



بنك فلسطين  
BANK OF PALESTINE

ESTABLISHED 1960



# 2014

**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.

About us

Bank of Palestine (BOP) is the first and largest bank with a well-diversified branch network of 54 branches in Palestine, with a capital of 160 million USD and over 2.5 billion USD in assets. Established in 1960, BOP has successfully expanded its presence and operations throughout the country and now has around 1,280 employees serving 698,297 customers. BOP has around 25.71% and 23% market share deposits and loans in Palestine. Operating as a universal bank, BOP is engaged in retail, corporate, SME, Micro, and Diaspora banking operations, with the largest card processing operations in Palestine. BOP has been very active in promoting the SME Finance and Micro Finance sector in Palestine and established dedicated units within the bank to serve those customers with the goal 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, BOP also promoted and strengthened its corporate governance practices. BOP is the sole agent for issuing and acquiring Visa and

MasterCard in Palestine with around 5,500 Point of Sale merchant terminals nationwide. Bank of Palestine's stock (PEX: BOP) has been listed on the Palestine Exchange (PEX) since 2005. It is among the market's blue chip stocks, and represents 14% of total PEX market capitalization. In 2007 BOP established a brokerage subsidiary, Al Wasata Securities Co, providing customers with trading access to stocks listed on the Palestinian Stock Exchange and regional markets, with offices in Gaza and Ramallah. Al Wasata has rapidly grown and is now one of the leading brokerage companies in Palestine. In 2011, the bank established another subsidiary, PalPay® – Palestine. PalPay® offers bank and non-bank clients a unique service, enabling them to pay utility bills and top up mobile phone credit using the bank's 5,500 Point of Sales (POS) merchant terminals, spread throughout the country in shops, supermarkets, restaurants, and hotels. 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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## 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.
- ▶ Emeafinance - Best Executive Director in the Middle East.
- ▶ Emeafinance – Best Bank in Palestine.
- ▶ The Banker – Best Bank in Palestine.
- ▶ CPI Financial/Banker ME – Best Bank in Palestine.
- ▶ Middle East Investor Relations Society – Best Company for Investor Relations in Palestine.
- ▶ Citibank's Performance Excellence Award for outstanding achievement in straight through processing.
- ▶ Ranked as one of the Top 100 Banks in the Middle East by CPI Financial 100.

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





## Key Performance Indicators

Increase from 2013

6.74 %  
Net Profit

18.16 %  
Deposits

4.37 %  
Loans

11.15 %  
Shareholder  
Equity

6.67 %  
Paid Capital

2.22 %  
Non-Performing  
Loans

	2010	2011	2012	2013	2014
Total Revenue	79,041,137	88,790,445	101,769,248	112,693,775	120,288,657
Profit Before Tax	37,732,105	41,868,275	49,966,888	53,037,996	51,659,265
Net Profit (USD)	30,119,469	33,980,673	38,347,397	40,438,831	40,222,506
Assets (USD)	1,545,038,022	1,653,960,732	2,004,494,095	2,348,045,943	2,424,773,961
Customer Deposits (USD)	1,251,482,935	1,296,568,931	1,554,493,702	1,745,563,265	2,062,524,075
Credit Facilities (USD)	545,026,391	720,173,048	976,394,928	1,103,641,018	1,151,825,644
Shareholder Equity (USD)	163,884,250	194,399,762	220,973,909	252,018,974	280,106,578
Paid-Up Capital (USD)	100,000,000	120,000,000	134,000,000	150,000,000	160,000,000
Net Interest and Commissions Income (USD)	61,843,054	75,982,199	83,681,034	99,619,607	102,545,209
No. of Employees	943	1061	1,139	1,212	1,280
No. of Customers	483,884	542,199	621,983	647,947	698,297
No. of Branches	42	46	48	50	54
Market Share: Deposits	18.44 %	18.60 %	20.77 %	21.00 %	23.08 %
Market Share: Credit Facilities	19.19 %	20.54 %	23.75 %	24.63 %	25.71 %







**Hashim Shawa**  
Chairman of the Board  
& General Manager

## Dear Shareholders

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

2014 was not a very easy year in Palestine. However, Bank of Palestine proved to be resilient. Operating income reached USD 120,288,657 in 2014, compared with 112,693,775 for the same period in 2013, an increase of 6.74%. The bank's net profit reached USD 40,222,506, slightly decreasing by 0.53% compared with 2013. The Palestine Monetary Authority's newly established deposit insurance scheme accounted for around USD 4,759,102 of the bank's operational expenses. Launched in 2014, the scheme aims at safeguarding small depositors as well as maintaining the stability of the banking system in an effort to mobilize more savings, thus enabling banks to play a better role in economic growth. Bank of Palestine's customer deposits reached USD 2,062,524,075 at the end of 2014, an increase of 18.16% compared with end of 2013. This high increase can be attributed to the increased trust the scheme provided depositors, in addition to the bank's extensive outreach and widespread branch network.

As at the end of 2014, Bank of Palestine's total assets increased by 3.27%, to reach USD 2,424,773,961; maintaining the top rank as the largest Palestinian company in terms of financial assets. Total shareholders' equity reached USD 280,106,578, an increase of 11.15% compared with 2013, and paid-up capital also increased by 6.67% to reach USD 160,000,000. The loans' portfolio reached USD 1,151,825,644 compared with USD 1,103,641,018 at the end of 2013, an increase of 4.37%, and Non-Performing Loans remained low at 2.22%. 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. In 2014, the bank distributed USD 22,500,000 from realized profits in 2013 to shareholders; USD 10 million as stock dividends - raising the bank's paid-up capital to USD 160 million - and USD 12,500,000 as cash dividends.

Bank of Palestine's financial results indicate that BOP has a well-diversified investment portfolio, high credit quality, good liquidity, as well as strong and robust ratios; the Loan to Deposit ratio is 55.85% indicating the bank's ability to further lending, the Liquid Assets Ratio is 40%, and the Capital Adequacy Ratio is 13.09%.

## The Business and Regulatory Environment in Palestine

In 2014 the Palestine Stock Exchange (PEX) joined the watch list of the Financial Times (FTSE) for possible inclusion in their frontier market indices, to join MSCI and S&P Dow Jones, who made a similar move in 2013.

In 2014, the State of Palestine, through the Palestine Capital Markets Authority (PCMA), was admitted as a new signatory to the Multilateral Memorandum of Understanding (MMoU) of the International Organization of Securities Commissions (IOSCO). The importance of the IOSCO membership arises from serving as an international endorsement that PCMA regulates and monitors the Palestinian securities sector in accordance with the IOSCO international standards and principles, which are the global benchmark for the best practices in this field.

Moreover, in 2014, the Deposit Insurance Scheme was launched by the Palestine Monetary Authority (PMA), with the aims to safeguard small depositors, maintain the stability of the banking system, and thus mobilize more savings that would enable banks to play a bigger role in the economy.

## 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, 2014 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.

The bank continued its commitment to provide wider access to finance and transacting services. Bank of Palestine continues to be Palestine's leading bank in terms of banking network, with 54 branches making up around a quarter of all bank branches in Palestine. In 2014, six new sub-branches were opened; in the village of Bedya in the governorate of Salfit, in Assira in the governorate of Nablus, in Beddo in the governorate of Jerusalem, in Bani Shuheila in Khan Younes, in Tal Al-Hawa in the center of the Gaza Strip, and in Beit Lahya in the North of the Gaza Strip.

In 2014, Bank of Palestine introduced kiosk machines that allow clients to conduct their banking transactions electronically, in addition to ATM machines in all the main branches that accept cash and check deposits. Moreover, in line with the bank's environmental policies, Bank of Palestine installed solar energy systems to operate its ATMs in different locations. These systems ensure that they continue to operate during a crisis where there are electricity or fuel shortages. As for electronic services, the bank added electronic bill payment services to its online banking platform, where clients can pay their different utility bills and top up their mobile phones online. In 2015, the bank will be introducing the e-commerce service to allow merchants to accept online payments when they sell their products and services on their websites.

Our branches, Point of Sale Merchant Terminals (POS) and ATM networks, and electronic services have made access to banking for clients possible and easy wherever they are located, allowing BOP to maintain and grow its customer base.

As part of the bank's strategy to provide access to finance to all segments of society, BOP continued working on re-structuring and designing a programme for the micro, small, and medium enterprises (MSME) segment, as it makes up 90% of the Palestinian economy. Lending to MSMEs increased by 28% in 2014 compared with the previous year.

As a customer-driven organization, Bank of Palestine continued to develop its products, services, and campaigns to meet various client needs and to increase banking awareness. These include the introduction of priority pass for the bank's credit card holder, additional treasury services, a savings campaign, and a campaign for clients and POS merchants to encourage card transactions.

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 years, the percentage of female employees at BOP increased from 17% to its current 26%. In this regard, Bank of Palestine became a member of the Global Banking Alliance for Women (GBA), and a signatory of the Women's Empowerment Principles (WEPs), a joint initiative of UN Global Compact and UN Women to empower women in the workplace, marketplace and community.

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.

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 2014, with focus on the promotion of talent management and career development, we turned our attention to our most valuable asset: our people. Each of our 1,280 employee attended an average of two workshops and courses this year. To increase employee loyalty and productivity, we have continued to further develop our performance evaluation policies and procedures.

In order to maintain sustainable and long-term performance and growth, Bank of Palestine continued implementing its risk management strategy by enhancing the governance structure through having an active risk committee and a risk management function, strengthening its internal controls, spreading risk culture, developing and applying advanced internal rating models for its credit portfolio, and upgrading systems for Basel II implementation. The Palestine Monetary Authority plans to introduce Basel II instructions to banks operating in Palestine by the end of 2015. Moreover the bank is enhancing its information security policies and procedures to be compliant with ISO 27001/2 information security standards.

## Subsidiary Companies

The contribution to the bank's profit from its subsidiary companies increased in 2014 compared with previous years.

The bank's subsidiary PalPay® – Palestine Payments – was very active and successful during 2014. The number of electronic transactions conducted during the year through PalPay® reached 9.9 million, an increase of 26% compared with last year. The company also continued to sign agreements with additional utility companies in Palestine to allow their clients to make e-payments through the PalPay® system. In 2014, PalPay® designed a bespoke system for the UN's World Food Program (WFP) to provide them with an innovative e-voucher solution that will enable them to seamlessly provide their stakeholders with the

necessary assistance. The company also promoted its services regionally, as it was one of the main sponsors of the Cards and Payments Middle East 2014 conference that took place in Dubai.

