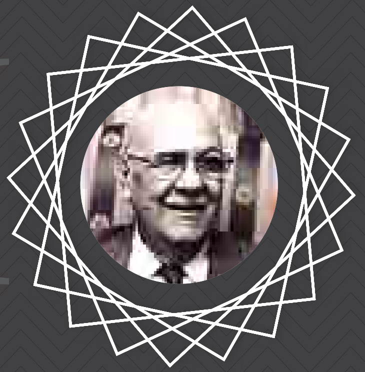
2013

Annual Report & Financial Statements



The Late Haj Hashim Atta Shawa
Founder of Bank of Palestine

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

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

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

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 150 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 1,200 employees serving 650,000 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 6,000 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 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 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. 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 6,000 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, 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".

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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 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
- Middle East Investor Relations Society – Best Company for Investor Relations in Palestine
- The Banker – Best 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
- Financial Times & International Finance Corporation – “Sustainable Bank of the Year” nomination
- We are also proud to have made it again this year to the list of the top 100 banks in the Middle East by CPI 100.

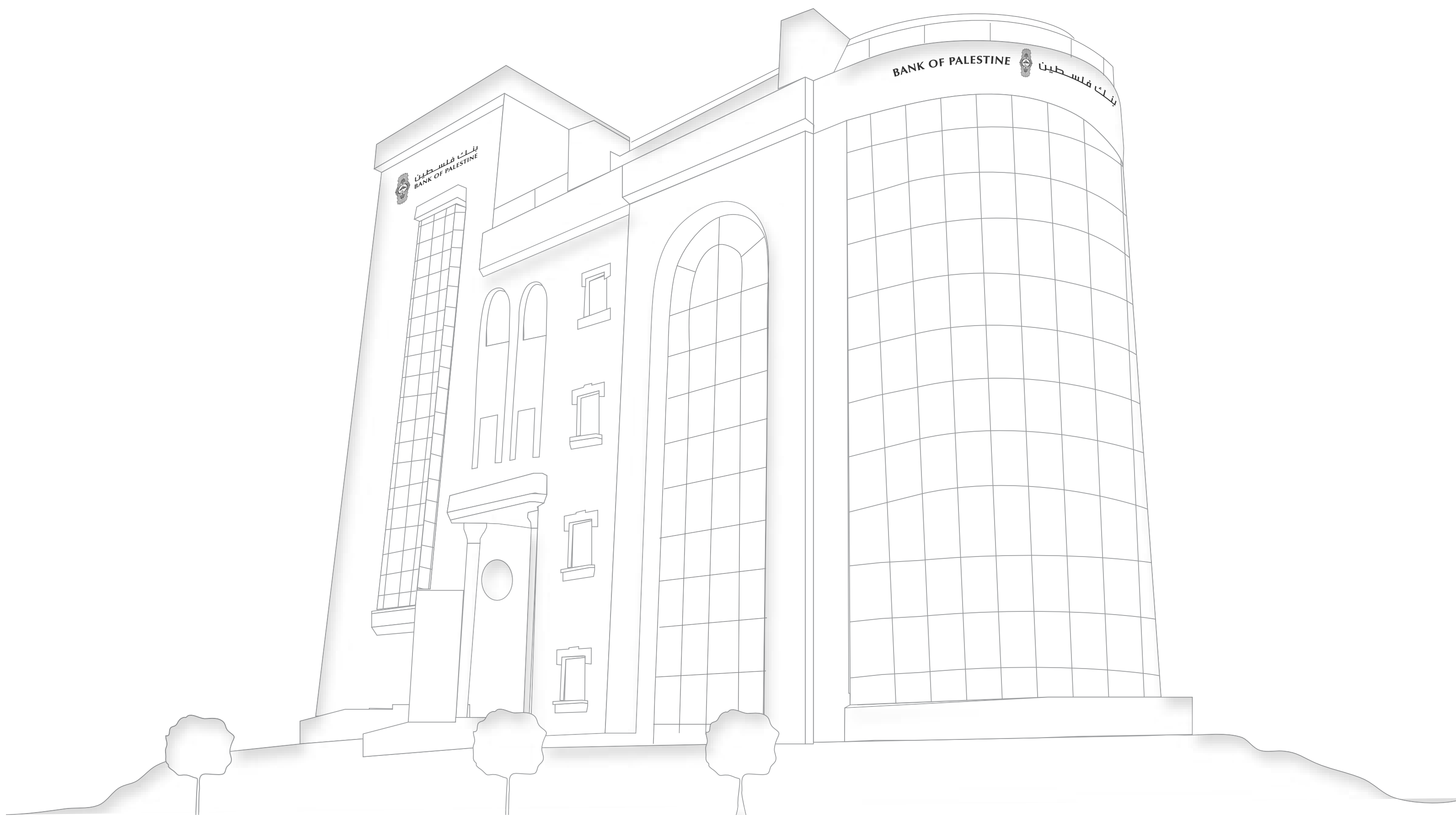
BOP KEY PERFORMANCE INDICATORS 2009-2013

Increase from 2012

2013

2.2 %	11.94 %	14.05 %	13.03 %	12.29 %	5.45 %
Non-Performing Loans	Paid Capital	Shareholder Equity	Loans	Deposits	Net Profit

	2009	2010	2011	2012	2013
Total Revenue	64,535,751	79,041,137	88,790,445	101,769,248	**112,693,775**
Profit Before Tax	34,536,070	37,732,105	41,868,275	49,966,888	**53,037,996**
Net Profit (USD)	26,929,168	30,119,469	33,980,673	38,347,397	**40,438,831**
Assets (USD)	1,283,017,502	1,545,038,022	1,653,960,732	2,004,494,095	**2,348,045,943**
Customer Deposits (USD)	1,016,683,776	1,251,482,935	1,296,568,931	1,554,493,702	**1,745,563,265**
Credit Facilities (USD)	343,311,230	545,026,391	720,173,048	976,394,928	**1,103,641,018**
Shareholder Equity (USD)	150,822,464	163,884,250	194,399,762	220,973,909	**252,018,974**
Paid-Up Capital (USD)	100,000,000	100,000,000	120,000,000	134,000,000	**150,000,000**
Net Interest and Commissions Income (USD)	52,865,829	61,843,054	75,982,199	83,681,034	**99,619,607**
No. of Employees	864	943	1061	1,139	**1,212**
No. of Customers	429,149	483,884	542,199	621,983	**647,947**
No. of Branches	40	42	46	48	**50 ***
Market Share: Deposits	16.71 %	18.44 %	18.60 %	20.77 %	**21.00 %**
Market Share: Credit Facilities	17.26 %	19.19 %	20.54 %	23.75 %	**24.63 %**



*Two of these branches were officially opened in early 2014

Hashim Shawa
Chairman of the Board
& General Manager

Dear Shareholders:

I am happy to share with you that our results for 2013 mark a milestone in the success of our growth strategy and, as you will find in this report; we march forth with bold steps towards transformation into being a bank of choice for the future. Building relationships, supporting our country, enhancing capabilities and unlocking potentials have been a major focus for us internally and externally in the past few years and especially 2013.

With our dedicated team, and with your invaluable support, I am confident that we will continue the journey of success, to deliver better value to our customers and shareholders alike, and to build on and strengthen our position as Palestine's leading national bank.

2013 was not a very easy year in Palestine. However, Bank of Palestine proved to be resilient. In 2013, BOP's profits before tax reached USD 53 million, an increase of 6.15% compared with 2012. The bank's net profit reached USD 40.4 million for the year 2013, an increase of 5.45% compared with 2012, reflecting the bank's strong financial standing. As at the end of 2013, Bank of Palestine's total assets increased by 17.14% to reach USD 2.35 billion - maintaining the top rank as the largest Palestinian company in terms of financial assets. Total shareholders' equity reached USD 252 million, an increase of 14.05% compared with 2012, and paid-up capital also increased by 11.94% to reach USD 150 million.

During this period, the bank's market share has also increased to reach 24.63% and 21.00% in loans and deposits respectively, compared with 23.75% and 20.77% in 2011; the loan portfolio reached USD 1.104 billion compared with USD 976 million at the end of 2012; an increase of 13.03%, and NPLs at BOP stood at 2.2% in 2012; deposits reached USD 1.75 billion, an increase of 12.29% compared with 2012. This solid performance reflects the resilience of our clients and their abilities to cope with the difficult situation. In this report, we present you with a few success stories of some of these clients.

The Business Environment

In June 2013, Morgan Stanley Capital International (MSCI) launched a standalone country index for Palestine - the MSCI Palestine IMI Index. Similarly, in December 2013, S&P Dow Jones added coverage of Palestine to its suite of frontier market indices by launching a standalone country index. This is a first step to getting Palestine on one of the broader indices, ultimately leading to increased foreign investment in companies listed on the Palestine Exchange (PEX).

Despite the instability in the region, the banking sector in Palestine registered stable growth, with assets increasing by 14%, deposits by 11%, and loans by 9%. The Palestine Monetary Authority (PMA) continued to advance in improving the regulatory framework in order to be fully compliant with Basel II. The PMA has also completed a project to enable all banks operating in Palestine to introduce the International Bank Account Number (IBAN) on January 1, 2013.

In 2013, the Deposit Insurance Bill was signed into law and established The Palestine Deposit Insurance Corporation, which aims at safeguarding small depositors as well as maintaining the stability of the banking system. This advancement is expected to mobilize more savings, thus enabling banks to play a larger role in economic growth. As part of this development, The Palestinian Monitory Authority joined the International Association of Deposit Insurers (IADI).

Sustainable Growth

As the largest Palestinian bank, with the largest number of branches, clients, and employees, and as the second largest listed company on the Palestine Exchange (PEX), making up more than 14% of PEX's total market capitalization, we have a responsibility to work towards not only achieving a solid annual performance, but to be committed to seeking sustainable profitable growth over the years. This commitment is what we base our business strategy and daily operations on. As you will find in this report, 2013 was a very busy year, marked by substantial achievements and exciting prospects in this regard, with plans for the future to continue in this direction.

We continued our commitment to reach completely unbanked areas, and remote rural regions, to be present wherever we are most needed; providing wider access to finance and transacting services. Bank of Palestine continues to be Palestine's leading bank in terms of banking network, with a total of 50 branches throughout Palestine. In 2013, we added two new flagship buildings to our network, one in Jericho and another in Bethlehem. Those buildings are not ordinary branches; both are equipped with special venues that offer unique services for SME and corporate clients. During this year, we have also invested significant effort in expanding our existing branches and offices, in order to accommodate our expanding client base and to guarantee quality service to our customers. By the end of this year, two new sub-branches were established; one in the village of Bidya in the Salfit Governorate, and another in Bani-Suheila in the Khan Younis Governorate.

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 75% of the Palestinian society. These include a special banking awareness campaign for children.

Moreover, several initiatives were undertaken to promote the cards and plastic business. For example, we have partnered with one of Palestine's largest retail chain stores to further promote the bank's local installment 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.

During the past few months, we have developed e-commerce services, which will become available in Palestine during the year 2014. In addition, a new type of ATMs will be introduced to offer clients the ability to deposit checks and cash. We also plan on installing Kiosk machines that allow clients to conduct an array of banking operations electronically.

To continue in the direction of the bank's strategy to provide access to finance to all segments of society, BOP continued working on restructuring and designing a program for the MSME segment, as 90% of the Palestinian economy is made up of MSMEs and this segment offers a very high labour employment force. In fact, our lending to MSMEs in 2013 amounted to around USD 155 million - a 13% increase from 2012. Part of this financing came as a result of our newly launched Fishermen Loans program. Aside from our commitment to provide access to finance, we are also working with the International Finance Corporation, a member of the World Bank Group, to develop and streamline our SME related processes in order to provide our customers with a more efficient service that meets their needs.

One of the Bank's core strategies is to empower women both on the external and internal fronts. Externally, the bank has continued to invest in the development of products and services that meet the needs of Palestinian women, support their businesses and sustain their livelihood. In an attempt to further solidify our relationship with this segment, we have extended non-financial advisory services to women in order to guide their businesses towards greater profitability. At the home front, and as part of the bank's gender-inclusion policy, we have continued to recruit more women to our employee base. In only five year, the percentage of female employees at BOP increased from 17% to its current 25%.

As illustrated in this report, the bank further developed its sustainability strategy to meet the new challenges and needs of our society and community because we believe that by "doing good" banks can be influential contributors to economic and social progress. As part of this strategy, we have sponsored projects in areas related to culture, youth, innovation, education, sports, health, environment, and women empowerment.

During 2013, BOP completed its Zamala Fellowship Program. The core mission of Zamala is the development of human resources at the faculties of Palestinian universities, in an attempt to improve education in Palestine. Seven Palestinian universities came on board as signatory partners to this fellowship program, bringing the total number of partner universities to eleven. Aside from these agreements, more workshops were conducted at affiliated universities to further promote the Zamala Fellowship program, and encourage faculty to apply. Finally, the first round of the program resulted in the selection of seventeen candidates who are scheduled to participate in programs at prestigious institutions in 2014.

This year, our Al-Bayyara Program placed special focus on Palestine's children. Through this unique program, five playgrounds were established last year in different locations, providing our children with safe playing environments. Currently, BOP is completing preparations for the establishment of ten additional playgrounds throughout the country.

We have continued our efforts this year to connect with the Palestinian Diaspora offering them banking and business advisory services, in addition to reaching out to them through organizing special road shows. To this end, Bank of Palestine is in the process of opening representative offices in both Dubai, UAE (home to more than 250 thousand Palestinians), and Santiago, Chile (home to about half a million Palestinians).

In 2013, with focus on the promotion of talent management and career development, we turned our attention to our most valuable asset: our people. Our 1,212 employees attended a total of 3,133 workshops and courses this year. To increase employee loyalty and productivity, we have continued to further develop our performance evaluation policies and procedures. We have also extended new workforce benefits, including full healthcare coverage for the employees and their families.

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.

Regarding our subsidiary companies, Al-Wasata was ranked – out of eight brokerage companies in Palestine- as the number one brokerage company for attracting new investors in 2013. The company's assets under management reached approximately USD 460 million during 2013. Again this year, Al-Wasata was awarded the award of "Best Brokerage Company in Palestine" by EMEA Finance, and for the first time the Global Investor ISF award for Best Broker in Palestine.

PalPay, our e-payments subsidiary that began operations in 2012, was also highly successful during 2013. The number of electronic transactions conducted through PalPay for the year exceeded 7.8 million. Also in 2013, 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.

I am also happy to report that once again this year, our achievements have been recognized by several prestigious international institutions - including Euromoney, Global Finance, The Banker ME, EMEA Finance, and The Banker - as the "Best Bank in Palestine". Moreover, we are proud to be one of three banks in the Middle East and Africa to be nominated by the Financial Times (FT), and the International Finance Corporation (IFC) as the "Sustainable Bank of the Year".

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

Financial Highlights 2009-2013

24.63 %
Market share in loans

21.00 %
Market share in deposits

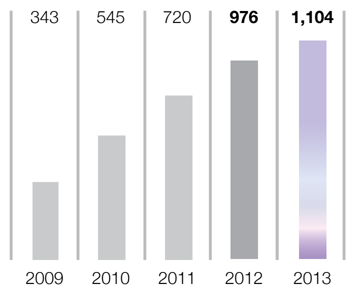
Bank of Palestine continues to increase its market share to an advanced position amongst banks operating in Palestine. Loans grew by 13.03% from 2012, increasing our market share to 24.63 % (23.75% in 2012). Customer deposits increased by 12.29% compared with 2012, raising BOP's market share from 20.77% to 21.00 %.

In 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, 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

USD1.104b

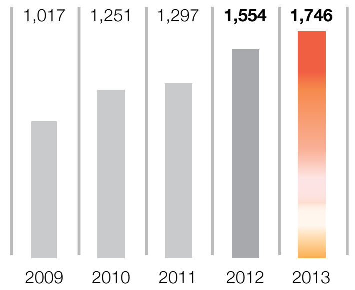


Loans in 2013 amounted to USD 1,103,641,018; an increase of 13.03% from 2012.

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 and medium businesses and projects that promote economic growth and job creation.

Customer Deposits

USD1,746b

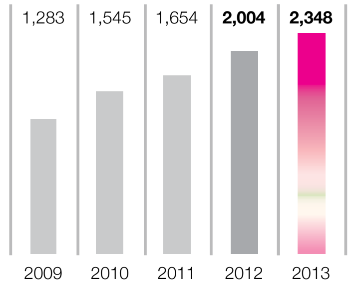


Total deposits in 2013 reached USD 1,745,563,265; up by %12.29 from USD 1,554,493,702 in 2012.

This increase is a result of the bank's expansion strategy, focusing on rural and under banked areas. Also, BOP launched several products and campaigns in 2013, which have helped attract deposits.

Assets

USD2,348b

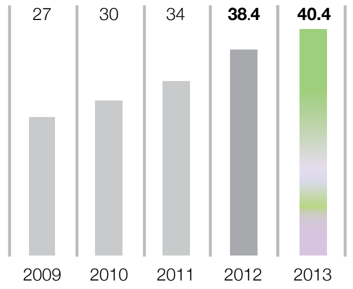


Total assets increased to reach USD 2,348,045,943 compared with USD 2,004,494,095 last year.

The increase of 17.14% is attributed to the expansion of our branch network, growing product portfolio and customer base.

Profits

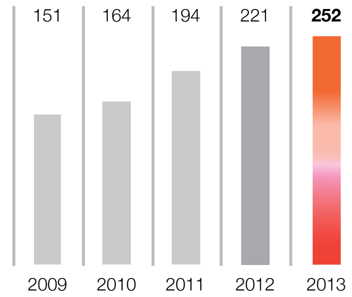
USD40.4m



Total revenues in 2013 amounted to USD 112,693,775 as compared to USD 101,769,248 in 2012. Net profit for the year 2013 was USD 40,438,831 after deducting expenses and taxes (USD 38,347,397 in 2012) with a net increase of 5.45%.

Shareholder Equity

USD 252m



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 14.05% compared with 2012 to USD 252,018,974.

The Palestine Capital Market Authority

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

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

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

In 2013, the PCMA officially became the 124th member of The Board of the International Organization of Securities Committees (IOSCO), and the 101st signatory to the Multilateral Memorandum of Understanding (MOU).

The admission of the PCMA to the IOSCO and MMoU has positive consequences on the Palestinian securities sector and the investment climate in general since it plays a significant role in increasing the investors' confidence especially foreign and institutional investors investing in the securities listed on the Palestine Exchange (PEX). In addition, the membership also serves as an international endorsement that the PCMA regulates and monitors the Palestinian securities market in accordance with the IOSCO international standards and principles, which enhances the ability of the Palestine Stock Exchange in attracting international investors.

Palestine Exchange

The Palestine Exchange (PEX) was established in 1995 as a private shareholding company to promote investment in Palestine and transformed into a public shareholding company in February 2010 responding to principles of transparency and good governance.

The PEX was fully automated upon establishment- the first fully-automated stock exchange in the Arab world and the only Arab exchange that is publicly traded and fully owned by the private sector.

The PEX operates under the supervision of the Palestine Capital Market Authority. It uses best-of-breed technology and strives to provide an enabling environment for trading that is characterized by equity, transparency, and competence as well as serving and maintaining the interest of investors.

The PEX has maintained its presence under challenging political and economic conditions for the past 17 years and positioned itself as a robust exchange among its emerging market peers. The PEX is one of the most rewarding exchanges in the region in terms of return on investment (ROI) which averaged 6% over the last five years.

There are 49 listed companies on PEX as of 31 December 2013, with market capitalization of about US$ 3.25 billion across five main economic sectors: banking and financial services, insurance, investments, industry, and services. Most of the listed companies are profitable and trade in US Dollars or Jordanian Dinar. Only stocks are currently traded on the PEX, but there is the potential and readiness to trade other securities in the future.

The World Bank's Doing Business Report (2013) ranked Palestine 49 internationally and 3rd regionally under its "Investor Protection" category. A total of 185 countries were considered in the ranking.

In June 2013, Morgan Stanly Capital International (MSCI) launched a standalone country index for Palestine, the MSCI Palestine IMI Index, which consists of four listed companies namely PALTEL Group, Bank of Palestine, PADICO Holding and Wataniya Mobile. The launching of this new index has strengthened investors' confidence in Palestine's stock market, and exposed the Palestine Exchange as a possible venue for international investments. The launching of this new index is a 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).

In December 2013, S&P Dow Jones added coverage of Palestine to its suite of frontier market indices by launching a standalone country index for Palestine. The index includes the following listed companies: PALTEL Group, Bank of Palestine, PADICO Holding, Wataniya Mobile, Birzeit Pharmaceuticals, Palestine Electric Company, Palestine Islamic Bank, and Palestine Real Estate Investment – PRICO.

The Palestine Monetary Authority (PMA)

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

The PMA was established in 1995 by a presidential decree as an independent institution and later by an act of the Palestine Legislative Council PMA Law Number (2) of 1997, which outlined the full authority and autonomy of the PMA. Since 2007, the PMA has made notable progress in institutional reform. Below are some of the recent achievements of the PMA:

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

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

In 2010, the PMA issued Basel II compliant regulations governing the disclosure of information by financial institutions. In early 2011, the President approved regulations for licensing and supervision of Specialized Lending and Financial Companies, including microfinance institutions.

In 2010, the PMA adopted regulations governing mergers and acquisitions in line with best practices. These regulations have already been applied to bank mergers.

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

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

The PMA also established a modern payment infrastructure including bounced-checks tracking, credit scoring, and electronic payment systems. The bounced-check tracking, in operation since 2009, has contributed to the decline in bounced checks by an estimated 25%. The credit scoring system, which was integrated into the credit registry in July 2010, is considered by banks to have been an important facilitator of the rise in the Palestine's bank credit to the private sector.

The PMA installed the electronic payment system in November 2010. It includes a Real Time Gross Settlement system (RTGS) and a Clearance House. The payment system raised bank payments' efficiency and reduced liquidity risk.

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

An Anti-Money Laundering (AML) law, prepared with technical assistance from the IMF, has been in force since October 2007. Since 2008, the PMA has been monitoring banks' compliance with the Basel committee compliant corporate governance code.

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

In 2012, The Palestinian Monetary Authority launched the International Bank Account Number (IBAN), which adheres to international standards for bank account enumeration in Palestine. This new development will facilitate the handling of internal and external bank transfers, which will now be conducted through electronic systems that are bound to reduce transfer rejections caused due to account-number variations.

The Business Cycle Indicator (BCI) was launched by the PMA in November 2012. The BCI provides real-time information on fluctuations in Palestine's economy, which aids the PMA in adopting the appropriate monetary policy without having to wait for macroeconomic indicators to be published. An opinion polling methodology is used to calculate the results of the BCI, which are published on a monthly basis. A representative sample of industrial firms in both the West Bank and the Gaza Strip are surveyed for opinions on employment, production and sales during the current and future time frames. The collected data is then used to arrive at a business cycle indicator, which provides economic insights pertaining to the surveyed month as well as expectations for a few months to follow.

In 2013, the Deposit Insurance Bill was signed into law and established The Palestine Deposit Insurance Corporation, which aims at safeguarding small depositors as well as maintaining the stability of the banking system. This advancement is expected to mobilize more savings, thus enabling banks to play a better role in economic growth. As part of this development, The Palestinian Monitory Authority joined the International Association of Deposit Insurers (IADI).

TOTAL ASSETS	2009	2010	2011	2012	2013
Banking Sector	7, 718, 180, 756	8, 554, 270, 628	9, 110, 234, 260	9,797,014,817	11,195,285,474
Bank of Palestine	**1, 283, 017, 502**	**1, 545, 038, 022**	**1, 653, 960, 732**	**2,004,494,095**	**2,348,045,943**
DEPOSITS					
Banking Sector	6, 203, 378, 593	6, 772, 696, 986	6, 972, 474, 546	7,484,129,223	8,306,247,172
BOP	**1, 016, 683, 776**	**1, 251, 482, 935**	**1, 296, 568, 931**	**1,554,493,702**	**1,745,563,265**
Loans					
Banking Sector	2, 033, 036, 514	2, 820, 594, 938	3, 552, 598, 651	4,111,307,849	4,480,286,185
BOP	**343, 311, 230**	**545, 026, 391**	**720, 173, 048**	**976,394,928**	**1,103,641,018**

Perectage Growth in Deposits and Loans (Year on Year)

Deposits	2009	2010	2011	2012	2013
Banking Sector	6.5 %	9.2 %	3.0 %	7.3 %	10.98 %
BOP	21.0 %	23.1 %	3.6 %	19.9 %	12.29 %

Loans	2009	2010	2011	2012	2013
Banking Sector	20.8 %	38.2 %	24.0 %	17.9 %	8.97 %
BOP	20.3 %	58.8 %	32.1 %	35.6 %	13.03 %

The Palestinian Banking Sector

Seventeen banks operate within Palestine, seven of which are Palestinian. The growth potential for the banking sector in Palestine is very promising. There are currently 237 branches that serve the entire Palestinian population of 4.5 million. Without taking into account the growth in the Palestinian population, the number of bank branches in Palestine needs to double to meet the world standard of a maximum of one branch per 10,000 people.

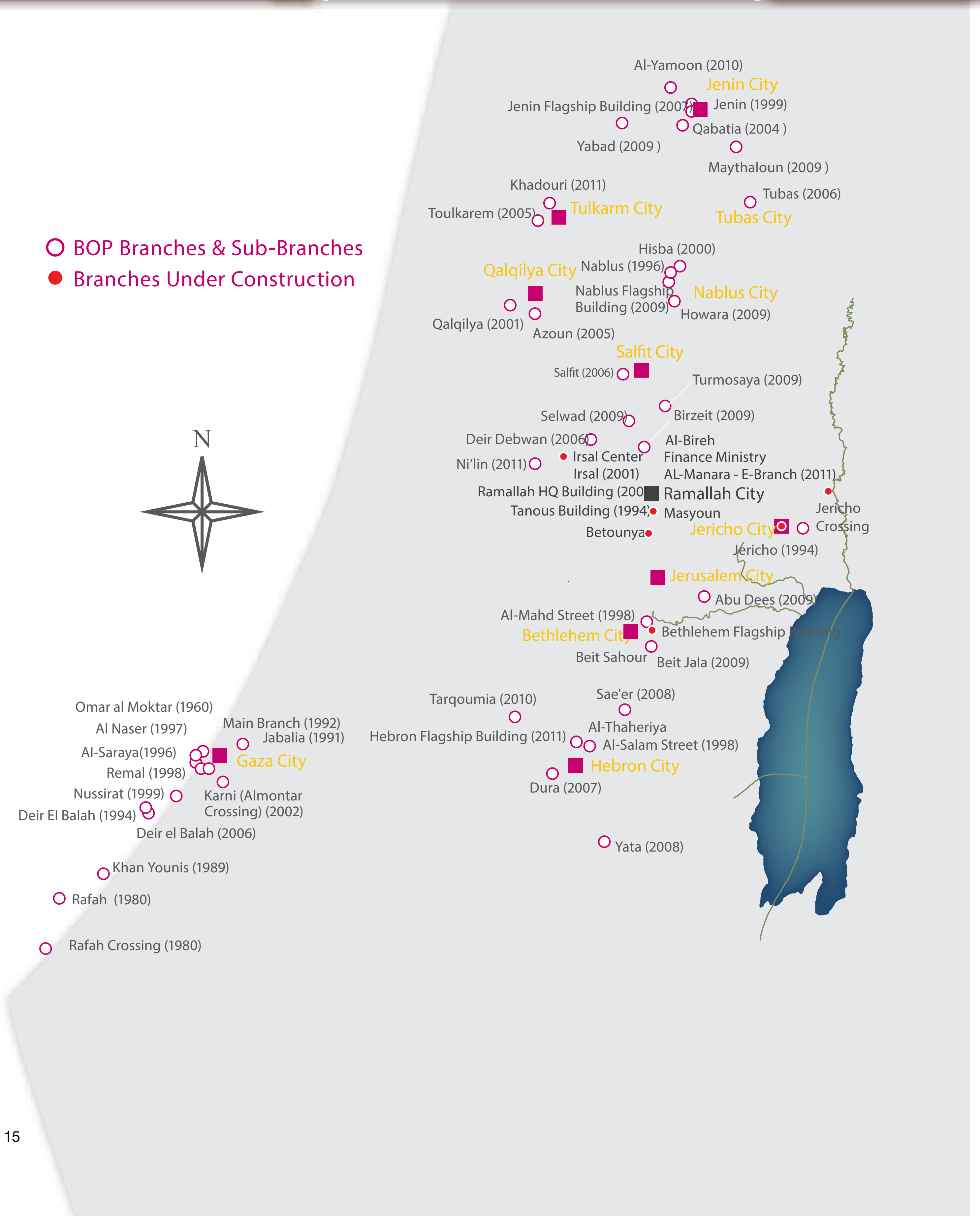
Bank of Palestine regards the relatively sparsely populated banking arena in Palestine as an opportunity both to extend the reach of its business and to provide high quality, innovative products and advisory services that improve the lives of its customers.

Bank of Palestine's potential for growth is strong. During 2013, the banking sector assets increased by 14%, deposits by 11%, and loans by 9%. Looking at the trajectory over the last five years, assets have increased by 45%, deposits by 34%, and loans by 120%.

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

- 50 Branches
- 120 ATMs
- 6,000 POS
- 1,212 Employees
- 647,947 Customers

Our Branch Network



Banking on Growth

Bank of Palestine continues to be Palestine's leading bank in terms of presence, and has further pursued its strategic plans to provide services to both urban and rural areas, to be present wherever we are most needed, providing wider access to finance and transacting services.

