



بنك فلسطين  
BANK OF PALESTINE



Semi-Annual Report 2010

Semi-Annual Report 2010

# Board of Directors

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Mr. Hashim Hani Shawa  
Chairman of the Board



Mr. Mamon A. Abu Shahla  
Vice Chairman



Mr. Youssef M. Nijim



Mr. Awni M. Skaik



Mr. Reyad A. Zimmou



Mr. Maher J. Farah



Mr. Faysal G. Shawa



Dr. Hani Nijm



Mr. Tareq T. Al Shaka'a  
Representative of Birzeit  
Pharmaceutical Co.



Mr. John P. Khoury  
Representative of IFC.



Mr. Mohammed M. Hirbawi

# Executive Management

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Mr. Hashim Hani Shawa  
General Manager



Mr. Alaa M. Al Redwan  
Deputy General Manager



Mr. Rushdi M. Ghalayni  
Deputy General Manager



Mr. Ihsan K. Shaushaa  
Assistant General Manager  
Foreign Relations



Mr. Salman M. Qemailah  
Assistant General Manager  
Financial Affairs



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



Mr. Hani S. Nasser  
Assistant General Manager West  
Bank Branches



Mr. Khamis F. Asfoor  
Legal Adviser





# Chairman's Statement

Dear Shareholders,

I am delighted to present to you our semi-annual report for the year 2010 and share with you the bank's results and activities which show growth and progress of your esteemed institution.

I would like to begin by conveying my sincere regards and congratulations for the celebration of the golden jubilee, fiftieth anniversary of the establishment of this economic institution, under the slogan " fifty years of building". I would like to assure you that this celebration will be a starting point for the bank as it moves towards new horizons in improving banking services to reach all clients' segments, building the economy of our country and placing BOP ahead of other operating banks in Palestine and the Middle East.

In June 2010, the net profits after tax were USD 14,089,123 with an increase of 7% compared to USD 13,168,161 for the same period in 2009. Assets increased by 7.71% as against December 2009 to reach USD 1,381,909,004.

Customers' deposits of banking sector in Palestine amounted to USD 6.69 billion in June 2010 and our market share of deposits of the banking sector reached 17.65%. BOP customers' deposits witnessed an increase of 8.60% compared to December 2009 to reach a total of USD 1,179,492,883. Credit Facilities in Banking sector in Palestine was USD 2.66 billion in June 2010. Our market share of credit facilities of the banking sector in Palestine reached 17.17% which amounted USD 456,410,573 with an increase of 32.95% compared to December 2009.

The development and diversity of new banking services and products continued as a unique saving program was launched in the first half of the year 2010 special for women, children students and all clients' segments under the slogan " With you in every milestone". Each woman will have the chance to win 1,000 BOP shares in weekly withdrawal, each child will get an instant prize of USD 50 after opening a saving account and 50 scholarships will be provided to saver students who passed General Certificate of Education. Moreover, all savers from all segments will have the opportunity to win a life time monthly salary of USD 1,000 in a monthly withdrawal.

During the first half of 2010, BOP established Microfinance Unit which is an outcome of our belief to contribute and improve our Palestinian economy. Microfinance lending is considered the best tool for the weakest segment in the society. Global experiences proved the importance of this tool in lowering poverty rates in emerging markets.

Regarding the geographical distribution of its branches, Bank of Palestine has continued executing its plan by opening Tarqomiya sub-branch in Hebron and Yamoon sub-branch in Jenin; thus bringing the number of bank's branches and sub-branches to 42 and therefore, keeping its first position as the most widely spread bank in Palestine. Lately, the bank signed an agreement with Palestine Investment Fund (PIF) to build a 17-storey tower in Irsal Center – Ramallah to be the new general management head office building to keep up with the bank's local and regional expansion.

On the other side, BOP purchased a strategic share in Invest Bank in Jordan to expand regionally starting with the Hashemite Kingdom of Jordan due to the strong relationship between Palestine and Jordan. This strategic investment will enhance investors and depositors trust in both banks and improve their performance through mutual cooperation between them to provide the best service to clients. The bank continued its ongoing plan to strengthen risk management and corporate governance practices, and improve employees' skills to provide the best banking services.