Al-Wasata Securities, which has been the fastest growing brokerage company in Palestine has been playing a major role in the acquisition of new investors in the Palestinian market. The company ranked number one (out of eight brokerage companies) in Palestine with respect to attracting new investors. It now has a 26% market share in terms of number of investors, USD 378 million trading volume in local regional markets, and more than USD 400 million worth of shares under management. In 2014, Al-Wasata won the EMEA Finance and the Global Investor ISF awards for Best Broker in Palestine.

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, emeafinance, and The Banker - as the "Best Bank in Palestine". Moreover, we are proud to be recognized as "The Best Company for Investor Relations" by the Middle East Investor Relations Society. The bank also received the award for Best CSR Program in the Middle East by emeafinance.

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

Hashim Shawa  
Chairman & General Manager



*From Childhood to Retirement.  
Solutions that work for all  
personal, business,  
& investment needs*



*By listening to our customers & innovating with our products,  
we aim to be a 360° financial solutions provider*



# Financial Highlights

23.08%

Market share in deposits

25.71%

Market share in loans

Bank of Palestine continues to increase its market share to an advanced position amongst banks operating in Palestine. Loans grew by 4.37% from 2013, increasing our market share to 24.63% (25.71% in 2013). Customer deposits increased by 18.16% compared with 2013, raising BOP's market share from 21% to 23%. In 2014 Bank of Palestine was able to achieve solid results in all aspects, preserving an upward trend despite all challenges surrounding our environment locally and internationally. These results demonstrate the bank's prudent decisions and policies and indicate the growing trust of our clients and reflect the bank's understanding of customer needs and its efforts to meet those needs by providing the best banking services.

Loans

USD 1.15b

Customer Deposits

USD 2.06b

Shareholder Equity

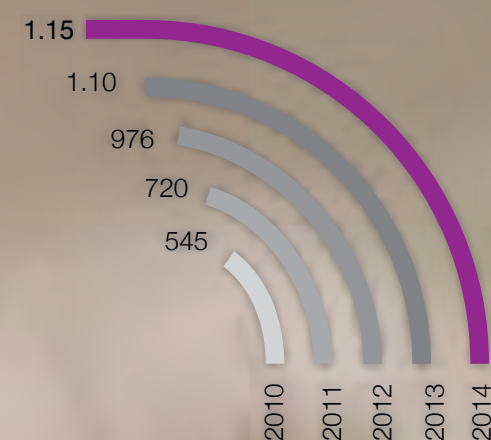
USD 280m

Profits

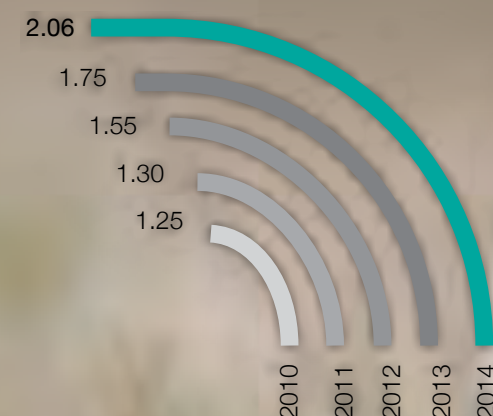
USD 40.22m

Assets

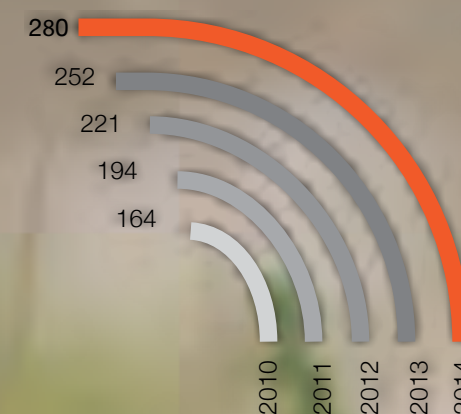
USD 2.42b



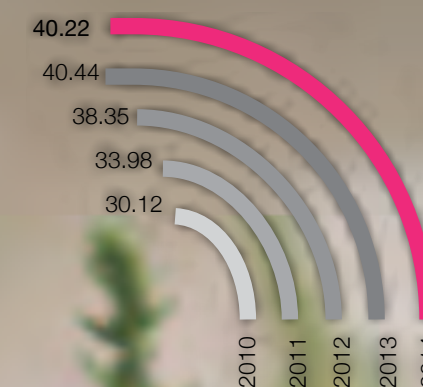
Loans in 2014 amounted to USD 1,151,825,644; an increase of 4.37% from 2013. After a thorough revision of economic segments and potential for growth, BOP has further strengthened its efforts to provide access to finance particularly to those small businesses and projects that promote economic growth and job creation.



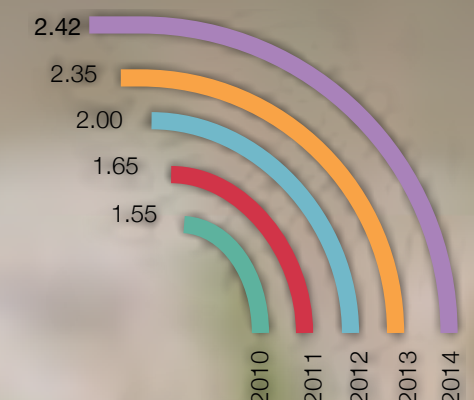
Total deposits in 2014 reached USD 2,062,524,075; up by 18.16% from USD 1,745,563,265 in 2013. This increase is a result of the bank's expansion strategy, focusing on rural and underbanked areas. Also, BOP launched several products and campaigns in 2014, which have helped attract deposits.



The bank's paid up authorized capital is USD 160,000,000 divided into 160,000,000 shares with a par value of one dollar per share. Total shareholder equity increased by 11.15% compared with 2013 to USD 280,106,578.

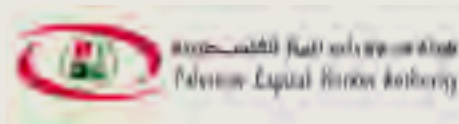


Total revenues in 2014 amounted to USD 120,288,657 compared to USD 112,693,775 in 2013. Net profit for the year 2014 was USD 40,222,506 after deducting expenses and taxes, compared to USD 40,438,831 in 2013.



Total assets increased to reach USD 2,424,773,961 compared with USD 2,348,045,943 last year. The increase of 3.27% is attributed to the expansion of our branch network, growing product portfolio, and customer base.





## The Palestine Capital Market Authority

The Palestine Capital Market Authority was established as an autonomous agency by law No.(13) of the year (2004). It is governed by a Board of Directors composed of seven members. Its jurisdiction encompasses securities, insurance, financial mortgage and financial leasing sectors, along with any other non-banking financial institutions. In the past years the PCMA chaired the National Committee for Corporate Governance in Palestine.

PCMA achievements in 2014:

- **Palestine Capital Market Authority attained the full membership in IOSCO**  
In February 2014, PCMA became an ordinary member during the IOSCO meeting which was held in Kuala Lumpur, Malaysia. As a result, the State of Palestine, through PCMA, was admitted as a new signatory to the Multilateral Memorandum of Understanding (MMoU). The importance of the IOSCO membership arises from serving as an international endorsement that PCMA regulates and monitors the Palestinian securities sector in accordance with the IOSCO international standards and principles, which are the global benchmark for the best practices in this field.

- **Palestinian National Strategy for Financial Inclusion**  
The PCMA made several accomplishments, that have led Palestine to becoming a pioneer country in the MENA region in terms of advancing financial inclusion in the country. The PCMA in cooperation with all main stakeholders in the financial sector specifically the Palestine Monetary Authority (PMA), started the process of developing the "National Strategy for Financial Inclusion", from placing the roadmap to the formation and assigning the steering committee and technical committee for the strategy which are composed from the related stakeholders.

- **Corporate Governance**  
Regarded as the responsible body for the implementation of the corporate governance code and its rules, PCMA extended its efforts to implement the recommendations of the two-year action plan (2011-2012).

In the meantime, PCMA prepared a detailed road map for the years 2013-2014, which was approved by the National Committee for Corporate Governance in 2013. Last year marked several achievements for PCMA in the area of corporate governance.

First, PCMA finalized the development of the corporate governance scorecard which measures public shareholding companies adherence to the rules of the corporate governance code.  
Second, PCMA signed a memorandum of understanding with The Coalition for Accountability and Integrity (AMAN) to reinforce corporate governance through the implementation of several activities manifested in the road map 2013-2014.

Third, PCMA extended the cooperation with International Finance Corporation (IFC) in the field of corporate governance through working on a memorandum of cooperation that covers the years 2014-2015.

Finally, PCMA launched the governance website to serve as a primary source of information about corporate governance in Palestine and an effective tool for raising awareness about corporate governance in general.



## 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 18 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 6.30% over the last five years.

There are 48 listed companies on PEX as of 31 December 2014, with market capitalization of about US\$ 3.20 billion across five main economic sectors: banking and financial services, insurance, investment, industry, and services. Most of the listed companies are profitable and trade in US Dollars or Jordanian Dinar.

PEX is listed on Morgan Stanley (MSCI), Standard & Poor's (S&P) Indices through a special index and in 2014, joined the watch list of the Financial Times (FTSE) for possible inclusion in their frontier market indices. During 2014, PEX listed its first publicly traded corporate bond; the settlement period for securities was reduced to (T+2) further reducing market risk. PEX also licensed a second custodian bank to provide custody services to both local and foreign investors.

## 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 –2011 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 bouncedchecks 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 Monetary Authority joined the International Association of Deposit Insurers (IADI). In 2014, the Deposit Insurance scheme went into effect.



