



بنك فلسطين
BANK OF PALESTINE

2013 Semi Annual Report (Draft)





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About Bank of Palestine

Bank of Palestine (BOP) is the first and largest bank with a well-diversified branch network of 48 branches in Palestine, and a paid up capital of USD 150 million and assets of over USD 2 billion. Established in 1960, BOP has successfully expanded its presence and operations throughout the country and now has around 1,200 employees serving over 600,000 customers. 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 5,000 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 Palestine.

In the past few years, and in cooperation with the International Finance Corporation (IFC), BOP was the first Palestinian 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 more than 15% 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 Payments – and in 2012 it introduced its services to the public. 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 5,000 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, 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 as the "Best Bank in Palestine".

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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

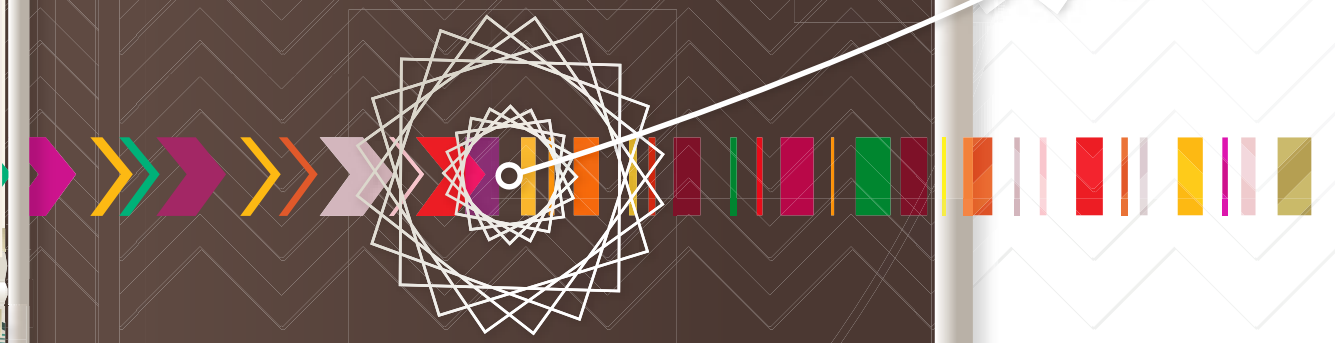
- Euromoney Award for Excellence – Best Bank in Palestine
- Global Finance – Best Bank in Palestine
- Global Finance – Best Trade Finance Bank in Palestine
- EMEA Finance – Best Bank in Palestine
- CPI Financial/Banker ME - Best Bank in Palestine
- CPI Financial/Banker ME -Fastest Growing Bank in Palestine
- Received a special Commendation for Leadership in the Middle East as part of the “Sustainable Bank of the Year” award by the Financial Times (FT), and the International Finance Corporation (IFC).
- We are also proud to have made it to the list of the top 100 banks in the Middle East by CPI 100



Award Winning Performance



Our Vision





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 2013.

I am also pleased to share with you our optimistic outlook on the political and economic fronts driven mainly by US Secretary of State John Kerry's recent initiative. We are hopeful that this initiative will take a comprehensive approach and lead to both political and economic developments in the near future. These major developments and their potential outcome will only contribute to even more positive results for the bank, since our business strategy has been built factoring in existing market conditions.

The end of the first half of 2013 also marked developments in the Palestinian business environment; in June 2013, MSCI Inc. released a standalone country index for Palestine (MSCI Palestine IMI Index), which is the first step to getting Palestine on one of the broader MSCI indices, ultimately leading to increased foreign investment in companies listed on the Palestine Exchange (PEX); moreover, in 2013, the Deposit Insurance Corporation Law was enacted, with the aims to safeguard small depositors, maintain the stability of the banking system, and thus mobilize more savings that would enable banks to play a better role in the economy. As a result, the Palestine Monetary Authority (PMA) joined the International Association of Deposit Insurers (IADI).

On April 26, 2013, 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 26,050,000 from realized profits in 2012 to shareholders; USD 16 million as stock dividends - raising the bank's paid-up capital to USD 150 million - and USD 10,050,000 as cash dividends in proportion to each shareholder's ownership in paid capital as of April 25, 2013.