During 2013, we added two new flagship buildings to our network, one in Jericho and another in Bethlehem. In addition to housing the bank's branches, these flagship buildings have special business banking sections that serve our SME and corporate clients, and also training halls used for staff training and for holding workshops for our clients. We also offer these halls to local community institutions and NGOs, who need them to hold their events and workshops. We created an art gallery that is open to the public in our Bethlehem flagship building that includes unique Palestinian artefacts collected by a young Palestinian art historian.

We also continued expanding and refurbishing our existing branches and sub-branches, to keep up with the increase in our customer base and their needs, and to provide them with a comfortable environment.

By the end of this year, two new sub-branches were established; one in the village of Bedya in the Salfit Governorate, and another in Bani-Suheila in the Khan Younis Governorate.

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

Al-Wasata Securities

الوساطة
AL WASATA

Al-Wasata Securities was established in Palestine in December 2006 as a subsidiary of Bank of Palestine (BOP). Al-Wasata's paid-up capital is USD 3,560,000, of which 87% is owned by BOP. Al-Wasata is a member of the Palestine Stock Exchange and holds licenses from the Palestine Capital Market Authority for brokerage and issuance trusteeship. In addition to providing brokerage services in the Palestine Stock Exchange, the firm also provides brokerage services in different regional exchanges, including the Amman Stock Exchange, the Egyptian Exchange, the Dubai Financial Market, and the Abu Dhabi Securities Market. Al-Wasata is at the forefront of companies that use the latest technology to help clients secure their deals in the fastest and most secure ways. Al-Wasata is one of the few Palestinian brokerage companies to provide investors with electronic trading services.

Achievements in 2013

The total value of traded shares through Al-Wasata during 2013 was around USD 228 million in the Palestine Exchange and regional markets, putting Al-Wasata in the leading ranks of brokerage companies (among eight brokerage firms in Palestine).

For the seventh year in a row - ever since it was established - Al-Wasata was ranked number one in terms of new investor acquisition, with a share of 20% of total investors in the market. Al-Wasata's total market share equated to about USD 450 million in 2013.

Al-Wasata operates from three locations -Ramallah, Gaza, and Khan Younis - and has plans to open brokerage windows through Bank of Palestine's wide geographical network (the bank is the most widespread bank in Palestine), which will give the company access to most of Palestine's urban and rural areas.

Al Wasata has put a lot of effort in educating the public regarding investing in Palestine. Since their founding, Al-Wasata has been organizing awareness workshops all over Palestine. Many awareness workshops and presentations were conducted during 2013, which educated existing and potential clients on trading in Palestine and in the region. Al-Wasata's awareness program focuses on targeting women and youth. Moreover, to take advantage of the high technology penetration in Palestine and to target the largest segment in Palestine - the youth - Al Wasata conducted several awareness workshops on Facebook.

As recognition for Al-Wasata's work and success, it was named "Best Brokerage Company in Palestine 2013" by EMEA Finance, which covers Europe, Africa, and the Middle East, and by Global Investor/ ISF Middle East.

Best Brokerage Company in Palestine for the Year **2013**

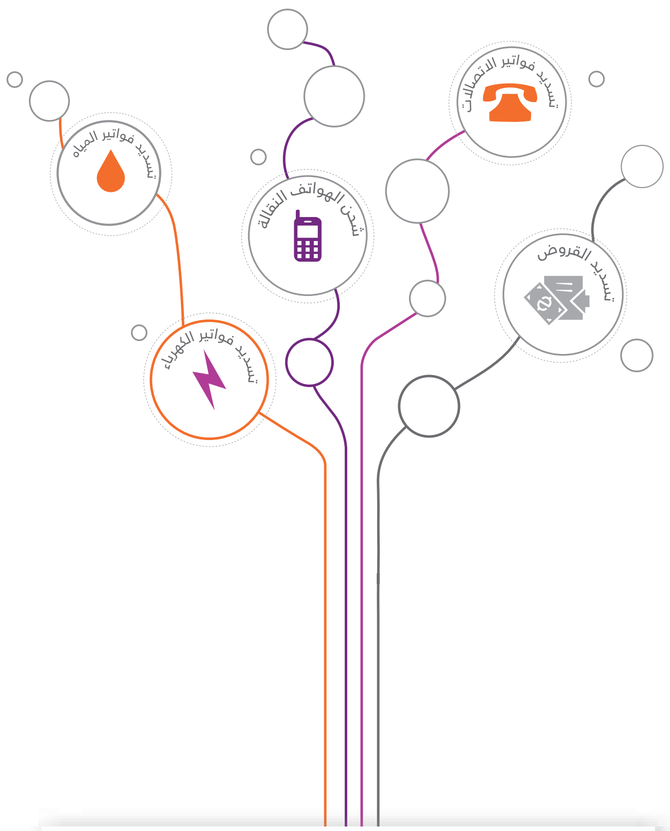
Electronic Payment Services in Palestine

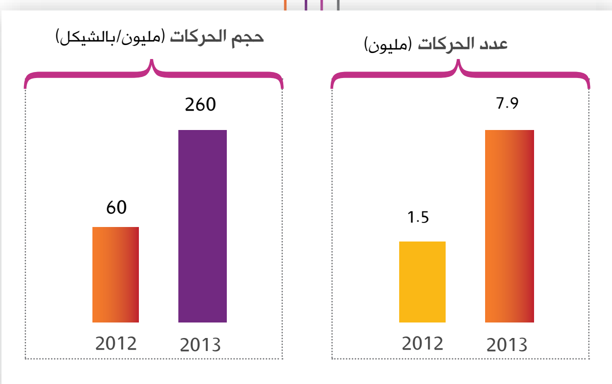
Bank of Palestine founded PalPay e-payment services after more than ten years of experience in the field of electronic payments, including the acceptance and issuance of credit and debit cards. The initiation came after setting up the technical infrastructure in the Palestinian market, which is required for the provision of the latest technological methods in the payment of bills, mobile phone top-up transactions, and the repayment of small loan installments and university loans.

PalPay's services, launched in 2011, provide facilitated financial services that spare much time and effort. Through the installed 6000 point of sale merchant terminals (POS) at BOP's contracted merchants, clients are able to conduct payments with ease and safety. PalPay's POS network extends throughout Palestinian rural and urban areas, thus granting access to electronic payment services to all segments of Palestine's society. Accordingly, people no longer have to travel long distances or wait in queues to pay their bills or top-up their mobile phones, or pay their loan installments.

PalPay has signed agreements with more than 18 utility and services companies in order to make it easier for their subscribers and beneficiaries to access the nearest POS to pay bills easily, instantly, and safely. PalPay is the first company on the national level to develop high-tech state-of-the-art electronic collection services through different electronic channels. In the near future, PalPay plans to launch its services online and through smart phone applications. In its third year, PalPay has been very successful; in 2013, around 8 million bill payment transactions were conducted through PalPay, compared with 1.5 transactions in 2012.

In 2013, PalPay was the Silver Sponsor of Cards and Payments – Middle East Conference 2013 in Dubai. During this exhibition PalPay was able to market its services globally.





Expanding their Business by Introducing PALPAY® electronic Payment Solutions

Although electronic bill payment has recently been introduced in Palestine, Sameh Helal and his brothers succeeded in rapidly spreading this service in their hometown of Beit Sahour. They connecting homes to the internet network, the Helal brothers established a company to provide electronic services to the residents of the city. The company offered its expanding client base with an array of ammenities, including online bill payment. Signing a contract with PalPay, Bank of Palestine's electroinic bill payment subsidiary, enabled the Helal brothers to install a Point of Sale (POS) terminal, which greatly facilitated bill payments, as they can process utility bill payments and mobile top-ups for their clients using this terminal. Currently, the Helal brothers process more than 1,700 payments on behalf of their clients from their store.
Mr. Helal believes that the electronic culture in Palestine has great future potential.
With today's busy lifestyle, most people are opting for speedy and reliable services. He is looking forward to expand business by capitalizing on this opportunity.

total banking solutions

Retail Banking

Laptop Loans

BOP developed short-term loans offered to school and university students aged 5-19 for purchasing a licensed educational laptop, and in the future the loan will cover educational tablets. The loans will be granted without proof of studentship, in order to ensure that even students who are not enrolled in schools have access to this educational opportunity. This loan will be offered in early 2013 in cooperation with "Partners for Sustainable Development."

Children's Saving Account

During 2012 BOP launched a time deposit savings account tailored especially for parents wishing to save for their children on a trust fund basis. The account rewards longer saving periods with higher interest.

Youth Campaign

Given that 60% of the Palestinian population under the age 25, Bank of Palestine, in cooperation with Wataniya Mobile, launched a campaign to encourage Palestinian youth to open bank accounts. The campaign offered prizes of paying for accredited university hours for students with either an account at BOP or a Wataniya Mobile SIM card. BOP also gave all students who scored 80% or higher on the high school exam Tawjihi, a prepaid Cash Card charged with USD 50.

Time Deposit

Bank of Palestine provides distinguished revenues on savings deposits. The specified term of the savings deposits is 2-5 years. Minimum amount to assess the deposit is USD 10000, Customers receive a monthly return on deposits. Customers can withdraw a sum of the deposit before the date of maturity without losing the interest on the withdrawn sum. The interest is recalculated according to the publicly declared ordinary brackets of term deposits.

Instant Deposit

The instant deposit is one of the special services provided by the Bank of Palestine. Customers can receive the proceeds of the deposit (amount of money) that is deposited at the bank at the time of deposit.

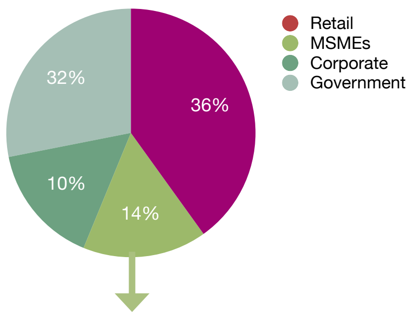
Client Success Story: Supporting Female Entrepreneurs

After completing her secondary school education, Gaza resident Ms. Marwa Wahda (20 years old), became employed at a beauty salon. As an ambitious young woman, she soon decided to resign and startup a business for selling beauty accessories and cosmetics. While Marwa's father provided his modest old shop, where he used to repair kerosene stoves, a profession which has now become extinct, Bank of Palestine offered her the required finances through its microfinance lending program.

Marwa refurbished the old shop and redecorated the interior design. Achieving remarkable success, she later expanded her business operations by opening a beauty salon for women next to the accessories and cosmetics shop.

Having succeeded in improving the living conditions of her family, Marwa aspires to open a large state-of-the-art beauty center in the Gaza Strip. She expressed her gratitude to BOP for supporting her and providing her with all possible facilities toward carrying out her project.

Helping businesses reach their destination



USD 155 Million

to 2,000 micro, small and business enterprises employing over 15,000 Palestinians.

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

Around 200,000 formal SMEs currently exist in Palestine. In the past ten years there has been an increase of nearly 50% in new firms coming onto the market. Compared with other markets, the SME population is very stable and demand for SME financing is expected to increase by 20% in the next year.

Equally important to the Palestinian economy are the many micro entrepreneurs and family enterprises that make up a large segment of businesses in Palestine. Despite their importance to the economy, micro entrepreneurs often have limited access to financing through the traditional banking system. Bank of Palestine believes in the potential of these businesses to promote economic sustainability, create jobs, and raise living standards. Accordingly we have established a specialist microfinance unit to help low income business owners develop their businesses across Palestine, including rural areas.

As these businesses grow, Bank of Palestine continues to work with them, responding to their growth and changing needs with more sophisticated products, services, and advice. A closely linked referral partnership between our microfinance officers and business banking experts helps to ensure that smaller businesses receive the appropriate support needed to establish, upgrade or expand a business. Our staff are constantly out in the field building relationships and gaining insight into local communities in order to better develop solutions that suit our diverse customer base.

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

In addition to providing access to finance, Bank of Palestine also helps these fledgling businesses survive and prosper by encouraging them to develop managerial, technical, entrepreneurial, and marketing skills. Bank of Palestine's credit facilities to MSMEs increased by 16% in 2012.

Green Loans

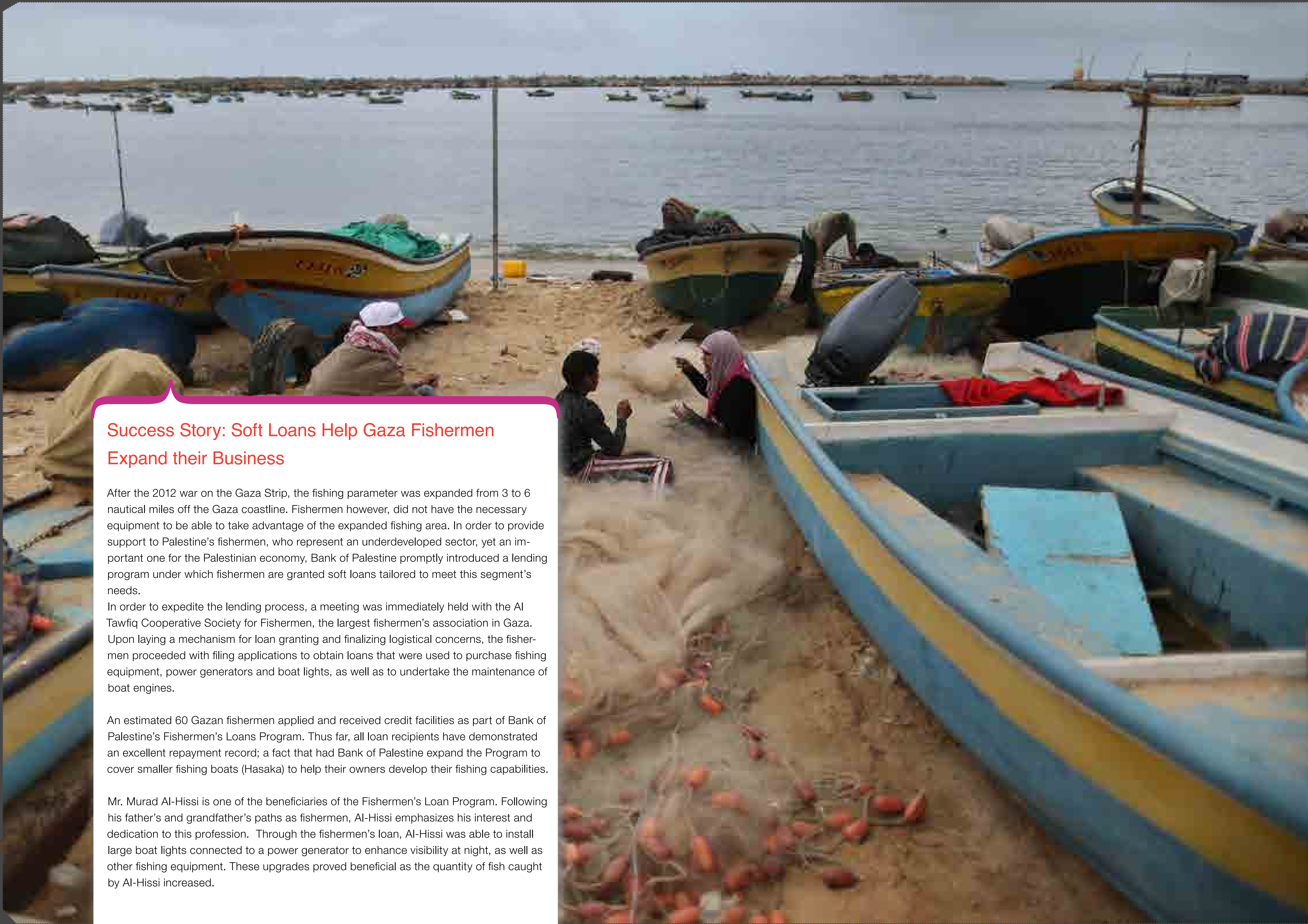
Bank of Palestine is the first bank in Palestine. As such, we believe that we have a responsibility to act as a leader in the area of social and environmental responsibility. This sense of responsibility is heightened in a country such as Palestine, which faces ongoing political difficulties and is also being squeezed by a growing scarcity in natural resources. In 2010, Bank of Palestine launched the Green Loan programme, the first of its kind in the region. Its objective is to encourage the introduction of more green systems, such as the building of water wells, the installation of wastewater management, reduction, and treatment systems that provide water for irrigating farmland, and alternative energy sources. The programme is designed for individuals, households, and MSMEs, particularly in the rural areas of Palestine, to finance investments that lead to water or energy efficiency, wastewater treatment, and the production of renewable energy.

The aim is that borrowers will increase their self-reliance and reduce their utility bills. To boost understanding and participation in the programme, the bank held workshops in rural areas of Palestine, aimed mainly at farmers, to explain the Green Loan programme and raise awareness of solar energy, modern irrigation methods, and wastewater treatment systems.

Success Story: Solar Energy Generation through Green Loans

Bank of Palestine has consistently encouraged the Palestinian community to utilize solar panels to generate electricity and has introduced the Green Loans program to support individuals and businesses who would like to do so. Moreover, in 2013 BOP signed an agreement with Tubas District Electricity Company (TDECO) to promote environmentally friendly projects through BOP's Green Loans Program in Tubas. Upon publically announcing the details of the agreement, citizens from Tubas District applied to receive Green Loans for the establishment of solar energy power generating units. Even through the idea of power generating units has only been recently introduced in Tubas, 150 projects have been carried out thus far. The Energy and Natural Resources Authority has spurred citizens to install solar panels by purchasing power generated from them at preferential prices.

TDECO Finance and Administration Manager Talal Abu Al-Rub emphasized that this agreement will provide even more citizens with the required facilities to lay more solar power generating units. He added: "The agreement will help disseminate the green projects' culture. It is indeed a unique and successful experience."



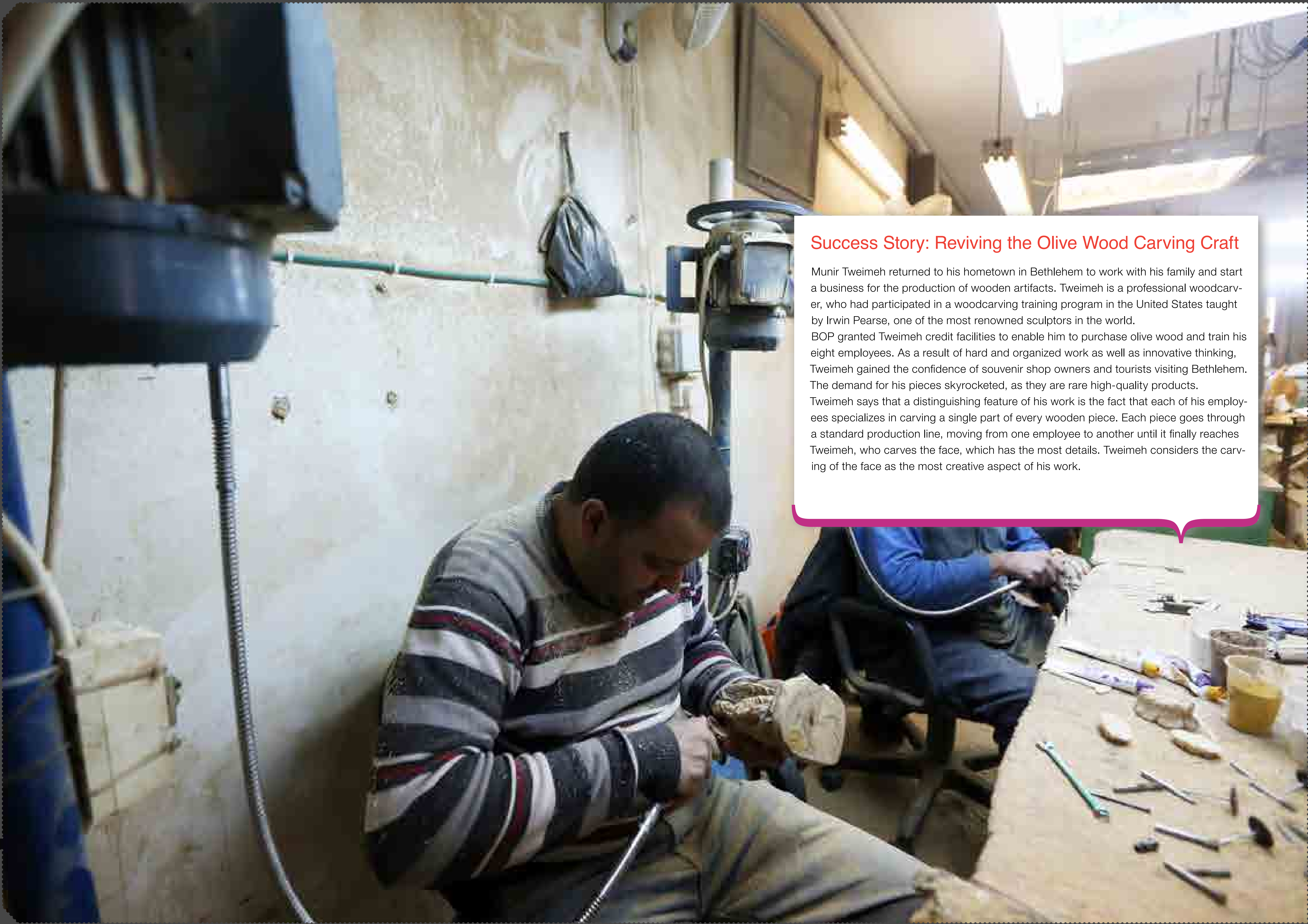
Success Story: Soft Loans Help Gaza Fishermen Expand their Business

After the 2012 war on the Gaza Strip, the fishing parameter was expanded from 3 to 6 nautical miles off the Gaza coastline. Fishermen however, did not have the necessary equipment to be able to take advantage of the expanded fishing area. In order to provide support to Palestine's fishermen, who represent an underdeveloped sector, yet an important one for the Palestinian economy, Bank of Palestine promptly introduced a lending program under which fishermen are granted soft loans tailored to meet this segment's needs.

In order to expedite the lending process, a meeting was immediately held with the Al Tawfiq Cooperative Society for Fishermen, the largest fishermen's association in Gaza. Upon laying a mechanism for loan granting and finalizing logistical concerns, the fishermen proceeded with filing applications to obtain loans that were used to purchase fishing equipment, power generators and boat lights, as well as to undertake the maintenance of boat engines.

An estimated 60 Gazan fishermen applied and received credit facilities as part of Bank of Palestine's Fishermen's Loans Program. Thus far, all loan recipients have demonstrated an excellent repayment record; a fact that had Bank of Palestine expand the Program to cover smaller fishing boats (Hasaka) to help their owners develop their fishing capabilities.

Mr. Murad Al-Hissi is one of the beneficiaries of the Fishermen's Loan Program. Following his father's and grandfather's paths as fishermen, Al-Hissi emphasizes his interest and dedication to this profession. Through the fishermen's loan, Al-Hissi was able to install large boat lights connected to a power generator to enhance visibility at night, as well as other fishing equipment. These upgrades proved beneficial as the quantity of fish caught by Al-Hissi increased.



Success Story: Reviving the Olive Wood Carving Craft

Munir Tweimeh returned to his hometown in Bethlehem to work with his family and start a business for the production of wooden artifacts. Tweimeh is a professional woodcarver, who had participated in a woodcarving training program in the United States taught by Irwin Pearse, one of the most renowned sculptors in the world.

BOP granted Tweimeh credit facilities to enable him to purchase olive wood and train his eight employees. As a result of hard and organized work as well as innovative thinking, Tweimeh gained the confidence of souvenir shop owners and tourists visiting Bethlehem. The demand for his pieces skyrocketed, as they are rare high-quality products.

Tweimeh says that a distinguishing feature of his work is the fact that each of his employees specializes in carving a single part of every wooden piece. Each piece goes through a standard production line, moving from one employee to another until it finally reaches Tweimeh, who carves the face, which has the most details. Tweimeh considers the carving of the face as the most creative aspect of his work.

Client Success Story: Fuel Production from Used Oil

Aysar Gharaba has been working in a project for fuel production from recycled oil for more than ten years. In a small village in Qalqilya Governorate, Gharaba and his brothers launched the project after purchasing production pipelines from China, which convert oil used in restaurants, vehicles and elsewhere into biodiesel. Used oil is collected, filtered and chemicals are then added to it. Through this process, used oil is recycled and transformed into fuel for vehicle use.

Gharaba says the project is environmentally friendly. He adds: "Disposing of used oil is deleterious to the environment and in order to protect the environment from any damage, we collect used oil and turn it into a useful substance. The diesel we produce is less harmful to the environment by about 90% when compared to natural diesel." Furthermore, the recycled oil is of good quality and automobiles using it emit less fumes while able to travel greater distances.

Gharaba states that the Ministry of Environmental Affairs has examined his factory and ensured the produced oil is fit for use in automobiles that run on diesel.

Gharaba and his brothers aspire to expand their production capacity of biodiesel from 5,000 to 30,000 liters per day. He states that the rate of biodiesel consumption is exponentially climbing and therefore gas stations are increasingly demanding extra quantities.

Success Story: Reconstruction of the Gaza Strip

Suheil Saqqa began his career life in 1983, after graduating from Al-Manoufiya University in Egypt. In 1986, he established Saqqa & Khoudari General Contracting Company but soon left it to establish Skills & Quality Construction Company in the Gaza Strip. Skills & Quality is the largest construction and infrastructure contractor working on the "Reconstruction of Gaza" project.

Chairman of the Board of Quality & Skills, Saqqa highlights the company's achievements and successes during the past few years. Today, for example, the company is carrying out several projects, including a USD 25 million project for the reconstruction of Salah Eddin Street that connects the southern with the northern part of the Strip. In addition, the company won a tender to carry out the third phase of the construction of the coastal Al-Rashid Street at a cost of USD 5.6 million. Finally, it is worth mentioning that Quality & Skills has recently expanded operations and is now implementing various projects in Ramallah.

According to Saqqa, the company now owns the largest number of equipment, machinery and assets estimated at USD 5 million. It employs 200 employees, including engineers and skilled workmen. The company has also purchased a mobile asphalt plant, the only one in the Gaza Strip, in order to expedite the completion of projects.

Other products and services for business and corporate clients

To meet the needs of our corporate and business clients, Bank of Palestine has established specialized corporate branches in the main cities in Palestine.

Bank of Palestine offers commercial and business clients a full range of products and services to help them do business, including:

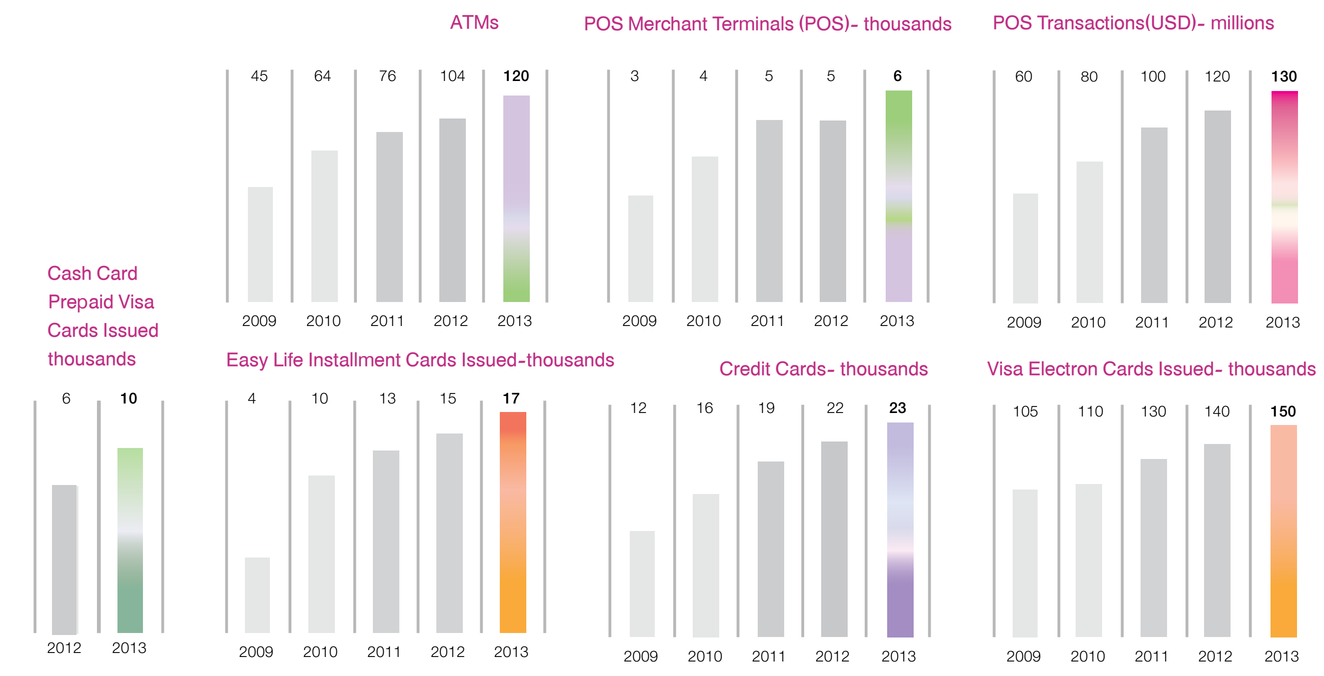
- Letters of Credit
- Letters of warranty
- Financing of commercial contracts
- Bill collection
- Credit facilities
- International money transfers
- Treasury services
- Electronic banking services
- POS merchant terminal
- Green loans

Client Success Story: From a Small Store to Regional Dairy Production

The late brothers Hamed and Hashem Juneidi had inherited from their grandfather their small store in 1970, which was located in the center of Hebron city and where they sold dairy products. As demand for their products increased, the brothers decided in 1982 to establish a small dairy factory with a production capacity of 500 kilograms per day and a capital of JOD 15,000. The factory achieved great success and won the confidence of consumers, which led to a mounting level of sales. To meet the increasing customer demand, Juneidi brothers decided in 1992 to purchase new production lines and machinery from different European countries, including Switzerland, Germany, and Italy.