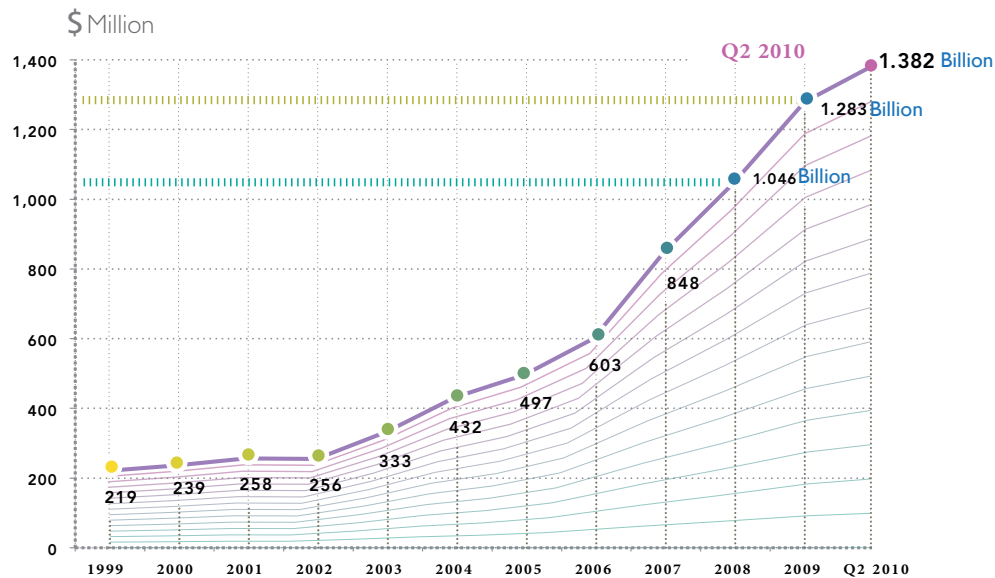
In conclusion, I would like to thank you and our valued customers for their support and trust in their institution. I would also like to thank members of the board of directors and our staff members for their efforts and dedicated work which have contributed to the prosperity and growth of the first national bank



Sincerely Yours  
Hashim Hani Shawa  
Chairman of the Board

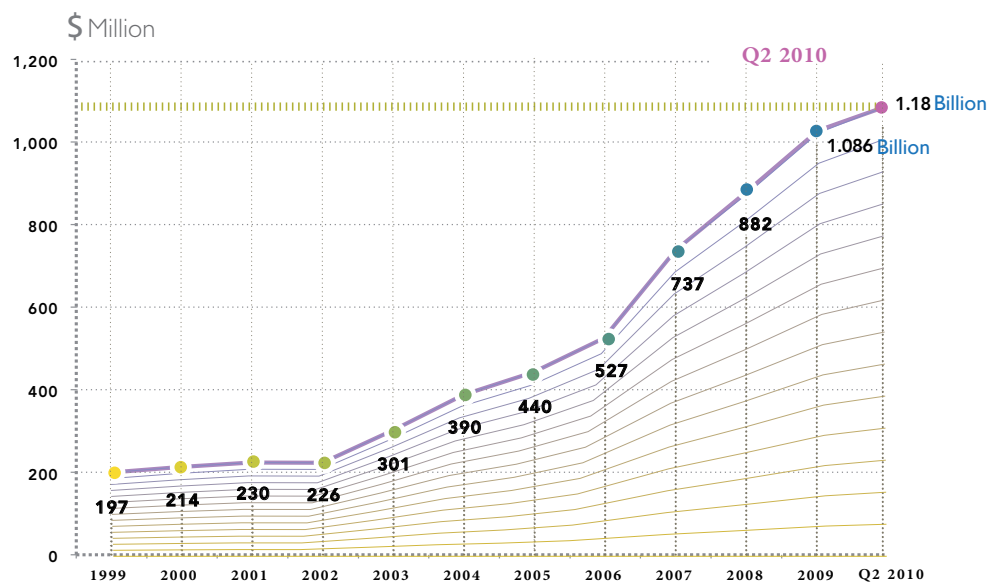
## Financial Assets and Liabilities

The total assets and liabilities together with shareholders' equity amounted to USD 1,381,909,004 with an increase of 7.71% compared to USD 1,283,017,502 in December 2009.