As for the bank's performance in the first half of 2013 – 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 18.71 million, compared with USD 18.29 million at the end of June 2012 (an increase of 2.30%); assets increased to reach USD 2.18 billion compared to USD 2 billion at the end of 2012 (an increase of 8.85%); and owner's equity reached USD 229 million compared to USD 221 million at the end of 2012 (an increase of 3.62%).

The bank's market share also significantly increased during the first half of 2013, to reach 25.24% and 21.91% in credit

facilities and deposits respectively, compared with 23.75% and 20.77% as at end of 2012. 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 5.04% to reach USD 1.03 billion, compared with USD 976 million as at end of December 2012. Deposits also witnessed a steady increase of 9.10% to reach USD 1.696 billion at end of June 2013, compared with USD 1.554 billion at end of 2012.

As a customer-driven organization, Bank of Palestine continued to develop its products and launch campaigns to meet various client needs and to increase banking awareness among children and youth, who represent 70% of the Palestinian society. These include a special banking awareness campaign for children. In addition, the bank launched a campaign supporting the Palestinian Arab Idol winner Mohammad Assaf during his participation in the programme. This campaign included community events that were organised by the bank throughout Palestine and contributed greatly to promoting the bank in general and as a sponsor for talented and ambitious youth – a segment that represents the majority of the Palestinian population. Moreover, several initiatives were undertaken to promote the cards and plastic business; we have partnered with one of Palestine's largest retail chain stores to further promote the bank's local instalment card "EasyLife" by introducing a co-branded card that offers clients additional benefits. The bank also launched a large campaign promoting its new Visa prepaid card "Cash Card". During this period, the bank signed agreements with several Palestinian banks in order to issue credit cards for their clients.

Along the lines of plastic business, the bank's subsidiary PalPay® – Palestine Payments – which introduced its services to the public in 2012, was one of the main sponsors of the Cards and Payments Middle East 2013 conference that took place in Dubai. This sponsorship and participation in the conference has contributed to promoting PalPay® and its services regionally. The company also continued to sign agreements with additional utility companies in Palestine that wish to allow their clients to make e-payments through the PalPay® system.

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 2013 we opened a new flagship building in the city of Bethlehem, consisting of retail and business banking sections, in addition to an employee training centre, and an art gallery that includes artefacts collected by a young Palestinian art historian, which we invite you to visit. We have

also expanded some of our existing branches and sub-branches to meet the needs of our growing customer base. Furthermore, before the end of the year, we are planning to open a sub-branch in the village of Biddya in the governorate of Salfit and a sub-branch in Bani-Suheila in the governorate Khan Younis. We have plans for next year to open a large branch in the historical city of Jericho, in addition to several other sub-branches in different Palestinian rural areas.

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 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.

In order to maintain sustainable and long-term performance and growth, Bank of Palestine continued to focus on risk management. Although by the end of 2012, the bank had finalised the implementation of its new risk management framework in the areas of credit, treasury, and operations, BOP is now seeking to implement

advanced methods in risk management to apply Basel II and III. To implement this project, the bank signed an agreement with the International Finance Corporation (IFC) in order to seek 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 international institutions (including Euromoney, Global Finance, EMEA Finance, and several others) as the "Best Bank in Palestine".

Moreover, we are proud to receive a special Commendation this year for Leadership in the Middle East as part of the "Sustainable Bank of the Year" award by the Financial Times (FT), and the International Finance Corporation (IFC). This commendation recognizes the bank's efforts in extending the reach of our sustainability strategy throughout the bank's entire operation including promoting sustainable finance, developing a sustainable economy, gender inclusion, and investing in youth. It also recognizes BOP's corporate social responsibility (CSR) initiatives that are based on a dynamic and well studied community outreach programme.