# The Palestinian Banking Sector

TOTAL ASSETS	2010	2011	2012	2013	2014
Banking Sector	8, 554, 270, 628	9, 110, 234, 260	9,797,014,817	11,195,285,474	11,542,029,652
Bank of Palestine	1, 545, 038, 022	1, 653, 960, 732	2,004,494,095	2,348,045,943	2,424,773,961
DEPOSITS					
Banking Sector	6, 772, 696, 986	6, 972, 474, 546	7,484,129,223	8,306,247,172	8,935,342,947
BOP	1, 251, 482, 935	1, 296, 568, 931	1,554,493,702	1,745,563,265	2,062,524,075
Loans					
Banking Sector	2,812,449,551	3,487,055,390	4,111,307,849	4,480,286,185	4,895,882,595
BOP	545, 026, 391	720, 173, 048	976,394,928	1,103,641,018	1,151,825,644

## Percentage Growth in Deposits and Loans (Year on Year)

Deposits	2010	2011	2012	2013	2014
Banking Sector	9.2 %	3.0 %	7.3 %	10.98 %	7.57 %
BOP	23.1 %	3.6 %	19.9 %	12.29 %	18.16 %
Loans	2010	2011	2012	2013	2014
Banking Sector	38.2 %	24.0 %	17.9 %	8.97 %	9.28 %
BOP	58.8 %	32.1 %	35.6 %	13.03 %	4.37 %

## The Palestinian Banking Sector

Sixteen banks operate within Palestine, seven of which are Palestinian. The growth potential for the banking sector in Palestine is very promising. There are currently 258 branches that serve the entire Palestinian population of 4.6 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.

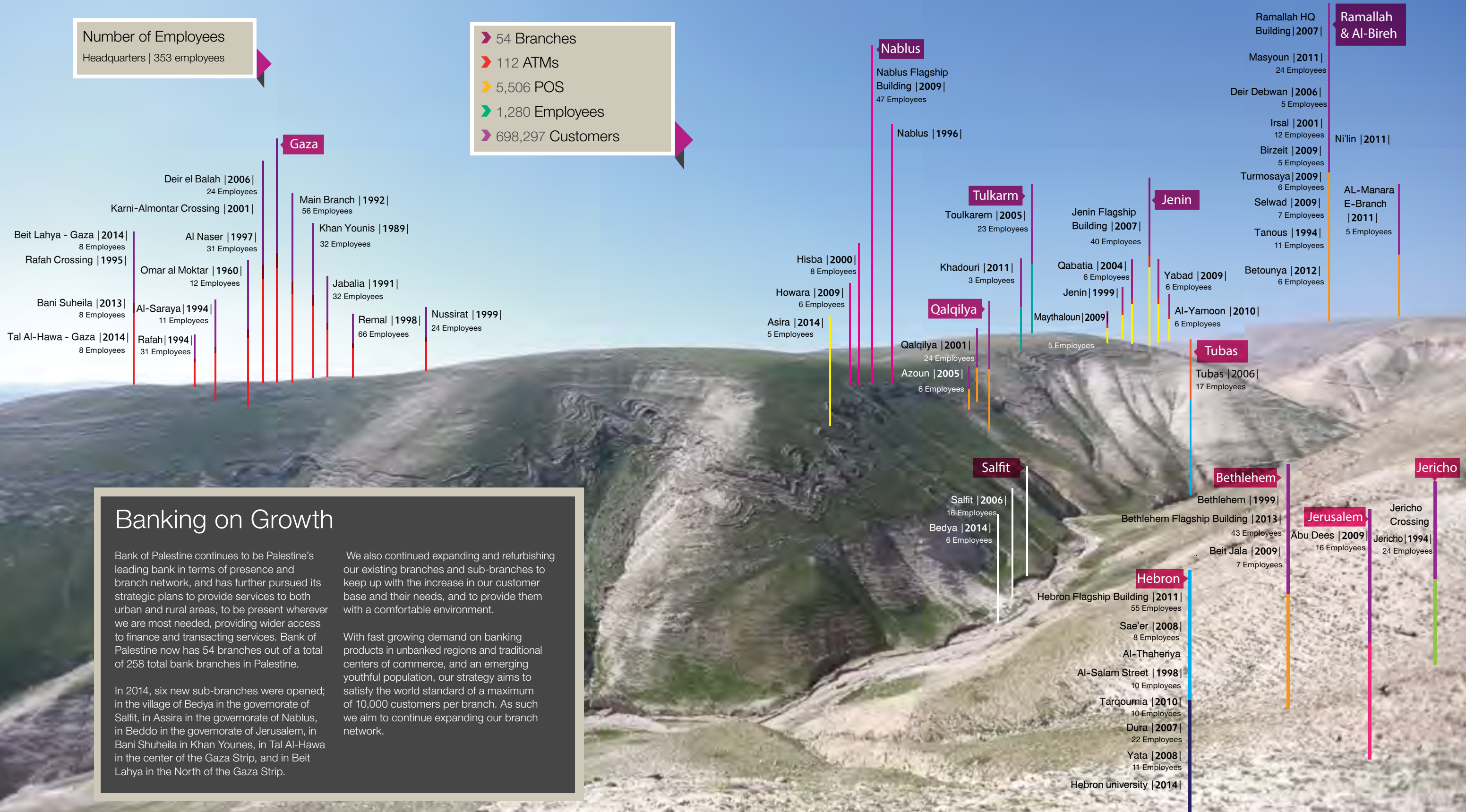
Bank of Palestine's potential for growth is strong. During 2014, the banking sector assets increased by 3%, deposits by 8%, and loans by 9%. Looking at the trajectory over the last five years, assets have increased by 50%, deposits by 44%, and loans by 141%.

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.

# Our Branch Network

Number of Employees  
Headquarters | 353 employees

➤ 54 Branches  
➤ 112 ATMs  
➤ 5,506 POS  
➤ 1,280 Employees  
➤ 698,297 Customers







Al-Wasata Securities is a subsidiary of Bank of Palestine (BOP) and it's a member of the Palestine Stock Exchange and holds licenses from the Palestine Capital Market Authority for brokerage and issuance trusteeship, it was established in 2005 and start working in 2007, Al-Wasata's paid-up capital is USD 3,560,000, of which 87% is owned by BOP.



## Best Brokerage Company in Palestine for the Year 2014

### 2014 Achievements

The total value of traded shares through Al-Wasata during 2014 was around USD 384 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 eighth 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 26% of total investors

in the market. Al-Wasata's total market share equated to about USD 400 million in 2014. 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, with 25 employees.

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. As recognition for Al-Wasata's work and success, it was named "Best Brokerage Company in Palestine 2014" by EMEA Finance, which covers Europe, Africa, and the Middle East, and by Global Investor/ISF Middle East.



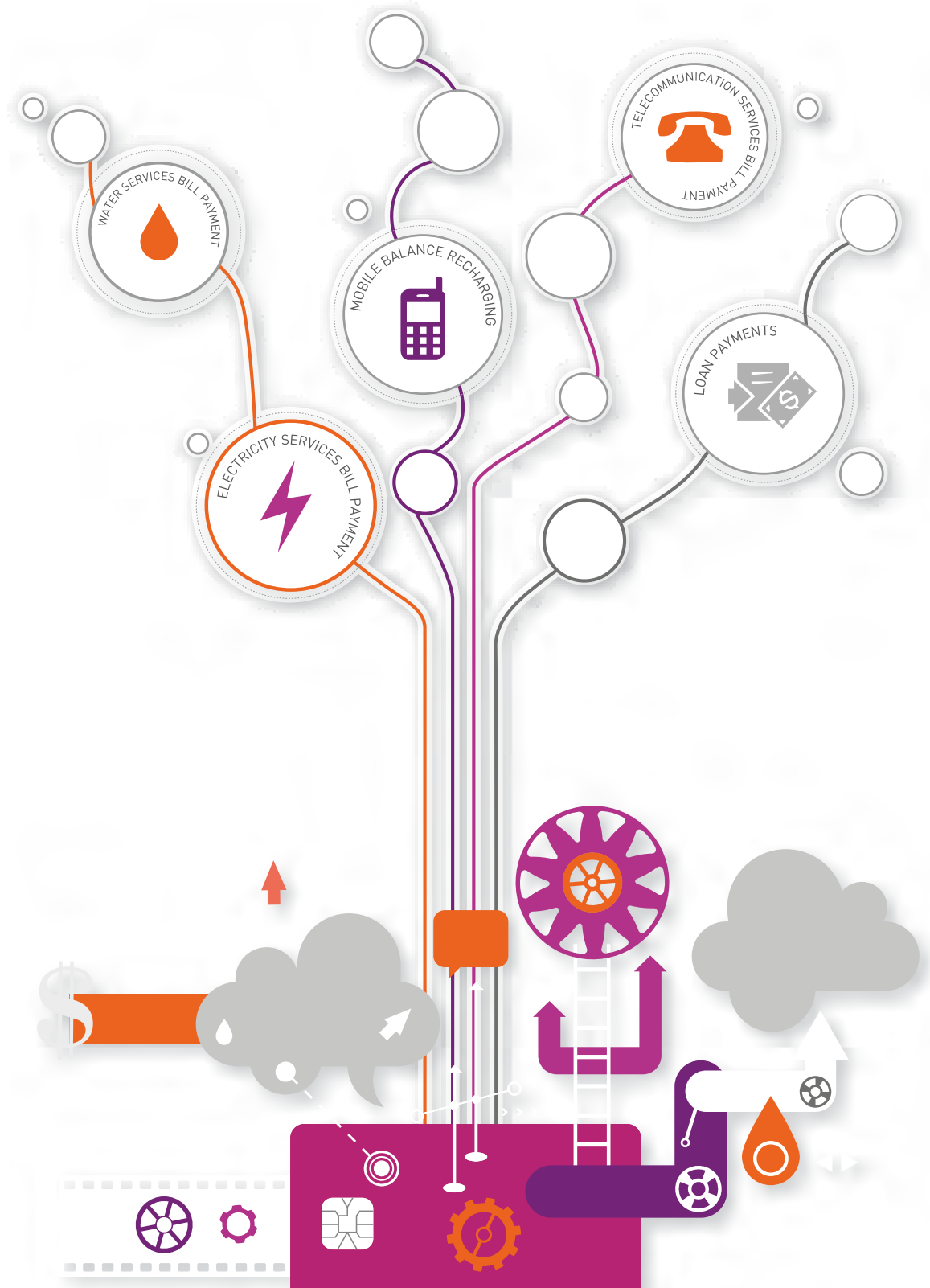


## Development of Electronic Payment Services in Palestine

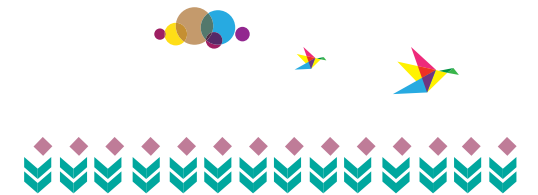
After more than decade of work and experience in the electronic payments field, and owning the first and only center to accept and issue credit and debit cards in the country, Bank of Palestine established PalPay® to provide the Palestinian market with the latest software solutions in electronic bill payments. PalPay® was established in 2011, and introduced its services to the public in 2012, through more than 5,500 Point of Sales merchant terminals (POS) located in stores and service centers throughout Palestine. PalPay® continued to advance its services and increase the electronic method of payment throughout Palestinian rural and urban areas. In 2014, PalPay® started offering electronic bill payment services through Bank of Palestine's online banking platform to enable clients to pay their different utility bills and university tuition fees, and top up their mobile phone credit online. The use of PalPay®'s services increased during 2014, as the number of electronic transactions executed through PalPay®'s systems and electronic channels reached 9,885,333 transactions, with an increase of 26% compared to 2013.