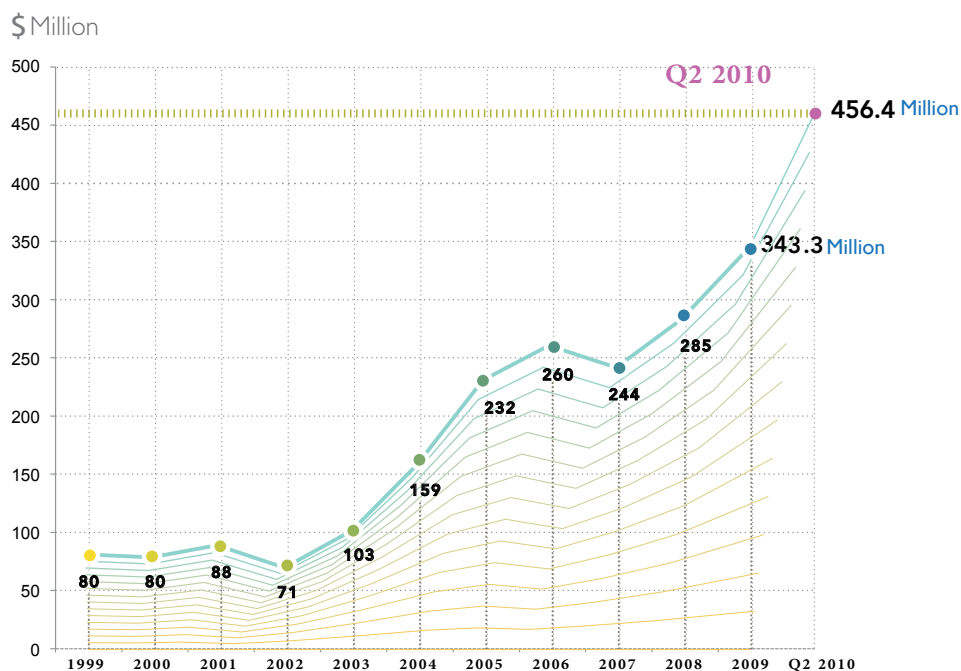
## Deposits

The total deposits in June 2010 increased to reach USD 1,179,861,883 with a growth of 8.60% compared to December 2009.



## Credit Facilities

The net credit facilities given in June 2010 amounted to USD 456,410,573 with an increase of USD 113,099,343 compared to December 2009 which was USD 343,311,230 with a percentage increase of 32.95%.



## Profit and Loss

The net profit after tax in June 2010 amounted USD 14,089,123 with an increase of 7% compared to the same period in 2009 where profits after tax was USD 13,168,161.

## Financial Ratio

Credit Facilities / Customers' Deposits: 40.01%

Credit Facilities / Total Assets : 33.03%

Return on Equity: 9.97%

## Number of Issued Shares:

The number of issued and paid shares is 100,000,000 with a par value of one dollar per share.



## Changes and Developments During the First Half of 2010

### Amendments to the Board of Directors and the Executive Management

During the General Assembly meeting of the bank which was held on 30/2010/04/, the Board of Directors was reelected for the next four years except for Mr. Salah Shukry Saka who withdrew from the new board's membership for personal circumstances, as well as the departure of Mr. Tareq Taher Shaka, in his personal capacity; he was elected a representative of Birzeit Pharmaceutical Company. Mr. John Khoury was elected as a new member in the bank's Board of Directors representing the International Finance Corporation (IFC).

In meeting No. 290 on 16/2010/05/, the Board elected Mr. Hashim Hani Shawa to be the Chairman of the new Board, as well as electing Mr. Mamoun Abd Alhadi Abu Shahla to be the Vice Chairman of the Board of Directors.

### Changes to External Auditor

The General Assembly elected Messrs. Ernst & Young as external auditor for the year 2010 succeeding Saba & Co (Deloitte – ME). whose service extended from the year 1999 to the end of the year 2009.

### Amendments to main activities

There are no changes to main activities of the bank.

### The Ordinary General Meeting

The Ordinary General Assembly approved in its meeting held on 30/2010/04/ the Board of Director's report for the year 2009. It has approved as well to discharge the chairman and members of the board of directors for the year 2009, and approved the Board of Directors recommendations to distribute USD 21,400,000 as cash dividends from realized profits of the year 2009 to registered shareholders at Palestine Securities Exchange on Thursday 29th April 2010 in proportion to each shareholder ownership in paid capital.

### Non-Ordinary General Meeting

The Non-Ordinary General Meeting approved in its meeting held on 30/2010/04/ to amend some of the bank's Articles of Association as follows:

Increase the nominal capital of the Bank to reach two hundred million US dollars instead of one hundred million US dollars with the same type of shares with the same conditions.

Change the number of members of the Board of Directors to become at least seven members and a maximum of thirteen members .

Each shareholder has the right to attend the General Assembly whatever the number of shares he/she owns and he/she has the right to authorize any shareholder to attend by proxy.

Each shareholder has one vote for each share owned in the Bank's capital.

Ordinary General Assembly meeting will be attended by each shareholder personally or by proxy and at least 50% of paid up capital should be present to reach the quorum and if the quorum is not

reached a new meeting will be held after a week at the same time and day. The next meeting will be considered valid whatever the representation of shares is, and all decisions will be approved by majority of votes.