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

General Manager

Chairman of the Board



Hashim Shawa



BOP KEY PERFORMANCE INDICATORS 2009-1H 2013

	2009	2010	2011	1H 2012	2012	1H 2013
Total Revenue	64,535,751	79,041,137	88,790,445	34	102,796,576	53,281,694
Profit Before Tax	34,536,070	37,732,105	41,868,275	23,614,269	49,966,888	24,717,737
Net Profit (USD)	26,929,168	30,119,469	33,980,673	18,290,422	38,347,397	18,712,082
Assets (USD)	1,283,017,502	1,545,038,022	1,653,960,732	1,676,243,017	2,004,494,095	2,181,799,362
Customer Deposits (USD)	1,016,683,776	1,251,482,935	1,296,568,931	1,358,751,131	1,554,493,702	1,695,961,011
Credit Facilities (USD)	343,311,230	545,026,391	720,173,048	839,343,710	976,394,928	1,025,609,900
Shareholder Equity (USD)	150,822,464	163,884,250	194,399,762	207,166,691	220,973,909	228,958,550
Paid-Up Capital (USD)	100,000,000	100,000,000	120,000,000	134,000,000	134,000,000	150,000,000
Net Interest and Commissions Income (USD)	52,865,829	61,843,054	75,982,199	41,474,210	84,708,362	49,680,559
No. of Employees	864	943	1061	1,097	1,139	1,156
No. of Customers	429,149	483,884	542,199	566,369	621,983	626,014
No. of Branches	40	42	46	47	48	48
Market Share: Deposits	16.71 %	18.44 %	18.60 %	19.68 %	20.77 %	21.91 %
Market Share: Credit Facilities	17.26 %	19.19 %	20.54 %	22.02 %	23.75 %	25.24 %



Bethlehem Flagship Building - Opened in 2013



Key Performance Indicators 2009-1H 2013

Market Share & Competitive Position

25.24%

market share of credit facilities

21.91%

market share of customer deposits

The bank's market share significantly increased during the first half of 2013, to reach 25.24% and 21.91% in credit facilities and deposits respectively, compared with 23.75% and 20.77% as at end of 2012.

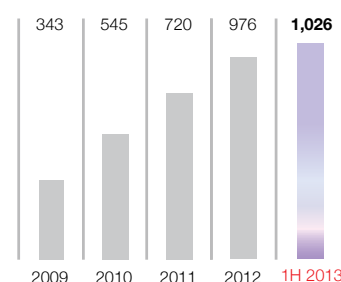
Financial Highlights 2008-1H 2013

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 1,026m

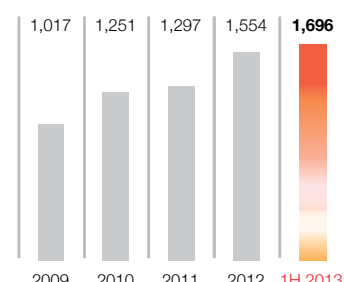


Loans in the first half of 2013 amounted to USD 1,025,609,900; an increase of 5.04% from 2012.

After a thorough revision of economic segments and 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

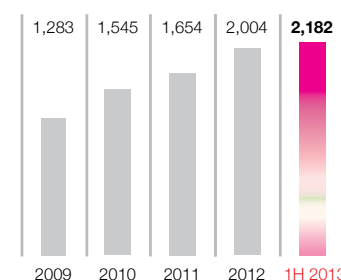
USD 1,696m



Total customer deposits in the first half of 2013 increased to reach USD 1,695,961,011; up by 9.10% from USD 1,554,493,702 in 2012.

Assets

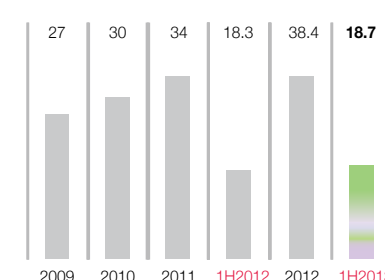
USD 2,182m



Total assets in the first half of 2013 increased to reach USD 2,181,799,362; up by 8.85% from USD 2,004,494,095 at end of 2012.

Profits

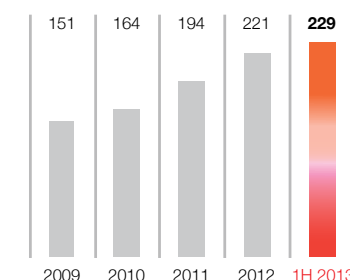
USD 18.7m



Net Profits in the first half of 2013 increased to reach USD 18,712,082; up by 2.30% from USD 18,290,422 in the first half of 2012.

Shareholder Equity

USD 229m



The Bank's paid up authorized capital is USD 150,000,000 divided into 150,000,000 shares with a par value of one dollar per share.