PalPay® signed agreements with more than 18 utility and service companies, to enable their clients to pay their bills at the nearest POS merchant terminal or online. PalPay® is considered the first electronic payment service company in the region to develop services for electronic collection with international techniques, through more than one electronic channel and on a national level. In 2014, PalPay® designed a bespoke system for the UN's World Food Program (WFP) to provide them with an innovative e-voucher solution that will enable them to seamlessly provide their stakeholders with the necessary assistance. PalPay® sponsored the Cards and Payments Middle East conference, which took place in Dubai, United Arab Emirates. By sponsoring the Cards and Payments Middle East conference, PalPay® was able to promote its services on the regional and international levels.

Contracted Companies with Palpay:



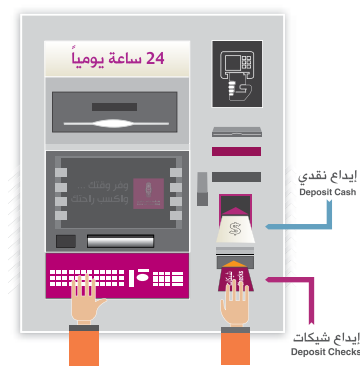




# Total Banking Solutions

Bank of Palestine believes in providing both our individual customers and businesses of all sizes with opportunities, support, and advice to help them grow, prosper, and contribute to the Palestinian economy. The philosophy driving our expansion has always been, and continues to be, the sustainability of economic growth at both the national and local level.

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



### Priority Pass

Bank of Palestine introduced the Priority Pass card for its VIP clients to offer them free entry to over 600 international VIP airport lounges in more than 100 countries and 300 cities worldwide, regardless of which carrier or class they are flying. This is one of the many great travel benefits on this card. The card was offered to the bank's clients, who hold a Visa or MasterCard credit cards of a limit of USD 10,000 or above.

### Electronic Bill Payments

In cooperation with the bank's subsidiary PalPay, we added electronic bill payment services to our online banking platform to enable clients to pay their different utility bills and university tuition fees, and top up their mobile phones online.

### Solar Powered ATMs

The bank installed solar energy systems to operate its ATMs in different locations. These systems ensure that the ATMs continue to operate during a crisis where there are electricity or fuel shortages.

### The 2014 Savings Campaign

In 2014, Bank of Palestine launched a campaign to encourage customers to save. The campaign, "Family Gathers us" included a daily prize of \$5,000. This campaign was different than any other because when one person wins, they win \$5,000, and each of their family members, who have savings accounts at Bank of Palestine also win \$5,000, encouraging all family members to save.

### FX Forward

In 2014, Bank of Palestine launched the FX forward service that offers clients the possibility to fix the suitable rate and date of buying or selling foreign currencies in the future. It provides customers with sufficient flexibility in determining the right time and the right price for the settlements of the currencies according to their needs. It helps in reducing the high costs resulting from the volatility in the prices of foreign currencies in the market.

### Cards Campaign

Throughout the development journey pursued by the bank in promoting the usage of plastic money, Bank of Palestine launched a marketing campaign which began in July 2014 and ended in November 2014 to encourage its clients to use any of the cards issued by the Bank. These cards included: The Visa Electron, Visa prepaid card "Cash Card", Easy Life, MasterCard and Visa credit cards. The campaign offered a daily prize of a 47-inch LG TV, and a grand prize of a 2014 Jeep Wrangler.

# Micro & SME Banking



## Helping businesses reach their destination

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

Around 200,000 formal SMEs currently exist in Palestine. Compared with other markets, the SME population is very stable in Palestine and the 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

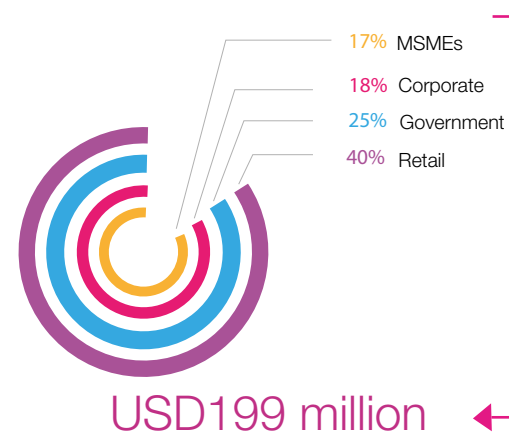
businesses across Palestine, including rural areas. As these businesses grow, Bank of Palestine continues to work with them, responding to their growth and changing needs with more sophisticated products, services, and advices.

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 is 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 28% in 2014, and this year we established business banking units on our branches and specialized team for SMEs.

## Credit portfolio



## Al Raed Company... Our goal is to be one of the leading companies in the production of beauty and skincare products

Khalil Barhoum a pharmacist from Bethlehem started working on producing cosmetic and therapy products after he noticed that the products in the market were not fulfilling customers' needs. With the great effort made by Khalil Barhoum in developing and making products for skin and hair problems, he came up with an idea to start Al-Raed Company in the beginning of the 1980s. With the support of his wife Janet and the help of his son Raed, who earned a degree in chemistry and cosmetic manufacturing, he began his journey to success.

This small company overcame many obstacles

such as the difficulty of importing raw materials due to the political situation. Despite all the obstacles faced, Barhoum confirms that the secret to his success is due to the high quality of his products. Al Raed Company's beauty and skincare products are one of the leading products in the market. Today the company produces more than 80 types of products. Barhoum is working on expanding his factory to become one of the most important companies in beauty and skincare product manufacturing in the region. He is also putting effort in upgrading the research and development in his company.





## Three brothers..... started from zero and now own three infrastructure and construction companies

Khaled Al Naser never expected to be the owner along with his brothers of three leading infrastructure and construction companies in Palestine, these companies are: Arab Brother's Construction and Infrastructure Group, Future Iron Pipes Company, and Sama Company, which is still under construction. The brothers began their journey in the nineties as a small general contracting business. Due to the experience they gained by working in Israeli companies to cover their education expenses, they were able to meet the needs of the implementation of the network infrastructure of the Palestinian telecommunications project. With the help and support of public and international institutions they also succeed in the implementation of other projects such as the construction of schools, water tank installation, and other infrastructure projects in Palestine. Khaled said that "working in the construction field opened the gate to build up companies to meet the needs of the necessary materials for this field. In 2008 we established Future Iron Pipes Company to manufacture coated and lined steel

pipes. We also realized that we need a lot of accessories for our type of work". By building up these companies we completed all the needs accessories and materials for our field of work to meet national and international standards.

Despite the difficulties the three brothers faced from the restrictions Israel opposed on them (so that they can stay in charge of that market) to keeping up with latest technology, to getting raw materials, they still succeeded. The brother's success story is an example of how a person can do anything if they set their mind to it and work the right way.

Today the three brothers own firms that make up ten thousand meters, which meet the needs of local and regional markets in pipes. Whereas; the productivity of the company has reached 1.5 million meters per year with about 80 employees with annual sales reaching tens of millions of shekels. Khaled also confirmed that the key to success is the ability to overcome all obstacles and insist on working and succeeding no matter what.

### Other products and services

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

### Corporate Loans

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


### Syndicated Loans

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

### Correspondent Banks

Bank of Palestine has a network of around 30 correspondent banks from around the world. The bank continues to expand its correspondent bank network in international markets, in order to offer its clients with a wide range of services.



A full-page photograph of a man in a dark suit and white shirt standing in a large industrial facility. In the background, there are several large orange silos with white numbers (7, 8, 9, 4) on them. The facility has a complex network of orange metal beams and pipes. The floor is concrete. The lighting is bright, coming from overhead industrial lights.

## National Company for food (NAFCO)... journey from importing to food production

Haj Hassan Khader Abu Ajwa founder of National Company for food (NAFCO) began his journey in the early eighties by marketing animal food and some agricultural goods after importing them from abroad. Abu Ajwa came up with an idea to buy a poultry food company and upgrade it to meet the needs of the market in the West Bank and Gaza. With the financial support of Bank of Palestine, Abu Ajwa's company began its journey to success. NAFCO now makes up 70% of the animal food market in Gaza. Abu Ajwa's decision to produce animal food instead of importing, had a huge impact on increasing the success of the company. This decision also played a role in reducing the cost for the consumer; he saved importing, shipping and tax expenses, which led him to sell the animal food for a cheaper price.

With the success of his company Abu Ajwa decided to expand by entering the animal agriculture field. He purchased chicken hatcheries for poultry breeding, which operates on a yearly basis in the production of chicks and chickens. He successfully produces and sells the poultry. Abu Ajwa thanked Bank of Palestine for the support and services it offers its clients. Especially that Bank of Palestine was the first bank to visit him and show their support after his company faced difficult situations during the Gaza war.



## E-payment solutions and the culture of plastic money

For over a decade, Bank of Palestine has been investing in increasing the cards and e-payments culture in Palestine. Its efforts ranged from increasing the client base of cardholders, in addition to creating new solutions and products to meet the needs of clients and to keep up with the worldwide technological revolution.