In addition, Juneidi Company set up new production lines and established a factory for the production of plastic boxes for dairy products. On target with its expansion and investment strategy and in order to ensure permanent provision of raw material, the company established farms in Hebron and Jericho. Currently a third farm is being created in Nablus.

Juneidi Company General Manager Mashour Abu Khalaf reported that the company, which currently employees 700 male and female workers, has a daily production of 120,000 liters of milk. Ninety trucks distribute the products to different West Bank governorates. Abu Khalaf added that a new dairy factory has been established in Jordan and the company has now achieved a leading market position there in terms of production and marketing.



Payment Solutions and Culture of Plastic Money

Since 1999, Bank of Palestine has been the issuing and acquiring agent for both VISA and MasterCard in Palestine. Since then the bank has been issuing debit and credit cards to its customers that could be used in local and international purchasing and withdrawing cash from local and international ATMs through more than 30 million stores and ATMs. Keeping up with the latest global technology in regards to plastic money, Bank of Palestine was one of the first in the region to introduce the smart chip technology, which provides additional security to the cardholder, which enhanced the culture of using cards in purchasing and cash withdrawals.

We also designed and introduced the EasyLife Installment Card, which is the first of its kind in Palestine. This card allows customers to purchase goods, and repay in installments up to 36 months with no interest or commissions. The EasyLife card replaced the complicated manual installment procedures and provided speed and convenience for the bank's customers; accordingly its brand name is the Easy Life Installment Card. In 2013, Bank of Palestine issued a co-branded EasyLife Card in collaboration with Sbitany Company, one of Palestine's largest retailers in the field of electronics and home appliances, where the holders of this card can enjoy shopping from Sbitany's showrooms and wholesale merchant across Palestine, and enjoy additional features and discounts from the company.

Bank of Palestine issued a prepaid card called the "Cash Card" in order to meet the Palestinian youth sector. This card enables its holders to shop safely through stores and online websites. In 2013 Bank of Palestine issued 9700 cards.

Bank of Palestine also signed a number of agreements with local banks in order to issue credit cards for their clients; amongst these banks were Arab Islamic Bank, Palestine Islamic Bank, and Palestine Investment Bank

بنك الاستثمار الفلسطيني
Palestine Investment Bank

البنك الإسلامي الفلسطيني
Palestine Islamic Bank

البنك الإسلامي العربي
Arab Islamic Bank

Bank of Palestine is the sole card issuer and merchant acquirer of Visa and MasterCard in Palestine and owns the largest card processing operations nationwide (6,000 POS merchant terminals) spread across Palestine in different sectors, including consumer shops, hotels, restaurants, companies, and institutions. Allowing the owners of commercial shops ,and companies to expand their customer segment, by adding the electronic service payments and accepting debit, credit and installment cards instead of trading in cash and using manual paperwork.

Throughout the last five years, Bank of Palestine achieved great success in issuing and accepting cards, as the sales volume through cards increased to reach $128 million with an increase rate of 110%; the number of debit cards increased by 41% to reach 147,688. And 22,712 credit cards with an increase of 91%. The increase rate of issuing "Easy Life Installment Card" increased to reach 313% with 16,609 cards.

Alternatively, Bank of Palestine enhanced its prevalence by installing 120 ATMs in all parts of Palestine to record an increase rate of the number of ATMS during the last five years of 62.5%.

Bank of Palestine continued keeping up with the technological development and the provision of the latest types of POS devices with top features and practical methods that allow commercial stores to connect to devices through more than one method; in addition, the Bank introduced the technology of wireless devices.

During the past few months, we have developed e-commerce services that accept cards through online websites and internet e-commerce.

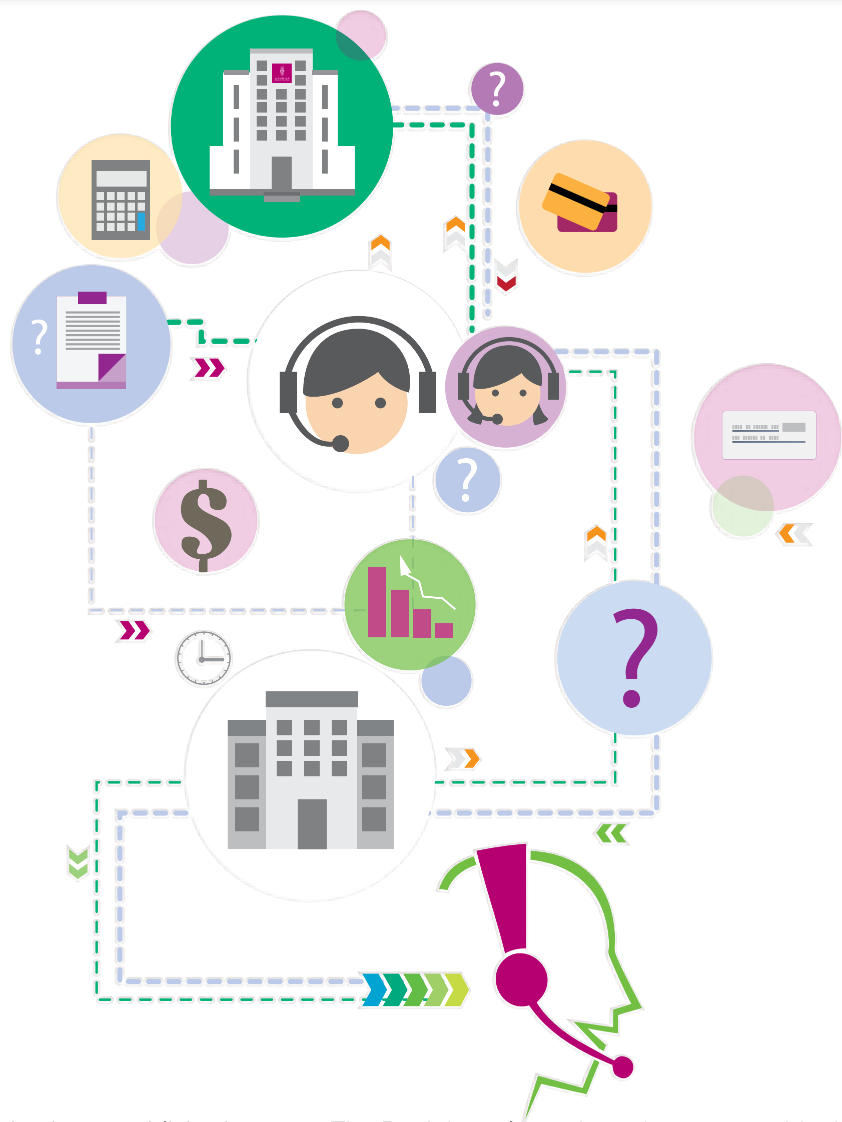
This service will be available for client use during the first quarter of 2014. In addition, the Bank will provide the cash and checks withdrawals service through ATMs; it will also provide for its customers kiosk devices that enables them to complete most of their banking transactions electronically.

Bank of Palestine also achieved an enormous electronic shift by establishing "PalPay" company and adding extra services to the device that accepts cards. Amongst these services are payment of utility bills, recharging balance of cell phones, payment of universities tuitions, and payment of small loans. This service or electronic device targeted not only clients, but the community as a whole. Whereas; any citizen can visit there local commercial store and safely shop or pay bills without wasting their time waiting on long lines. Also Bank of Palestine customers will have the privilege of paying their bills via internet banking at the beginning of 2014.

Bank of Palestine based a call center dedicated to card holders and dealers who own POS devices to deal with inquiries and questions and also to follow up with them in order to achieve customer satisfaction and improve the quality of the electronic service In addition to that Bank of Palestine established "Dealers Service Unit" within PalPay® to improve the performance of the field dealers who own POS devices, where a specialized staff was prepared to follow up with the dealers and the status of their devices to ensure the service of accepting cards in commercial stores is constantly in use.

Bank of Palestine proved its success on the ground by enhancing the Culture of Plastic money in Palestine and by providing various solutions of electronic payments for different uses, also, the Bank continuously sought to keep up with the global technological development to provide the best for Palestinian citizens.

Bank of Palestine's Call Center

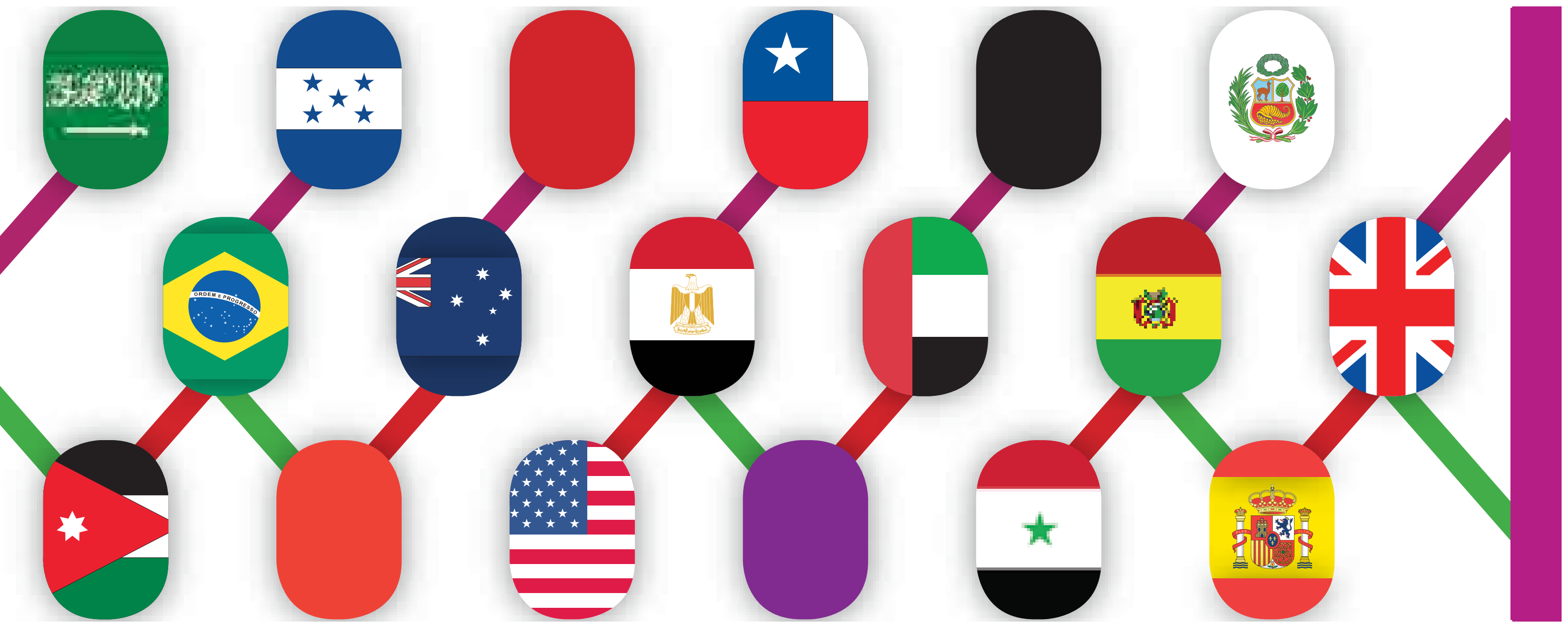


Bank of Palestine has established a specialized call center to provide its customers with the best services. The center was established in cooperation with REACH Company, which is the first Palestinian company to provide the latest technologies in communication services. REACH provided the bank with state of the art call center technologies, and contributed to the training of the staff in order to ensure the highest level of customer service, in line with Bank of Palestine's standards.

The Bank has always been keen to provide the best services to its customer and therefore it has equipped the center with the latest technology and security systems, thus creating an environment conducive to effective operational performance. The center constitutes the nucleus of an electronic bank that provides comprehensive electronic services to customers.

In addition to the provision of quality services, the call center created job opportunities for new university graduates, who receive training in the fields of banking, over-the-phone communication skills, and customer service.

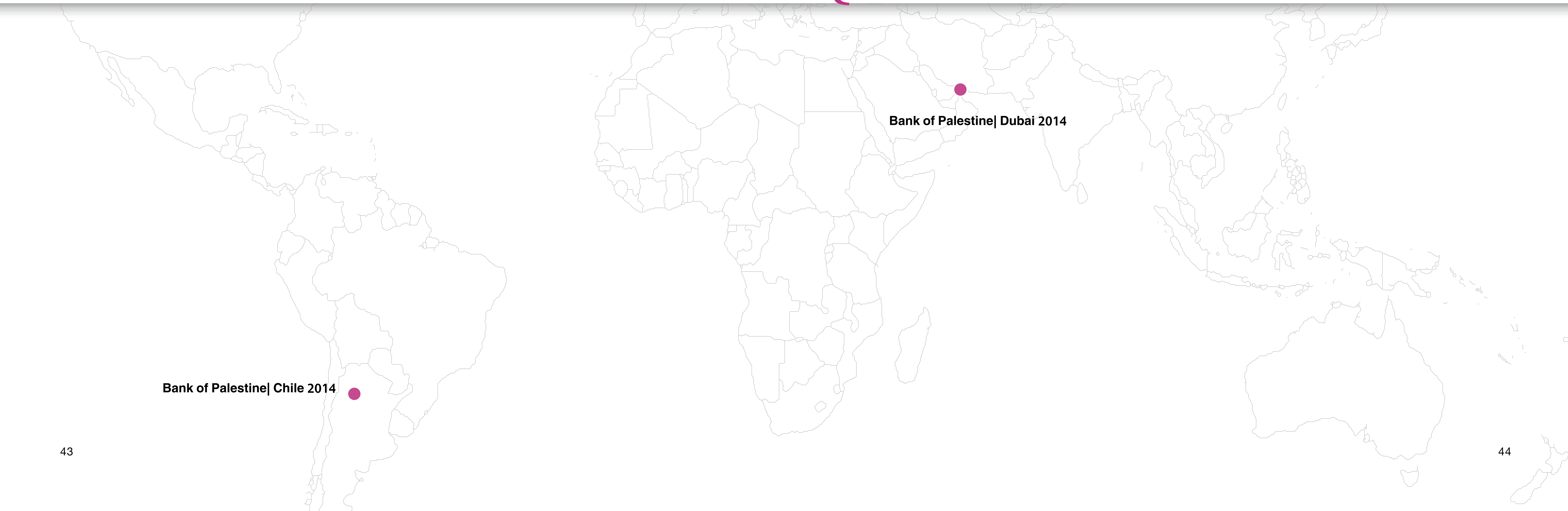
Palestine Around the World



Diaspora Banking

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

We have continued our efforts this year to connect with the Palestinian Diaspora offering them banking and business advisory services, in addition to reaching out to them through organizing special roadshows. To this end, Bank of Palestine is in the process of opening representative offices in both Dubai, UAE (home to more than 250 thousand Palestinians), and Santiago, Chile (home to about half a million Palestinians).



A Partnership between Bank of Palestine and Le Trio Joubran

Bank of Palestine is dedicated to promoting Palestine's culture, tradition, folk, art and music. Not only does the Bank sponsor various kinds of events related to Palestine's heritage on the local scene, but it also invests significantly in talented individuals and groups that share Palestine's cultural treasure overseas. The recently formed partnership between Bank of Palestine and Le Trio Joubran sets a fine example that reflects on this dedication.

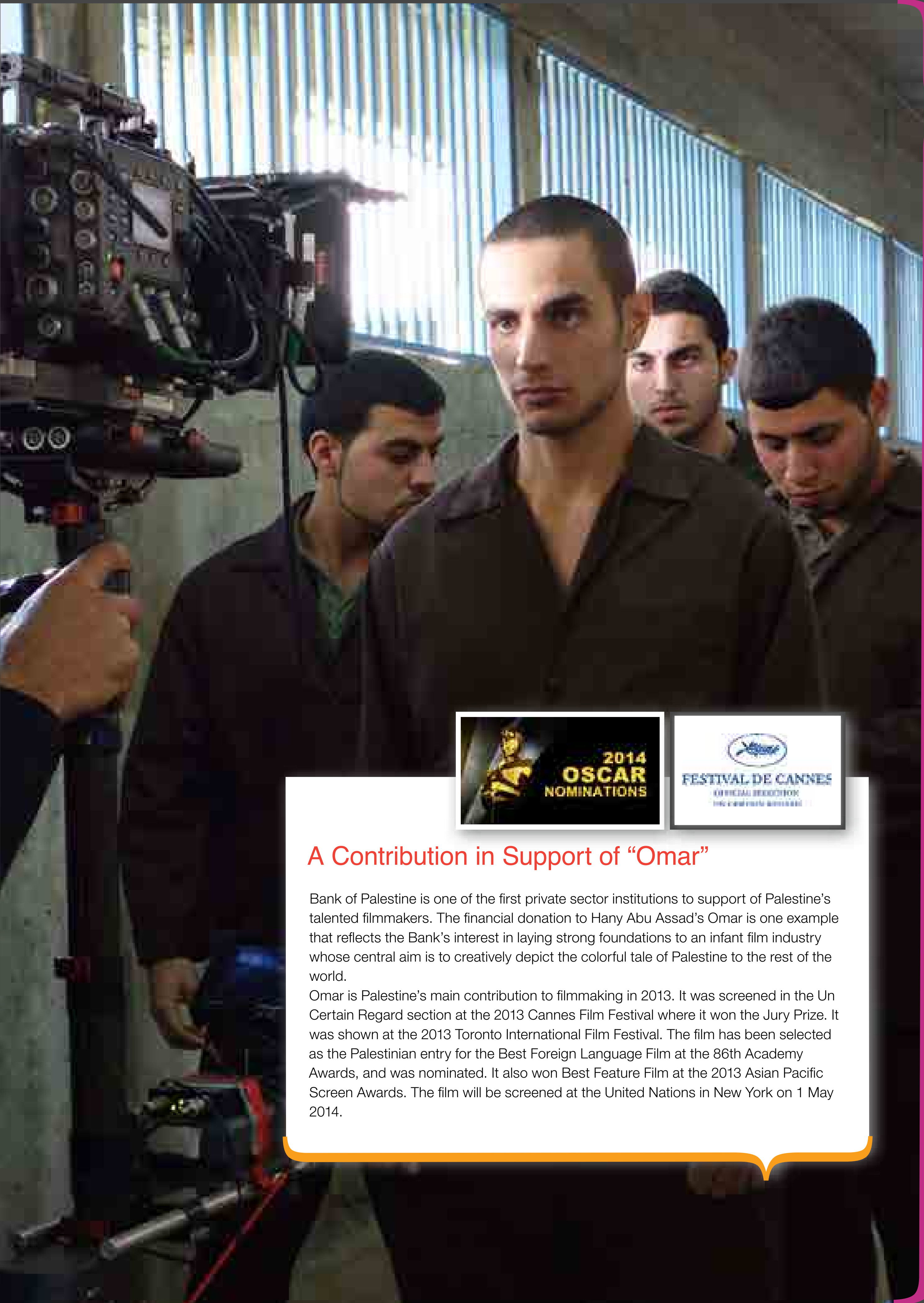
Le Trio Joubran is an Oud trio playing traditional Palestinian music. The trio consists of the brothers Samir, Wissam, and Adnan Joubran, originally from the city of Nazareth, now dividing their time between Nazareth, Ramallah, and Paris. Annually, the band holds approximately 100 musical performances worldwide, most notably ones that take place at Olympia Hall in Paris. In addition to acquiring a universal presence, the band's success is also manifested through its top-ranking album sales throughout Europe. Since the band's initiation in 2004, Le Trio Joubran has received several awards including "The Order of Merit and Excellence" from Mr. President Mahmoud Abbas, and the "International Award of Palestine" in 2013.

A Partnership with the Edward Said National Conservatory

0As part of its commitment to the arts and music, Bank of Palestine provides annual support to the Edward Said National Conservatory. A significant portion of this support is provided to their Palestine's Orchestra ensembles, most prominent of which are the Palestine National Orchestra and the Palestine Youth Orchestra. Both ensembles are dedicated to bringing Palestine's musical talent to the four corners of the world.

The fifty members of the Palestine National Orchestra are professional musicians of Palestinian origin. They include musicians at orchestras and opera houses, freelance instrumentalists, studio musicians, and professors teaching at music schools across the world. It is a festival orchestra, meeting once or twice a year to bring high quality professional music making to Palestinian communities, and providing an international platform to promote Palestinian cultural achievements worldwide.

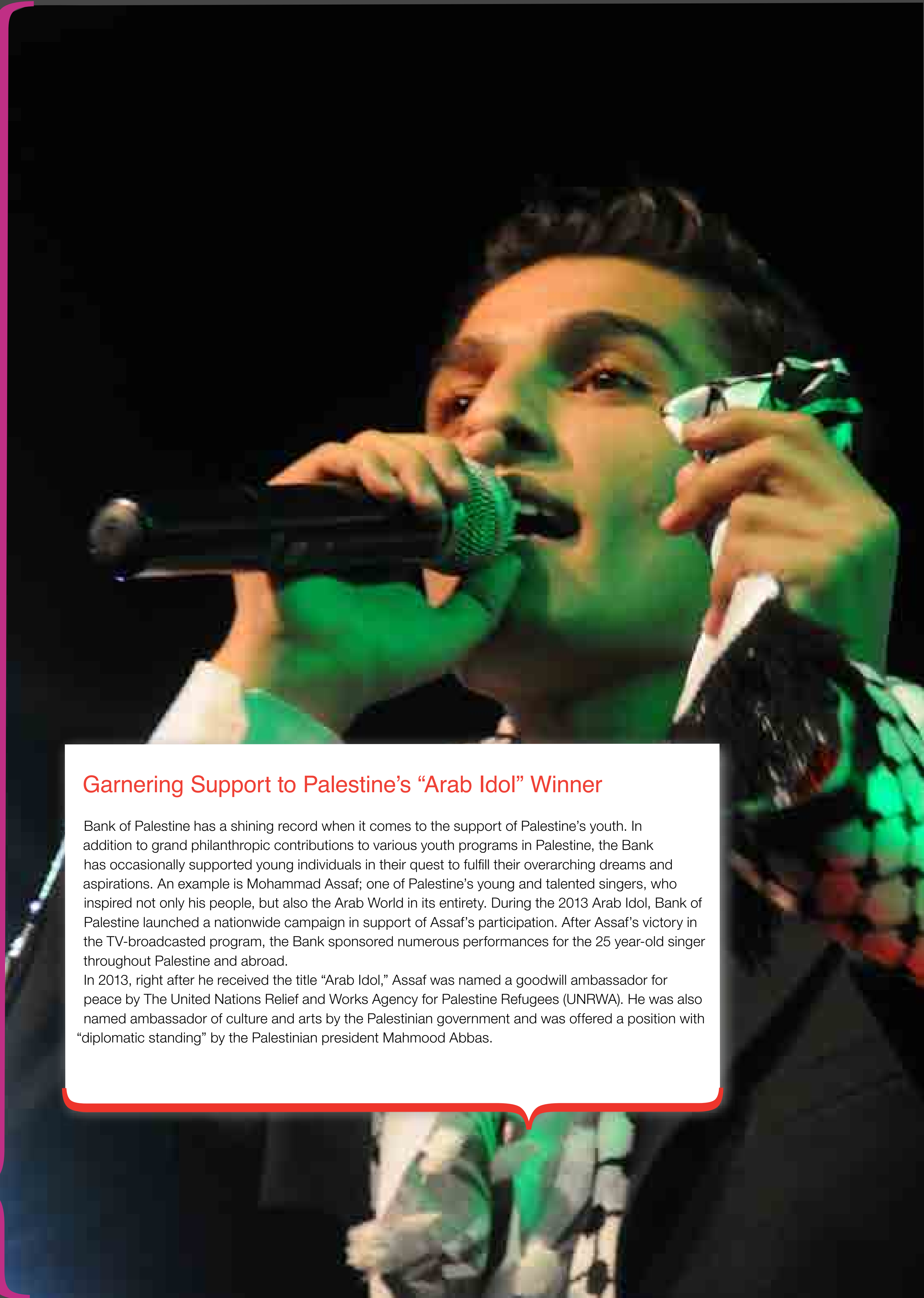
The Palestine Youth Orchestra was created in 2004 with the vision of bringing together young Palestinian musicians from around the world. Today, it consists of around eighty young musicians of Palestinian origin, creating a quality national youth orchestra on a par with similar ensembles worldwide. Over the past eight years it has performed in Palestine, Germany, Jordan, Syria, Bahrain, Lebanon, Greece, and Italy. They have also performed alongside renowned singers like Marsel Khalifa and others.



A Contribution in Support of “Omar”

Bank of Palestine is one of the first private sector institutions to support of Palestine’s talented filmmakers. The financial donation to Hany Abu Assad’s Omar is one example that reflects the Bank’s interest in laying strong foundations to an infant film industry whose central aim is to creatively depict the colorful tale of Palestine to the rest of the world.

Omar is Palestine’s main contribution to filmmaking in 2013. It was screened in the Un Certain Regard section at the 2013 Cannes Film Festival where it won the Jury Prize. It was shown at the 2013 Toronto International Film Festival. The film has been selected as the Palestinian entry for the Best Foreign Language Film at the 86th Academy Awards, and was nominated. It also won Best Feature Film at the 2013 Asian Pacific Screen Awards. The film will be screened at the United Nations in New York on 1 May 2014.



Garnering Support to Palestine’s “Arab Idol” Winner

Bank of Palestine has a shining record when it comes to the support of Palestine’s youth. In addition to grand philanthropic contributions to various youth programs in Palestine, the Bank has occasionally supported young individuals in their quest to fulfill their overarching dreams and aspirations. An example is Mohammad Assaf; one of Palestine’s young and talented singers, who inspired not only his people, but also the Arab World in its entirety. During the 2013 Arab Idol, Bank of Palestine launched a nationwide campaign in support of Assaf’s participation. After Assaf’s victory in the TV-broadcasted program, the Bank sponsored numerous performances for the 25 year-old singer throughout Palestine and abroad.

In 2013, right after he received the title “Arab Idol,” Assaf was named a goodwill ambassador for peace by The United Nations Relief and Works Agency for Palestine Refugees (UNRWA). He was also named ambassador of culture and arts by the Palestinian government and was offered a position with “diplomatic standing” by the Palestinian president Mahmood Abbas.

Adopting a holistic strategy in our quest for

Sustainability

Social and environmental responsibility has been an integral part of the way Bank of Palestine operates since the bank was founded in 1960. Today, it is more important than ever before as we work to create a sustainable economy and society in Palestine.

Bank of Palestine has been implementing an all-encompassing sustainability strategy, because we believe that true progressbegins with social and economic development at a community level.

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

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

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

- Promoting sustainable finance
- Developing a sustainable economy
- Gender inclusion and women empowerment
- Investing in youth
- Corporate social responsibility (CSR)
- BOP – A sustainable business


FT/IFC SUSTAINABLE FINANCE AWARDS 2013

Bank of Palestine

Special Commendation for Leadership in the Middle East
SUSTAINABLE BANK OF THE YEAR

Our responsibility is to serve our community

Bank of Palestine (BOP) is committed to supporting corporate social responsibility projects and activities in Palestine. BOP has made substantial contributions towards the development of various sectors, including education, youth, innovation, sport, health, the environment, culture, arts, development and economy, diaspora affairs, humanitarian efforts and women empowerment. BOP also encourages voluntary work among its staff by engaging them in developmental projects in cooperation with partner organizations and humanitarian initiatives.

Due to the extraordinary circumstances Palestine has witnessed in 2013, such as the storm that hit Palestine last December, BOP increased its corporate social responsibility contribution to 6.4 percent of the net profit amounting to USD 2,536,806. BOP is determined to be a source of future development and growth.

Education, Youth, and Innovation

BOP continues to support youth and innovation through encouraging entrepreneurs to develop their initiatives.

Zamala Fellowship Program

One of the most significant projects initiated by BOP in collaboration with the Welfare Association is the Zamala Fellowship Program. The project's core mission is to develop human resources at Palestinian Universities by raising the caliber of education. Palestinian professors from partner universities are granted the opportunity to participate in technical visits and professional training programs offered at renowned international universities, health care institutions, telecommunication companies, manufacturing and engineering firms, and financial institutions. Upon their return, professors transfer their experiences and contribute to the process of education and growth, which enriches labor market and help students meet the markets need.

Palestine for a New Beginning

Palestine for a New Beginning is an alliance of public and private sector institutions and individuals that aim to leverage resources and experience by investing in innovative projects and to build on existing successful initiatives.
Palestine for a New Beginning's programs focus largely on fostering entrepreneurship among youth, supporting young entrepreneurs develop, and creating an ecosystem that meets the needs of entrepreneurs and carries the sector forward.

Palestine for a New Beginning is the Palestinian chapter of the larger Partners for a New Beginning alliance.

Celebration of Innovation 2013

The Celebration of Innovation (COI) is a yearly, nation-wide competition of entrepreneurs. It is the flagship program of Palestine for a New Beginning (PNB), a Palestinian non-profit company that aims to support entrepreneurship towards further job creation and economic development.

The third COI was held on November 24, 2013 and focused on presenting new ideas in five key sectors: agriculture/agribusiness, tourism, information and communications technology (ICT), green/sustainable energy, and education. Nearly 400 local, regional and international guests heard the pitches and celebrated the five winners. The five winning teams were: Al Anamel, which aims to help teach the blind to read Braille using a small battery-operated and affordable device; SocialDice, which provides an end-to-end hiring solution to small- and medium-sized businesses in the MENA region; Code Academy, which will teach programming and coding to children in a fun and engaging way, the Energy Production Company, which aims to alleviate the problem of available drinking water in Gaza through a solar-power-operated device that filtrates and desalinates non-drinkable water; and Yalla, which works on developing interactive tourist guides.
The winners have access to a "soft" and interest-free loan to help them jumpstart their business ideas.

