June 30	
		2014	2013
		Unaudited	Unaudited
Notes		\$ .U.S	\$ .U.S
<u>Operating activities</u>			
Profit for the period before taxes		24,522,676	24,717,737
Adjustments for:			
Depreciation and amortization		2,410,776	2,210,793
(gains) Losses from financial assets		(878,090)	2,345,594
Provision for impairment of credit facilities		1,204,391	1,994,205
Sundry provisions		1,024,485	1,940,610
Share of results of associates		(534,792)	(376,289)
Recovery of suspended interest		(625)	-
Loss on disposal of property, plant and equipment		205	9,132
		27,749,026	32,841,782
<u>Changes in assets and liabilities:</u>			
Direct credit facilities		(88,402,986)	(51,209,177)
Statutory cash reserve		(9,975,376)	(20,868,139)
Banks and financial institutions' deposits maturing after more than 3 months		-	(23,012,000)
Other assets		(41,187,869)	(30,710,866)
Customers' deposits		114,802,285	128,711,289
Cash margins		4,537,002	12,756,020
Other liabilities		83,949,711	5,844,010
Sundry provisions paid		(87,172)	(111,128)
Net cash flows from operating activities		91,384,621	54,241,791
<u>Investing activities:</u>			
Purchase of financial assets at fair value through other comprehensive income		-	(2,067,027)
Purchase of financial assets at fair value through profit or loss		(706,096)	(48,854,638)
Purchase of financial assets at amortized cost		(26,682,150)	(41,039,863)
Proceeds from sale of financial investments		47,209	22,800,326
Maturity of financial assets at amortized cost		5,320,874	-
Dividends income received		1,657,103	1,803,346
Projects in progress		(1,471,250)	(1,662,049)
Purchase of property, plant and equipment		(1,728,861)	(3,630,493)
Proceeds from sale of property, plant and equipment		1,506	47,180
Net cash flows used in investing activities		(23,561,665)	(72,603,218)
<u>Financing activities:</u>			
Cash dividends paid		(10,988,754)	(8,882,267)
Proceeds from fractions of stock dividends sold		3,953	-
Net cash used in financing activities		(10,984,801)	(8,882,267)
Increase (decrease) in cash and cash equivalents		56,838,155	(27,243,694)
Cash and cash equivalents, beginning of the period		602,869,715	548,138,201
Cash and cash equivalents, end of period	23	659,707,870	520,894,507

## Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2014

### 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.\$ 160 and U.S.\$ 150 million as at June 30, 2014 and December 31, 2013, respectively.

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

The Bank is carrying out all of its banking and financial activities through its (21) branches and (28) offices located in Palestine.

The Bank's personnel reached (1,253) as at June 30, 2014.

The interim condensed consolidated financial statements were authorized for issuance by the Bank's Board of Directors on August 10, 2014.

### 2. Consolidated Financial Statements

The interim condensed consolidated financial statements comprise of the financial statements of the Bank and its subsidiaries as at June 30, 2013.

The financial statements for Al-Wasata Securities Private Limited Shareholding Company (Al-Wasata Company/ subsidiary) and Investment 2000 Private Limited Shareholding Company (Investment 2000/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 incorporation	Ownership		Subscribed capital	
		%		\$.U.S	
		June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Al-Wasata	Palestine	87	87	3,560,000	3,560,000
Investment 2000	Palestine	100	100	100,000	100,000
Palpay	Palestine	85	85	1,500,000	1,500,000



3. Accounting Policies

Basis of preparation of consolidated financial statements

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

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

The financial statements have been presented in United States Dollar (U.S. \$.) which is the functional currency of the Bank.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with Bank’s annual financial statements as of December 31, 2013. The results for the period ended June 30, 2014 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2014.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Bank’s annual consolidated financial statements for the year ended December 31, 2013, except for the adoption of new standards and amendments effective as of January 1, 2014.

The adoption of the new standards and amendments did not have effect on the Bank’s financial position or performance.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Bank, since none of the entities in the Bank qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period.