The Bank achieved great success in increasing the number of issued cards to clients in 2014. The number of the prepaid "Cash Card" reached 11,605 cards, an increase of 20% compared with last year. The number of issued Visa Electron cards increased to reach 168,082 cards, an increase of 14% compared with 2013. The number of Visa and MasterCard credit cards also increased to reach 22,871 issued cards, with an increase rate of 7%. Issuance of the EasyLife card, which is a cobranded card with Sbitany Company (A large retail chain of electronics and home appliances), increased by 12%, as the number of issued cards reached 18,613. The bank achieved an increase in total sales volume of transactions accepted over the bank's 5,500 POS merchant terminal network to reach USD 149,773,475, an increase of 17% compared with the previous year. Bank of Palestine introduced the Priority Pass card for its VIP clients to offer them free entry to over 600 international VIP airport lounges in more than 100 countries and 300 cities worldwide, regardless of which carrier or class they are flying. This is one of the many great travel benefits on this card. The card was offered to the bank's clients, who hold a Visa or MasterCard credit cards of a limit of USD 10,000 or above.

Bank of Palestine also signed a number of agreements with local banks in order to issue credit cards for their clients on their behalf. Amongst these banks were the Arab Islamic Bank, Palestine Islamic Bank, and the Palestine Investment Bank.

The bank continued to work on increasing the number of clients who use electronic services and channels, by developing the online banking system to enable bill payments and mobile credit top up functionalities, in cooperation with the ten largest utility companies in Palestine, so that clients can use this service to pay their telephone, electricity and internet bills, and top up their

mobile phones using their current or savings accounts' balances without any commission. To increase clients' activity and usage of the new functionality, the bank installed special booths in its main branches, with an employee specializing in electronic services to encourage clients to enroll in the bank's electronic services and to train them on how they can be used.

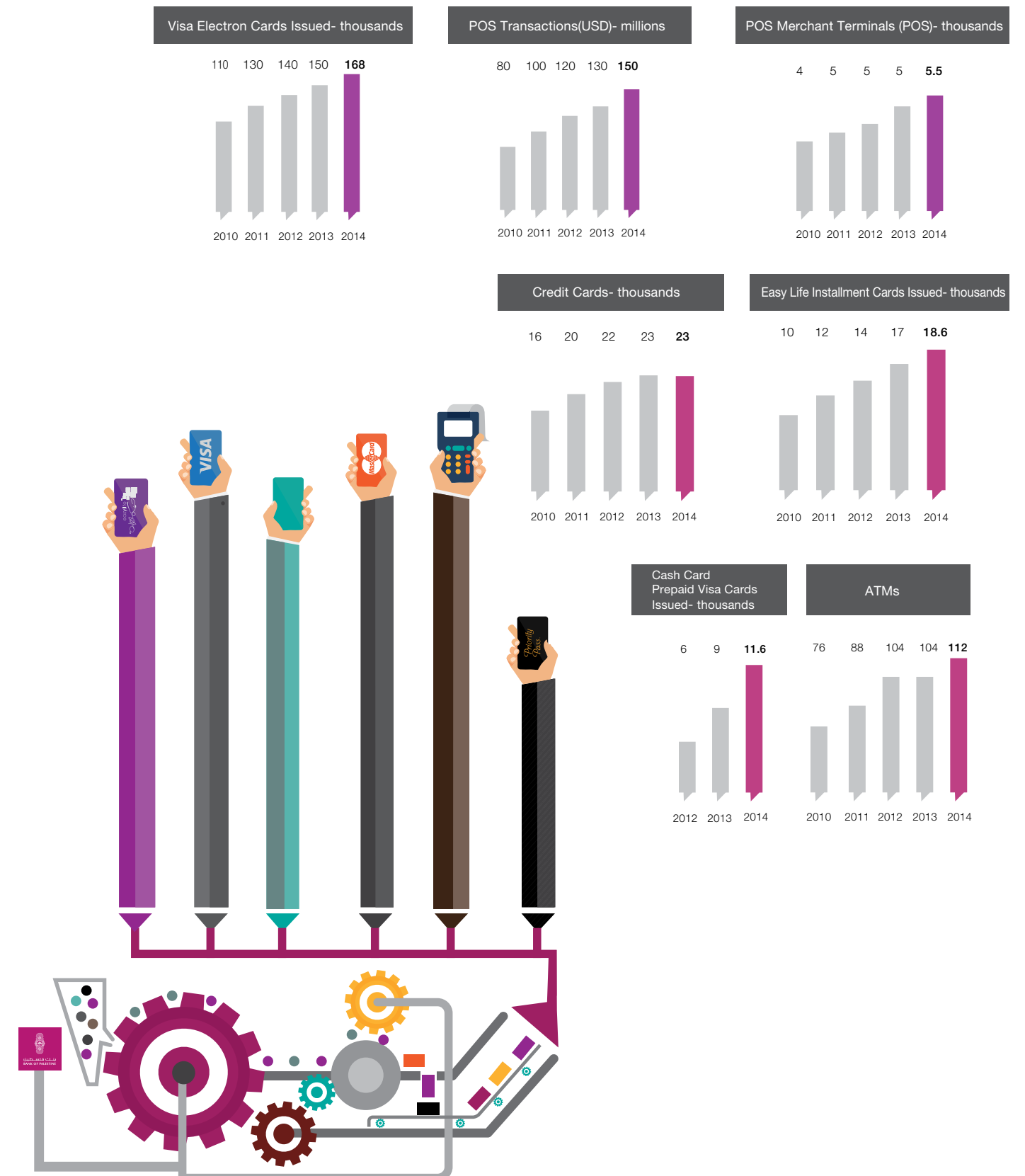
In addition, Bank of Palestine installed cash and check deposit ATMs in all of its main branches, enabling customers to deposit cash and checks 24 hours a day seven days a week. This service will save clients time and effort, as clients can reach the nearest ATM machine to deposit cash and checks, without the need to queue in lines or wait for the branch to open.

As for the cards' acquiring business, the bank is preparing to introduce the new e-commerce gateway that accepts Visa and MasterCard. This gateway which will enable merchants and companies to market the Palestinian products around the globe and increase their customer base by building online stores and collecting online payments.

Several projects in the cards business were started in 2014, such as the instant issuing of cards in branches, which will allow clients to receive their debit and credit cards while they're in the branch. This is expected to increase the cardholder client base and consequently increase the activity on the cards. Meanwhile, the mobile banking application for smart phones will be introduced to clients in 2015 to enable them to access and manage their accounts through their smart phone anywhere and anytime.

In line with the bank's strategy to protect its clients and to provide high levels of security on electronic transactions, the bank is developing the new 3D Secure standard, which will authenticate card holders when shopping online and decrease fraudulent transactions.

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 works to keep up with the global technological developments to provide top notch banking services to its clients.





## Diaspora Banking

There are over 7.5 million Palestinians living in the Diaspora, with an estimated total GDP of USD 80 billion. The Diaspora unit was established three years ago 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).





## Palestinian Embroidery Going International

We sponsored, in cooperation with the Business Women Forum, the training of our talented female entrepreneurs at top international fashion schools. Who then presented their unique pieces with Palestinian embroidery at a fashion show held at headquarters of the UN as part of the opening of London New York Fashion Festival (LDNY).

## Club Deportivo Palestino

The football club of the Palestinian Diaspora in Chile - one of the bank's proud sponsorships - won the Chilean football championship, and were qualified to the South America premier, Copa Libertadores de América



## Le Trio Jubran

Sponsored by Bank of Palestine, the renowned Palestinian "Oud" Group, Le Trio Jubran, took their beautiful music around the world through several performances in different international locations, including the United Nations Headquarters in New York, Opéra Bastille in Paris, and other prestigious locations





Adopting a holistic strategy in our quest for

# SUSTAINABILITY

## 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 progress begins with

social and economic development at a community level.

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

We are committed to helping the communities we serve, by supporting individuals, families, institutions, and businesses during these challenging economic times. Through innovative partnerships and initiatives, we are generating new opportunities, opening new doors to success,

and creating a solid foundation for Palestine's future.

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

- › Corporate Social Responsibility (CSR)
- › Building a Sustainable Economy
- › Promoting Sustainable Finance
- › Youth and Innovation
- › Women Empowerment
- › Bank of Palestine... A Sustainable Bank

Commitment to our Community & Environment

CSR

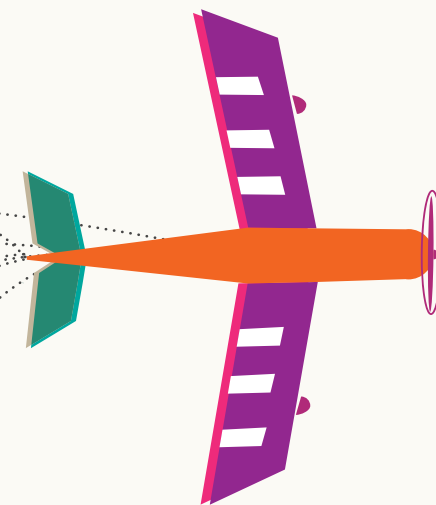
Managing Risk for Healthy Growth

Promoting Women in the Workforce

Engaging our Employees

Promoting Sustainable Finance

Providing Access to Finance





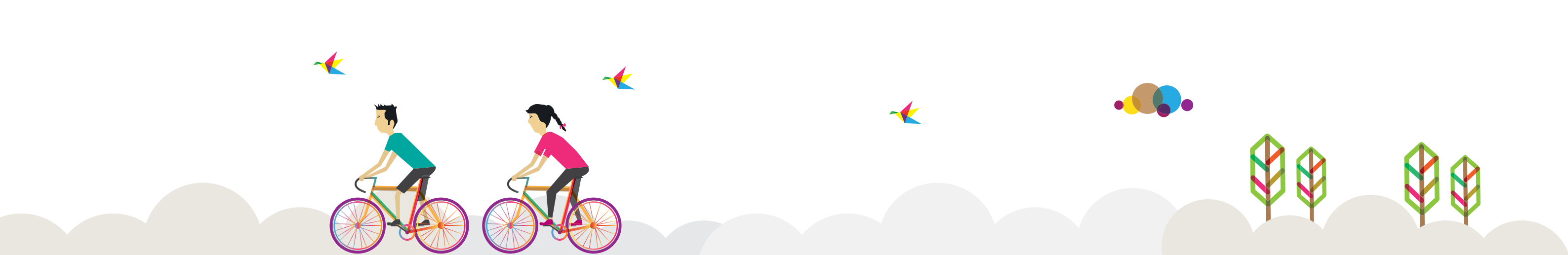
## Our responsibility

## is to serve our community

Bank of Palestine (BOP) continued to dedicate 5% of its annual net profit to support developmental projects and social responsibility activities. BOP has made substantial contributions towards the development of various sectors including: education, youth and innovation, sports, health and environment, culture and art, development, economic and Diaspora affairs, humanitarian efforts and women empowerment. The Bank also works on encouraging its employees to do voluntary work within the developmental projects and humanitarian initiatives lead by the Bank and its partners.