Startup Weekend Competition

BOP supported and sponsored Startup Weekend's high-tech competitions in 2013, which occurred in Ramallah and Gaza. Startup Weekend is a global event that takes place in more than 150 countries and aims to enhance the entrepreneurship environment. Youth developers, programmers, designers, marketers, technicians come together to share ideas, form teams, build products and display their initiatives to a jury and large Palestinian companies to encourage them to invest in their ideas.
Other sponsorships and donations in the field of education, youth, and innovation

- Scholarships to outstanding students at Palestinian universities.
- Donating equipment to the computer lab at Al-Azhar College of Intermediate Studies.
- Supporting a publication of a collection of children's stories produced by Tamer Institute for Community Education.
- A scholarship to a Palestinian student in the United Kingdom through the HESPAL Program.
- Honoring the winner of the mental intelligence competition.

Sports

BOP believes that sports have a positive impact on the image of Palestine, therefore supported a number of sport clubs, competitions, and tournaments, which include women's sports, equestrian sports, international matches of the Palestinian national teams, and more.

BOP's Children Football Championship – Al Baraem
Bank of Palestine's Al Baraem initiative aims to build a professional national football team that will be able to represent Palestine in international events, mainly the 2022 World Cup. Al Barem was organized by the Ministry of Education and the Palestinian Football Federation focused on emerging female and male football talents.

Other sponsorships and donations in the field of sports

- Sponsoring the first female car racer Noor Daoud who represents Palestine in international tournaments.
- Sponsorship of a bike race.
- Hosting of the Asian Women's Football Championship in Palestine.
- Sponsorship of Palestine's Four Wheel Drive Car Race.
- Sponsorship of Palestine's Fourth Equestrian Championship.
- Donation for Gaza Sports Club.
- Sponsorship of sports clubs in Hebron.

دوري بنك فلسطين للبراعم

Health and Environment

Health and environmental care are key corporate responsibility programs that BOP focuses on. BOP developed its CSR programs to create sustainable projects that benefit Palestinians and protect the environment.

"Gaza is in Our Hearts" Campaign

During the aftermath of the latest Israeli offensive on Gaza in 2012, BOP launched the "Gaza is in our Hearts" campaign in cooperation with the Welfare Association. BOP contributed USD 500,000 to the campaign, as well as encouraged BOP's clients, shareholders, employees, investors and Diaspora clients to donate to the cause. The aim of the campaign was purchasing dialysis equipment, which is an urgent need in Gaza's hospitals, and delivering shipments of medicine and emergency aid.

Mustaqbali ("My Future") Project

BOP has continued to sponsor Mustaqbali Program for the third year. The 22-year old project seeks to improve the lives of orphans in the Gaza Strip in terms of education, health, and career development.

The project is being carried out in partnership with the Welfare Association. BOP has contributed USD 600,000 to the health segment of this program, which aided approximately 1,823 children who were orphaned during the 2008/2009 clashes in Gaza.

Other sponsorships and donations in the field of health

- Supporting a number of Jerusalem hospitals including St. John Hospital.
- Donation of an automated ticket queue machine for Dura Medical Center.
- Donation to the children's cancer unit in Beit Jala Hospital.
- Donations for treatment of children suffering from hyperactivity ADHD syndrome.
- Donations for the treatment of patients in need for cornea transplant.

Culture and Arts

As part of our corporate social responsibility, BOP is committed to preserving Palestinian cultural. BOP sponsored different cultural activities including a number of festivals and exhibitions throughout Palestinian governorates.

Orchestra

As part of its efforts to support music and develop Palestinian artistic talents, BOP has contributed to the establishment of the first Palestinian National Orchestra in partnership with the Edward Said National Conservatory of Music. The Palestinian National Orchestra has performed in international cultural events and received admiration of international critics and musicians. Developing its capacities for innovation and creativity is one of the Orchestra's top priorities.

Other sponsorships and contributions to arts and culture

- Renovation of Sbat Al-Alami House in Gaza, which was turned into a cultural center.
- Sponsorship of Palestine International Festival.
- Sponsorship of Birzeit Nights Festival.
- Sponsorship of Heritage Week in Birzeit.
- Sponsorship of the Apricot Festival in Jifna titled "Ayyam Jifnawiya."
- Sponsorship of the Guava, Grapes, Figs, Pomegranates, and Dates Festivals.
- Sponsorship of Wadi Al-Shair Festival.
- Sponsorship of the Annual Jerusalem Festival organized by Yabous.
- Sponsorship of Wain a Ramallah Festival.
- Sponsorship of Palestine International Festival.
- Sponsorship of Solomon's Pools Festival.
- Sponsorship of Jerusalem Nights Festival.

Development, Economy, and Diaspora Affairs

Bank of Palestine strives to be a leader of economic development by supporting a number of economic and infrastructure ventures that target investors and allow for developmental projects in Palestine.

Know Thy Heritage

As part of its efforts to create a framework for communication with the Palestinian Diaspora, BOP sponsored "Know Thy Heritage," a project that seeks to create a forum for cultural, historical, and social exchange among young Palestinians in the Diaspora, and to introduce them to the roots of their homeland and get them involved in the development of Palestine.

"Al-Bayyara" Playgrounds Project

Al Bayyara playgrounds project was initiated by Bank of Palestine with the goal of constructing hundreds of public playgrounds for children in different populated neighborhoods in Palestine, where such facilities are lacking. This project is carried out in partnership with a group of Palestinian and international organizations including: The Welfare Association, ANERA, Muna and Bassem Hishmeh Foundation, George and Ronda Salem Foundation, and others.

Completed Playgrounds in 2013

- Al-Obaidiya Playground – Bethlehem Governorate
- Abu Falah Village Playground – Ramallah & Al-Bireh Governorate
- Jenin Playground – Jenin Governorate
- Ras Karkar Village Playground – Ramallah & Al-Bireh Governorate
- Jabalia Playground – Gaza Strip

Development, Economy, and Diaspora Affairs

BOP commits to different humanitarian efforts locally and internationally. Some of these include projects that care for orphans among other charitable organizations.

Relief campaign to help families affected by the snowstorm and flooding in Gaza

BOP has donated USD 50,000 in a relief campaign in cooperation with UNICEF to families affected by the snowstorm that hit Gaza in December last year. The aid consisted of in-kind and relief needs, which were distributed to affected families. BOP also renovated 88 houses that were destroyed by the storm.

Other projects in the field of humanitarian efforts

- Summer camp for children with diabetes.
- Aid to children in the Philippines affected by Typhoon Haiyan that caused thousands of casualties.

Midhat Playground

BOP has donated a recreational playground for children in Beit Ur village in memory of the late Midhat Sleiman Al-Ouri. The playground pays tribute to the late Al-Ouri for 13 years of service and achievements at BOP.

Other projects in the field of development, economy and Diapora Affairs

- Sponsorship of the National Products Exhibition at the Islamic University.
- Sponsorship of the Agriculture Conference on Development Prospects.
- Sponsorship of the Ramallah Convention in the USA.
- Sponsorship of the Second Marketing Agriculture Exhibition in Dura, Hebron.
- Sponsorship of Mustaqbal Falastin ("Future of Palestine") Conference.
- Ramallah Shopping Festival 2013.
- Donation for the Palestinian Economists Association and the Institute for Palestine Studies.

Women Empowerment

BOP has always been keen to enhance the role of Palestinian women, and to empower them in their professional life.

Breast Cancer Awareness Campaign

In cooperation with Dunya Women Cancer Centre in Ramallah, Aid & Hope Program (AHP) For Cancer Patients Care in Gaza, BOP launched an awareness campaign for the early detection of breast cancer. This campaign came along the annual Global Campaign for fighting against Breast Cancer.

As a part of the campaign, Bank of Palestine covered the expenses of 200 examinations for social cases in the West Bank and Gaza. Awareness events were organized for BOP's female employees to learn about early detection of the disease, as that can raise the recovery rate to 98%.

Other projects in the field of women empowerment

- Sponsorship of activities for the Women's Affairs Technical Committees.
- Sponsorship of a ceremony honoring the women of Jerusalem.
- Sponsorship of a summer camp to the Women for Life Organization.
- Sponsorship of a workshop on breast cancer at the Chamber of Commerce in Bethlehem.
- Sponsorship of a promotional trip to visit pioneering Palestinian women organized by the Business Women Forum (BWF).

Developing a Sustainable Economy

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

Access to Finance

Branching out

Several Palestinian towns and villages are underserved by financial institutions and others are completely unbanked, restricting their economic activity. Widening the access to finance is a core part of our strategy. Bank of Palestine is committed to expanding its branch, sub-branch, ATM, and POS merchant network, not only in the main cities and towns, but in rural areas as well, where the populations have little access to banks and banking services.

As a service to students, we have also opened sub-branches in Palestinian universities to help meet their banking needs and to be able to expand their knowledge of the banking services we provide.

Building a sustainable base for MSMEs to grow

We continue to support micro, small, and medium- sized enterprises (MSMEs), which are key drivers of growth and employment across our markets. Again this year we increased our MSME lending substantially. Our approach to Micro and SME businesses are multi-tier, ensuring that we cover these segments properly, as they represents 90% of the Palestinian Private sector, and employ 87% of the private sector labour force.

Through our specialized microfinance division, we strive to help small businesses that do not normally have access to funding. By providing financial support to these businesses, Bank of Palestine is helping to improve the strength and stability of communities, thereby reducing poverty, raising living standards, and creating more job opportunities. In addition to lending directly to micro businesses, Bank of Palestine has also provided several Microfinance Institutions in Palestine with credit facilities.

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

Building pillars of a sustainable economy

Deepening the Capital Market

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

Establishing a Private Pension Fund

The bank has played a very proactive role in several fundamental initiatives in Palestine. We have mobilized the Palestinian private sector to launch the first private pension fund. It led the efforts to set up the fund and to advocate for the required legislative reforms. This fund will be the first private pension fund in the region. It will be based on a model similar to the Chilean model. This pension fund is expected to contribute greatly to strengthening the Palestinian economy and society, through enabling access to finance for medium and long term projects, developing and investing in the Palestinian Capital Markets, creating employment and reducing poverty, providing stability and social security to citizens, leading to further spending and investments.

Anti-Money laundering (AML)

We perform risk based due diligence on all new customers, including verification of their identity and, where appropriate, an assessment of the source of their wealth and funds. We use sophisticated software systems for questionable behaviour associated with AML. We comply with all suspicious activity reporting required of us by our compliance programme, regulators and law enforcement agencies in Palestine (AML law of 2007). We provide training for our employees on our customer due diligence policies and procedures, including how to detect and report suspicious activity.

Empowering Youth & Women

The Innovation Fund – Palestine

To support young innovative Palestinian entrepreneurs, Bank of Palestine worked with Palestine for a New Beginning (PNB) to design The Innovation Fund – Palestine. Bank of Palestine hosted in 2013 a workshop with around 50 stakeholders including local and international members of the private sector, NGOs, and donors to discuss the need in Palestine and how we can fill this gap. The Innovation Fund- Palestine, will be a for-profit, venture capital fund modeled based on the accumulated experience in the developing and developed world in creating and nurturing the ecosystem for entrepreneurship and innovation.

The objective of this fund is to invest selectively in Palestinian early stage innovative ventures (focusing On the high tech and ICT sectors) that, through active participation of the fund managers and a network of experienced mentors, lead to successful results and enables companies to grow and create returns to investors. The effects of this fund will go beyond the hoped for returns to investors and will positively impact the Palestinian economy and create employment opportunities for young Palestinian university graduates.

Youth and Creativity

Given that 60 percent of the Palestinian population is under the age of 25, Bank of Palestine has focused on this segment of the Palestinian society via developing special services and products that meet the various needs of the young Palestinian generation.

Due to the high youth unemployment rate of 35 percent in Palestine, and particularly among new university graduates that amounts to 50 percent, Bank of Palestine has consistently worked with youth as part of the bank's corporate social responsibility program. The bank has also developed programs to support creative, innovative, and entrepreneurial young men and women who plan on starting their own businesses. Therefore the bank has sponsored events and programs such as the Celebration of Innovation and Start-Up Weekends. Internally, and trusting the role young men and women can play in the development and growth of the bank, Bank of Palestine has made concerted efforts to employ young men and women. The average age of staff at Bank of Palestine is 28.

Global Entrepreneurship Week (GEW)

In November 2013, Palestine joined over 140 countries throughout the world in celebrating and motivating our entrepreneurs. In Palestine specifically, nearly forty events took place during the week, organized by more than fifty participating organizations and attended by hundreds of youth. During GEW, many of the partners (including Bank of Palestine) - the key entrepreneurial support organizations - collaborated on events for the first time, each leveraging their networks and resources. For these efforts, Palestine was awarded the Host's Choice Award at the 2014 Global Entrepreneurship Congress in Moscow, given by all global Hosts to a fellow Host, who best exemplifies the spirit of Global Entrepreneurship Week and runs the most inspirational campaign.

Empowering Palestinian Women

Women's labor force participation in Palestine is exceptionally low. Between 1996 and 2012, women's involvement in Palestine's workforce rose by a mere 5%. Today, while women comprise almost 50% of Palestine's total population, their labor force participation amounts to only 17.4% in comparison to the men's 69.1%.
Women's thin inclusion in Palestine's workforce is exclusive of their educational background. In fact, more females are currently enrolled in schooling than their male counterparts, and female students generally outperform their male peers. A Ministry of Education survey illustrates those findings: During the 2012-2013 academic year, females formed 50.4% of the student body across the three levels of schooling and their failure rate equaled 0.8%, much less than the male's 1.1%. This set of data, when compared with the 17.4% women labor force participation, highlights the existing potentials that could advantage Palestine's labor market if greater female penetration into the labor force occurred.

Gender Inclusion

To have women join the ranks of the workforce, they must be encouraged, empowered and granted equal access to opportunity

Women Empowerment

On the external front, Bank of Palestine is designing a women markets initiative that aims to target all women, including women entrepreneurs and business owners, women in employment, and women at home

Social Development

To complement its Women Banking efforts with a philanthropic element, Bank of Palestine made sure to restructure its Corporate-Social Responsibility (CSR) program to include a 'Women Empowerment' category.

Memberships

The **Women's Empowerment Principles (WEPs)**, a joint initiative of UN Global Compact and UN Women, offer guidance to business on how to empower women in the workplace, marketplace and community.

A Young Female Entrepreneur & Innovative Farming

Aya Mlaitat, 25, grew up on a small family farm located in a humble Palestinian village near the city of Nablus. At a young age, Aya realized her love for animals and dreamed of owning a farm of her own. However, she did not aspire to start a regular countryside farm – she was rather interested in establishing a scientific farm. She hoped to create a farm that specializes in breeding, raising and selling organic Merino sheep – a special type of sheep that is leaner and meatier.

Determined to succeed, Aya set out to fulfill her dream during her early twenties. The hurdles were immense, however. First came a cultural challenge: simply put, it is not common in Palestine for women to own farms. It is usually men who run the business, while female relatives would assist. Aya explained: “Farming is a male-dominated work, where women are somehow excluded from it. When people heard about my project, they directly started underestimating my abilities wondering how a woman would be able to run a farm.”

The lack of knowledge on scientific farming as well as on starting a new business presented a second obstacle. After all, Aya had studied sociology at university, a field that is not related in any way to scientific farming or entrepreneurship. To surpass the hurdle, Aya participated in many field training courses in different farms, which provided practical experience and technical expertise. She also participated in several training courses to help her develop different business skills. Aya is a beneficiary of Bank of Palestine’s “Innovation Loan”.

In 2010, Aya launched her Solidarity Sheep Farm with 11 sheep. Shortly thereafter, she set out to realize two main goals: to offer her new customers healthy and organic meat, and to hire and train Palestinian women workers.

In 2012, Aya’s farm had 50 sheep. Today, the farm expanded to occupy a land area of 2,000 square meters and hold 70 sheep.

Our People

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

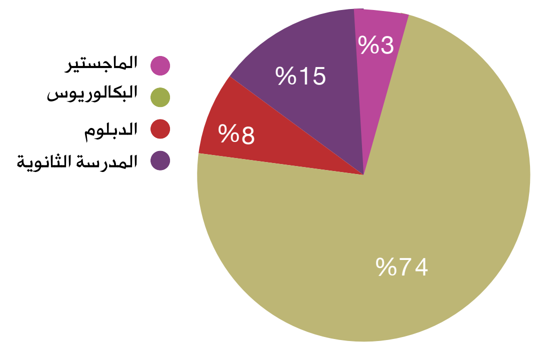
Bank of Palestine has an equal opportunity and nondiscrimination employment policy. Our HR strategy works towards the alignment of our training, reward, and recognition programmes with our customer satisfaction strategy - with the aim of training our staff to anticipate and exceed the needs and expectations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

In 2013, the number of employees grew to reach 1,212 compared with in 2012 working in the headquarters and 50 branches and serving over 648,000 customers. This boost in personnel will help us meet the needs of our clients across our growing network.
Our people are crucial to the delivery of a sustainable business model. We focus on attracting the best talent and on enhancing employee engagement. Our efforts to establish a professional and open working environment have yielded promising results in the past year, and we continue to refine our employee performance programmes.

Employee engagement

We believe that employee engagement is important for individuals to achieve high levels of productivity and motivation, and to instill amongst our staff a strong sense of ownership of the brand, and more importantly of customer needs.
In 2013, we conducted a company-wide survey that yielded valuable feedback about what we can do to create a more engaged workplace, in addition to allowing the bank's employees to play a part in setting our 2014 training plan by communicating their training needs.
Bank of Palestine has a transparent management system whereby employees procedures, products, and services.
Employees who provide valuable insight are acknowledged and well rewarded.

Qualifications



%	Female		Total
%19	167	864	2009
%20	186	943	2010
%23	241	1061	2011
%24	269	1,139	2012
%25	303	1,212	2013

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

THE GLOBAL COMPACT

WE SUPPORT

Commitment to social and environmental standards

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

We are currently incorporating a social and environmental risk management system that will have an impact on all our activities and business functions. In addition, all Bank of Palestine policies are designed and written to ensure that the bank's operations do not damage the environment or cause social harm.

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

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

Meeting the needs of our environment

We focus on offering relevant products and services to our clients. Similar to our commitment to social and economic development through support for micro and small businesses, Bank of Palestine is equally committed to bringing about social and environmental improvements through its green loans programme. As its name suggests, these are loans to individuals, families, and MSMEs for projects that lead to greater water or energy efficiency, waste water treatment, and the production of renewable energy, particularly in rural Palestine. The Middle East is one of the most water-stressed regions in the world. The World Health Organisation recommends that each person have 100 litres of water a day available. In Palestine, water availability is 60 litres per person, per day. Hence, our green loan programme is very important to the overall health of our region. Education is an integral part of this programme, so that people—particularly farmers—are aware of the programme and the benefits it can bring. To this end, Bank of Palestine conducts workshops throughout rural Palestine to explain the benefits of energy and water efficiency.

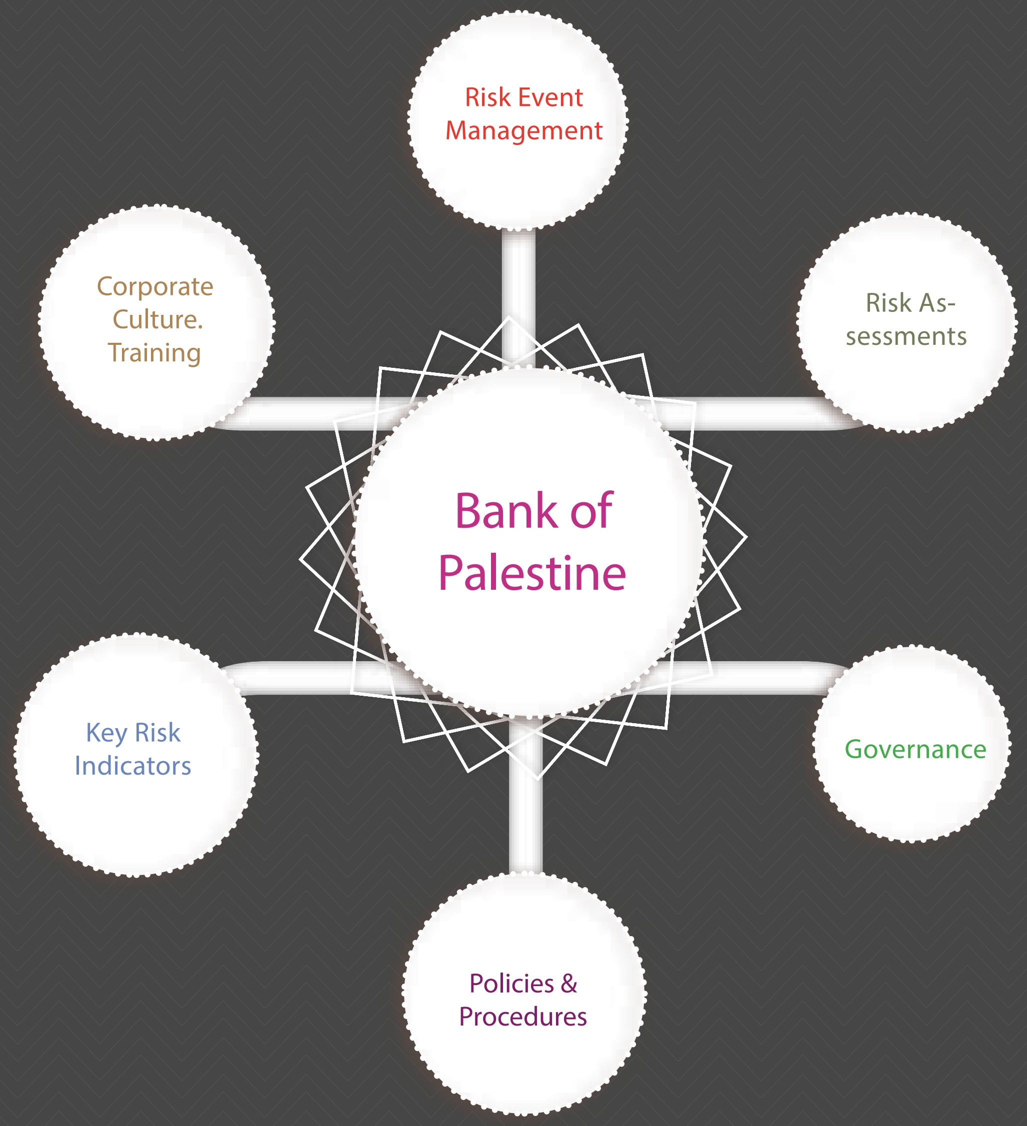
Educating our own employees about sustainability

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

Risk management and corporate governance

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

We have already completed three projects: Corporate governance, credit risk, and treasury risk. During 2012, we continued the implementation of the last part of our risk management project, which is the implementation of the operational risk management. As a result, Bank of Palestine will be one of the first banks in the region to comply with Basel II standards. We also reviewed our human resources policies to align remuneration with risk according to best international standards and to the recommendations of the Basel Commission



BOP's Code of Corporate Governance

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

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

Corporate governance framework principles:

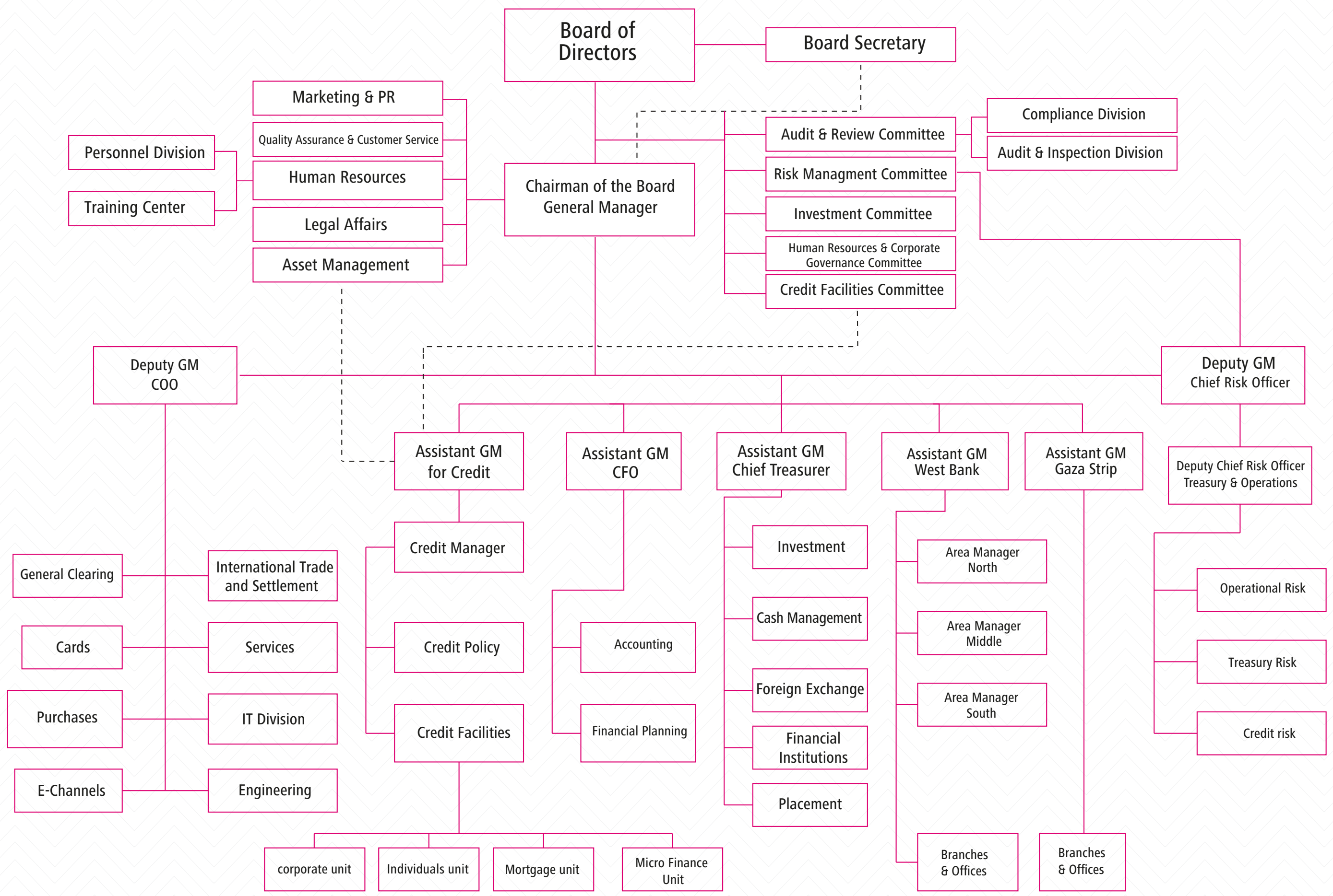
Accountability: This Code ensures BOP's accountability to all shareholders and guides the company's board in the important setting strategy function, and guiding and monitoring the company's management.

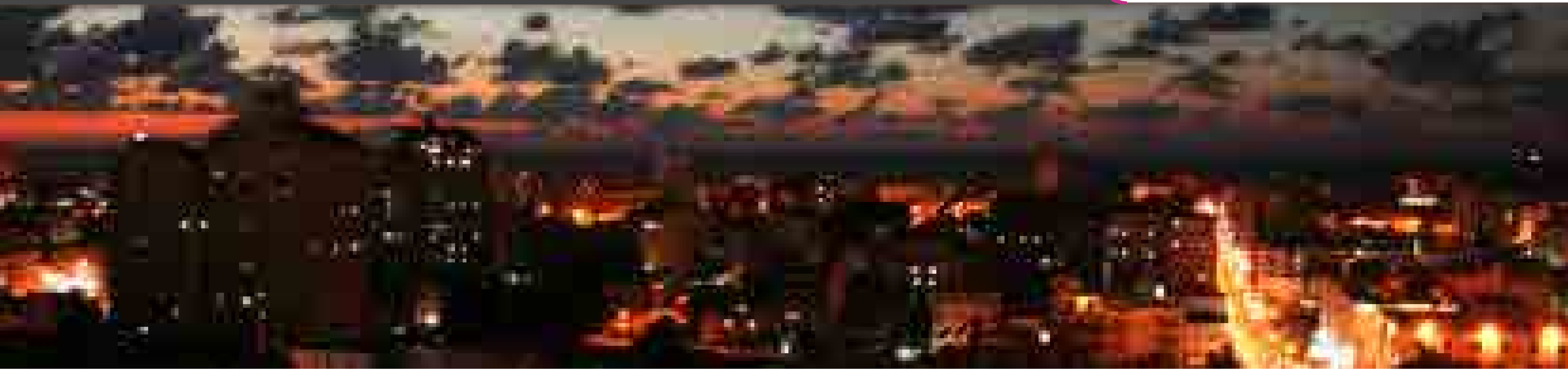
Fairness: BOP obligates itself to protect shareholder rights and ensure the equitable treatment of all shareholders, including minority shareholders. All shareholders are to be granted effective redress for violation of their rights through the board.

Transparency: BOP is to ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company, in a manner easily accessible to interested parties.

Responsibility: BOP recognizes the rights of other stakeholders as established by laws and regulations, and encourages cooperation between the company and stakeholders in creating sustainable and financially sound enterprises.