IFRIC Interpretation 21 Levies

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

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

- International Financial Reporting Standard (14) government accounts
- International Financial Reporting Standard (15) revenue from contracts with customers

4. Cash and Balances at Palestine Monetary Authority

This item comprises the following:

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
Cash on hand	533,264,192	423,520,959
Balances with PMA:		
Current and demand accounts	14,568,488	981,644
Time deposits	44,428,773	60,225,670
Statutory cash reserve	163,653,829	153,678,453
	755,915,282	638,406,726

- According to PMA circular (67/2010), the Bank should maintain statutory cash reserves with PMA at 9% of total customers’ deposits. The statutory reserve is a non-interest bearing account. According to PMA circular (2/2012) the outstanding balance of credit facilities granted in Jerusalem for some sectors are deducted before the statutory reserve is calculated.
- Current accounts are non-interest bearing accounts.
- Time deposits at PMA are interest-bearing deposits with interest rates ranging between 2.75% and 3%.

## 5. Balances at Banks and Financial Institutions

This item comprises the following:

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
<u>Local banks and financial institutions:</u>		
Current and demand accounts	90,458	47,329
Time deposits maturing within 3 months	64,297,659	36,734,838
	64,388,117	36,782,167
<u>Foreign banks and financial institutions:</u>		
Current and demand accounts	148,469,213	100,312,954
Time deposits maturing within 3 months	144,822,936	213,652,978
	293,292,149	313,965,932
	357,680,266	350,748,099

- Non-interest bearing balances at banks and financial institutions as at June 30, 2014 and December 31, 2013 amounted to U.S. \$ 148,144,072 and U.S. \$ 100,138,431, respectively.
- Restricted balances at banks and financial institutions as at June 30, 2014 and December 31, 2013 amounted to U.S. \$ 1,132,110.

## 6. Financial Assets at Fair Value Through Profit or Loss

This amount represents quoted shares in Palestine Exchange. The fair value of which is amounted to U.S. \$ 7,071,404 as of June 30, 2014 and U.S. \$ 7,085,308 as of December 31, 2013, respectively.

## 7. Direct Credit Facilities

This item comprises the following:

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
Loans	693,766,336	634,124,103
Overdraft accounts	414,420,570	382,666,371
Current overdrafts	57,091,239	63,866,202
Credit cards	38,578,599	35,187,199
	1,203,856,744	1,115,843,875
Suspended interests and commissions	(3,764,854)	(3,938,745)
Provision for impairment of direct credit facilities	(9,251,652)	(8,264,112)
	1,190,840,238	1,103,641,018

Summary of movement on suspended interest is as follows:

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
Balance, beginning of the period/year	3,938,745	2,098,742
Suspended interest during the period/year	118,717	1,808,669
Suspended interest transferred to revenues	(625)	-
Suspended interest written off for financing in default for more than 6 years	(199,161)	-
Suspended interest written off	(19,870)	(31,334)
Foreign currency exchange differences	(72,952)	62,668
Balance, end of period/year	3,764,854	3,938,745

Summary of movement on provision for impairment of credit facilities is as follows:

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
Balance, beginning of the period/ year	8,264,112	6,440,340
Additions during the period/ year	1,821,461	1,829,775
Recovered during the period/ year	(617,070)	-
Credit facilities in default for more than 6 years	(348,474)	(20,172)
Impairment allowance for credit facilities written off	(34,874)	(55,052)
Foreign currency exchange differences	166,497	69,221
Balance, ending of the period/ year	9,251,652	8,264,112

The following is a summary of provision for impaired credit facilities for more than 6 years:

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
Balance, beginning of the period/year	2,674,645	2,733,903
Additions	348,474	20,172
Provision allowance of credit facilities written off	(35,207)	(53,865)
Foreign currency exchange differences	(136,258)	(25,565)
Balance, end of period/year	2,851,654	2,674,645

## 8. Financial Assets at Fair Value Through other Comprehensive Income

This item comprises the following:

	Quoted shares	Investment portfolios	Unquoted financial assets	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$
<u>June 30, 2014</u>				
Local	4,757,292	1,363,868	206,366	6,327,526
Foreign	18,469,212	9,307	-	18,478,519
	23,226,504	1,373,175	206,366	24,806,045
<u>December 31, 2013</u>				
Local	4,860,153	1,320,478	175,920	6,356,551
Foreign	15,944,643	12,770	-	15,957,413
	20,804,796	1,333,248	175,920	22,313,964