Total shareholder equity increased by 3.61% from end of 2012 to USD 228,958,550 end of June 2013 compared with at USD 220,973,909.



Financial Ratios

Credit Facilities/Customer Deposits: 60.47%
Credit Facilities/Total Assets: 47.0%

Number of Issued Shares

The number of issued and paid shares is 150 million shares, with a par value of one US dollar per share.

Changes and Developments during the First Half of 2013

No changes were made to the Board of Directors or the Executive Management during the first half of 2013.

Changes to the External Auditor

The General Assembly elected Ernest & Young to be the bank's external auditor for the year 2013.

Amendments to the Main Activities

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

The Ordinary General Meeting

The Ordinary General Assembly ratified in its meeting held on April 26, 2013 the Board of Directors' report for the year 2012, and the financial statements for the same year, as well as the external auditor's report. The Assembly also discharged the members of the Board of Directors for the year 2012. Moreover, they approved the recommendation to distribute USD 26,050,000 from realized profits to shareholders as follows:

- USD16 million as stock dividends in proportion to each shareholder's ownership in paid capital as of April 25, 2013.
- USD 10,050,000 as cash dividends in proportion to each shareholder's ownership in paid capital as of April 25, 2013.

Legal Actions

The number of legal cases filed against the bank was 34 cases at the end of June 2013, and 29 cases as at the end of December 2012, with a value of USD 6,247,045 compared to USD 4,954,629 at the end of 2012. 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

On March 26, 2013 a new flagship building in Bethlehem was opened to replace the old branch in the city. With this, the bank remains the leading bank in Palestine in terms of branch network, with 48 branches spread throughout Palestine.

Board of Directors



Hashim Hani Shawa
Chairman



Mamon AbdAlhadi
Abu Shahla
Vice Chairman



Youssef Mahmoud Nijm
Member



Reyad Ali Zimmou
Member



Faysal Ghazi Shawa
Member



Dr. Hani Hassan Nigim
Member



Dr. Awni Mohiuddin Skaik
Member



Maher Jawad Farah
Member



Tareq Taher Shaka
(Representing Birzeit
Pharmaceutical Company)
Member



Mohammed Nafiz
Mohammed Hirbawi
Member



John Khoury
(Nominated by the
International Finance
Corporation "IFC")
Member

Executive Management



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

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

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

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 Qemailah
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

Khamis Fawzy Asfour
Legal Advisor

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

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

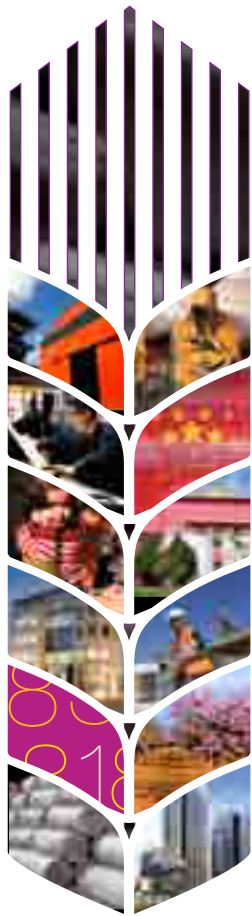
Bachelor of Accounting, Damascus
University- Syria 1992
Masters in Business Administration,
Van Holland University
Date of Birth: 22/06/1965
Date of Work: 1993

Wael AbdAllatif Al Sourani
Assistant General
Manager for Gaza
Strip Branches

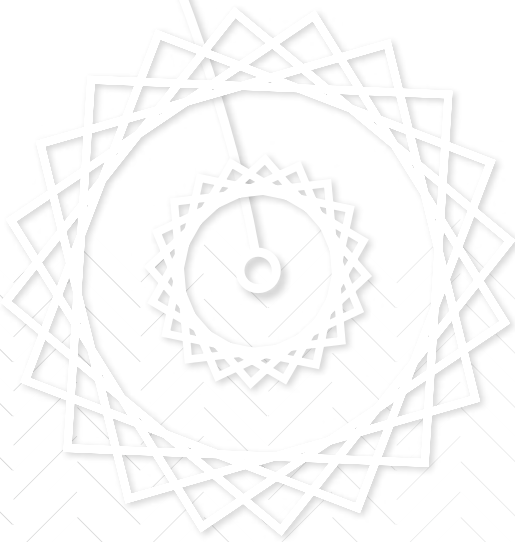
Bachelor of Biology & Chemistry –
Sana'a University, Yemen - 1993
Date of Birth: 07/02/1967
Date of Work: 1995