Key corporate governance policies and practices:





I: Board Governance

BOP strives to maintain an effective, professional, and well-functioning board of directors given its key role for ensuring corporate governance in the Bank's departments and activities.
The Board shall bear overall accountability for the performance of Bank of Palestine.
The Board is elected by shareholders to oversee and guide management with the ultimate goal of creating long-term shareholder value for the Bank, while taking into account the interest of its stakeholders.

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

The number of Directors shall be between seven and thirteen; each director will be elected to serve a term of four years, which can be renewed. There is no maximum limit on the number of terms a director may serve, rather reappointment shall be based on the director's continued ability to perform the necessary director duties and maintain sufficient objectivity. The board's composition (competencies, skills and appropriate mix) is such that it is adequate for oversight of duties, and the development of the company's direction and strategy. Each individual member of the board shall have the experience, knowledge, qualifications, expertise and integrity necessary to effectively discharge board duties and enhance the board's ability to serve the long-term interests of the company and its shareholders.

To ensure the impartiality of decisions and to maintain the balance of interests among various groups of shareholders, at least 25 percent of the board members are independent directors. BOP has established board committees. All committees have charters containing provisions on the scope of authority, competencies, composition, working procedures, as well as the rights and responsibilities of the committee members. All Directors are subject to re-election by the shareholders at the annual general assembly meeting at least every four years.
The HR and Corporate Governance Committee shall oversee the non-executive director remuneration policy for the Bank. The remuneration policy shall seek to attract, motivate, reward, and retain directors of high integrity and superior ability who are focused on enhancing and maintaining the long-term shareholder value. Further, the remuneration policy shall be such that it does not jeopardize a director's independence or encourage unjustified short-term risk taking.
The board meets according to a fixed schedule, which enables it to properly discharge its duties. As a rule, the board shall meet no less than six times a year.

II: Management Control Practices

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

BOP shall place great importance on internal control and its board of directors is charged with ensuring the Bank has an effective framework of internal control. BOP shall have an internal auditor, who is a part of the Internal Audit and Inspection Department that provides assurance to the board as to the effectiveness of the company's internal controls. BOP shall have an active compliance department that ensures proper compliance with all applicable external laws and regulations as well as internal codes and policies.

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

III: Shareholder rights

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

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

BOP's directors and employees shall understand this Code as their joint obligation, and accordingly, obligate themselves to ensure that its provisions and its spirit are adhered to and acted upon throughout the company. Board members and executives shall not divulge or use confidential or insider information about the company and shall comply with the insider trading policy. All BOP directors and employees are expected to act ethically at all times and to acknowledge their adherence to the BOP Code of Ethics.
A potential conflict of interest exists if the company intends to enter into a transaction with a related party. When such a conflict exists, members of the board and management shall disclose information about the conflict of interest to the board, and shall abstain from deliberating and voting on such issues.

The audit committee shall resolve any such conflicts. Unless required to do so by law, no board member or employee shall, during his or her membership on the board or afterwards, disclose any information of a confidential nature regarding the business of the company and/or any companies in which it holds a stake, that came to his or her knowledge in the capacity of his or her work for the company and which he/she knows or should know to be of a confidential nature.
A board member shall not use such confidential information for his or her personal benefit.

IV: Transparency and Information Disclosure

BOP strives to maintain a high standard of corporate transparency to its shareholders and stakeholders, including timely and accurate information disclosure. BOP's policy is to disclose all material information, including the financial situation, performance, ownership and the governance structure of the company to its shareholders and the broader public as appropriate.

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

V: Corporate Social Responsibility

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

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

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

Executive Team

Mr. Hashim Hani Shawa
General Manager
Bachelor of Engineering – University College London – UK
Joined BOP in 2007

Mr. Rushdi Mahmoud Ghalayini
Deputy General Manager – Chief Risk Officer
Bachelor of Economics and Computer Science, American University, Cairo – Egypt
Joined BOP in 1989

Mr. Alaa' El Din Mohammed Al-Redwan
Deputy General Manager – Chief Operations Officer
Bachelor of Accounting, Damascus University- Syria
Masters in Business Administration, Van Holland University
Joined BOP in 1993

Mr. Salman Mohammed Tuama Qemailah
Assistant General Manager – Chief Financial Officer
Bachelor of Commerce in Accounting – Ain Shams University, Cairo- Egypt
Joined BOP in 1982

Mr. Ihsan Kamal Shaushaa
Assistant General Manager – Chief Treasurer
Bachelor of Business Administration – Computer Information Systems, Texas State University - USA
Joined BOP in 1991

Mr. Susan George Khoury
Assistant General Manager - Credit
Mathematics & Management Studies - Queen Elizabeth College, University of London
Joined BOP in 2012

Mr. Wael AbdAllatif Al Sourani
Assistant General Manager for Gaza Strip Branches
Bachelor of Biology & Chemistry – Sana'a University, Yemen
Joined BOP in 1995

Mr. Hani Salah Nasser
Assistant General Manager for West Bank Branches
Master of Public Administration and Law – Marie Curie University, Poland
Joined BOP in 1994

Mr. Khamis Fawzy Asfour
Legal Advisor
Bachelor of Law – Alexandria University, Egypt
Joined BOP in 1979

Board Members

Mr. Hashim Shawa
Chairman of the Board of Directors
Bachelor of Engineering - University College London – 1997
Date of Birth: 25/01/1976
Date of Membership: 2007
Experience
1997 - 2002 Assistant Vice President and Project Manager for Operations & Technology, CITIGROUP PRIVATE BANK - London - UK.
2002 - 2005 Vice President and Senior Private Banker, Middle East Region Citigroup Private Bank, Geneva -Switzerland.
2005 - 2007 - Associate Director & Officer of Developing Banking Business, the Middle East & North Africa, HSBC Private in the Gulf -HSBC Private Bank, Geneva - Switzerland
April 2007 to present - Chairman and General Manager of Bank of Palestine PLC
Memberships
Member of the Institute of International Finance (IIF) Emerging Markets Advisory Council (EMAC)
Member of the Board of Directors – Invest Bank - Jordan
Deputy Chairman of the Board of Directors - Palestine Institute for Financial and Banking Studies
Member of the Board of Directors - Abraj Real Estate Investment and Development Company.
Member of General Assembly - The Palestine Investment Fund (PIF)
Member of the Board of Trustees - Bethlehem University

Mamon AbdAlhadi Abu Shahla
Vice Chairman
Bachelor of Commerce – Accounting Division, Cairo University Egypt 1964
Chartered Accountant – City University, London, UK - 1996
Date of Birth:15/06/1942
Date of Membership: 2002
Experience
1971 – 1982 – General Manager of Industrial and Commercial Companies Group, Tripoli – Libya
1982 – 2003 – Businessman in the UK, Egypt, and Canada
Memberships
Chairman of the Board of Directors -Palestinian British Company for Trading & Contracting, Gaza – Palestine
Chairman of the Board of Directors - Information Technology Company, Gaza – Palestine
Vice Chairman of the Board of Director - Palestinian Pension Agency – Palestine
Member of the Board of Directors – Palestinian Telecommunications Company – Palestine
Member of the Board of Trustees - Al- Azhar University Gaza- Palestine
Member of the Board of Directors – Food Industries Company – Palestine
Member of the Board of Directors – Palestine Trade Centre - PalTrade Ramallah - Palestine

Youssef Mahmoud Nijm
Member
Bachelor of Commerce - Business Administration, Cairo University, Egypt- 1967
Date of Birth: 28/07/1945
Date of Membership: 1989
Memberships
Chairman of the Board of Directors – Nijm Company for Cosmetics & Perfumes Gaza – Palestine.
1991 to present – Member of the Board of Directors of Palestinian Chamber of Commerce Gaza – Palestine.
1997 to present – Member of the Palestinian National Council.

Dr. Awni Mohiuddin Skaik
Member
Bachelor of Medicine and Surgery – Cairo University - Egypt 1969
Master of Cardiology – Cairo University, Egypt - 1975
Date of Birth: 16/06/1946
Date of Membership: 1989
Experience
1977-1984 – Deputy Head of Internal Medicine Department, Al Shifa Hospital Gaza – Palestine.
1984 -2006 – Head of Cardiology Section, AL Shifa Hospital Gaza- Palestine.

Cont. Board Members

400 Years of Palestinian Creativity ... Selections from a Private Collection

Bank of Palestine's Gallery

Reyad Ali Zimmou
Member
Bachelor of Pharmacy – Karachi University, Pakistan -1973
Date of Birth: 25/06/1950
Date of Membership: 1989
Memberships
Member of the Palestinian Pharmaceutical Society

Maher Jawad Farah
Member
Bachelor of Civil Engineering – Cairo University - Egypt 1966
Date of Birth: 21/03/1945
Date of Membership: 2002
Experience
1982 - 1997 – General Manager of Contractors Group Company – Kuwait
1997 to present – Chairman of the International Contracting Company- Palestine
Memberships
Member of the Board of Directors – Birzeit Pharmaceutical Company (BPC) Ramallah - Palestine
Member of the Board of Directors – Arab Hotels Company (AHC) – Palestine
Member of the Board of Directors – Abraj Real Estate Investment and Development Company - Palestine

Faysal Ghazi Shawa
Member
Bachelor of Civil Engineering – Memphis State University - United States of America - 1992
Master of Business Administration – North Virginia State University- United States of America - 2009
Date of Birth: 20/04/1968
Date of Membership: 2004
Experience
General Manager – Shawa General Trading & Contracting Co
Memberships
Chairman of the Board of Directors – Shawa General Trading & Contracting – Co. Gaza – Palestine
Vice Chairman of the Board of Directors – The Palestine Trade Centre - PalTrade – Ramallah - Palestine
Vice-Chairman of the Board of Directors – The Middle East Pharmaceutical Industry Co - Gaza – Palestine
Vice-Chairman – Al-Amal for the Asphalt Co. – Gaza – Palestine
Member of the Board of Directors – Wataniya Mobile Telecommunication Company - Palestine
Member of the Board of Directors – Palestinian Company for Electricity - Gaza - Palestine
2005 - 2009 Member of the Board of Directors (Secretary General) – Businessmen Association Gaza – Palestine
2006 - 2007 Member – Palestinian Shippers› Council – Palestine
Member of the Engineers Syndicate (TBP) - USA
Member of the Contractors Union - Palestine
Member of the Engineers Syndicate Gaza – Palestine
Member of the Palestinian Businessmen Association

Dr. Hani Hassan Nigim
Member
PhD, Mechanical Engineering – Leicester University, Leicester, England – 1981
Date of Birth: 28/06/1952
Date of Membership: 2004
Experience:
1981 – Researcher, Leicester University Leicester, England
1983 to present – Professor, Department of Mechanical Engineering, Birzeit University – Palestine
1993 – 1998 – Dean of Engineering, Birzeit University – Palestine
2004 – Consultant, Planning and Developing, Al- Aqsa University - Gaza – Palestine
2005 – President of Al Azhar University Gaza – Palestine
2006 – Coordinator of the higher education project supported by the World Bank and the European Union – Palestine Visiting Professor, Department of Mechanical Engineering, of many regional and international universities and a coordinator of many projects supported by the European Union.
Memberships:
Member of Board of Directors – Palestine Electricity Holding Company.
Member of Board of Directors– Palestine Real Estate Investment
Member of General Assembly – The Palestine Investment Fund (PIF)
Member of Board of Directors – Palestine Centre for Micro-Projects Development, Jerusalem – Palestine
Member – Mediterranean Network on Water Reclamation and Reuse, Barcelona - Spain
Member of the Board of Trustees – Al Azhar University Gaza – Palestine
Member of the Board of Trustees – Al-Quds Open University, Jerusalem – Palestine
Associate Fellow – American Institute of Aeronautics and Astronautics (AIAA)

Tareq Taher Shaka
(Nominated by Birzeit Pharmaceutical Company)
Member
Bachelor of Business Law – Ohio University Athens - USA 1987
Date of Birth: 18/02/1964
Date of Membership: 2010
Experience
1987 – 1989 – Shaka Drug Store, Nablus - Palestine
1989 - 1999 – Jerusalem Pharmaceutical Company, Ramallah - Palestine
2000 - 2005 – Birzeit Pharmaceutical Company, Ramallah - Palestine
2005 to present – General Manager of Lotus Financial Investment Ltd., Ramallah – Palestine
Memberships
Member of Board of Directors – Lotus Financial Investment Ltd Ramallah - Palestine
Member of Board of Directors – Eastern Chemical Company - Palestine
Member of Board of Directors – Arab Hotels Company (AHC) Ramallah – Palestine
Member of Board of Directors – Abraj Real Estate Investment Company

John Khoury
(Nominated by the International Finance Corporation "IFC")
Member
Bachelor of Economics and Political Science – Bowdoin College ,USA 1970
An intensive management programme equivalent to Master of Business Administration 1980
Advanced Management Programmes 1980 – 1993
Date of Birth: 25/06/1949
Date of Membership: 2010
Experience
1976 – 1979 – Director of the Bank of Boston, USA
1980 – 1981 – Assistant Vice President - Bank of Boston, USA
1981 – 1985 – Vice President and General Manager of Bank of Boston, Nigeria
1985 – 1989 – Vice President and General Manager of Bank of Boston, Netherlands
1989 – 1992 – Chairman and General Manager of Bank of Boston, France
1992 – 1993 – Vice President and General Manager of Bank of Boston, USA
1993 to present – An administrative member in Boston Global Partners Company
2005 to present – Manager of The European Palestinian Credit Guarantee Fund (EPCGF)

Mohammed Nafiz Mohammed Hirbawi
Member
Business Administration Diploma –Community University - Jordan
Date of Birth: 08/09/1954
Date of Membership: 2006
Experience
1978 to present – Chairman of the Board of Directors, Al Ahlia Carton Co., Hebron - Palestine
1992 – 2002 – Vice Chairman of the Board of Directors, National Carton Industry, Nablus – Palestine
1993 to present – Chairman of the Board of Directors, Paper Industries Co. Hebron - Palestine
1996 to present – Chairman of the Board of Directors, Hirbawi Investment & International Trading Co., Hebron – Palestine
2000 to present – Chairman of the Board of Directors, Almizan Tower Hotel, Hebron – Palestine
Memberships
1995 – 2004 – Chairman of the Board of Directors, Palestinian Business Forum, Ramallah – Palestine
2005 to present – Chairman of the Board of Directors, The Palestine Trade Centre - Paltrade – Ramallah
Honorary President – AlAhli Club, Hebron - Palestine

Audit Committee

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

The role of the Committee is to assist the board in overseeing the bank's financial controls with particular emphasis on:
(a) The integrity of internal controls and financial reporting.
(b) The qualification and independence of the bank's external auditor.
(c) The performance of the bank's internal audit and compliance functions and of its external auditor. In order to fulfill its role, the Committee shall have the following authorities and responsibilities:

- Review Internal Control systems of the bank.
- Reviewing the reports of the Inspection and Audit department, internal auditor, and compliance control department including financial and non-financial issues, remedial procedures and means of controlling the risks faced by the bank.
- Reviewing accuracy of financial statements provided to the board, shareholders and other users.
- Reviewing the bank's commitment to laws and regulations of the PMA, the Board, and other regulations applicable in Palestine.
- Reviewing the external auditing plan and verifying that the plan includes all activities of the bank.
- Ensuing the accuracy and integrity of accounting and compliance with laws and regulations applicable to the activities of the bank.
- Developing disclosure and transparency standards and submitting them to the board for approval.
- Reviewing notes mentioned in the PMA's reports and offering recommendations to Board on the appropriate remedial steps.
- Coordinating with Risks Management Committee to present the financial statements of the bank.
- Studying the financial system employed at the bank and making recommendations to improve it and guarantee that they fairly represent the situation and that no false data are reported.
- Putting in place a system that allows employees to report secretly on fears of potential violations and in a manner that makes it possible to investigate them independently and follow them up without supervisors penalizing them or colleagues looking down at them. The audit committee shall monitor the implementation of these procedures.
- Acting as a liaison between the board of directors and the external auditor, the board of directors and the internal auditor and between the internal and external auditors.
- Following up on the bank's adherence to its internal code of professional conduct and adherence to external laws and regulations.
- Informing the board of directors of issues that require its immediate intervention and offering recommendations on the appropriate remedial steps.
- The audit committee shall submit reports to the board of directors on all matters that fall within its scope of work thereby enabling it to carry out its function of monitoring the management of the bank and submitting to shareholders and investors factual and documented information.

Risk Management Committee

Committee Members:
Mr. John Khoury-Chairman of the Committee
Mr. Mamon Abu Shahla
Dr. Awni M. Skaik
Mr. Tareq Al Shaka

The role of the Committee is to assist the Board of Directors of BOP in fulfilling its oversight responsibilities with regard to:
(a) The risks inherent in the business of the company and the control processes with respect to such risks.
(b) The assessment and review of credit, market, and operational risks.
(c) The risk management activities of the bank and its subsidiaries.
In order to fulfill its role, the Committee shall have the following authorities and responsibilities:

- Approve the overall risk management policies and ensure there is an effective Enterprise Risk Management framework in place to proactively identify, measure, mitigate, and monitor all types of risk in the bank and to promote continuous dialogue about risk management throughout the organization (i.e., promoting a 'Risk Culture').
- Determine the overall 'Risk Appetite' of the bank and ensure the overall risk profile and tolerances are in line with the agreed appetite.
- Obtain assurance from the executive management and internal auditing that the risk processes and systems are operating effectively, with sound controls, and compliance with approved policies.
- Obtain assurance that the bank is complying with applicable laws and regulations regarding all risk management policies and procedures.
- Review the bank's capital adequacy and provisions to ensure they are in compliance with regulatory guidelines and in line with the risk profile of the bank.
- Review reports on a quarterly basis or on a needs basis from the executive management on the status of the bank's risk portfolio, highlighting key risk areas, trends, forecasts, and management actions being taken to address particular issues.
- Review significant risk exposures and the steps management has taken to monitor, control, and report all types of risk, including, credit, market, operational, fiduciary, liquidity, compliance, reputational, strategic, and all other types of internal/external risk impacting the bank.
- Provide guidance to management, as needed, to help them improve their risk management practices and/or mitigate particular risks, including the existence of qualified personnel at the management level to carry out risk management activities effectively.
- Report to the board on a regular basis of the status of the bank's risk portfolio and immediately inform the board of any substantial changes to the bank risk portfolio status.
- Review the appointment, responsibilities, performance, and replacement of the Chief Risk Officer and monitor effectiveness of the Risk Management departments in general.
- Support the Audit Committee's efforts.

Investment Committee

Committee Members:

Mr. Maher J. Farah -Chairman of the Committee
Mr. Hashim Shawa
Mr. Faisal Ghazi Shawwa
Mr. Mohammed Nafiz Hirbawi
Mr. Youssef Nijm

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

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

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

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

- Viewing all reports and studies related to the current bank investments status, conditions of local and international financial markets and all the data that enable the committee to perform its duties in a professional and efficient manner.
- Periodically informing the board of the bank's investment portfolios status, and informing it, without delay, of any substantial changes to such investments status.
- Developing, reviewing and periodically updating the bank investment policy, and ensuring that it complies with the effective laws and regulations, and with the banking standards; the committee shall then present its output to the board for approval. Such policy must clearly specify a mechanism for taking investment decision, and ceilings on powers and the different positions.
- Approving particular investment transactions that are beyond the management's authorities and submitting to the full board recommendations on particular investment decisions that is beyond the committee powers.
- Ensuring that the executive management adheres to implementing the investment decisions, and the ceilings and powers determined by the committee.

Credit Committee

Committee Members:

Mr. Faisal Ghazi Shawwa - Chairman of the Committee
Mr. Hashim Shawa
Mr. Youssef Nijm
Mr. Maher J. Farah
Mr. Mohammed Nafiz Hirbawi

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

- Reviewing all credit reports and studies on a regular basis.
- Informing the board about the quality and the size of the credit portfolio. The committee is responsible to monitor watch list loans, non-performing loans and the amount of provisions taken to face any future losses. Any material changes to the quality of the credit portfolio will be immediately sent to the Board.
- Developing the credit policies, collaterals, credit limits to credit committees that will be consistent with the current laws, PMA instructions, Risk Committee recommendations to be approved at the end by the board. The committee is responsible to regularly review and update credit policies according to the changes in the economic and political conditions.
- Approve the marketing plan for credit products.
- Study and review credit applications for approval that exceed the executive credit committees limits after the recommendations of all executive credit committees
- Monitor non-performing loans and developing plans to reduce them. Providing assurance to the board that Provisions for doubtful debt is sufficient and meeting PMA requirements.

Investment Committee

Human Resources & Corporate Governance Committee

Committee Members:

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

The role of the Committee is to oversee

(a) The bank's corporate governance framework.
(b) Director nomination process, director and executive remuneration policies, board and executive evaluation processes.
(c) Succession planning, board education, and the bank's human resources policies.

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

• Review and approve major HR policies to ensure they are fair, competitive, complete, and in the best long-term interest of BOP.

• Help oversee major changes and improvements in the HR function to ensure it is effectively serving as a strategic partner in the organization.

• Develop for the board's approval and annually review the chart of authorities and delegation of authorities to management.

• Consider possible conflicts of interests of directors and any related party transactions of directors and make relevant proposals to the board in accordance with the BOP's corporate governance code.

• Review any change in status (including fulfilment of independence requirements) and professional affiliation of current directors and make relevant proposals to the board in accordance with the company's corporate governance code.

• Oversee the development and implementation of a board induction process for new directors and a programme of continuing director development as needed.

• Review corporate governance policies and practices throughout the company and make relevant proposals to the board to improve their effectiveness.

Investment Committee

The bank's underlying premise for managing risk is to protect and grow the economic value of the Bank for our many stakeholders. Our stakeholders include our shareholders, our customers, our suppliers, our employees, our investors, the general public and the PMA. In striving to provide value to our stakeholders, we encounter many risks in our business and operating environment that can both reduce or add value to the Bank. Accordingly, the bank's needs an integrated risk management framework to help effectively identify and manage these risks. As this framework is progressively implemented across the Bank, consistent and systematic risk management will become an integral part of the way we run our business.
Risk management does not mean risk avoidance; all organisations must accept some risk if they are to achieve a sustainable profit for their shareholders. At BOP, we accept risk-taking as part of our strategy to both create and preserve value, but we expect financial and non-financial returns commensurate with the risk.
BOP's risk management framework enhances our capability to systematically identify and assess risks, and establish acceptable levels of risk relative to BOP's growth and return objectives. Linking effective risk management to the achievement of our corporate goals will bring about greater alignment and certainty of outcomes, resulting in the likelihood of improved organisational performance.
BOP's objectives and the environment in which we operate are evolving and as a result, the risks the Bank faces are continually changing. Sound management of BOP's risks depends on a thorough and regular evaluation of the nature and extent of the risks to which the Bank is exposed. Since there are rewards for successful risk-taking in business, the purpose of risk management at BOP is to help manage risks to acceptable levels rather than to eliminate them.
Such an enterprise-wide risk management framework encompasses the risk culture, processes and structure that are established by BOP's Board of Directors, management and other personnel. It is applied in strategy setting and decision-making across the Bank to provide reasonable assurance regarding the achievement of BOP's objectives.

Risk Management Framework

The internal environment or risk management culture of BOP sets the tone for managing risk in the Bank and provides the basis for all the other components of the Framework.
The key factors influencing the environment that BOP wishes to achieve are:
· A set of shared beliefs and attitudes throughout the organisation characterising how BOP considers risks throughout its operations. This basic risk management philosophy is to be reflected in everything BOP does – by capturing it in policy statements, oral and written communications, decision making, general behaviours and everyday actions;
· Operating consistently within the Board approved "risk appetite" – that is, on a broad level, the amount and types of risk that the Board and senior management are prepared to accept in pursuit of value. Risk appetite is assessed and documented by the Board and senior management team during the annual strategy setting process;
· The operating policies that are approved by the BoD that set guidelines for how risk shall be managed across the BOP; and
· A commitment by everyone in the organisation to embrace the risk management framework, to share a common language for risk, to work in accordance the Bank's Code of Conduct and to seek to continuously improve the way in which we manage risk.
· An investment in the training of staff to develop skills and experience to make risk management a core competency across the Bank. This is supported by an open, honest culture that values the identification and communication of risk issues.

Accordingly, the objectives of the Bank's risk management activities are to:

· Establish a framework that supports the business activities to maximise risk-adjusted returns within the Board's risk appetite and other constraints such as regulatory requirements and the Bank's internal controls
· Accurately identify and measure the sources of these risks
· Recommend appropriate levels of these risks, consistent with the Board's tolerance or appetite for such risks
· Control the level of these risks by establishing limits and routinely monitoring the risk exposures to these limits
· Ensure that there is no breach of relevant PMA regulatory requirements and applicable laws
· Seek to enable a balance between controlling these risks and generating optimal returns within these risk constraints
· Add value to the Bank's business units, senior management and Board by providing analysis and recommendations to support the achievement of the overall Bank's strategic objectives.

The major risk types for the Bank have been identified and specific Risk Policies have been developed as follows:

· Asset Liability Management (ALM) Policy
· Credit Risk Policy
· Liquidity Risk Policy
· Currency Risk Policy
· Interest Rate Risk Policy
· Investment and Counterparty Risk Policy
· Operational Risk Policy

The level of the Bank's capital is aligned to the risk appetite and risk profile. The key objectives for capital management are to:

· Satisfy PMA regulatory requirements relating to capital adequacy and to adhere to regulatory standards and guidelines
· Manage the capital resources of the Bank within its risk appetite
· Generate sufficient capital to support the growth of the Bank's balance sheet and business strategy
· Hold an adequate buffer to ensure maintenance of capital adequacy under unexpected, stressed economic conditions
· Efficiently manage and allocate capital in order to optimise risk adjusted returns

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

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

Responsibilities of the Board

- Develops the business strategy
- Approves risk management strategy for the Bank
- Articulates risk appetite
- Approves risk appetite translation into risk tolerances and limits
- Establishes the risk governance structure
- Reviews significant risk issues highlighted by different Board committees
- Reviews and approves risk policies and procedures
- Delegates relevant authority to risk functionaries
- Reports to stakeholders on risk management
- Approves public disclosures

Board Risk Management Committee

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

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

The Executive Risk Management Committee - ALCO

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

- Develop and recommend the Bank's risk appetite and strategy to the Board
- Oversee the identification, assessment and management of Bank-wide material risks
- Assess the risk implications of the Bank's business strategies
- Consider the impact of changes in market, economic and competitive environments on the Bank's risk profile
- Review exceptions, if any, from approved risk guidelines / policies
- Review adequacy of the provisioning policy
- Monitor and review the Bank's progress towards implementation of the Risk Management Framework
- Monitor compliance with legal and regulatory requirements
- Report to the Board on all material matters arising from its review and monitoring functions
- Report monthly on the nature and magnitude of all significant risks
- Report to the Board Risk Committee on the overall effectiveness of the risk management process
- Develop risk awareness at all management and staff levels
- Initiate/oversee a formal training programme on Risk Management to entire bank staff
- Recommend to the Board Risk Committee relevant risk management policies
- Ensure sound risk management policies and practices are implemented
- Ensure adequate procedures are in place to manage identified risks
- Oversee risk and capital management plan

Risk Management Departments

The Risk Management Departments, headed by Chief Risk Officer (CRO), is responsible for developing and implementing the Bank's Risk Management framework.

Responsibilities include the following:

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

Business Unit Responsibilities

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

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

Best Company for Investor Relations in Palestine Award

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

Maintaining strong relationships and transpancy with our existing and potential investors is very important to us. Bank of Palestine organized and participated in several regional and international Investor Road Shows.

For the second consecutive year, bank of Palestine won the Middle East Investor Relations Society's award for "Best Company for Investor Relations in Palestine".

Trading Activity in 2013 - Bank of Palestine

Description	2013	2012	Notes
Number of Shareholders	3,921	3,839	2.14% increase between 2012 and 2013
Number of Traded Shares	16,767,340	18,842,101	8.26% of total trading in PEX
Value of Traded Shares (USD)	50,402,400	53,093,491	14.79% of total trading in PEX
Number of Executed Transactions	6,395	6,057	14.40% of total transactions in PEX
Share Turnover Ratio	11.18 %	14.06 %	Number of traded shares/total number of shares
Trading Sessions where the share was traded	241	249	100% of total trading sessions in 2013
Market Capitalisation (USD)	480,000,000	400,660,000	14.78% of total PEX market capitalization
Highest Trading Price (USD)	3.33	3.23	
Lowest Trading Price (USD)	2.75	2.57	
Closing Price (USD)	3.20	2.99	

Senior Executive Management Salaries and Bonuses

General Manager, Deputy General Managers, and Assistant General Managers' salaries and bonuses amounted to USD 2,180,395 in 2013.

Seminars' Cost and Travel Expenses of Senior Executive Management

General Manager, Deputy General Managers, and Assistant General Managers' seminars cost, and travel expenses amounted to USD 264,386 in 2013.

Loans Granted to Senior Executive Management:

Total loans granted to Senior Executive Management in 2013 was USD 3,873,966.

Proposed Remuneration to Board of Directors
Proposed Board of Directors remuneration based on profits for the year 2013 is USD 990,000.

Dependence on Main providers and Customers

There is no main local or foreign provider or customer, who represents 10% or more of total purchases and/or sales.

Privileges

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

Extraordinary Transactions

No financial effect occurred due to extraordinary transactions during the financial year.

Decisions with Material effect

Israeli Military orders are the major obstacles to the bank's operations, especially the siege on the Gaza Strip and military checkpoints spread across the West Bank. In spite of this situation, Bank of Palestine has the ability and experience to adapt with these orders. Having the largest banking network in Palestine enables the bank to manage its transactions and their continuity effectively given the prevailing conditions.