In 2014, Palestine witnessed difficult conditions, particularly in Gaza Strip due to the war that took the lives of 2,200 people, destroyed entire neighborhoods and damaged various enterprises, projects and other establishments, which pushed the Bank to take its national, social and economic responsibility and took the decision to increase its contributions to social responsibility in Gaza Strip; its social contributions reached 2,292,806 US dollars during 2014, which is equivalent to 5.39% of the Bank's net profit.





## Education, Youth and Innovation

BOP is highly interested in education, youth and innovation; the bank contributed in supporting the creativity of youth and encouraging them to innovate, develop and increase their knowledge by providing them with information and current developments in all fields.

These contributions had an obvious impact in opening new opportunities, enhancing development and promoting the educational journey of the Palestinian youth, to prepare active youth who can take responsibility for advancing our society, economy, culture and art.

### “Zamala” Program



“Zamala” Program is considered one of the most essential leading projects launched by the bank to advance university education in Palestine. This program aims to advance the education cadre and lecturers in Palestinian universities, specialized in finance, banking, economics, legal affairs and technology; in order to enhance the performance of the universities and achieve practical and creative goals in education and enhance their abilities to rapidly engage in the labor market and meet the requirements of qualified human resources. The program sends them to professional and training visits abroad, for a period ranging from one semester to one academic year, to various institutions including institutions of higher education (universities), financial and banking, investment or scientific institutions.

In 2014, the bank signed 13 collaborative agreements with Palestinian universities, to provide 46 fellowships to university professors with various specialties, including medicine, economics, information technology and others.

### Annual support to INJAZ Palestine Organization

The Bank provided its annual support for the eighth consecutive year for INJAZ Palestine Organization, which works on providing training programs for youth in schools and universities in various fields, including economics, business management and entrepreneurship. This program works to qualify youth for real life and the business world, in addition to enhancing and improving the available employment opportunities.

### Other sponsorships in this field:

- Provision of sponsorship to a mobile library for children in Gaza Strip, in partnership with A. M. Qattan Foundation.
- Provision of donations to a number of schools and universities.
- Sponsorship of 2014 Celebration of Innovation.

## Sports

Sports sector is considered to positively influence the civilized image of Palestine, as it is a common language between all people. Due to this importance, the bank provided great support and sponsorship for sports clubs, championships, women's leagues, horseback riding, international matches with our Palestinian teams and others.

### Bank of Palestine sponsorship for “The Blatter Football Academy for Children”

Due to its believe “in the importance of the sports sector, Bank of Palestine provided a major sponsorship for “Joseph Blatter Football Academy for Children”; this academy aims to discover and advance children's talents in football, for a long term vision of a Palestinian team equivalent to international teams and advanced generations capable of representing Palestine internationally.

### Other sponsorships in this field:

- Sponsorship of the Palestinian participation in the Copenhagen, and San Francisco marathons.
- Donation for the General Union of Karate.
- Financial support to a number of sports clubs.

## Health and Environment

Human beings have the greatest impact on the environment, which is considered one of the most important elements that contribute to good health, including all surroundings (soil, air and water), as they are the primary needs of humans. Unfortunately, these elements became polluted due to recent practiced behaviors, which led to the discovery of many diseases that became difficult to deal with. Accordingly, during the past few years, the Bank, within its social responsibility programs, began to contribute to the preservation of the environment by providing support to the health sector in Palestine, limit the usage of harmful substances and guide the usage of natural resources and their benefit to generate energy, in addition to reducing waste and recycling materials to be used again.

### Other sponsorships in this field:

- Sponsorship by the Bank for the activities of cleaning Gaza beach.

### Purchase of mobile homes for companions of patients in Al-Makassed Hospital

Bank of Palestine offered a unique humanitarian initiative of purchasing and furnishing mobile homes for overnight stays to companions of patients treated at Al-Makassed Hospital in Jerusalem, in order to resolve the overnight stays problems of companions of patients and those injured from Gaza Strip and other Palestinian cities.

### Sponsorship of the National Cleaning Day organized by Ramallah Municipality

Ramallah Municipality organized an event for the National Cleaning Day under the title “My city is clean, I am clean”. Around 1,500 youth volunteered in this event from different areas of the city; this event aimed to enhance the care to society and promote cleanliness. The Bank praised the Municipality's efforts and provided its sponsorship and encouraged its employees to contribute in this day to support the concept of cleanliness, which should be a goal for all members in our society to reflect a beautiful picture of our country, Palestine.



## Culture and Art

Culture is considered one of the most essential elements of the Palestinian identity, as it is a legacy maintained by our grandparents and parents. Culture plays the biggest role in developing the society and in advancing its scientific, intellectual and literary fields.

Accordingly, the Bank worked to activate and appreciate the cultural movement in the Palestinian society, by providing sponsorships to various cultural activities, festivals and exhibitions, which represent our identity and refresh our memory, in addition to recognition of our innovators and poets.

### Partnership agreement with “Riwaq” Cultural Center

The Bank signed an agreement with “Riwaq” Center for architectural heritage, which works on renovating distinctive historical buildings in Palestine, to contribute in their preservation and promote their existence as historical and cultural Palestinian sites, through projects that document the architectural heritage sites and revive them throughout the West Bank and Gaza Strip; using the skills and energy of students, architects, archaeologists and historians; “Riwaq” began to prepare a list of historical buildings with detailed history, maps and pictures for more than 430 villages in sixteen governorates in the West Bank and Gaza Strip.

### Partnership Agreement with “Yabous” Center and sponsorship of “Immortalize your name in Jerusalem” campaign

Bank of Palestine made a partnership agreement with “Yabous” Cultural Center for a period of five years, to contribute in enhancing the Arabic Palestinian culture in Jerusalem. The Bank also provided its sponsorship to “Immortalize your name in Jerusalem” campaign, which aims to renovate and revive the late Faisal Al-Husseini Hall, to resume the work in Jerusalem Cinema, which has been closed for five years; a mechanism was put in place to renovate and revive the hall by purchasing chairs that hold the name of each donor, to finish renovating the hall and open it by the end of 2015.

### Other sponsorships in this field:

- Sponsorship of Literature Festival in Palestine “PalFest”.
- Sponsorship of a number of festivals in Palestinian governorates.

## Development, Economic and Diaspora Affairs

Development has an important role in the advancement of the national economy and contributes in the establishment of projects that enhance growth and reduce unemployment; the bank worked on implementing developmental projects in various fields, and contributed in providing its support to various events that attract Palestinian Diaspora and Arab investors abroad, to achieve a quantum leap in economic development and other projects, in addition to meeting forums of Palestinians and Arabs to attract them to establish developmental and humanitarian projects in Palestine.

### Know Thy Heritage

The Bank initiated a sponsorship for “Know Thy Heritage” project, which is a leading project that works on hosting a group of Diaspora youth, aiming to find a framework for communication and cultural, social and historical exchange with the youth and change the stereotypical image about Palestine to the outside world; in addition to introducing them to their roots and engaging them in the building process with what they hold from financial capabilities, knowledge and experience.

### Other projects in this field

- Sponsorship for the Ramallah Convention in Ramallah.
- Sponsorship for Al-Bireh Convention held in Florida, USA.



### “Al-Bayyara” Project

In 2012, the bank launched “Al-Bayyara Parks” project, which is considered one of the most important sustainable projects that aim to establish hundreds of recreational parks for children in all Palestinian governorates, providing a safe space for their entertainment. This project was implemented through partnership with a number of Palestinian institutions inside Palestine and abroad, including Welfare Association, ANERA, Muna and Basem Hishmeh Foundation and the George and Rhonada Salem Family Foundation.

### Established parks in 2014

- Al Ma’ajeen Park – Nablus Governorate
- Shwaikeh Park – Tulkarem Governorate
- Beit jala Park – Bethlehem Governorate
- Al-Bireh Park – Ramallah and Al-Bireh Governorate
- Beit O’ura Al-Tahta Park - Ramallah and Al-Bireh Governorate
- Al-Masyoun Park - Ramallah and Al-Bireh Governorate
- Sareyett Ramallah Park - Ramallah and Al-Bireh Governorate



## Humanitarian Efforts

The Bank contributed in reducing humanitarian crisis inside Palestine and abroad, as it adopted various projects and partnerships with charitable associations and community organizations that targets orphans, people with special needs and those affected by natural and weather disasters.

### “Palestine in Our Heart” Campaign

The Bank expanded its work to “Gaza in Our Heart” campaign to become “Palestine in Our Heart” campaign, due to the last war on Gaza Strip. The bank launched the campaign for the second time and on a larger scale to help Gaza Strip and aid to the affected families, provide the needed assistance, donate medicine and food parcels, provide psychological support for children and provide the necessary needs for our people in Gaza Strip; the contribution of the bank and its employees reached 300 thousand dollars, and the Bank collected around 700 thousand dollars, as total contributions through “Palestine in Our Heart” campaign to become around one million dollars, provided by customers, shareholders and investors; donations also went to Al-Makassed Hospital in Jerusalem. The campaign was launched in partnership with Welfare Association and UNRWA.

### Sponsorship of “Talleh Ramadaniyeh” Program

The Bank provided sponsorship for a television program during the holy month of Ramadan, broadcasted on Palestine TV and Al-Falestiniyeh TV; the Bank provided financial assistance to thirty families under poverty, after selecting the families most in need from different areas in collaboration with Ministry of Social Affairs.

### Other Projects in the field of Humanitarian Endeavors:

- Donations to “Right to Live” Association in Gaza
- Donations to “Al-Raheem” Down Syndrome Association

## Women's Affairs

Bank of Palestine prioritized attention to Palestinian women within its strategy to encourage them for effective participation in the social and economic life in all sectors. In addition, the Bank conducted awareness campaigns in the fields of culture, health, social and others, which positively reflects on the society in all its sectors. The Bank believes that the development of society happens through women.