Susan George Samaan Khoury
Assistant General Manager -
Credit

Bachelor of Mathematics
and Management–
London University - UK 1983
Date of Birth: 02/06/1961
Date of Work: 2012



Bank of Palestine PLC
Unaudited Interim Condensed
Consolidated
Financial Statements
June 30, 2013



Consolidated Income Statement

For the period ended 30/06/2013

	2013	2012
	\$.U.S	\$.U.S
Interest Income	45,171,536	35,764,226
Interest Expense	(6,883,653)	(3,978,175)
Net Interest Income	38,287,883	31,786,051
Net Commissions Income	11,392,676	9,688,159
Net interest and commissions income	49,680,559	41,474,210
Foreign Currency Gain	2,379,549	2,449,043
Gain from Financial Investments	(2,345,594)	745,798
Share of Profit from Associates	376,289	126,668
Other Revenues	3,190,891	2,936,015
Gross Profit	53,281,694	47,731,734
Expenses		
Personnel Expenses	(15,671,335)	(14,096,574)
Other Operating Expenses	(8,288,073)	(7,482,850)
Depreciation and Amortization	(2,210,793)	(2,196,875)
Impairment Provision of Direct Credit Facilities	(1,994,205)	-
Credit Facilities Written off	(399,551)	(341,166)
Total Expenses	(28,563,957)	(24,117,465)
Profit before Taxes	24,717,737	23,614,269
Tax Expense	(6,005,655)	(5,323,847)
Profit after Taxes	18,712,082	18,290,422

Comprehensive Income Statement

For the period ended 30/06/2013

	2013	2012
	\$.U.S	\$.U.S
Profit for the Period	18,712,082	18,290,422
Comprehensive Income Items		
Unrealized gain on financial investments	(677,441)	2,995,424
Total Other Comprehensive Income Items	(677,441)	2,995,424
Total Comprehensive Income for the Period	18,034,641	21,285,846

Consolidated Financial Position Statement

For the period ended 30/06/2013

	30/6/2013	12/31/2012
	USD	USD
Assets		
Cash and balances with Palestine Monetary Authority	535,924,421	396,655,713
Balances at banks and financial institutions	306,231,652	415,857,478
Financial assets at fair value through income statement	78,119,404	33,428,321
Direct Credit Facilities	1,025,609,900	976,394,928
Financial assets at fair value through other comprehensive income	25,181,979	25,761,983
Financial assets at amortized cost	106,708,516	86,734,774
Investment in an associate	12,151,257	11,524,968
Property, plant and equipment	40,354,516	38,827,061
Projects in progress	6,702,252	5,040,203
Other assets	44,815,465	14,268,666
Total Assets	2,181,799,362	2,004,494,095
Liabilities and Equity		
Liabilities		
Palestine Monetary Authority's deposits	63,914,656	66,203,034
Banks and financial institutions' deposits	85,502,863	70,208,048
Customers' deposits	1,617,283,453	1,488,572,164
Cash margins	78,677,558	65,921,538
Sundry provisions	15,599,981	13,770,499
Tax provisions	51,315,865	45,310,210
Other liabilities	40,546,436	33,534,693
Total Liabilities	1,952,840,812	1,783,520,186
Equity		
Paid in share capital	150,000,000	134,000,000
Additional paid in capital	9,034,692	9,034,692
Statutory reserve	23,959,969	23,959,969
Voluntarily reserve	88,418	88,418
General banking risks reserve	22,043,914	15,886,367
Pro-cyclicality reserve	16,029,367	16,029,367
change in fair value	(6,476,589)	(6,222,738)
Retained earnings	13,714,073	27,613,975
	228,393,844	220,390,050
Non-controlling interests	564,706	583,859
Total Equity	228,958,550	220,973,909
Total Liabilities and Equity	2,181,799,362	2,004,494,095