Non Ordinary General Assembly meeting will be held at any time the Board of Directors believes it's necessary to discuss a certain topic or at the request of the external auditor. In addition, Non Ordinary General Assembly can be held upon the request of shareholders holding at least 25% of the Bank's capital.

All Non-Ordinary General Assembly meeting decisions should be approved by shareholders holding at least 50% of the Bank's capital with the vote of two thirds of represented shares in the meeting. On the other hand, any decision to increase or decrease the capital should be approved with the representation of three quarters of represented shares in the meeting. In case the quorum is not achieved the meeting will be postponed till the next week with the representation of shareholders holding at least 40% of paid capital.

**Interim Condensed Consolidated Financial  
Statements (unaudited) June 30, 2010**

## Interim Consolidated Statement of Financial Position

As at June 30, 2010

	June 30, 2010	December 31, 2009
	Unaudited	Audited (restated)
	U.S. \$	U.S. \$
<b>Assets</b>		
Cash and balances at Palestine Monetary Authority	226,040,175	284,176,154
Balances at banks and financial institutions	375,503,982	381,450,254
Financial assets held for trading	9,478,650	17,512,124
Direct credit facilities	456,410,573	343,311,230
Available-for-sale financial investments	33,288,662	18,407,690
Held-to-maturity financial investments	214,116,604	195,845,954
Investment properties	671,413	671,413
Property, plant and equipment	30,780,858	29,040,311
Other assets	35,618,087	12,602,372
<b>Total Assets</b>	<b>1,381,909,004</b>	<b>1,283,017,502</b>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
PMA deposits	30,255,562	65,376,237
Banks and financial institutions' deposits	8,736,747	2,420,979
Customers' deposits	1,098,106,868	980,943,466
Cash margins	42,762,706	37,736,181
Sundry provisions	10,216,498	9,214,246
Tax provisions	21,821,640	18,420,941
Other liabilities	28,675,007	18,025,635
<b>Total Liabilities</b>	<b>1,240,575,028</b>	<b>1,132,137,685</b>
<b>Equity attributable to the Bank's shareholders</b>		
Paid in share capital	100,000,000	100,000,000
Premium	9,034,692	9,034,692
Statutory reserve	13,385,156	13,385,156
Voluntary reserve	85,268	85,268
General banking risks reserve	7,476,651	5,733,235
Cumulative change in fair value	(3,350,240)	(1,115,276)
Retained earning	14,107,093	23,173,086
	<b>140,738,620</b>	<b>150,296,161</b>
Non-controlling interests	595,356	583,656
<b>Net Equity</b>	<b>141,333,976</b>	<b>150,879,817</b>
<b>Total Liabilities and Equity</b>	<b>1,381,909,004</b>	<b>1,283,017,502</b>

## Interim Consolidated Income Statement

For the six months ended June 30, 2010

	For the six months ended June 30	
	2010	2009
	Unaudited	Unaudited
	U.S. \$	U.S.\$
Interest income	19,045,635	18,720,512
Interest expense	(2,083,035)	(2,067,939)
Net interest income	16,962,600	16,652,573
Net commission income	7,238,826	5,180,777
Net interest and commission income	24,201,426	21,833,350
Foreign currency gain	2,331,517	1,913,451
Suspended interest transferred to revenues	1,500,446	1,750,292
Financial Investments income	5,897,320	4,373,877
Other income	2,287,705	1,820,744
Gross profit	36,218,414	31,691,714
<b>Expenses</b>		
Personnel expenses	10,137,311	9,835,680
Depreciation	1,576,898	1,183,208
Other operating expenses	6,442,049	4,197,065
Palestine Monetary Authority fines	26,157	16,104
Written off credit facilities not provided for	315,715	173,510
Total expenses	18,498,130	15,405,567
Profit before tax	17,720,284	16,286,147
Tax expense	(3,631,161)	(3,117,986)
Profit for the year	14,089,123	13,168,161
Attributable to:		
Banks' shareholders	14,077,423	13,127,580
Non-controlling interest	11,700	40,581
	14,089,123	13,168,161
Basic and diluted earnings per share	0.14	0.13

## Interim Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2010

	For the six months ended June 30	
	2010	2009
	Unaudited	Unaudited
	U.S. \$	U.S.\$
Profit for the period	14,089,123	13,168,161
<b>Other comprehensive income</b>		
Unrealized (losses) gains on financial investments	(2,782,110)	1,385,582
Impairment in value of available-for-sale financial investments	547,146	-
Net other comprehensive income	(2,234,964)	1,385,582
Total comprehensive income for the period	11,854,159	14,553,743
Attributable to:		
Banks' shareholders	11,842,459	14,513,162
Non-controlling interests	11,700	40,581
	11,854,159	14,553,743