Legal Actions

The number of cases filed against the bank was (35) and (29), as at 31 December 2013 and 2012 respectively, which were considered part of the normal activity of the bank. Cases were equivalent to USD 6,765,167 and USD 3,292,177 as at 31 December 2013 and 2012 respectively. The bank's management and lawyer assess that these cases would not entail any liabilities other than what the bank has already allocated.

Control of the Company

There are no direct or indirect parties who control the company.

The Board of Directors Sessions

Nine Board of Directors meeting sessions were held in 2013, in addition to the board committees' meetings, to carry out the tasks entrusted in the members as stated in the Code of Corporate Governance and the internal procedures of the bank.

Special Voting by Shareholders

No issues requested a special voting by shareholders during the year 2013.
Preliminary Financial Statements
There is no difference between the preliminary financial statements disclosed previously and the final financial statements of the year.

External Auditor

Ernst & Young Co. audited the 2013 financial statements.
Disseminating Information
The Annual Report will be sent to all shareholders at their registered email address with an invitation to attend the General Assembly. The report will also be available in all of our branches and an electronic version will be available on our website

www.bankofpalestine.com

The Board of Directors of Bank of Palestine PLC is pleased to invite shareholders to attend its Ordinary Assembly General Meeting to be held at Bank of Palestine's General Management Head Office in Ramallah, and at Bank of Palestine's Head office in Gaza, via video conference at 10:00 am on Friday, April 25, 2014

Meeting Agenda:

- Discuss and approve the Board of Directors' Report.
- Discuss and approve the financial statements for the year 2013.
- Approve the auditor's report.
- Discuss and approve the Board of Directors recommendations to distribute USD 22.5 million from realized profits to shareholders as follows:

o USD 10 million as stock dividends, equivalent to 6.66% of the nominal value of the share.
o 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.

- The appointment of an auditor for the financial year 2014 and appropriating the
- auditor's remuneration, or alternatively authorizing the board to do so.
- Ratification of the Board of Directors' remuneration.
- Discharge the chairman and members of the Board of Directors for the year 2013.
- Elections of a new Board of Directors for the next four years.

Major Shareholders

At the end of 2013, the number of shareholders was 3,839, compared with 3,802 shareholders at the end of 2012.

Major Shareholders

Name	Number of Shares - End of 2013	Ownership Percentage - End of 2013	Number of Shares - End of 2012	Ownership Percentage - End of 2012
A. M. Al-Kharafi& Sons Trading Co.	11,446,897	7.63 %	10,225,922	7.63 %
Mrs. Mahdiya Y. Shawa	8,491,442	5.66 %	7,585,709	5.66 %
Blakeney Management	7,774,834	5.18 %	7,204,489	5.38 %
International Finance Corporation (IFC)	7,500,000	5.00 %	6,700,000	5.00 %

Board of Directors' First Degree Relatives Ownership

Member of the Board of Directors	Citizenship	Ownership Percentage - End of 2013	Ownership Percentage - End of 2013	Ownership Percentage - End of 2012	Number of Shares - End of 2012
Hashim H. H. Shawa - Chairman of the Board	Palestinian	3.94 %	5,905,295	3.92 %	5,255,411
Mamon A. H. Abu Shahla - Vice Chairman of the Board	Palestinian	0.56 %	834,615	0.56 %	744,525
Maher J. Farah	Palestinian	0.48 %	723,758	0.48 %	636,559
Awni M. I. Skaik	Palestinian	0.20 %	306,192	0.20 %	263,533
Mohammed Nafez M. Hirbawi	Palestinian	0.13 %	197,027	0.12 %	156,012
Hani H. M. Nigim	Palestinian	0.11 %	161,563	0.10 %	134,330
Faysal G. Shawa	Palestinian	0.01 %	16,000	0.01 %	17,866
Youssef M. Y. Nijm	Palestinian	0.07 %	111,918	0.07 %	89,981
Reyad A. A. Zimmou	Palestinian	0.03 %	45,000	0.03 %	45,000
Tareq T. F. Al Shakaa - Representing Birzeit Pharmaceuticals	Palestinian	0.02 %	35,000	0.02 %	28,138
John Khoury - Nominated by the IFC	American	0.02 %	23,999	0.02 %	21,440

Board of Directors' First Degree Relatives Ownership

Name	Citizenship	Number of Shares - End of 2013	Number of Shares - End of 2012
Bernardita Vigano Shawa	Swiss	111,940	100,000
Genevieve Chantal Marie Boimond	French	23,074	20,973
Amal Ali Ahmed Zimo	Palestinian	17,504	15,637
Atezaz M. Skaik	Palestinian	7,499	6,700

Senior Management Ownership

Name	Title	Citizenship	Number of Shares - End of 2013	Number of Shares - End of 2012
Salman M. Qemailah	Assistant General Manager - CFO	Palestinian	42,274	37,765
Wael AbdAllatif Al Sourani	Assistant General Manager - Gaza Branches	Palestinian	29,514	26,366
Rushdi M. Ghalayini	Deputy General Manager	Palestinian	16,043	14,332
Khamis F. Asfoor	Legal Advisor	Palestinian	14,384	12,850
Ihsan K. Shuashaa	Assistant General Manager - Chief Treasurer	Palestinian	14,140	15,789
Alaa M. Al Redwan	Deputy General Manager - COO	Palestinian	13,839	12,363
Hani Salah Nasser	Assistant General Manager - West Bank Branches	Palestinian	12,974	11,591
Susan George Samaan Khoury	Assistant General Manager - Credit	Palestinian	8,975	7,835

Consolidated Financial Statements

December 31, 2013

Independent Auditors' Report to the Shareholders of Bank of Palestine P.L.C.

We have audited the accompanying consolidated financial statements of Bank of Palestine P.L.C (the Bank) which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2013 and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

Without qualifying our opinion, as depicted in note (20) to the accompanying consolidated financial statements, the Bank did not reach final settlements with the tax authorities for the years from 2005 to 2012. Further, the Bank bases its provision for taxes on prevailing tax laws and the Presidential Decree, which exempts taxpayers in the southern governorates (Gaza) from taxes. Accordingly, tax provisions for the period from the year 2007 to December 31, 2013 do not include the Bank's results of operations from branches operating in Gaza. Actual taxes depend on the results of tax reviews conducted by the tax authorities.

Ernst & Young - Middle East

Ernst & Young

February 9, 2014
Ramallah - Palestine

Consolidated Statement of Financial Position

As at December 31, 2013

	Notes	2013 $.U.S	2012 $.U.S
Assets			
Cash and balances with Palestine Monetary Authority	5	638,406,726	396,655,713
Balances at banks and financial institutions	6	350,748,099	415,857,478
Financial assets at fair value through profit or loss	7	7,085,308	33,428,321
Direct credit facilities	8	1,103,641,018	976,394,928
Financial assets at fair value through other comprehensive income	9	22,313,964	25,761,983
Financial assets at amortized cost	10	146,594,774	86,734,774
Investment in associates	11	17,070,699	11,524,968
Property, plant and equipment	12	39,587,275	38,827,061
Projects in progress	13	8,291,148	5,040,203
Other assets	14	14,306,932	14,268,666
Total Assets		2,348,045,943	2,004,494,095
Liabilities and Equity			
Liabilities			
Palestine Monetary Authority's deposits	15	90,206,966	66,203,034
Banks and financial institutions' deposits	16	142,399,691	70,208,048
Customers' deposits	17	1,668,535,234	1,488,572,164
Cash margins	18	77,028,031	65,921,538
Sundry provisions	19	16,373,477	13,770,499
Tax provisions	20	57,909,375	45,310,210
Other liabilities	21	43,574,195	33,534,693
Total Liabilities		2,096,026,969	1,783,520,186
Equity			
Paid-in share capital	1	150,000,000	134,000,000
Additional paid-in capital	22	9,034,692	9,034,692
Statutory reserve	23	28,006,564	23,959,969
Voluntarily reserve	23	95,845	88,418
General banking risks reserve	23	23,565,172	15,886,367
Pro-cyclicality reserve	23	22,005,031	16,029,367
Fair value reserve	9	(5,159,800)	(6,222,738)
Retained earnings		23,839,731	27,613,975
		251,387,235	220,390,050
Non-controlling interests	4	631,739	583,859
Total Equity		252,018,974	220,973,909
Total Liabilities and Equity		2,348,045,943	2,004,494,095

Consolidated Income Statement
For the year ended December 31, 2013

	Notes	2013 $.U.S	2012 $.U.S
Interest income	25	90,780,557	72,333,723
Interest expense	26	(14,858,145)	(9,826,166)
Net interest income		75,922,412	62,507,557
Net commissions	27	23,697,195	21,173,477
Net interest and commissions income		99,619,607	83,681,034
Foreign currency gain		3,599,199	5,318,110
Net gain from financial assets	28	1,770,512	6,587,211
Share of results of associates	11	763,376	184,485
Other revenues	29	6,941,081	5,998,408
Gross profit		112,693,775	101,769,248
Expenses			
Personnel expenses	30	(33,035,862)	(28,798,538)
Other operating expenses	31	(19,321,560)	(17,599,335)
Depreciation and amortization	14&12	(4,581,007)	(4,444,780)
Impairment allowance for direct credit facilities	8	(1,829,775)	(546,744)
Credit facilities written off		(810,498)	(412,963)
Palestine Monetary Authority fines	32	(77,077)	-
Total expenses		(59,655,779)	(51,802,360)
Profit before taxes		53,037,996	49,966,888
Tax expense	20	(12,599,165)	(11,619,491)
Profit for the year		40,438,831	38,347,397
Attributable to:			
Shareholders of the Bank		40,465,951	38,410,797
Non-controlling interests	4	(27,120)	(63,400)
		40,438,831	38,347,397
Basic and diluted earnings per share	34	0.27	0.26

Consolidated Statement of Comprehensive Income
For the year ended December2013 ,31

	Notes	2013 $.U.S	2012 $.U.S
Profit for the year		40,438,831	38,347,397
Other comprehensive income:			
Changes in the fair value of financial assets at fair value through other comprehensive income	9	423,847	(2,852,572)
Other comprehensive income		423,847	(2,852,572)
Total comprehensive income for the year		40,862,678	35,494,825
Attributable to:			
Shareholders of the Bank		40,889,798	35,558,225
Non-controlling Interests	4	(27,120)	(63,400)
		40,862,678	35,494,825

Consolidated Statement of Changes in Equity

For the year ended December 31, 2013

	Paid-in share capital	Additional paid-in capital	Reserves: Statutory	Reserves: Voluntarily	Reserves: General banking risks	Reserves: Pro-cycli-cality	Reserves: Fair value	Retained earnings	Equity	Non-controlling interests	Total equity
2013	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S
Balance, beginning of the year	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 year	-	-	-	-	-	-	-	40,465,951	40,465,951	(27,120)	40,438,831
Other comprehensive income	-	-	-	-	-	-	423,847	-	423,847	-	423,847
Total comprehensive income	-	-	-	-	-	-	423,847	40,465,951	40,889,798	(27,120)	40,862,678
Results of sale of financial assets recognized directly in retained earnings (Note 9)	-	-	-	-	-	-	639,091	(639,091)	-	-	-
Recovery of losses recognized in retained earnings (Note11)	-	-	-	-	-	-	-	150,000	150,000	-	150,000
Transfers to reserves	-	-	4,046,595	7,427	7,678,805	5,975,664	-	(17,708,491)	-	-	-
Paid-in capital of a subsidiary	-	-	-	-	-	-	-	-	-	75,000	75,000
(Stock dividends (Note 24	16,000,000	-	-	-	-	-	-	(16,000,000)	-	-	-
(Cash dividends (Note 24	-	-	-	-	-	-	-	(10,050,000)	(10,050,000)	-	(10,050,000)
Fractions of stock dividends distributed	-	-	-	-	-	-	-	7,387	7,387	-	7,387
Balance, end of the year	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

	Paid-in share capital	Additional paid-in capital	Reserves: Statutory	Reserves: Voluntarily	Reserves: General banking risks	Reserves: Pro-cycli-cality	Reserves: Fair value	Retained earnings	Equity	Non-controlling interests	Total equity
2012	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S	$ .U.S
Balance, beginning of the year	120,000,000	9,034,692	19,813,156	88,418	12,073,625	9,779,690	)316,176(	23,354,098	193,827,503	572,259	194,399,762
Adjustments due to the early (adoption of IFRS (9	-	-	305,733	-	-	458,598	(3,057,328)	2,292,997	-	-	-
Balance, beginning of the year - after adjustments	120,000,000	9,034,692	20,118,889	88,418	12,073,625	10,238,288	(3,373,504)	25,647,095	193,827,503	572,259	194,399,762
Profit for the year	-	-	-	-	-	-	-	38,410,797	38,410,797	(63,400)	38,347,397
Other comprehensive income	-	-	-	-	-	-	(2,852,572)	-	(2,852,572)	-	(2,852,572)
Total comprehensive income	-	-	-	-	-	-	(2,852,572)	38,410,797	35,558,225	(63,400)	35,494,825
Results of sale of financial assets recognized directly in retained earnings (Note 9)	-	-	-	-	-	-	3,338	(3,338)	-	-	-
Transfers to reserves	-	-	3,841,080	-	3,812,742	5,791,079	-	(13,444,901)	-	-	-
Paid-in capital of a subsidiary	-	-	-	-	-	-	-	-	-	75,000	75,000
(Stock dividends (Note 24	14,000,000	-	-	-	-	-	-	(14,000,000)	-	-	-
(Cash dividends (Note 24	-	-	-	-	-	-	-	(9,000,000)	(9,000,000)	-	(9,000,000)
Fractions of stock dividends distributed	-	-	-	-	-	-	-	4,322	4,322	-	4,322
Balance, end of the year	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

Consolidated Statement of Cash Flows

For the year ended December 31, 2013

	Notes	2013 $ .U.S	2012 $ .U.S
Operating activities			
Profit before taxes		53,037,996	49,966,888
Adjustments for:			
Depreciation and amortization		4,581,007	4,444,780
Net gain from financial assets		(1,770,516)	(6,587,211)
Impairment allowance for credit facilities		1,829,775	546,744
Recovery of suspended interest		-	(5,609)
Sundry provisions		2,881,585	2,090,720
Bank's share of results of associates		(763,376)	(184,485)
Loss (gain) on disposal of property, plant and equipment		10,053	80,433
		59,806,524	50,352,260
Changes in assets and liabilities:			
Direct credit facilities		(129,075,865)	(256,763,015)
Statutory cash reserve		(25,714,545)	(17,612,069)
Other assets		(331,019)	(157,451)
Customers' deposits		179,963,070	245,791,693
Cash margins		11,106,493	12,133,078
Other liabilities		9,310,720	(2,650,715)
Sundry provisions paid		(278,607)	(184,500)
Net cash flows from operating activities		104,786,771	30,909,281
Investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(7,387,889)	(2,613,423)
Purchase of financial assets at fair value through profit or loss		(44,910,464)	(26,742,818)
Purchase of financial assets at amortized cost		(48,473,296)	(53,353,653)
Proceeds from sale of financial assets at fair value through profit or loss and through other comprehensive income		41,374,872	127,543,131
Maturity of financial assets		25,447,433	34,157,905
Investment in associates		(488,229)	-
Dividends income received		1,907,734	1,693,956
Projects in progress		(5,229,192)	(3,590,796)
Purchase of property, plant and equipment		(3,227,985)	(3,638,282)
Proceeds from sale of property, plant and equipment		170,590	25,799
Net cash flows (used in) from investing activities		(40,816,426)	73,481,819
Financing activities:			
Cash dividends paid		(9,321,218)	(8,737,465)
Payments of non-controlling interests in a subsidiary's capital		75,000	75,000
Proceeds from fractions of stock dividends sold		7,387	4,322
Net cash flows used in financing activities		(9,238,831)	(8,658,143)
Increase in cash and cash equivalents		54,731,514	95,732,957
Cash and cash equivalents, beginning of the year		548,138,201	452,405,244
Cash and cash equivalents, end of year	33	602,869,715	548,138,201

Notes to the Consolidated Financial Statements

December 31, 2013

1. General

Bank of Palestine P.L.C. (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 to U.S. $ 150 million as at December 31, 2013.

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

The Bank carries out all of its banking and financial activities through its (21) branches and (27) offices located in Palestine.

The Bank's personnel reached (1,212) and (1,139) as at December 31, 2013 and 2012, respectively.

The consolidated financial statements for the year ended December 31, 2013 were authorized for issuance by the Bank's Board of Directors during their meeting number (322) held on February 9, 2014.

2. Consolidated Financial Statements

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiaries as at December 31, 2013.

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

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

	Country of incorporation and operations	Ownership %		Subscribed capital $.U.S	
		2013	2012	2013	2012
Al-Wasata Company	Palestine	87	87	3,560,000	3,560,000
Investment 2000 Co.	Palestine	100	100	100,000	100,000
Palpay	Palestine	85	85	1,500,000	1,000,000

3. Accounting Policies

3.1 Basis of preparation of consolidated financial statements

The accompanying consolidated financial statements as of December 31, 2013 have been prepared in accordance with International financial Reporting Standards (IFRS), as issued by International Accounting Standards Board (IASB), and in conformity with Palestine Monetary Authority (PMA) regulations.

The consolidated financial statements have been prepared under the historical cost basis, except for 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 consolidated financial statements.

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

3.2 Basis of consolidation of financial statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at December 31, 2013. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investees.

The Bank re-assesses whether or not it controls investees if facts and circumstances indicate that there are changes to one or more of the elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses the control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

3.3 Changes in accounting polices

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

IAS 1 Presentation of Items of Other Comprehensive Income (Amended)

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

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes, compared to the requirements of IAS 27 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, and associates. A number of new disclosures are also required, but has no impact on the Bank’s financial position or performance.

IFRS 13 Fair Value Measurement

IFRS 13 provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Bank is currently assessing the impact that this standard will have on the financial position and performance. This standard has no impact on the Bank’s financial position or performance.

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

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

These amendments are effective for annual periods beginning on or after January 1, 2014.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments are effective for annual periods beginning on or after January 1, 2014.

IFRIC Interpretation 21 Levies (IFRIC 21)

This Interpretation will be effective for annual periods beginning on or after January 1, 2014.

3.4 Summary of significant accounting policies

Revenues and expenses recognition

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

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

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

Credit facilities

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

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

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

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

Financial assets investments

Financial assets investments are initially measured at fair value plus cost of acquisition if they are not classified at fair value through profit or loss (FVTPL). Subsequent to initial recognition all financial assets are stated at fair value or amortized cost as follows:

Financial assets at fair value

They are equity instruments and financial derivatives that are recognized at FVTPL. The entity can irrevocably elect to designate equity instruments not held for trading through other comprehensive income.

If the Bank elects to designate equity instruments at fair value through other comprehensive income (FVOCI), the Bank recognizes change in fair value in a special account in equity. Where the asset is disposed of, the gain or loss is not reclassified to the consolidated income statement, but is reclassified directly to retained earnings.

Dividends on these investments in equity instruments are recognized in the consolidated income statement when the Bank's right to receive the dividends is established.

Financial assets at amortized cost

Debt instruments are measured at amortized cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either or both of the two conditions are not met the financial instrument is classified as at FVTPL. Even if the instrument meets the two conditions, the Bank has the option to classify the financial asset as at FVTPL if this designation reduces any inconsistency recognition.

Subsequent to initial recognition, debt instruments are measured at amortized cost using the effective interest method net of impairment losses, if any. The Bank determines whether there is any evidence that the financial assets are impaired. If this is the case, the Bank calculates the amount of impairment and recognizes the amount in the consolidated income statement. Interest revenue from the financial assets at amortized cost is recognized in the consolidated income statement.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for the amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset.

Fair value measurement

The Bank measures financial instruments, such as, derivatives, and non-financial assets at fair value at each financial statements date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows:

- Level 1 — Quoted (unadjusted) market prices in active markets
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External appraisers are involved for valuation of significant assets. The Bank decides, after discussions with the external appraisers, which valuation techniques and inputs to use for each case.
For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Offsetting

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

Property, plant and equipment

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

	Useful life (Years)
Buildings and real estate	50
Furniture and equipment	17 - 6
Computers	10 - 5
Leasehold improvements	5
Vehicles	7

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognized.
The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Intangible assets

The costs of intangible assets acquired in a business combination are their fair value as at the date of acquisition. Intangible assets acquired separately are measured on initial recognition at cost.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and recorded the amortization expense in the consolidated income statement in the same period. Intangible assets with indefinite useful lives are tested for impairment annually at the reporting date and recorded the impairment in the consolidated income statement.

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

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

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

Investment in associates

Investment in an associate is accounted for using the equity method. An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Under the equity method, investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in Bank's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Bank's share in associate's results is recorded in the consolidated income statement. Unrealized gains and losses resulting from transactions between the Bank and its associate are eliminated to the extent of its interest in the associate.

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

After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Bank determines whether there is objective evidence that the investments in the associates are impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associates their carrying value, then recognizes the difference in the consolidated income statement.

Provisions

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

Tax provisions

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

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

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

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

Cash and cash equivalents

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

Segments information

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

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

Foreign currencies

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

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

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

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

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

Use of estimates

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

Bank's management believes that estimates used in the preparation of the consolidated financial statements are reasonable and are as follows:

- The Bank reviews the impairment allowance for credit facilities according to PMA's regulations and IAS (39).

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

4. Material Partly Owned Subsidiaries

The financial information of subsidiaries that have material non-controlling interest are provided below:

Proportionate of equity interest held by non-controlling interests:

Company	Country of incorporation and operation	2013 %	2012 %
Al Wasata	Palestine	13	13
PalPay	Palestine	15	15

Accumulated balances of material non-controlling interest:	2013 $.U.S	2012 $.U.S
Al Wasata	503,787	495,421
PalPay	127,952	88,438
	631,739	583,859

Profit (loss) allocated to material non-controlling interest:	2013 $.U.S	2012 $.U.S
Al Wasata	8,366	(23,364)
PalPay	(35,486)	(40,036)
	(27,120)	(63,400)

Summarized income statement information for the year ended December 31, 2013:

	Al Wasata $.U.S	PalPay $.U.S
Revenues	852,434	406,768
General and administrative expenses	(673,365)	(608,487)
Depreciation	(68,739)	(99,991)
Other (expenses) revenues	(45,976)	65,140
Profit (loss) before tax	64,354	(236,570)
Income tax	-	-
Profit (loss) of the year	64,354	(236,570)
Other comprehensive income of the year	-	-
Total comprehensive income of the year	64,354	(236,570)

Summarized income statement information for the year ended December 31, 2012:

	Al Wasata	PalPay
	$.U.S	$.U.S
Revenues	741,728	77,754
General and administrative expenses	(696,184)	(257,075)
Depreciation	(107,629)	(87,590)
Other expenses	(117,639)	-
Loss before tax	(179,724)	(266,911)
Income tax	-	-
Loss of the year	(179,724)	(266,911)
Other comprehensive income of the year	-	-
Total comprehensive income of the year	(179,724)	(266,911)

Summarized statement of financial position information as of December 31, 2013:

	Al Wasata	PalPay
	$.U.S	$.U.S
Current assets	9,127,969	729,488
Non-current assets	528,362	480,377
Current liabilities	(5,385,218)	(334,860)
Non-current liabilities	(191,370)	(21,986)
Total equity	4,079,743	853,019
Attributable to:		
Bank's shareholders	3,575,956	725,067
Non-controlling interests	503,787	127,952
	4,079,743	853,019

Summarized statement of financial position information as of December 31, 2012:

	Al Wasata	PalPay
	$.U.S	$.U.S
Current assets	6,928,396	222,972
Non-current assets	590,466	417,331
Current liabilities	(3,358,679)	(34,916)
Non-current liabilities	(144,794)	(15,798)
Total equity	4,015,389	589,589
Attributable to:		
Bank's shareholders	3,519,968	501,151
Non-controlling interests	495,421	88,438
	4,015,389	589,589

Summarized statement of cash flows information for the year ended December 31, 2013:

	Al Wasata	PalPay
	$.U.S	$.U.S
Operating activities	4,296,434	69,729
Investing activities	(6,635)	(163,038)
Financing activities	(3,096)	500,000
Increase in cash and cash equivalents	4,286,703	406,691

Summarized statement of cash flows information for the year ended December 31, 2012:

	Al Wasata	PalPay
	$.U.S	$.U.S
Operating activities	1,532,383	(212,754)
Investing activities	584,778	(290,794)
Financing activities	(650,789)	500,000
Increase (decrease) in cash and cash equivalents	1,466,372	(3,548)

5. Cash and Balances with Palestine Monetary Authority

This item comprises the following:

	2013	2012
	$.U.S	$.U.S
Cash on hand	423,520,959	212,727,507
Balances with PMA:		
Current and demand accounts	981,644	5,964,298
Time deposits maturing within 3 months	60,225,670	50,000,000
Statutory cash reserve	153,678,453	127,963,908
	638,406,726	396,655,713

- According to PMA circular number (67/2010), the Bank shall maintain statutory cash reserves with PMA at 9% of total customers' deposits. PMA does not pay interest on statutory cash reserves. According to PMA circular number (2/2012) the outstanding balance of credit facilities granted in Jerusalem for some sectors are deducted before the statutory reserve is calculated.
- PMA does not pay interest on current accounts.
- Time deposits at PMA are interest-bearing deposits with interest rates ranging between2.75% and.3%

6. Balances at Banks and Financial Institutions

This item comprises the following:

	2013 $.U.S	2012 $.U.S
Local banks and financial institutions:		
Current and demand accounts	47,329	467,973
Deposits maturing within 3 months	36,734,838	29,099,674
	36,782,167	29,567,647
Foreign banks and financial institutions:		
Current and demand accounts	100,312,954	257,137,416
Deposits maturing within 3 months	213,652,978	129,152,415
	313,965,932	386,289,831
	350,748,099	415,857,478

- Non-interest bearing balances at banks and financial institutions as at December 31, 2013 and 2012 amounted to U.S. $ 100,360,283 and U.S. $ 270,802,388, respectively.
- Restricted balances at banks and financial institutions as at December 31, 2013 and 2012 amounted to U.S. $ 1,132,110 and U.S. $ 601,426, respectively.

7. Financial Assets at Fair Value Through Profit or Loss

	2013 $.U.S	2012 $.U.S
Quoted shares at Palestine Securities Exchange	7,085,308	8,203,971
Quoted bonds at foreign markets	-	25,224,350
	7,085,308	33,428,321

8. Direct Credit Facilities

This item comprises the following:

	2013 $.U.S	2012 $.U.S
Retail		
Loans	328,288,709	302,890,598
Overdraft accounts	3,338,066	1,749,626
Credit cards	35,187,199	32,326,278
Current overdrafts	27,171,248	23,274,423
Corporate		
Loans	208,910,342	168,778,645
Overdraft accounts	121,113,875	92,480,539
Current overdrafts	34,554,674	29,758,478
Institutions		
Loans	10,363,957	13,579,074
Overdraft accounts	112,122	175,910
Current overdrafts	2,140,280	107,294
Public sector		
Loans	86,561,095	268,848
Overdraft accounts	258,102,308	319,544,297
	1,115,843,875	984,934,010
Suspended interest and commission	(3,938,745)	(2,098,742)
Impairment allowance for direct credit facilities	(8,264,112)	(6,440,340)
	1,103,641,018	976,394,928

Summary of movement on suspended interest is as follows:

	2013 $.U.S	2012 $.U.S
Balance, beginning of the year	2,098,742	1,076,727
Suspended interest during the year	1,808,669	1,027,328
Suspended interest transferred to revenues	-	(5,609)
Suspended interest written off	(31,334)	(55,854)
Foreign currency exchange differences	62,668	56,150
Balance, end of the year	3,938,745	2,098,742

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

	2013	2012
	$.U.S	$.U.S
Balance, beginning of the year	6,440,340	6,344,915
Recovered during the year	1,829,775	546,744
Credit facilities in default for more than 6 years	(20,172)	(630,799)
Impairment allowance for credit facilities written off	(55,052)	(296,856)
Foreign currency exchange differences	69,221	476,336
Balance, end of the year	8,264,112	6,440,340

The following is a summary of impairment allowance for direct credit facilities in default for more than 6 years:

	2013	2012
	$.U.S	$.U.S
Balance, beginning of the year	2,733,903	2,282,584
Additions	20,172	630,799
Impairment allowance for credit facilities written off	(53,865)	(147,026)
Foreign currency exchange differences	(25,565)	(32,454)
Balance, end of the year	2,674,645	2,733,903

- Loans are presented net of their related interest and commission received in advance which amounted to U.S. $ 2,361,510 and U.S. $ 2,111,315 as at December 31, 2013 and 2012, respectively.
- Downgraded direct credit facilities net of suspended interest according to PMA regulations as at December 31, 2013 and 2012 amounted to U.S.$ 25,544,192 and U.S.$ 14,546,019 representing (2.30%) and (1.48%) of credit facilities net of suspended interest, respectively.
- Defaulted credit facilities net of suspended interest as at December 31, 2013 and 2012 amounted to U.S.$ 24,442,375 and U.S.$ 14,264,707 representing (2.20%) and (1.45%) of credit facilities net of suspended interest, respectively.
- According to PMA circular number (1/2008), defaulted credit facilities for more than 6 years were excluded from the consolidated financial statements. These defaulted facilities amounted to U.S. $ 4,299,675 as at December 31, 2013. The balance of impairment allowance and suspended interest for defaulted accounts amounted to U.S.$ 2,674,645 and U.S. $ 1,606,005, respectively.
- Direct credit facilities granted to the public sector as at December 31, 2013 and 2012 amounted to U.S.$ 344,663,403 and U.S.$ 319,813,145 representing (30.89%) and (32.47%) of gross direct credit facilities, respectively.
- Direct credit facilities guaranteed by Palestine National Authority as at December 31, 2013 and 2012 amounted to U.S.$ 26,980,620 and U.S.$ 22,253,272 representing (2.42%) and (2.26%) of gross direct credit facilities, respectively.
- The fair value of collaterals obtained in lieu of direct credit facilities amounted to U.S. $ 246,862,597 and U.S. $ 254,967,135 as at December 31, 2013 and 2012, respectively.
- Credit facilities granted to non-residents amounted to U.S. $ 4,825,918 and U.S. $ 9,311,226 as at December 31, 2013 and 2012, respectively.