### Awareness campaign about the importance of early screening for breast cancer

For the third consecutive year, the Bank, in collaboration with Dunya Women Cancer's Center, a subsidiary of Health Work Committees in Ramallah, launched a large campaign for early detection of breast cancer within the annual international campaign to fight this disease. The campaign included the usage of different media and advertisement channels. The Bank also covered the expenses of 100 screening test for 100 social cases.

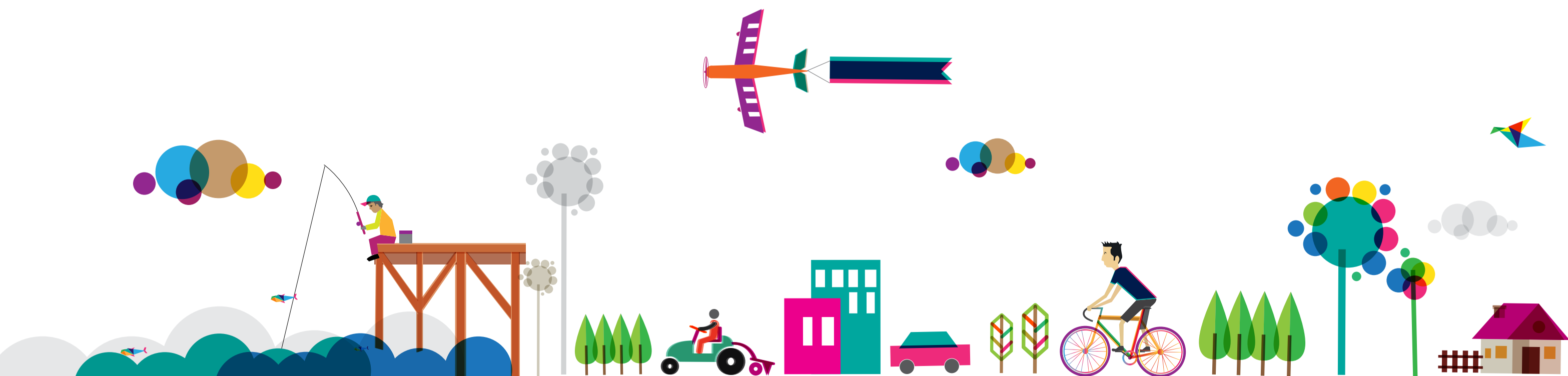
### The Bank's sponsorship to the Palestinian Car Racer – Noor Daoud

The Bank continued to provide support and sponsorship for the Palestinian contestant, Noor Daoud, in Care Racing Championships for the third consecutive year; this initiative is the first of its kind to support Palestinian sportswomen in car racing; the Bank's sponsorship to the contestant Noor Daoud is in line with its vision to support active women in the society in all sectors, especially in sports.

### Other projects in the field of women affairs:

- Support to the Rural Women's Development Society





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

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

### Building a sustainable base for MSMEs to grow

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

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

By providing financial support to these businesses, Bank of Palestine is helping to improve the strength and stability of communities, thereby reducing poverty, raising living standards, and creating more job opportunities. In addition to lending

directly to micro businesses, Bank of Palestine has also provided several Microfinance Institutions in Palestine with credit facilities.

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 Riyadh 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.





## AL-Hijaz Factory... Local Chocolate with International Quality

In 2003, three brothers, Firas, Hussein and Manaf Al-Hijaz from Anabta Al Sharqiyeh in the Tulkaram governorate came up with the idea to establish a chocolate factory. The eldest brother Firas was living in Dubai, UAE, and gained experience in producing chocolates. They started off by using their home's storage areas for the production of chocolates. In spite of the humble premises, and the difficult political and economic situation in Palestine, they were determined to produce high quality products that can compete on national, regional, and international levels.

Due to the success of their products and their appeal to consumers, the factory's sales increased, which led them to purchase land and expand their factory and production lines. They went from producing two kinds of chocolates in 2004 to now producing more than 15 different kinds, with a daily production capacity of 3 tons. Also, the number of employees increased with the increase of sales. They now employ more than 90 employees (80% of them are female employees). Manaf Hijaz, the general manager of the Factory, confirms: "The secret of the factory's success is due to maintaining high quality standards, and staying up to date with the most recent developments in the chocolate production industry".

Hijaz adds that his company covers more than 50% of the local market, indicating that their vision is to cover regional countries.





# Empowering Women

## Empowering 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 20.1% in comparison to the men's 71.9%.

Women's thin inclusion in Palestine's workforce is exclusive of their educational background. In fact, more females are currently enrolled in school 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 schools and their failure rate equaled 0.8%, much less than the male's 1.1%. This set of data, when compared with the 20.1% 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. Bank of Palestine's strategy aims to refurbish existing policies and add new guidelines to advance gender inclusion. For example, following a well-devised trajectory to arrive at a more gender-balanced workplace, Bank of Palestine has increased the percentage of female employees to total staff from 16% to 26% between 2007 and 2014. More efforts are underway to realize a one-to-one ratio of male-to-female staff in the near future. Bank of Palestine's aim for gender inclusion does not simply center on increasing the number of female staff, but it also emphasizes the vital importance of appointing women to senior and decision-making positions. Therefore, Bank of Palestine continues to invest heavily in training and equipping its female employees with skills and aptitudes required for them to excel. Furthermore, the Bank has recently welcomed a female member to its Board of Directors. The provision of full equal rights to all employees, regardless of gender, is another policy initiative adopted by Bank of Palestine's strategy. An internal audit had Bank of Palestine enact specific guidelines to enhance gender equality among employees. Today, all female recruits receive an equal amount of payment as well as similar benefits, including personal and family healthcare packages, as their male counterparts. In addition, female workers are now entitled to a child allowance, which was only provided to male employees in the past.

## 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. This encompassing project, extends both financial and non-financial advisory services to Palestinian women. As part of this program, 200 women attended Bank of Palestine's financial awareness sessions in 2014. In order to extensively reach out to women throughout the country, Bank of Palestine understands the necessity of working with other institutions and associations in the field. Accordingly, Bank of Palestine has invested significant effort in forming strategic partnerships with numerous public, private and non-governmental organizations with

exposure on both the domestic and international scenes. In collaboration with some of these organizations, Bank of Palestine hosted several women-related events and workshops at its branch training halls across the West Bank and the Gaza Strip.

## Social Development

To complement its Women Banking efforts with a philanthropic element, Bank of Palestine Corporate-Social Responsibility (CSR) program includes a 'Women Empowerment' category. As part of this program, Bank of Palestine sponsored and supported several initiatives relating to women issues such as the early breast cancer detection awareness campaign. Another CSR sponsorship enabled select members of the Business Women Forum who own start-up businesses to partake in an investors networking event in Amman, Jordan. Bank of Palestine, through its strategy on women affairs, hopes to reach out to Palestinian women from all walks of life. Part of the strategy's goal is to pave the way before women to enter Palestine's labor market as equal participants to their male counterparts, given that equivalent inclusion of women in the workforce would enforce social cohesion and boost economic welfare in Palestine.

## 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. The 7 Principles seek to elaborate the gender dimension of corporate responsibility, the UN Global Compact and sustainable development by integrating gender into broader sustainability goals. In May 2014, Mr. Hashim Shawwa, Chairman & General Manager of Bank of Palestine, demonstrated his support for gender equality and the WEPs by signing the WEPs CEO Statement of Support.

In 2014 Bank of Palestine became a member of the Global Banking Alliance for Women (GBA), the leading international consortium of financial institutions and other organizations interested in building women's wealth worldwide. Their work focuses particularly on the needs of women entrepreneurs running small and medium enterprises. Alliance member institutions work in 135 countries to build innovative, comprehensive programs that provide women entrepreneurs with vital access to capital, markets, education, and training.



## Manal Rizeq: My ambitions led me to becoming the founder and owner of a driving school

Manal Rizeq a mother of three, who got married at a young age and didn't complete high school had high ambitions to become a successful entrepreneur. She thought of starting a driving school, however, to do so, she needed to complete her secondary education. After fourteen years of leaving school, Manal completed her high school education, and started her training to become a driving instructor. With the support of her family, Manal founded a successful driving school in Bethlehem.

The driving school became a success in no time, due to the fact that females in Palestine would rather have a female teach them how to drive instead of a male instructor. To continue her quest in success Manal turned to Bank of Palestine microfinance program so she can finish the interior of the school, which is a made up of a classroom, and some office and waiting areas.

Today Manal Rizeq has a truck driver's license and is hoping to get a license to teach motorcycle driving, bus driving, and tractor driving. Manal said "I began my first steps and achieved tremendous success; I hope I can set an example for females that thrive and struggle to achieve their ambitions and freedom".





صندوق ابتكار  
IBTIKAR FUND

As part of their support to aspiring entrepreneurs, Bank of Palestine along with several partners have reached the final stages of establishing Ibtikar Fund. Through this \$10 million fund, young aspiring entrepreneurs will receive seed funding and additional rounds of capital, to help launch their startups into profitable Palestinian businesses.

Ibtikar Fund is a venture capital fund modeled and 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 primarily in the 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.

Ibtikar Fund will be a game changer for Palestinian young entrepreneurs, as it closes a critical funding gap leading up to existing funds , but also partners with existing accelerators, helping in provide them with sustainability and moving them away from donor dependency in a space where private sector management is needed.

Bank of Palestine put all its energy in creating the innovation fund



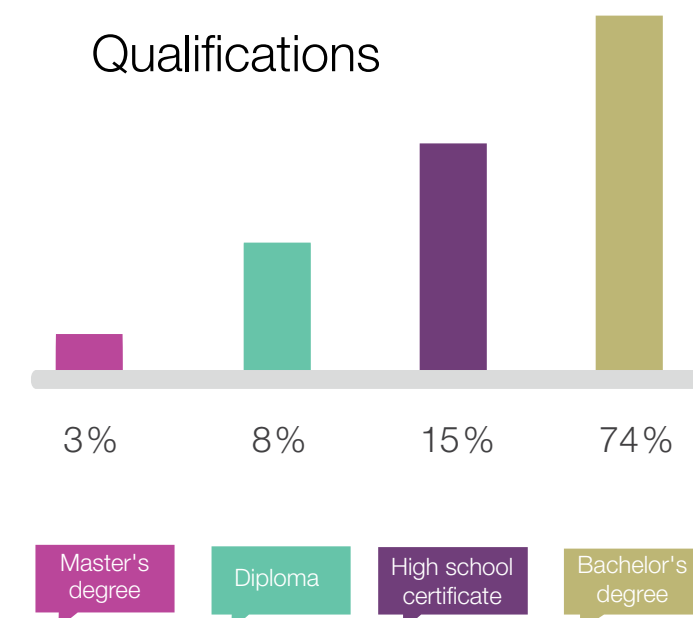


## Our People



YEAR	TOTAL	FEMALE	%
2009	864	167	19%
2010	943	186	20%
2011	1061	241	23%
2012	1,139	269	24%
2013	1,212	303	25%
2014	1,280	328	26%

### Qualifications



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 non-discrimination employment policy. Our HR strategy works towards the alignment of our training, reward, and recognition programs 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 2014, the number of employees grew to reach 1,280 compared with in branches and serving over 698,297 customers. This boost in personnel will help us meet the needs of our clients.