Movement on fair value reserve during the period is as follows:

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
Balance, beginning of the period/ year	(5,159,800)	(6,222,738)
Change in fair value during the period/ year	2,496,010	423,847
Fair value reserves as a result of sale of financial assets recognized directly in retained earnings	-	639,091
Balance, end of period/ year	(2,663,790)	(5,159,800)

## 9. Financial Assets at Amortized Cost

The details of this item are as following:

	Treasury bills	Quoted bonds	Unquoted bonds	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$
<u>June 30, 2014</u>				
Local	-	-	13,900,000	13,900,000
Foreign	57,282,426	96,671,331	-	153,953,757
	57,282,426	96,671,331	13,900,000	167,853,757
<u>December 31, 2013</u>				
Local	-	-	13,900,000	13,900,000
Foreign	41,725,928	90,968,846	-	132,694,774
	41,725,928	90,968,846	13,900,000	146,594,774

## 10. Investment in Associates

The details of this item are as following:

	Country of Incorporation	Equity %	June 30, 2014 \$ .U.S	December 31, 2013 \$ .U.S
Arab Islamic Bank	Palestine	21	13,271,250	12,750,395
The Palestinian Company for Transporting Money and Valuable Goods & Financial Services	Palestine	25	245,560	229,137
Abraj Co. for Development & Investment	Palestine	21	4,088,681	4,091,167
			17,605,491	17,070,699

Following is the movement of the investment in the associates:

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
Balance, beginning of the period/ year	17,070,699	11,524,968
Bank's share in the results of associates	534,792	763,376
Additions during the period/ year	-	488,229
Transferred from financial assets at FVTOCI	-	4,294,126
Balance, end of period/ year	17,605,491	17,070,699

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

	June 30,2014	December 31, 2013
	\$ .U.S	\$ .U.S
Assets	110,089,529	105,586,619
Liabilities	37,018,117	87,189,297

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

	June 30, 2014	June 30, 2013
	\$ .U.S	\$ .U.S
Revenues	2,134,746	1,828,130
Results of operations	534,792	376,289

## 11. Other Assets

This item comprise the following:

	June 30, 2014	June 30, 2013
	\$ .U.S	\$ .U.S
Clearing checks	33,365,822	50,412
Trade receivables due from subsidiaries' customers	7,661,589	3,147,068
Prepayments	3,874,762	3,219,254
Intangible assets	2,670,164	2,121,676
Accrued interest and commissions	2,453,324	2,201,515
Stationery and printings	1,708,957	1,438,180
Others	3,574,130	2,128,827
	55,308,748	14,306,932

## 12. Banks' and Financial Institutions' Deposits

This item comprises the following:

	Current deposits	Time deposits maturing within 3 months	Total
	\$ .U.S	\$ .U.S	\$ .U.S
<u>June 30, 2014</u>			
Local	123	114,071,960	114,072,083
Foreign	59,913,955	-	59,913,955
	59,914,078	114,071,960	173,986,038
<u>December 31, 2013</u>			
Local	-	79,338,470	79,338,470
Foreign	63,061,221	-	63,061,221
	63,061,221	79,338,470	142,399,691



### 13. Customers' Deposits

This item represents the following:

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
Current and demand deposits	727,956,886	696,379,503
Saving deposits	591,900,220	545,553,169
Time deposits	454,113,556	413,138,761
Debit balances – temporarily credit	9,366,857	13,463,801
	<u>1,783,337,519</u>	<u>1,668,535,234</u>

### 14. Cash Margins

This item represents cash margins against:

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
Direct credit facilities	37,462,057	35,052,282
Indirect credit facilities	34,471,584	33,162,218
Others	9,631,392	8,813,531
	<u>81,565,033</u>	<u>77,028,031</u>

### 15. Tax Provisions

Movement on tax provisions during the period ended June 30, 2014 and year ended December 31, 2013 are as follows:

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
Balance, beginning of the period/year	57,909,375	45,310,210
Provision for the period/year	5,541,478	12,599,165
Balance, end of period/year	<u>63,450,853</u>	<u>57,909,375</u>

The Bank did not reach final settlements with the tax authorities for the years from 2005 to 2013. Further, the Bank bases its provision for taxes on prevailing tax laws and the Presidential Decree, which exempts taxpayers in the southern governorates (Gaza Strip) from taxes. Accordingly, tax provisions for the period from the year 2007 to June 30, 2014 do not include the Bank's results of operations from branches operating in Gaza Strip.