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

	2013	2012
	$.U.S	$.U.S
Manufacturing	49,195,572	28,226,553
Services	65,824,071	68,109,329
Retail and whole-sale	143,698,003	96,719,143
Real estate and construction	76,770,573	76,129,673
Transportation	2,000,961	1,797,855
Agriculture	6,094,595	4,883,842
Tourism	17,029,213	14,654,119
Financial sector	10,035,492	14,444,363
Public sector	344,362,091	319,628,459
Consumer commodities	396,894,559	358,241,932
	1,111,905,130	982,835,268

Following is the distribution of credit facilities guaranteed by loan guarantee institutions:

December 31, 2013

	Granted	Outstanding balance	Guarantor share	Doubtful
Type of credit facilities	U.S. $	U.S. $	%	U.S. $
Production loans	11,769,500	7,057,823	70	5,574,399
Operating loans	2,733,974	1,859,711	60	197,902
Development loans	5,674,640	4,453,074	50	-
SME loans	6,165,509	5,132,522	35-100	-
	26,343,623	18,503,130		5,772,301

December 31, 2012

	Granted	outstanding balance	Guarantor share	Doubtful
Type of credit facilities	U.S. $	U.S. $	%	U.S. $
Production loans	14,265,000	8,382,440	70	1,883,534
Operating loans	1,962,500	1,384,362	60	7,980
Development loans	3,331,911	2,580,677	50	-
SME loans	4,172,402	2,907,519	35-100	-
	23,731,813	15,254,998		1,891,514

9. 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.$
December 31, 2013				
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
December 31, 2012				
Local	3,061,671	1,392,348	5,324,790	9,778,809
Foreign	15,678,900	304,274	-	15,983,174
	18,740,571	1,696,622	5,324,790	25,761,983

Movement on fair value reserve during the year was as follows:

	2013	2012
	$.U.S	$.U.S
Balance, beginning of the year before adopting IFRS 9	(6,222,738)	(316,176)
Adjustments due to the early adoption of IFRS 9	-	(3,057,328)
Balance, beginning of the year	(6,222,738)	(3,373,504)
Fair value reserve of results of sale of financial assets recognized directly in retained earnings	639,091	3,338
Change in fair value	423,847	(2,852,572)
Balance, end of year	(5,159,800)	(6,222,738)

10. 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.$
December 31, 2013				
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
December 31, 2012				
Local	-	-	13,900,000	13,900,000
Foreign	42,344,804	30,489,970	-	72,834,774
	42,344,804	30,489,970	13,900,000	86,734,774

- Interest on U.S. $ financial assets at amortized cost ranges between 1.75% and 9%
- Interest on JOD financial assets at amortized cost ranges between 5.75% and 7.95%.
- Interest on EURO financial assets at amortized cost ranges between 3.63% and 4.88%.
- These financial assets mature within a period of one month to seven years.

11. Investment in Associates

The details of this item are as following:

	Country of Incorporation	Owner-Ship	December 31, 2013	December 31, 2012
		%	$.U.S	$.U.S
Arab Islamic Bank	Palestine	21	12,750,395	11,524,968
The Palestinian Company for Money Transportation and Valuables and Banking Services (Aman)	Palestine	25	229,137	-
Abraj Co. for Development & Investment (Abraj)	Palestine	21	4,091,167	-
			17,070,699	11,524,968

Arab Islamic Bank (AIB) was incorporated in Al-Bireh, and started its banking activities in the early 1996, through providing banking services, financing, trading and investing activities in accordance with the directives of the Islamic Shari'a Rules through its headquarter in Al-Bireh City and its branches in Palestine. AIB has a subscribed share capital of 50 million share with a par value of 1 U.S.$ per share.

The Palestinian Company for Money and Valuables Transfer (Aman) was incorporated in 2008 in Palestine. It provides money transfer services alongside transferring valuable collectibles and commercial papers inside and outside Palestine. Aman's subscribed capital consists of 1 million shares at a U.S. $ 1 par value per share.

Abraj Company for Development and Investment (Abraj) was incorporated in 2008 in Palestine with goals of conducting all kinds of construction, real estate and commercial activities. Abraj's subscribed capital consists of 21.4 million shares at a U.S. $ 1 par value per share.

Following is the movement of the investment in associates:

	2013	2012
	$.U.S	$.U.S
Balance, beginning of the year	11,524,968	11,340,483
Additions*	488,229	-
Transferred from financial assets at FVTOCI**	4,294,126	-
Bank's share in the results of associates	763,376	184,485
Balance, end of the year	17,070,699	11,524,968

* Additions during 2013 comprise the Bank's share in the increase of capital of the Arab Islamic Bank as part of the private subscription occurred during 2013.

** The Bank has changed the accounting treatment of its investment in Aman and Abraj that were previously classified as financial assets at fair value through other comprehensive income to investment in associates since the Bank gained significant influence in the board of directors of both companies. The Bank reverted the carrying value of these two investments to their original costs of U.S. $ 4,294,126 after recovering impairment losses charged in previous periods in the amount of U.S. $ 150,000.

Following is summarized information related to the Bank's investments in associates:

	Arab Islamic Bank		Aman	Abraj
	2013	2012	2013	2013
The financial position of associates:	$.U.S	$.U.S	$.U.S	$.U.S
Total assets	469,814,701	375,216,122	808,476	32,016,251
Total liabilities	(407,482,937)	(318,007,877)	(362,727)	(7,272,373)
Total equity	62,331,764	57,208,245	445,749	24,743,878
Bank's share	13,089,670	12,013,731	111,437	5,196,214
Book value before adjustment	13,089,670	12,013,731	111,437	5,196,214
Adjustments	(339,275)	(577,955)	117,700	(1,105,047)
Book value after adjustment	12,750,395	11,435,776	229,137	4,091,167
Revenues and business results:				
Revenues	16,790,818	14,161,553	929,538	1,306,553
Operational, administrative and general expenses	(10,637,208)	(11,807,396)	(1,009,661)	(140,375)
Depreciation and amortization	(1,181,147)	(1,311,681)	(12,375)	(3,990)
Finance costs	-	-	-	(95,708)
Other revenues	-	-	9,048	2,626,432
Income before tax	4,972,463	1,042,476	(83,450)	3,692,912
Tax expense	(1,462,000)	(393,963)	-	(220,000)
Net income of the year before adjustments	3,510,463	648,513	(83,450)	3,472,912
Adjustments	-	-	-	(2,612,211)
Net income of the year after adjustments	3,510,463	648,513	(83,450)	860,701
Bank's share	737,197	184,485	(20,862)	47,041

Management believes that the fair value of investment in the associate is not materially different from its carrying value.

12. Property, Plant and Equipment

2013	Buildings and real estate	Furniture and equipment	Computers	Leasehold improvements	Vehicles	Total
	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S
Cost:						
At January 1, 2013	27,218,259	31,684,768	6,406,294	2,826,468	1,899,462	70,035,251
Additions	339,335	4,199,673	216,591	269,384	181,249	5,206,232
Disposals	-	(242,494)	(164)	-	(61,000)	(303,658)
At December 31, 2013	27,557,594	35,641,947	6,622,721	3,095,852	2,019,711	74,937,825
Accumulated depreciation:						
At January 1, 2013	3,640,760	18,287,703	5,796,309	2,226,588	1,256,830	31,208,190
Depreciation charge	391,082	3,185,506	225,429	266,055	197,303	4,265,375
Disposals	-	(75,181)	(13)	-	(47,821)	(123,015)
At December 31, 2013	4,031,842	21,398,028	6,021,725	2,492,643	1,406,312	35,350,550
Net book value						
As at December 31, 2013	23,525,752	14,243,919	600,996	603,209	613,399	39,587,275

2012	Real estate proprieties	Furniture and equipment	Computers	Leasehold improvements	Vehicles	Total
	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S
Cost:						
At January 1, 2012	27,218,259	28,355,563	6,203,016	2,819,782	1,540,415	66,137,035
Additions	-	3,441,928	204,408	145,608	359,047	4,150,991
Disposals	-	(112,723)	(1,130)	(138,922)	-	(252,775)
At December 31, 2012	27,218,259	31,684,768	6,406,294	2,826,468	1,899,462	70,035,251
Accumulated depreciation:						
At January 1, 2012	3,246,638	15,360,326	5,569,195	2,015,219	1,019,598	27,210,976
Depreciation charge	394,122	2,978,182	227,360	306,861	237,232	4,143,757
Disposals	-	(50,805)	(246)	(95,492)	-	(146,543)
At December 31, 2012	3,640,760	18,287,703	5,796,309	2,226,588	1,256,830	31,208,190
Net book value:						
As at December 31, 2012	23,577,499	13,397,065	609,985	599,880	642,632	38,827,061

Property, plant and equipment comprise parcels of land owned by the Bank to carry out its banking activities amounting to U.S. $ 9,759,579 as at December 31, 2013 and 2012.

Property, plant and equipment include U.S. $ 18,400,742 and U.S. $ 16,219,371 of fully depreciated assets that are still operational as at December 31, 2013 and 2012, respectively.

13. Projects in Progress

The item includes the cost the construction of the Bank's Head Office building and the new branches expansion, renovation and leasehold improvements. Following is the movement on the projects in progress:

	2013	2012
	$.U.S	$.U.S
Balance, beginning of the year	5,040,203	1,962,116
Additions	5,229,192	3,590,796
Transfers to property, plant and equipment	(1,978,247)	(512,709)
Balance, end of the year	8,291,148	5,040,203

The estimated cost to complete projects in progress is U.S. $ 32,170,652 as of December 31, 2013.

14. Other Assets

This item comprises the following:

	2013	2012
	$.U.S	$.U.S
Prepayments	3,219,254	2,575,124
Stationery and printings	1,438,180	1,957,457
Intangible assets *	2,121,676	1,656,459
Accrued interest and commissions	2,201,515	1,299,656
Trade receivables due from subsidiaries customers	3,147,068	5,125,527
Clearing checks	50,412	3,214
Others	2,128,827	1,651,229
	14,306,932	14,268,666

* This item represents the Bank's computer software. Following is the movement of this item during the year:

	2013	2012
	$.U.S	$.U.S
Balance, beginning of the year	1,656,459	1,418,672
Additions	780,849	538,810
Amortization	(315,632)	(301,023)
Balance, end of the year	2,121,676	1,656,459

15. Palestine Monetary Authority's Deposits

This item represents PMA's deposits maturing within three months in the amount of U.S.$ 90,206,966and U.S 66,203,034 $.as at December 2013 ,31 and, 2012 respectively.

16. Banks and Financial Institutions' Deposits

This item comprises the following:

	Current and demand accounts	Term deposits maturing within 3 months	Total
	$.U.S	$.U.S	$.U.S
December 31, 2013			
Local	-	79,338,470	79,338,470
Foreign	63,061,221	-	63,061,221
	63,061,221	79,338,470	142,399,691
December 31, 2012			
Local	-	42,225,201	42,225,201
Foreign	27,982,847	-	27,982,847
	27,982,847	42,225,201	70,208,048

17. Customers 'Deposits

This item comprises the following:

	2013	2012
	$.U.S	$.U.S
Current and demand deposits	696,379,503	544,367,370
Saving deposits	545,553,169	513,812,874
Time deposits	413,138,761	417,075,533
Debit balances – temporarily credit	13,463,801	13,316,387
	1,668,535,234	1,488,572,164

- Public sector deposits amounted to U.S.$ 157,900,665 and U.S.$ 176,800,176 representing 9.46% and 11.88% of total deposits as at December 31, 2013 and 2012, respectively.
- Non-interest bearing deposits amounted to U.S.$ 1,251,728,573 and U.S.$ 1,003,608,320 representing 75.02% and 67.42% of total deposits as at December 2013 ,31 and December ,2012 ,31respectively.
- Dormant deposits amounted to U.S 76,416,598 $.and U.S 80,657,077 $.representing4.58% and 5.42% of total deposits as at December 2013 ,31 and ,2012 respectively.
- Restricted deposits amounted to U.S 1,509,786 $.and U.S 922,185 $.representing0.09% and 0.06% of total deposits as at December 2013 ,31 and ,2012 respectively.

18. Cash Margins

This item represents cash margins against:

	2013	2012
	$.U.S	$.U.S
Direct credit facilities	35,052,282	29,502,158
Indirect credit facilities	33,162,218	29,388,433
Others	8,813,531	7,030,947
	77,028,031	65,921,538

19. Sundry Provisions

	Balance, beginning of the year	Provided during the year	Used during year	Balance end of year
	$.U.S	$.U.S	$.U.S	$.U.S
December 31, 2013				
Employees' end of service provision	12,254,919	2,881,585	(278,607)	14,857,897
Lawsuits provision	1,515,580	-	-	1,515,580
	13,770,499	2,881,585	(278,607)	16,373,477
December 31, 2012				
Employees' end of service provision	10,348,699	2,090,720	(184,500)	12,254,919
Lawsuits provision	1,515,580	-	-	1,515,580
	11,864,279	2,090,720	(184,500)	13,770,499

20. Tax Provisions

Movement on tax provisions during the 2013 and 2012 are as follows:

	2013	2012
	$.U.S	$.U.S
Balance, beginning of the year	45,310,210	33,690,719
Provision for the year	12,599,165	11,619,491
Balance, end of the year	57,909,375	45,310,210

Reconciliation between accounting income and taxable income is as follows:

	2013	2012
	$.U.S	$.U.S
Accounting profit	53,037,996	49,966,888
Non-taxable income	(1,658,818)	(1,973,001)
Non-deductible expenses	10,374,167	8,986,391
Gross income subject to VAT	61,753,345	56,980,278
Net income subject to VAT*	42,806,590	40,068,054
Less: VAT	(5,904,357)	(5,226,268)
VAT on payroll	(3,428,200)	(2,875,668)
Income subject to income tax	33,474,033	31,966,118
Income tax	6,694,807	6,393,224
Provision for the year	12,599,165	11,619,491
Effective tax rate	24%	23%

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

As of the date of the consolidated financial statements, the Bank did not reach final settlements with VAT and Income Tax Departments for the Bank's results of operations for the years from 2005 to 2012.

21. Other Liabilities

This item comprises the following:

	2013	2012
	$.U.S	$.U.S
Taxes payable	19,661,927	14,418,476
Certified checks	5,197,835	4,603,330
Accounts payable	4,027,281	2,555,682
Transactions in-transit with PMA	2,832,882	2,765,561
Dividends payable	2,565,692	1,836,910
Accrued interest	2,428,240	1,949,725
Temporary deposits	1,330,251	851,090
Board of Directors bonuses	990,000	990,000
Due to employees' saving fund *	437,012	357,390
Others	4,103,075	3,206,529
	43,574,195	33,534,693

The Bank deducts %5 of each employee's monthly basic salary and matches it with an additional %5 as the Bank's contribution which are together transferred to the saving fund (the Fund). The fund is managed by committee from the Bank's personnel and its accounts are maintained outside of the Bank's accounts. The item represents amounts due to the saving fund.

22. Additional Paid-in Capital

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

In its meeting held on June 15, 2008, the Bank's Board of Directors approved the admission of the 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 with total additional paid-in capital amounting to U.S. $ 8,384,692.

23. Reserves

Statutory reserve

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

Voluntarily reserve

Voluntarily reserve represents cumulative transfers of the Bank's subsidiaries.

General banking risks reserve

This item represents the amount of general banking risk reserve deducted in accordance with PMA's regulations number (5/2008) based on 1.5% of direct credit facilities after deducting impairment allowance for credit facilities and suspended interest and 0.5% of indirect credit facilities. According to PMA's regulations number (1/2013), the percentage of general banking risks reserve on direct credit facilities has been amended to become 2% starting December 1, 2013. The percentage of the reserve on indirect credit facilities remained unchanged. 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.

24. Dividends

The Bank's general assembly, during its meeting held on April 25, 2013, approved dividends distribution of U.S. $ 26,050,000, for the results of operations of the Bank for the year 2012, as stock dividends of U.S. $ 16,000,000 and as cash dividends of U.S. $ 10,050,000 based on pro-rata ownership of the Bank's shareholders in the share capital.

The Bank's general assembly, during its meeting held on April 27, 2012, approved dividends distribution of U.S. $ 23,000,000 for the results of operations of the bank for the year 2011, as stock dividends of U.S. $ 14,000,000 and as cash dividends of U.S. $ 9,000,000 based on pro-rata ownership of the Bank's shareholders in the share capital.

25. Interest Income

This item comprises interest revenues earned on the following accounts:

	2013	2012
	$.U.S	$.U.S
Loans	37,159,067	30,194,573
Overdraft accounts	30,871,159	22,306,636
Current overdrafts	8,466,383	7,357,541
Financial assets	7,813,869	6,751,520
Credit cards	3,124,403	2,757,298
Balances at banks and financial institutions	3,344,811	2,958,745
Balances with PMA	865	7,410
	90,780,557	72,333,723

26. Interest Expense

This item comprises interest expense incurred on the following accounts:

	2013	2012
	$.U.S	$.U.S
Interest on customers' deposits:		
Time deposits	11,137,570	7,706,515
Saving accounts	402,846	1,193,163
Current and demand accounts	54,455	67,388
	11,594,871	8,967,066
Interest on PMA's deposits	1,255,332	289,298
Interest on banks and financial institutions' Deposits	2,007,942	569,802
	14,858,145	9,826,166

27. Net Commissions

This item comprises commissions against the following:

	2013	2012
	$.U.S	$.U.S
Commissions income:		
Direct credit facilities	7,264,868	6,465,997
Indirect credit facilities	4,395,812	3,979,043
Salaries commission	3,093,954	2,881,721
Bank transfers	3,652,016	3,180,255
Checks	3,200,277	2,638,591
Accounts management	1,117,245	1,133,525
Other banking services	1,778,139	1,563,740
	24,502,311	21,842,872
Less: Commission expense	(805,116)	(669,395)
	23,697,195	21,173,477

28. Net Gain from Financial Assets

This item comprises the following:

	2013	2012
	$.U.S	$.U.S
(Loss) gain from sale of financial assets at fair value through profit or loss	(493,767)	5,657,204
Dividends from investments	1,907,734	1,693,956
Unrealized gains (losses) from revaluation of financial assets through profit or loss	642,345	(323,659)
Investment management commission	(285,800)	(440,290)
	1,770,512	6,587,211

29. Other Revenues

	2013	2012
	$.U.S	$.U.S
Visa and Master cards issuance fees	4,480,496	4,650,912
Iron boxes rental	91,365	77,945
Recovery of suspended interest	-	5,609
Losses from sale of property, plant and equipment	(10,053)	(80,433)
Securities trading commissions	811,737	711,279
Sundry	1,567,536	633,096
	6,941,081	5,998,408

30. Personnel Expenses

	2013	2012
	$.U.S	$.U.S
Salaries and related benefits	22,527,706	20,182,118
VAT on salaries	3,428,200	2,875,668
Provision for employees' end of service	2,881,585	2,090,720
Bonuses and rewards	1,458,339	1,430,900
Medical expenses	1,070,571	679,813
Clothing allowances	710,308	683,671
Training expenses	411,626	376,351
Bank's contribution to provident fund	366,423	328,336
Travel and transportation	181,104	150,961
	33,035,862	28,798,538

31. Other Operating Expenses

	2013 $.U.S	2012 $.U.S
Advertising	3,695,475	3,998,283
Social responsibility	2,536,692	1,890,532
Maintenance and repairs	1,820,499	1,487,655
Telephone, postage and fax	1,684,350	1,497,986
Stationery and printings	1,215,111	1,343,301
Rent	1,192,527	1,209,881
Utilities	1,094,262	871,931
Board of Directors remuneration	990,000	990,000
Fuel	650,604	633,606
Cash shipping expense	638,804	314,494
Subscriptions fees	558,605	542,699
Travel and seminars	556,672	552,650
License fees	521,337	464,309
Professional fees	405,952	393,948
Insurance	337,816	283,388
Hospitality	219,808	213,304
Vehicles expense	145,103	181,540
Printing checks	119,704	153,525
Palestine Deposit Insurance Corporation	100,000	-
Board of Directors meeting allowances	2,592	2,931
Sundry	835,647	573,372
	19,321,560	17,599,335

32. Palestinian Monetary Authority Fines

This item represents fines imposed on the Bank during 2013 by PMA:

	2013 $.U.S
A fine for not coordinating with PMA regarding money transfers	50,000
A fine for not settling the clearance provision at PMA at November 2, 2013	17,077
A fine for contracting with the Palestinian Company for Money and Valuables Transfer to transfer money without a prior approval from PMA	5,000
A fine for not complying with PMA's instructions regarding obtaining pre-approval on credit facilities of related parties	5,000
	77,077

33. Cash and Cash Equivalents

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

	2013 $.U.S	2012 $.U.S
Cash and balances with PMA	638,406,726	396,655,713
Add:		
Balances at banks and financial institutions maturing within 3 months	350,748,099	415,857,478
	989,154,825	812,513,191
Less:		
PMA deposits	(90,206,966)	(66,203,034)
Banks and financial institutions' deposits	(142,399,691)	(70,208,048)
Statutory cash reserve	(153,678,453)	(127,963,908)
	602,869,715	548,138,201

34. Basic and Diluted Earnings Per Share

	2013 U.S.$	2012 U.S.$
Profit for the year attributable to shareholders of the Bank	40,465,951	38,410,797
	Shares	Shares
Weighted average of subscribed shares	150,000,000	150,000,000
	U.S.$	U.S.$
Basic and diluted earnings per share attributable to shareholders of the Bank	0.27	0.26

35. Related Party Transactions

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

2013	Board of directors and executive management	Major share-holders	*Others	Total
	U.S.$	U.S.$	U.S.$	U.S.$
Consolidated statement of financial position items:				
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
Commitments and contingencies				
Letters of guarantees	1,053,025	-	3,850	1,056,875
Letters of credit	169,488	-	-	169,488
Unutilized limits	996,942	-	594,235	1,591,177
Consolidated Income statement items:				
Interest and commissions earned	117,856	387,813	362,104	867,773
Interest and commissions paid	512	1,251	21,377	23,140
Additional information:				
Non-performing credit facilities	-	-	14,329	14,329
Impairment allowance on credit facilities			8,510	8,510

2012	Board of directors and executive management	Major share-holders	*Others	Total
	U.S.$	U.S.$	U.S.$	U.S.$
Consolidated statement of financial position items:				
Direct credit facilities	7,904,485	3,645,000	8,963,774	20,513,259
Deposits	1,250,840	682,919	1,910,532	3,844,291
Commitments and contingencies				
Letters of guarantees	1,317,083	-	2,830	1,319,913
Unutilized limits	812,615	-	477,662	1,290,277
Consolidated Income statement items:				
Interest and commissions earned	116,917	349,987	222,021	688,925
Interest and commissions paid	6,145		25,094	31,239
Additional information:				
Non-performing credit facilities	-	-	23,597	23,597
Impairment allowance on credit facilities	-	-	23,597	23,597

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

- Net direct credit facilities granted to related parties as at December 31, 2013 and 2012 represent 2.06% and 2.10%, respectively, from the net direct credit facilities.
- Net direct credit facilities granted to related parties as at December 31, 2013 and 2012 represent 13.68% and 14.88%, 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:

	2013	2012
	U.S.$	U.S.$
General Manager	719,281	534,891
Executive management salaries and related benefits	1,231,172	1,080,369
Executive management end of service provision	229,942	67,414
Board of Directors' Bonuses	990,000	990,000
Board of Directors' meeting allowance	2,592	2,931

Following are the details of the board of directors' bonuses and meeting allowance:

	2013		2012	
	Bonuses	Meeting allowance	Bonuses	Meeting al-lowance
	U.S.$	U.S.$	U.S.$	U.S.$
Hashim Hani Al Shawa	90,000	235.64	90,000	266.45
Youssef Mohammad Nijm	90,000	235.64	90,000	266.45
Reyad Ali Zimmou	90,000	235.64	90,000	266.45
Awni Muhi Aldeen Skaik	90,000	235.64	90,000	266.45
Faysal Alshawa	90,000	235.64	90,000	266.45
Hani Hassan Nijim	90,000	235.64	90,000	266.45
Mamon Abdulhadi Abu Shahla	90,000	235.64	90,000	266.45
Maher Jawad Farah	90,000	235.64	90,000	266.45
Mohammed Hirbawi	90,000	235.64	90,000	266.45
Tareq Al Shakaa	90,000	235.64	90,000	266.45
John Khoury	90,000	235.64	90,000	266.45
Total	990,000	2,592.04	990,000	2,930.95

Article no. (56) of the Bank's bylaw, states that 5% of the Banks' annual net income is distributed to the members of the Board of Directors. Actual bonuses distributed were 2.49% and 2.56% of net income for the years 2013 and 2012, respectively.

36. Fair Value Measurement

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: Other techniques for which all inputs, which have a significant effect on the recorded fair value, are observable, either directly or indirectly.
- Level 3: Techniques which use inputs, which have a significant effect on the recorded fair value, that are not based on observable market data.

The Bank has not made any transfer between the levels mentioned above during 2013 and 2012.

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

	Date of Evaluation	Total U.S.$	Measurement of Fair Value by: Quoted prices in active markets (Level 1) U.S.$	Significant observable input (Level 2) U.S.$	Significant non-observable inputs (Level 3) U.S.$
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 7):	December 31, 2013	7,085,308	7,085,308	-	-
Financial assets at fair value through other comprehensive income (note 9):					
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	-

The following table provides the fair value measurement hierarchy of the Bank's assets as of December 31, 2012:

	Date of Evaluation	Total U.S.$	Measurement of Fair Value by: Quoted prices in active markets (Level 1) U.S.$	quoted prices that are observable (Level 2) U.S.$	Non-observable inputs (Level 3) U.S.$
Financial assets at fair value					
Financial assets at fair value through profit or loss – quoted (note 7):	December 31, 2012	33,428,321	33,428,321	-	-
Financial assets at fair value through other comprehensive Income (note 9):					
Quoted	December 31, 2012	18,740,571	18,740,571	-	-
Unquoted	December 31, 2012	5,324,790	-	-	5,324,790
Units in the Investment portfolio	December 31, 2012	1,696,622	-	1,696,622	-

37. Fair Value of Financial Instruments

The table below represents a comparison between the carrying amounts and fair values of financial instruments as at December 31, 2013 and 2012:

	Carrying amount		Fair value	
	2013	2012	2013	2012
	U.S.$	U.S.$	U.S.$	U.S.$
Financial assets				
Cash and balances with PMA	638,406,726	396,655,713	638,406,726	396,655,713
Balances at banks and financial institutions	350,748,099	415,857,478	350,748,099	415,857,478
Financial assets at fair value through profit or loss	7,085,308	33,428,321	7,085,308	33,428,321
Direct credit facilities	1,103,641,018	976,394,928	1,103,641,018	976,394,928
Financial assets at fair value through other comprehensive income:				
Quoted stocks	20,804,796	18,740,571	20,804,796	18,740,571
Unquoted stocks	175,920	5,324,790	175,920	5,324,790
Investment portfolios	1,333,248	1,696,622	1,333,248	1,696,622
Financial assets at amortized cost:				
Treasury bills	41,725,928	42,344,804	41,725,928	42,344,804
Quoted bonds	90,968,846	30,489,970	89,353,630	30,534,356
Unquoted bonds	13,900,000	13,900,000	13,900,000	13,900,000
Other financial assets	6,477,410	7,079,626	6,477,410	7,079,626
Total assets	2,275,267,299	1,941,912,823	2,273,652,083	1,941,957,209
Financial liabilities				
PMA deposits	90,206,966	66,203,034	90,206,966	66,203,034
Banks and financial institutions' deposits	142,399,691	70,208,048	142,399,691	70,208,048
Customers' deposits	1,668,535,234	1,488,572,164	1,668,535,234	1,488,572,164
Cash margins	77,028,031	65,921,538	77,028,031	65,921,538
Other financial liabilities	23,912,268	19,116,217	23,912,268	19,116,217
Total liabilities	2,002,082,190	1,710,021,001	2,002,082,190	1,710,021,001

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 consolidated 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 consolidated 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 evaluation methods.

38. Concentration of Assets and Liabilities

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

	2013			2012		
	Assets	Liabilities and equity	Items out of statement of financial position	Assets	Liabilities and equity	Items out of statement of financial position
By geographical area						
Palestine	1,880,776,421	2,284,984,713	258,030,124	1,495,605,416	1,976,511,248	184,464,535
Israel	39,796,928	-	675,813	105,264,960	-	2,173,986
Jordan	130,538,472	-	882,150	94,729,975	-	11,369,457
Europe	207,524,272	57,499,353	21,284,792	176,779,066	26,809,650	26,930,498
USA	16,725,451	-	2,344,633	51,999,997	-	200,434
Others	72,684,399	5,561,877	13,002,736	80,114,681	1,173,197	19,707,305
Total	2,348,045,943	2,348,045,943	296,220,248	2,004,494,095	2,004,494,095	244,846,215
By sector						
Retail	388,681,890	885,123,013	113,870,377	357,201,346	820,181,374	88,041,713
Corporate, institutions and Public sector	714,959,128	860,440,252	176,226,677	621,546,734	738,247,720	140,674,844
Treasury	1,182,219,570	232,606,657	-	973,809,963	136,411,082	-
Others	62,185,355	369,876,021	6,123,194	51,936,052	309,653,919	16,129,658
Total	2,348,045,943	2,348,045,943	296,220,248	2,004,494,095	2,004,494,095	244,846,215

Risk Management

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

Risk management Framework

Risks related to the Bank's activities is managed, measured and monitored continuously to remain within the permissible limits, and given the importance of the risk management process on the Bank's profits, tasks and monitoring responsibilities associated to these risks are distributed among employees.