## Interim Consolidated Statement of Changes in Equity

For the six months ended June 30, 2010

	Reserves									
	Paid in share capital	Premium	Statutory	Voluntary	General banking risks	Cumulative change in fair value	Retained earnings	Total	Non-controlling Interests	Net equity
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>June 30, 2010</b>										
Balance, beginning of the period (before restatement) (before restatement)	100,000,000	9,034,692	13,531,211	93,798	5,733,235	(1,115,276)	23,007,412	150,285,072	594,745	150,879,817
Restatements	-	-	(146,055)	(8,530)	-	-	165,674	11,089	(11,089)	-
Balance, beginning of the period (after restatement)	100,000,000	9,034,692	13,385,156	85,268	5,733,235	(1,115,276)	23,173,086	150,296,161	583,656	150,879,817
Total comprehensive income for the period	-	-	-	-	-	(2,234,964)	14,077,423	11,842,459	11,700	11,854,159
Transferred to banking risks reserve	-	-	-	-	1,743,416	-	(1,743,416)	-	-	-
Cash dividends	-	-	-	-	-	-	(21,400,000)	(21,400,000)	-	(21,400,000)
Balance, end of period	100,000,000	9,034,692	13,385,156	85,268	7,476,651	(3,350,240)	14,107,093	140,738,620	595,356	141,333,976
<b>June 30, 2009</b>										
Balance, beginning of the period	81,404,137	9,034,692	10,092,391	-	4,652,026	(1,892,048)	19,382,844	122,674,042	495,831	123,169,873
Total comprehensive income for the period	-	-	-	-	-	1,385,582	13,127,580	14,513,162	40,581	14,553,743
Transferred to banking risks reserve	-	-	-	-	414,559	-	(414,559)	-	-	-
Fraction of issued shares	-	-	-	-	-	-	21,789	21,789	-	21,789
Share dividends	18,595,863	-	-	-	-	-	(18,595,863)	-	-	-
Balance, end of period	100,000,000	9,034,692	10,092,391	-	5,066,585	(506,466)	13,521,791	137,208,993	536,412	137,745,405

## Interim Consolidated Statement of Cash Flows

For the six months ended June 30, 2010

	For the six months ended June 30	
	2010	2009
	Unaudited	Unaudited
	U.S.\$	U.S.\$
<b>Operating activities:</b>	17,720,284	16,244,508
Profit before tax		
<b>Adjustments for:</b>		
Depreciation	1,576,898	1,183,208
Financial investments gains	(1,223,570)	(465,418)
Impairment in value of available-for-sale investments	547,146	-
Sundry provisions	1,024,423	2,356,403
Gains from sale of property, plant and equipment	(1,381)	-
	19,643,800	19,318,701
<b>Changes in assets and liabilities:</b>		
Restricted balances with banks and financial institutions	(117,338)	(140,476)
Direct credit facilities	(113,099,343)	(28,808,736)
Statutory cash reserve of PMA	(4,947,951)	(10,457,170)
Other assets	(23,015,715)	(21,922,614)
Customers' deposits	117,163,402	103,589,081
Cash margins	5,026,525	438,819
Other liabilities	7,052,826	(217,829)
Sundry provisions paid	(22,171)	(224,165)
<b>Net cash flows from operating activities</b>	7,684,035	61,575,611
<b>Investing activities:</b>		
Purchase of available-for-sales investments	(17,575,632)	(11,196,048)
Purchase of financial assets held for trading	(1,794,819)	(3,279,521)
Proceeds from sale of available-for-sale investments	10,153,366	1,215,415
Held-to-maturity investment, net	(17,459,603)	(79,198,214)
Purchase of property, plant and equipment	(3,318,892)	(1,670,797)
Proceeds from sale of property, plant and equipment	2,828	27,549
<b>Net cash used in investing activities</b>	(29,992,752)	(94,101,616)
<b>Financing activities:</b>		
Cash dividend	(18,033,916)	-
Fraction of shares issued	-	21,789
<b>Net cash flows from financing activities</b>	(18,033,916)	21,789
<b>Net decrease in cash and cash equivalents</b>	(40,342,633)	(32,504,216)
Cash and cash equivalents, beginning of the period	507,288,468	502,915,412
<b>Cash and cash equivalents, end of period</b>	466,945,835	470,411,196



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YEARS OF BUILDING