### 16. Other Liabilities

This item comprises the following:

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
Temporary deposits*	75,905,272	1,330,251
Taxes payable	22,721,874	19,661,927
Transactions in-transit with PMA	9,871,206	2,832,882
Certified checks	5,766,040	5,197,835
Accounts payable	4,821,818	4,027,281
Dividends payable	4,076,938	2,565,692
Accrued interest	2,011,857	2,428,240
Due to employees' saving fund	775,081	437,012
Board of Directors bonuses	-	990,000
Others	3,085,066	4,103,075
	<u>129,035,152</u>	<u>43,574,195</u>

\* This item includes amount of U.S.\$ 73,855,888 related to public sector employees' salaries transferred to the bank on June 30, 2014.

### 17. Reserves

Statutory reserve

As required by the Companies' and Banking Laws, 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. The Bank did not make any transfer to the statutory reserve during the period, as these are interim financial statements.

Voluntary reserve

Voluntary reserve represents cumulative transfers of the Bank's subsidiaries. Subsidiaries did not appropriate any voluntary reserve during the period.

General banking risks reserve

This item represents the amount of general banking risk reserve deducted in accordance with PMA's regulation numbers (1/2013) and (3/2013) based on 2% of direct credit facilities after deducting provision for impairment of credit facilities and suspended interest and 0.5% of indirect credit facilities. 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. The Bank did not make any transfer to this reserve as these are interim financial statements.

### 18. Additional Paid-in Capital

The Bank's general assembly resolved in its 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.

### 19. Dividends

The Bank's General Assembly, during its meeting held on April 25, 2014, approved dividends distribution of U.S. \$ 22,500,000, for the results of the Bank's operation for the year 2013, to shareholders in the form of stock dividends of U.S. \$ 10,000,000 and cash dividends of U.S. \$ 12,500,000 based on their pro-rata ownership of the Bank's share capital.

The Bank's General Assembly, during its meeting held on April 26, 2013, approved dividends distribution of U.S. \$ 26,050,000, for the results of the Bank's operation for the year 2012, to shareholders in the form of stock dividends of U.S. \$ 16,000,000 and cash dividends of U.S. \$ 10,050,000 based on their pro-rata ownership of the Bank's share capital.

### 20. Other Revenues

	June 30, 2014	December 31, 2013
	\$.U.S	\$ .U.S
Visa and Master cards issuance fees	2,750,660	2,227,540
Securities trading commissions	927,087	358,013
Safe boxes rental	48,500	40,995
Recovery of suspended interest	625	-
Losses from sale of property, plant and equipment	(205)	(9,132)
Sundry	519,253	573,475
	<u>4,245,920</u>	<u>3,190,891</u>

### 21. Other Operating Expense

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
Palestine Deposit Insurance Corporation*	2,330,450	-
Advertising	1,660,495	1,480,902
Social responsibility	1,513,894	1,284,568
Maintenance and repairs	768,799	725,867
Telephone, postage and fax	880,132	749,785
Utilities	836,016	443,722
Stationery and printings	615,041	642,519
Rent	609,064	592,660
Cash shipping expense	400,824	229,292
Fuel	394,329	276,950
Professional fees	344,139	185,326
License fees	344,163	350,625
Travel and seminars	270,912	269,667
Subscriptions fees	269,187	306,915
Insurance	243,167	143,978
Hospitality	122,916	96,168
Vehicles expense	107,505	56,738
Printing checks	85,388	50,634
Board of Directors meeting allowances	2,521	2,563
Sundry	508,972	399,194
	<u>12,307,914</u>	<u>8,288,073</u>

\* Palestine Deposit Insurance Corporation was established according to law number (7) for the year 2013, where banks, starting from the year 2014, shall pay an annual subscription fee of 0.3% of total deposits specified under this law.