Risk management process

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

Risk management and credit committee

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

Risk measurement and reporting system

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

Risks

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

I. Credit Risk

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

Exposures to credit risk

	2013	2012
	U.S.$	U.S.$
Consolidated statement of financial position items		
Balances with PMA	214,885,767	183,928,206
Balances at banks and financial institutions	350,748,099	415,857,478
Financial assets at fair value through profit or loss	-	25,224,350
Direct credit facilities:		
Retail	388,681,890	357,201,346
Corporate and institutions	371,123,582	300,501,326
Public sector	343,835,546	318,692,256
Financial assets at amortized cost	146,594,774	86,734,774
Other assets	6,477,410	7,079,626
	1,822,347,068	1,695,219,362
Commitments and contingencies		
Letters of guarantees	148,317,718	114,431,957
Letters of credit	20,419,707	17,475,899
Acceptances	17,770,417	20,102,111
Unutilized credit facilities limits	109,712,406	92,836,248
	296,220,248	244,846,215

Credit risk exposure for each risk rating

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

December 31, 2013	Retail	Corporate and institutions	Public sector	Total
	$.U.S	$.U.S	$.U.S	$.U.S
Low risk	1,291,489	77,722,492	343,835,545	422,849,526
Acceptable risk	380,476,946	283,034,466	-	663,511,412
From which is due:				
Until 30 days	9,698,500	2,711,724	-	12,410,224
Watch list	837,808	266,820	-	1,104,628
Non-performing:				
Substandard	2,646,294	3,618,401	-	6,264,695
Doubtful	8,732,685	12,553,071	827,858	22,113,614
Total	393,985,222	377,195,250	344,663,403	1,115,843,875
Suspended interest and commissions	(1,617,728)	(2,019,705)	(301,312)	(3,938,745)
Impairment allowance for credit facilities	(3,685,604)	(4,051,963)	(526,545)	(8,264,112)
	388,681,890	371,123,582	343,835,546	1,103,641,018

December 31, 2012	Retail	Corporate and institutions	Public sector	Total
	$.U.S	$.U.S	$.U.S	$.U.S
Low risk	6,237,118	74,849,355	318,866,888	399,953,361
Acceptable risk	343,600,572	224,735,316	-	568,335,888
From which is due:				
Until 30 days	7,594,887	1,918,031	-	9,512,918
Watch list	199,110	82,202	-	281,312
Non-performing:				
Substandard	5,748,223	1,261,089	-	7,009,312
Doubtful	4,455,902	3,951,978	946,257	9,354,137
Total	360,240,925	304,879,940	319,813,145	984,934,010
Suspended interest and commissions	(858,744)	(1,055,312)	(184,686)	(2,098,742)
Impairment allowance for credit facilities	(2,180,835)	(3,323,302)	(936,203)	(6,440,340)
	357,201,346	300,501,326	318,692,256	976,394,928

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

December 31, 2013	Retail	Corporate and institutions	Public sector	Total
	$.U.S	$.U.S	$.U.S	$.U.S
Collaterals against:				
Low risk	1,138,334	23,276,198	-	24,414,532
Acceptable risk	20,156,161	188,501,092	-	208,657,253
Watch list	76,624	79,434	-	156,058
Non-performing:				
Substandard	490,532	1,670,119	-	2,160,651
Doubtful	4,440,145	7,033,958	-	11,474,103
Total	26,301,796	220,560,801	-	246,862,597
Comprising :				
Cash margins	1,470,063	25,504,093	-	26,974,156
Precious metals	196,215	275,326	-	471,541
Quoted stocks	70,038	6,616,763	-	6,686,801
Vehicles and equipment	8,072,650	16,669,634	-	24,742,284
Real estate	16,492,830	171,494,985	-	187,987,815
	26,301,796	220,560,801	-	246,862,597

December 31, 2012	Retail	Corporate and institutions	Public sector	Total
	$.U.S	$.U.S	U.S.$	$.U.S
Collaterals against:				
Low risk	6,237,118	52,596,083	31,200,000	90,033,201
Acceptable risk	12,125,810	135,597,158	8,800,000	156,522,968
Watch list	-	-	-	-
Non-performing:				
Substandard	4,330,599	48,877	-	4,379,476
Doubtful	1,120,812	2,900,625	10,053	4,031,490
Total	23,814,339	191,142,743	40,010,053	254,967,135
Comprising :				
Cash margins	6,595,186	35,378,823	10,053	41,984,062
Precious metals	173,366	232,228	-	405,594
Quoted stocks	107,000	32,156,598	31,200,000	63,463,598
Vehicles and equipment	11,202,680	5,507,455	-	16,710,135
Real estate	5,736,107	117,867,639	8,800,000	132,403,746
	23,814,339	191,142,743	40,010,053	254,967,135

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

2013	Palestine	Arab Countries	Israel	Europe	USA	Others	Total
	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S
Cash and balances with PMA	214,885,767	-	-	-	-	-	214,885,767
Balances at banks and financial institutions	36,782,167	84,816,142	39,796,928	185,660,649	3,558,455	133,758	350,748,099
Direct credit facilities	1,098,815,100	4,544,620	-	32,783	68,515	180,000	1,103,641,018
Financial assets at amortized cost	13,900,000	55,514,480	-	21,830,840	13,098,481	42,250,973	146,594,774
Other financial assets	6,477,410	-	-	-	-	-	6,477,410
Total as at December 31, 2013	1,370,860,444	144,875,242	39,796,928	207,524,272	16,725,451	42,564,731	1,822,347,068
Total as at December 31, 2012	1,201,599,181	125,933,715	105,264,960	176,503,581	51,999,997	33,917,928	1,695,219,362
Commitments and contingencies as at December 31, 2013	258,030,124	4,378,632	675,813	21,284,792	2,344,633	9,506,254	296,220,248

Concentration of risk exposures according to economic sectors is as follows:

2013	Financial	Industrial	Commerce	Real estate	Financial securities	Public sector	Others	Total
	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S
Cash and balances with PMA	214,885,767	-	-	-	-	-	-	214,885,767
Balances at banks and financial institutions	350,748,099	-	-	-	-	-	-	350,748,099
Direct credit facilities	8,393,030	48,920,609	140,311,423	76,457,107	1,641,668	343,835,546	484,081,635	1,103,641,018
Financial assets at amortized cost	60,699,935	3,900,000	-	-	42,777,859	-	39,216,980	146,594,774
Other financial assets	-	-	-	-	-	-	6,477,410	6,477,410
Total as at December 31, 2013	634,726,831	52,820,609	140,311,423	76,457,107	44,419,527	343,835,546	529,776,025	1,822,347,068
Total as at December 31, 2012	658,234,641	32,023,158	95,288,057	74,594,391	46,380,296	318,876,942	469,821,877	1,695,219,362
Commitments and contingencies as at December 31, 2013	9,585,556	78,723,987	182,911,740	-	-	6,123,194	18,875,771	296,220,248

II. Market risk

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

Interest rate risk

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

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

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

	2013		2012	
Currency	increase in interest rate (basis points)	Interest income sensitivity (consolidated income (statement $.U.S	increase in interest rate (basis points)	Interest income sensitivity (consolidated income (statement $.U.S
US Dollar	+10	632,025	+10	412,088
Jordanian Dinar	+10	141,968	+10	107,048
Israeli Shekels	+10	119,054	+10	159,777
EURO	+10	14,298	+10	(20,165)
Other currencies	+10	4,091	+10	3,287

Interest rate re-pricing sensitivity gap

December 31, 2013

	Up to 1 Month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to year 1	More than a year	Non-interest bearing	Total
	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S
Assets							
Cash and balances with PMA	60,225,670	-	-	-	-	578,181,056	638,406,726
Balances at banks and financial institutions	249,294,137	1,093,679	-	-	-	100,360,283	350,748,099
Financial assets at fair value through profit or loss	-	-	-	-	-	7,085,308	7,085,308
Direct credit facilities	130,627,804	46,145,171	77,798,746	373,317,852	475,751,445	-	1,103,641,018
Financial assets at fair value through other comprehensive income	-	-	-	-	-	22,313,964	22,313,964
Financial assets at amortized cost	-	505,136	4,866,909	22,515,289	118,707,440	-	146,594,774
Investment in associates	-	-	-	-	-	17,070,699	17,070,699
Property, plant and equipment	-	-	-	-	-	39,587,275	39,587,275
Projects in progress	-	-	-	-	-	8,291,148	8,291,148
Other assets	-	-	-	-	-	14,306,932	14,306,932
Total Assets	440,147,611	47,743,986	82,665,655	395,833,141	594,458,885	787,196,665	2,348,045,943
Liabilities							
PMA deposits	90,206,966	-	-	-	-	-	90,206,966
Banks and financial institutions' deposits	142,399,691	-	-	-	-	-	142,399,691
Customers' deposits	261,114,921	66,303,197	35,611,258	49,744,505	4,032,780	1,251,728,573	1,668,535,234
Cash margins	-	-	-	-	-	77,028,031	77,028,031
Sundry provisions	-	-	-	-	-	16,373,477	16,373,477
Tax provisions	-	-	-	-	-	57,909,375	57,909,375
Other liabilities	-	-	-	-	-	43,574,195	43,574,195
Total Liabilities	493,721,578	66,303,197	35,611,258	49,744,505	4,032,780	1,446,613,651	2,096,026,969
Equity							
Paid-in share capital	-	-	-	-	-	150,000,000	150,000,000
Additional paid-in capital	-	-	-	-	-	9,034,692	9,034,692
Statutory reserve	-	-	-	-	-	28,006,564	28,006,564
Voluntarily reserve	-	-	-	-	-	95,845	95,845
General banking risks reserve	-	-	-	-	-	23,565,172	23,565,172
Pro-cyclicality reserve	-	-	-	-	-	22,005,031	22,005,031
Fair value reserve	-	-	-	-	-	(5,159,800)	(5,159,800)
Retained earnings	-	-	-	-	-	23,839,731	23,839,731
	-	-	-	-	-	251,387,235	251,387,235
Non-controlling interests	-	-	-	-	-	631,739	631,739
Total Equity	-	-	-	-	-	252,018,974	252,018,974
Total liabilities and equity	493,721,578	66,303,197	35,611,258	49,744,505	4,032,780	1,698,632,625	2,348,045,943
Interest rate re-pricing sensitivity gap	(53,573,967)	(18,559,211)	47,054,397	346,088,636	590,426,105	(911,435,960)	-
Cumulative gap	(53,573,967)	(72,133,178)	(25,078,781)	321,009,855	911,435,960	-	-

December 31, 2012

Interest rate re-pricing sensitivity gap

	Up to 1 Month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to year 1	More than a year	Non-interest bearing	Total
	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S
Total assets	339,178,795	73,621,037	118,711,778	335,517,687	416,379,845	721,084,953	2,004,494,095
Total liabilities and equity	488,788,947	33,436,546	56,138,535	40,802,575	2,208,323	1,383,119,169	2,004,494,095
Interest rate re-pricing sensitivity gap	(149,610,152)	40,184,491	62,573,243	294,715,112	414,171,522	(662,034,216)	-
Cumulative gap	(149,610,152)	(109,425,661)	(46,852,418)	247,862,694	662,034,216	-	-

Foreign currency risk

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

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

	2013		2012	
	Increase in currency rate	Effect on consolidated income statement	Increase in currency rate	Effect on consolidated income statement
Currency	(%)	$.U.S	(%)	$.U.S
EURO	+10	16,036	+10	50,451
ILS	+10	297,796	+10	250,753
Other currencies	+10	11,751	+10	1,524

Following is the foreign currencies position of the Bank:

	JOD	EURO	ILS	Others	Total
December 31, 2013	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S
Assets					
Cash and balances with PMA	106,429,855	7,096,273	403,307,336	-	516,833,464
Balances at banks and financial institutions	115,992,255	41,736,774	19,880,774	1,985,127	179,594,930
Financial assets at fair value through profit or loss	5,597,777	-	-	-	5,597,777
Direct credit facilities	64,889,954	15,399,668	387,868,711	77,500	468,235,833
Financial assets at fair value through other comprehensive Income	15,944,644	-	-	-	15,944,644
Financial assets at amortized cost	39,473,364	1,309,030	-	4,110,369	44,892,763
Other assets	1,055,288	111,030	1,799,529	15,178	2,981,025
Total Assets	349,383,137	65,652,775	812,856,350	6,188,174	1,234,080,436
Liabilities					
PMA deposits	1,860,819	6,652,444	79,459,901	-	87,973,164
Banks and financial institutions' deposits	737,990	-	126,837,823	-	127,575,813
Customers' deposits	343,419,691	54,620,189	510,323,892	5,708,863	914,072,635
Cash margins	5,248,123	3,934,498	18,553,913	352,140	28,088,674
Other liabilities	2,656,422	285,283	74,702,862	9,659	77,654,226
Total Liabilities	353,923,045	65,492,414	809,878,391	6,070,662	1,235,364,512
Statement of financial position concentration	(4,539,908)	160,361	2,977,959	117,512	(1,284,076)
Commitments and contingencies	18,561,435	17,163,318	65,772,083	2,649,394	104,146,230

	JOD	EURO	ILS	Others	Total
December 31, 2012	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S
Total assets	277,016,052	76,158,000	649,923,270	10,331,075	1,013,428,397
Total liabilities and Equity	280,445,116	75,653,487	647,415,745	10,315,833	1,013,830,181
Statement of financial position concentration	(3,429,064)	504,513	2,507,525	15,242	(401,784)
Commitments and contingencies	3,596,696	23,939,756	17,317,539	757,485	45,611,476

Equity price risk

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

		2013		2012	
	Increase in Indicator	Effect on consolidated income statement	Effect on equity	Effect on consolidated income statement	Effect on equity
Market	(%)	$.U.S	$.U.S	$.U.S	$.U.S
Palestine Securities Exchange	+10	708,531	486,051	820,397	306,167
Foreign markets	+10	-	1,595,741	-	1,598,317

III. Liquidity risk

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

The table below summarizes the assets and liabilities on the basis of the remaining contractual maturities as at December 31, 2013 and 2012, respectively:

December 31, 2013	Up to 1 Month $.U.S	More than 1 month to 3 months $.U.S	More than 3 months to 6 months $.U.S	More than 6 months up to 1 year $.U.S	More than 1 year to 3 years $.U.S	More than 3 years $.U.S	Without maturity $.U.S	Total $.U.S
Assets								
Cash and balances with PMA	484,728,273	-	-	-	-	-	153,678,453	638,406,726
Balances at banks and financial institutions	334,732,310	1,093,679	13,790,000	-	-	-	1,132,110	350,748,099
Financial assets at fair value through profit or loss	-	-	-	-	-	-	7,085,308	7,085,308
Direct credit facilities	102,219,838	56,185,939	74,429,425	191,886,703	495,325,848	183,593,265	-	1,103,641,018
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	22,313,964	22,313,964
Financial assets at amortized cost	-	505,136	4,866,909	22,515,289	52,848,646	65,858,794	-	146,594,774
Investment in associates	-	-	-	-	-	-	17,070,699	17,070,699
Property, plant and equipment	-	-	-	-	-	-	39,587,275	39,587,275
Projects in progress	-	-	-	-	-	-	8,291,148	8,291,148
Other assets	6,477,410	-	-	-	-	-	7,829,522	14,306,932
Total assets	928,157,831	57,784,754	93,086,334	214,401,992	548,174,494	249,452,059	256,988,479	2,348,045,943
Liabilities:								
PMA deposits	90,206,966	-	-	-			-	90,206,966
Banks and financial institutions' deposits	142,399,691	-	-	-			-	142,399,691
Customers' deposits	728,733,660	240,309,697	172,330,651	150,257,374	373,182,355	3,721,497	-	1,668,535,234
Cash margins	-	-	6,106,373	5,847,757	56,370,960	8,702,941	-	77,028,031
Sundry provisions	-	-	-	-	-	-	16,373,477	16,373,477
Tax provisions	-	-	-	-	-	-	57,909,375	57,909,375
Other liabilities	23,912,268	-	-	-	-	-	19,661,927	43,574,195
Total liabilities	985,252,585	240,309,697	178,437,024	156,105,131	429,553,315	12,424,438	93,944,779	2,096,026,969
Equity								
Paid-in share capital	-	-	-	-	-	-	150,000,000	150,000,000
Additional paid-in capital	-	-	-	-	-	-	9,034,692	9,034,692
Statutory reserve	-	-	-	-	-	-	28,006,564	28,006,564
Voluntarily reserve							95,845	95,845
General banking risks reserve	-	-	-	-	-	-	23,565,172	23,565,172
Pro-cyclicality reserve	-	-	-	-	-	-	22,005,031	22,005,031
Fair value reserve	-	-	-	-	-	-	(5,159,800)	(5,159,800)
Retained earnings	-	-	-	-	-	-	23,839,731	23,839,731
	-	-	-	-	-	-	251,387,235	251,387,235
Non-controlling interests	-	-	-	-	-	-	631,739	631,739
Total equity	-	-	-	-	-	-	252,018,974	252,018,974
Total liabilities and equity	985,252,585	240,309,697	178,437,024	156,105,131	429,553,315	12,424,438	345,963,753	2,348,045,943
Maturity gap	(57,094,754)	(182,524,943)	(85,350,690)	58,296,861	118,621,179	237,027,621	(88,975,274)	-
Cumulative gap	(57,094,754)	(239,619,697)	(324,970,387)	(266,673,526)	(148,052,347)	88,975,274	-	-

December 31, 2012	Up to 1 Month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months up to 1 year	More than 1 year to 3 years	More than 3 years	Without maturity	Total
	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S
Assets								
Cash and balances with PMA	268,691,805	-	-	-	-	-	127,963,908	396,655,713
Balances at banks and financial institutions	414,150,334	1,105,034	-	-	-	-	602,110	415,857,478
Financial assets at fair value through profit or loss	-	-	-	-	1,022,200	24,202,150	8,203,971	33,428,321
Direct credit facilities	182,390,481	61,536,983	110,720,562	324,160,753	162,940,688	134,645,461	-	976,394,928
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	25,761,983	25,761,983
Financial assets at amortized cost	829,611	12,702,581	7,569,571	4,417,199	24,422,101	36,793,711	-	86,734,774
Investment in an associate	-	-	-	-	-	-	11,524,968	11,524,968
Property, plant and equipment	-	-	-	-	-	-	38,827,061	38,827,061
Project sin progress	-	-	-	-	-	-	5,040,203	5,040,203
Other assets	7,079,626	-	-	-	-	-	7,189,040	14,268,666
Total assets	873,141,857	75,344,598	118,290,133	328,577,952	188,384,989	195,641,322	225,113,244	2,004,494,095

Liabilities:								
PMA deposits	66,203,034	-	-	-	-	-	-	66,203,034
Banks and financial institutions' deposits	70,208,048	-	-	-	-	-	-	70,208,048
Customers' deposits	711,442,096	244,491,256	235,535,038	189,368,095	105,789,990	1,945,689	-	1,488,572,164
Cash margins	-	-	5,614,790	3,952,659	49,415,771	6,938,318	-	65,921,538
Sundry provisions	-	-	-	-	-	-	13,770,499	13,770,499
Tax provisions	-	-	-	-	-	-	45,310,210	45,310,210
Other liabilities	19,116,217	-	-	-	-	-	14,418,476	33,534,693
Total liabilities	866,969,395	244,491,256	241,149,828	193,320,754	155,205,761	8,884,007	73,499,185	1,783,520,186
Equity								
Paid-in share capital	-	-	-	-	-	-	134,000,000	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	-	-	-	-	-	-	15,886,367	15,886,367
Pro-cyclicality reserve	-	-	-	-	-	-	16,029,367	16,029,367
Fair value reserve	-	-	-	-	-	-	(6,222,738)	(6,222,738)
Retained earnings	-	-	-	-	-	-	27,613,975	27,613,975
	-	-	-	-	-	-	220,390,050	220,390,050
Non-controlling interests	-	-	-	-	-	-	583,859	583,859
Total equity	-	-	-	-	-	-	220,973,909	220,973,909
Total liabilities and equity	866,969,395	244,491,256	241,149,828	193,320,754	155,205,761	8,884,007	294,473,094	2,004,494,095
Maturity gap	6,172,462	(169,146,658)	(122,859,695)	135,257,198	33,179,228	186,757,315	(69,359,850)	-
Cumulative gap	6,172,462	(162,974,196)	(285,833,891)	(150,576,693)	(117,397,465)	69,359,850	-	-

39. Segment Information

Information on the Bank's business segments
For management purposes, the Bank is organized into three major business segments:

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

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

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

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

	Retail	Corporate and institutions and public sector	Treasury	Other	Total 2013	Total 2012
	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S
Gross revenues	45,210,364	35,686,928	16,506,382	30,953,362	128,357,036	112,264,809
Recovery of impairment allowance for direct credit facilities	(1,101,114)	(728,661)	-	-	(1,829,775)	(546,744)
Segment results	37,403,626	33,709,448	12,437,992	29,142,709	112,693,775	101,769,248
Unallocated expenses					(57,826,004)	(51,255,616)
Profit before taxes					53,037,996	49,966,888
Taxes expense					(12,599,165)	(11,619,491)
Profit for the year					40,438,831	38,347,397
Other segment information:						
Depreciation and amortization					4,581,007	4,444,780
Capital expenditures					9,238,026	7,767,888

					2013	2012
Total segment assets	388,681,890	714,959,128	1,182,219,570	62,185,355	2,348,045,943	2,004,494,095
Total segment liabilities	885,123,013	860,440,2 52	232,606,657	117,857,047	2,096,026,969	1,783,520,186

Geographical distribution information

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

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

	Domestic		Foreign		Total	
	2013	2012	2013	2012	2013	2012
	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S	$.U.S
Gross revenues	117,888,329	97,327,586	10,468,707	14,937,223	128,357,036	112,264,809
Total assets	1,880,776,421	1,495,605,416	467,269,522	508,888,679	2,348,045,943	2,004,494,095
Capital expenditures	9,238,026	7,767,888	-	-	9,238,026	7,767,888

40. Maturities of Assets and Liabilities

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

December 31, 2013	Up to 1 year $.U.S	More than 1 year $.U.S	Without maturity $.U.S	Total $.U.S
Assets				
Cash and balances with PMA	484,728,273	-	153,678,453	638,406,726
Balances at banks and financial institutions	349,615,989	-	1,132,110	350,748,099
Financial assets at fair value through profit or loss	-	-	7,085,308	7,085,308
Direct credit facilities	424,721,905	678,919,113	-	1,103,641,018
Financial assets at fair value through other comprehensive income	-	-	22,313,964	22,313,964
Financial assets at amortized cost	27,887,334	118,707,440	-	146,594,774
Investment in associates	-	-	17,070,699	17,070,699
Property, plant and equipment	-	-	39,587,275	39,587,275
Projects in progress	-	-	8,291,148	8,291,148
Other assets	6,477,410	-	7,829,522	14,306,932
Total Assets	1,293,430,911	797,626,553	256,988,479	2,348,045,943
LIABILITIES				
PMA deposits	90,206,966	-	-	90,206,966
Banks and financial institutions' deposits	142,399,691	-	-	142,399,691
Customers' deposits	1,291,631,382	376,903,852	-	1,668,535,234
Cash margins	11,954,130	65,073,901	-	77,028,031
Sundry Provisions	-	-	16,373,477	16,373,477
Tax provisions	-	-	57,909,375	57,909,375
Other liabilities	23,912,268	-	19,661,927	43,574,195
Total Liabilities	1,560,104,437	441,977,753	93,944,779	2,096,026,969
EQUITY				
Paid-in share capital	-	-	150,000,000	150,000,000
Additional paid-in capital	-	-	9,034,692	9,034,692
Statutory reserve	-	-	28,006,564	28,006,564
Voluntarily reserve	-	-	95,845	95,845
General banking risks reserve	-	-	23,565,172	23,565,172
Pro-cyclicality reserve	-	-	22,005,031	22,005,031
Fair value reserve	-	-	(5,159,800)	(5,159,800)
Retained earnings	-	-	23,839,731	23,839,731
	-	-	251,387,235	251,387,235
Non-controlling interests	-	-	631,739	631,739
Total equity	-	-	252,018,974	252,018,974
Total Liabilities and Equity	1,560,104,437	441,977,753	345,963,753	2,348,045,943
Maturity gap	(266,673,526)	355,648,800	(88,975,274)	-
Cumulative maturity gap	(266,673,526)	88,975,274	-	-

December 31, 2012	Up to 1 year $.U.S	More than 1 year $.U.S	Without maturity $.U.S	Total $.U.S
Assets				
Cash and balances with PMA	268,691,805	-	127,963,908	396,655,713
Balances at banks and financial institutions	415,255,368	-	602,110	415,857,478
Financial assets at fair value through profit or loss	-	25,224,350	8,203,971	33,428,321
Direct credit facilities	678,808,779	297,586,149	-	976,394,928
Financial assets at fair value through comprehensive income	-	-	25,761,983	25,761,983
Financial assets at amortized cost	25,518,962	61,215,812	-	86,734,774
Investment in an associate	-	-	11,524,968	11,524,968
Property, plant and equipment	-	-	38,827,061	38,827,061
Project in progress	-	-	5,040,203	5,040,203
Other assets	7,079,626	-	7,189,040	14,268,666
Total Assets	1,395,354,540	384,026,311	225,113,244	2,004,494,095
LIABILITIES				
PMA deposits	66,203,034	-	-	66,203,034
Banks and financial institutions' deposits	70,208,048	-	-	70,208,048
Customers' deposits	1,380,836,485	107,735,679	-	1,488,572,164
Cash margins	9,567,449	56,354,089	-	65,921,538
Sundry Provisions	-	-	13,770,499	13,770,499
Tax provisions	-	-	45,310,210	45,310,210
Other liabilities	19,116,217	-	14,418,476	33,534,693
Total Liabilities	1,545,931,233	164,089,768	73,499,185	1,783,520,186
EQUITY				
Paid-in share capital	-	-	134,000,000	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	-	-	15,886,367	15,886,367
Pro-cyclicality reserve	-	-	16,029,367	16,029,367
Fair value reserve	-	-	(6,222,738)	(6,222,738)
Retained earnings	-	-	27,613,975	27,613,975
	-	-	220,390,050	220,390,050
Non-controlling interests	-	-	583,859	583,859
Total equity	-	-	220,973,909	220,973,909
Total Liabilities and Equity	1,545,931,233	164,089,768	294,473,094	2,004,494,095
Maturity gap	(150,576,693)	219,936,543	(69,359,850)	-
Cumulative maturity gap	(150,576,693)	69,359,850	-	-

41. Capital Management

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

The Bank manages its capital structure and makes adjustments to it in light of changes in business conditions. The Bank did not make any adjustments on goals, policies, and actions concerning capital management for current and prior year, except for increasing capital in the amount of U.S. $ 16 million and U.S. $ 14 million during 2013 and 2012, respectively, through stock dividends making up capital to reach U.S. $ 150 million and U.S. $ 134 million as of December 31, 2013 and 2012, respectively.

The capital adequacy ratio is computed in accordance with the PMA's regulations derived from Basel Committee regulations. following is capital adequacy rates for 2013 compared to 2012:

	2013			2012		
	Amount	Percentage to assets	Percent-age to risk – weighted assets	Amount	Percent-age to assets	Percent-age to risk – weighted assets
	$.U.S	%	%	$.U.S	%	%
Regulatory capital	166,318,565	7.08	13.95	137,901,056	6.89	13.20
Basic capital	206,840,318	8.81	17.35	181,346,093	9.05	17.35

42. Commitments and Contingent Liabilities

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

	2013	2012
	$.U.S	$.U.S
Letters of guarantees	148,442,718	114,431,957
Letters of credit	20,419,707	17,475,899
Acceptances	17,770,417	20,102,111
Unutilized credit facilities limits	109,712,406	92,836,248
	296,345,248	244,846,215

43. Lawsuits Against the Bank

The number of lawsuits filed against the Bank as at December 31, 2013 and 2012 was (35) and (29) in the normal course of business with a total amount of U.S. $ 6,765,167 and U.S. $ 3,292,177, respectively. Bank's management and lawyer believe that provision made against these litigations is sufficient (Note 19).

In addition, the Gaza Court of First Instance decided to dismiss the two lawsuits, with the possibility of revisal, that were filed by the Ministry of Finance - the General Directorates of the Value Added Tax and the Income Tax in Gaza demanding the Bank to pay an approximate amount of U.S. $ 146 million for VAT and income tax including delinquency interest and penalties for the years from 2004 to 2010.

44. Concentration of Risk in Geographical Area

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

45. Development Policy

The Bank's development policy includes the following:

- Continue cooperating with the International Finance Corporations (IFC) to design SME's finance programs.
- Develop financing programs and services for women to meet their banking needs.
- Focus on risk management to maintain performance and sustainable growth
- Expand in different geographical cities, villages and remote areas to meet the needs of the Bank's clients regardless of their location.
- Develop the Bank's computer systems and information technology.
- Provide training opportunities for the Bank's employees at different levels.

46. Comparative Figures

Certain corresponding figures for 2012 consolidated financial statements have been reclassified in order to conform with the presentation of the current year. Such reclassifications do not affect previously reported results or equity.