### 22. Basic and Diluted Earnings Per Share

	June 30, 2014	December 31, 2013
	U.S.\$	U.S.\$
Profit for the period/ year attributable to shareholders of the Bank	18,921,275	18,731,235
	<u>Shares</u>	<u>Shares</u>
Weighted average of subscribed shares	160,000,000	160,000,000
	<u>U.S.\$</u>	<u>U.S.\$</u>
Basic and diluted earnings per share attributable to shareholders of the Bank	0.118	0.117

### 23. Cash and Cash Equivalents

Cash and cash equivalents presented in the interim consolidated statement of cash flows consist of the amounts presented in the interim consolidated statement of financial position as follows:

	June 30, 2014	June 30, 2013
	\$ .U.S	\$ .U.S
Cash and balances at PMA	755,915,282	535,924,421
Add:		
Balances at banks and financial institutions maturing within 3 months	357,680,266	306,231,652
	1,113,595,548	842,156,073
Less:		
PMA deposits	(116,247,811)	(63,914,656)
Due to banks and financial institutions	(173,986,038)	(85,502,863)
Statutory cash reserve	(163,653,829)	(148,832,047)
Balances at banks and financial institutions maturing more than 3 months	-	(23,012,000)
	659,707,870	520,894,507

### 24. Related Party Transactions

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

	June 30, 2014			
	Board of directors and executive management	Major shareholders	* Others	Total
	\$ .U.S	\$ .U.S	\$ .U.S	\$ .U.S
<u>Consolidated Statement of financial position items</u>				
Direct credit facilities	6,515,393	3,280,500	15,502,492	25,298,385
Deposits	1,723,008	-	5,995,295	7,718,303
<u>Commitments and contingencies</u>				
Indirect credit facilities	576,828	-	52,049	628,877
Unutilized credit facilities	1,777,099	-	1,256,725	3,033,824
<u>Additional information:</u>				
Watch listed credit facilities	-	-	1,035,151	1,035,151

	December 31, 2013			
	Board of directors and executive management	Major shareholders	* Others	Total
	\$ .U.S	\$ .U.S	\$ .U.S	\$ .U.S
<u>Consolidated Statement of financial position items</u>				
Direct credit facilities	5,924,759	3,280,500	13,551,576	22,756,835
Deposits	2,388,894	773,345	1,166,026	4,328,265
<u>Commitments and contingencies</u>				
Indirect credit facilities	1,222,513	-	3,850	1,226,363
Unutilized credit facilities	996,942	-	594,235	1,591,177
<u>Additional Information</u>				
Non-performing credit facilities	-	-	14,329	14,329
Provision for impairment of credit facilities	-	-	8,510	8,510

	June 30, 2014			
	Board of directors and executive management	Major shareholders	* Others	Total
	\$ .U.S	\$ .U.S	\$ .U.S	\$ .U.S

<u>Consolidated income statement items:</u>				
Interest and commissions received	31,187	139,812	150,777	321,776
Interest and commissions paid	5,829	-	29,307	35,136

	June 30, 2013			
	Board of directors and executive management	Major shareholders	* Others	Total
	\$ .U.S	\$ .U.S	\$ .U.S	\$ .U.S

<u>Consolidated income statement items:</u>				
Interest and commissions received	87,329	-	178,819	266,148
Interest and commissions paid	2,452	358	9,721	12,531

\* Others include branches' managers, non-executive employees and their relatives, and shareholders with less than 5% ownership in the Bank's capital disclosed to PMA.

- Net direct credit facilities granted to related parties as at June 30, 2014 and December 31, 2013 represent 2.12% and 2.06%, respectively, from the net direct credit facilities.
- Net direct credit facilities granted to related parties as at June 30, 2014 and December 31, 2013 represent 14.41% and 13.68%, respectively, from the Bank's regulatory capital.
- Interest on U.S. \$ direct credit facilities ranges between 2% to 14.4%.
- Interest on ILS direct credit facilities ranges between 10% to 16%.
- Interest on U.S. \$ deposits ranges between 0.75% to 1.25%.



Compensation of key management personnel:

	June 30, 2014	June 30, 2013
	\$ .U.S	\$ .U.S
General Manager	302,465	281,981
Executive management salaries and related benefits	591,133	559,235
Executive management end of service indemnity	35,151	194,336
Board of directors’ remuneration	2,521	2,563

25. Fair Value Measurements

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.

The following table provides the fair value measurement hierarchy of the Bank’s assets as of June 30, 2014

		Measurement of Fair Value by			
		Total	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
		U.S.\$	U.S.\$	U.S.\$	U.S.\$
Date of Evaluation					
<u>Financial assets at fair value</u>					
Financial assets at fair value through profit or Loss - quoted (note 6):	June 30, 2014	7,071,404	7,071,404	-	-
Financial assets at fair value through other comprehensive income (note 8):					
Quoted	June 30, 2014	23,226,504	23,226,504	-	-
Unquoted	June 30, 2014	206,366	-	-	206,366
Units in the investment portfolio	June 30, 2014	1,373,175	-	1,373,175	-

The following table provides the fair value measurement hierarchy of the Bank’s assets as of December 31, 2013:

		Measurement of Fair Value by			
		Total	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
		U.S.\$	U.S.\$	U.S.\$	U.S.\$
Date of Evaluation					
<u>Financial assets at fair value</u>					
Financial assets at fair value through profit or loss - quoted (note 6):	December 31, 2013	7,085,308	7,085,308	-	-
Financial assets at fair value through other comprehensive income (note 8):					
Quoted	December 31, 2013	20,804,796	20,804,796	-	-
Unquoted	December 31, 2013	175,920	-	-	175,920
Units in the investment portfolio	December 31, 2013	1,333,248	-	1,333,248	-

There have been no transfers among the levels mentioned above during the six months period as of June 30, 2014 and the year ended December 31, 2013.

The table below represents a comparison between the carrying amounts and fair values of financial instruments excluding cash on hand, as at June 30, 2014:

	Carrying value	Fair value
	U.S.\$	U.S.\$
<u>Financial assets</u>		
Balances with PMA	222,651,090	222,651,090
Balances at banks and financial institutions	357,680,266	357,680,266
Financial assets at fair value through profit or loss	7,071,404	7,071,404
Direct credit facilities	1,190,840,238	1,190,840,238
Financial assets at fair value through other comprehensive income:		
Quoted stocks	23,226,504	23,226,504
Unquoted stocks	206,366	206,366
Investment portfolios	1,373,175	1,373,175
Financial assets at amortized cost:		
Treasury bills	57,282,426	57,282,426
Quoted bonds	96,671,331	97,017,187
Unquoted bonds	13,900,000	13,900,000
Other financial assets	5,330,775	5,330,775
Total assets	1,976,233,575	1,976,579,431
<u>Financial liabilities</u>		
PMA deposits	116,247,811	116,247,811
Banks and financial institutions' deposits	173,986,038	173,986,038
Customers' deposits	1,783,337,519	1,783,337,519
Cash margins	81,565,033	81,565,033
Other financial liabilities	101,310,580	101,310,580
Total liabilities	2,256,446,981	2,256,446,981

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, direct credit facilities, other financial assets, PMA deposits, 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.

Fair value of financial assets at fair value through profit or loss that are actively traded in active financial markets is determined by reference to quoted prices at the date of the financial statements.

Fair value of financial assets at fair value through other comprehensive income that are actively traded in active financial markets is determined by reference to quoted prices at the date of the financial statements.

Fair value of units in the investment portfolio is determined by reference to the Bank's share of the net value of assets of the portfolio which includes financial instruments that are actively traded in active financial markets.

Fair value of financial assets at fair value through other comprehensive income that are not actively traded in active financial markets is determined based on appropriate valuation methods.

Financial assets at amortized cost were measured by discounting future expected cash flows using prevailing market interest rates.

## 26. 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, treasury services, managing Bank's funds and investment.



## 29. Commitments and Contingent Liabilities

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

	June 30, 2014	December 31, 2013
	\$ .U.S	\$ .U.S
Letters of guarantees	156,876,726	148,442,718
Letters of credit	21,862,761	20,419,707
Acceptances	26,259,992	17,770,417
Unutilized credit facilities	116,560,067	109,712,406
	321,559,546	296,345,248

## 30. Lawsuits Against the Bank

The number of lawsuits filed against the Bank as at June 30, 2014 and December 31, 2013 were (34) and (35) respectively, with a total U.S.\$ 11,505,437 and U.S.\$6,765,167 respectively. The Bank's management and lawyer believe that provision made against these litigations is sufficient.

## 31. Concentration of Risk in Geographical Area

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