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 programs.

### 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 2014, 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 2015 training plan by communicating their training needs.

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



## Training Activities

### Training activities in 2014

On average each employee attended almost 2.5 training programs in 2014

Year	Number of training sessions	Number of participants	Training expenses in dollars		
2014	169	2,835	293,904		
2013	208	3,133	535,386		

Training programs	Number of actual training sessions	Percentage of total training sessions	Number of beneficiary staff members	Percentage of the attendees/ total employees
New employee orientation	9	5.3 %	192	15.1 %
Internal training/ workshops	116	68.6 %	2,332	183.6 %
Local training/ workshops	36	21.3 %	295	23.2 %
International training/ workshops	5	3 %	11	0.9 %
Professional certificates and diplomas programs	3	1.8 %	5	0.4 %
Total	169	100 %	2,835	223.20 %

### One: Preparing and qualifying new employees (new employee orientation)

Number of training sessions	Number of trainees/ participants		Total	Location of the training
	New employees	College student's		
9	110	82	192	Training center at BOP (Ramallah-Gaza)

### Two: Internal training

Number of training/ workshop sessions	Number of trainees/ participants	Location of the training
116	2,332	Training center at BOP (Ramallah-Gaza-Nablus-Jenin-Bethlehem-Hebron)

### Three: Local training

Number of training/ workshop sessions	Number of trainees/ participants	Training / workshop promoter
36	295	- Palestinian banking institute
		- Ernst & Young
		- AMIDEAST
		- General co. for consulting and training
		- Islamic development bank
		- Ways international
		- Euro-Arab foundation
		- The Arab Academy for Banking and Financial services
		- Scholarship Training
		- Badawi information systems(BIS)
		- Future co. for information systems
		- PSC
		- PMA
		- Coalition for Accountability and Integrity

### Four: International training / workshops

Number of training/workshop	Number of trainees/ participants	Location of the training
5	11	Jordan

### Five: Professional certificates and diplomas programs

Number of training/workshop sessions	Number of trainees/ participants	Training / workshop promoter
3	5	- Palestinian Banking Institute - Vision Plus





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.

#### 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 the 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

Risk Event Management

Corporate Culture Training

Risk Assessments

Key Risk Indicators

Policies & Procedures

Governance

Risk Management Operations

## 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.

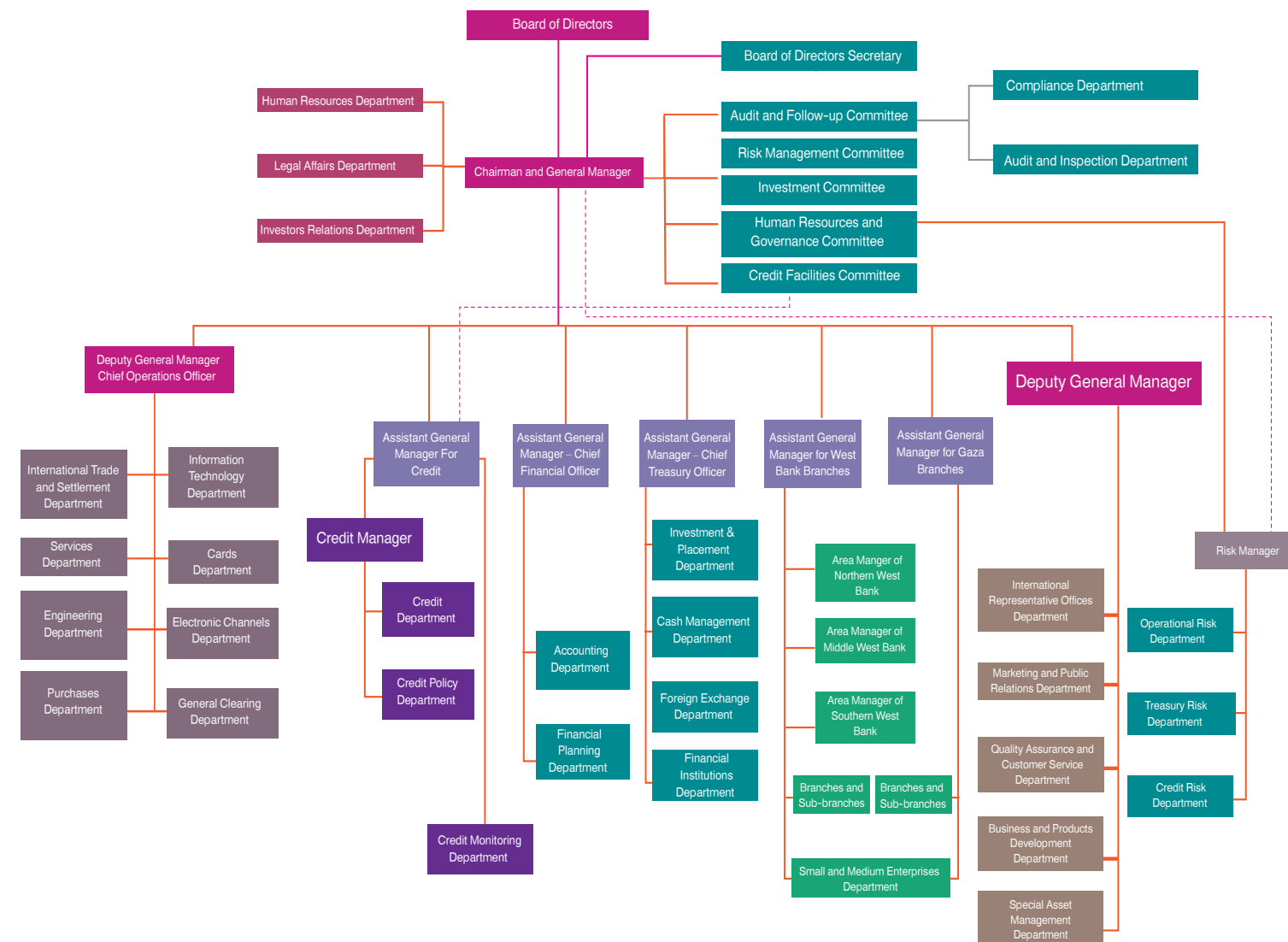
BOP's corporate governance framework is broadly based on the following principles:

- **Accountability:** This Code ensures BOP's accountability to all shareholders and guides the company's board in the important setting strategy function, and guiding and monitoring the company's management.
- **Fairness:** BOP obligates itself to protect shareholder rights and ensure the equitable treatment of all shareholders, including minority shareholders. All

shareholders are to be granted effective redress for violation of their rights through the board.

- **Transparency:** BOP is to ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company, in a manner easily accessible to interested parties.
- **Responsibility:** BOP recognizes the rights of other stakeholders as established by laws and regulations, and encourages cooperation between the company and stakeholders in creating sustainable and financially sound enterprises.

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







## Corporate Governance & Risk Management

### 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 and Control Departments



**Mr. Hashim Hani Shawa**  
**General Manager**  
Bachelor of Engineering – University  
College London – UK 1997  
Date of Birth: 25/01/1976  
Joined BOP in 2007



**Mr. Alaa' El Din Mohammed**  
**Al-Redwan**  
**Deputy General Manager Chief**  
**Operations Officer**  
Bachelor of Accounting, Damascus  
University- Syria 1992  
Masters in Business Administration,  
Van Holland University  
Date of Birth: 22/06/1965  
Joined BOP in 1993



**Mr. Rushdi Mahmoud**  
**Ghalayini**  
**Deputy General Manager**  
**Chief Risk Officer**  
Bachelor of Economics and  
Computer Science, American  
University, Cairo – Egypt 1986  
Date of Birth: 26/05/1962  
Joined BOP in 1989



**Mr. Wael AbdAllatif Al Sourani**  
**Assistant General Manager**  
**for Gaza Strip Branches**  
Bachelor of Biology &  
Chemistry – Sana'a University,  
Yemen 1993  
Date of Birth: 07/02/1967  
Joined BOP in 1995



**Mr. Khamis Fawzy Asfour**  
**Legal Advisor**  
Bachelor of Law – Alexandria  
University, Egypt 1975  
Date of Birth: 29/05/1952  
Joined BOP in 1979



**Ms. Susan George Khoury**  
**Assistant General**  
**Manager - Credit**  
Mathematics & Management  
Studies - Queen Elizabeth College,  
University of London 1983  
Date of Birth: 02/06/1961  
Joined BOP in 2012



**Mr. Ihsan Kamal Shaushaa**  
**Assistant General**  
**Manager – Chief Treasurer**  
Bachelor of Business  
Administration – Computer  
Information Systems, Texas  
State University - USA 1988  
Date of Birth: 05/09/1963  
Joined BOP in 1991



**Mr. Salman Mohammed Tuama**  
**Qemailah**  
**Assistant General**  
**Manager– Chief Financial Officer**  
Bachelor of Commerce in Accounting  
Ain Shams University,  
Cairo- Egypt 1981  
Date of Birth: 08/07/1958  
Joined BOP in 1982



**Mr. Hani Salah Nasser**  
**Assistant General Manager**  
**for West Bank Branches**  
Master of Public Administration  
and Law – Marie Curie  
University, Poland 1993  
Date of Birth: 12/02/1967  
Joined BOP in 1994



**Mr. Saqer Mahmoud Jundia**  
**Head of the Compliance Department**  
Bachelor of Economics and Political  
Science – Alexandria University – Egypt 1979  
Master of Business and  
Commerce – Banha University – Egypt 1990  
Date of Birth: 01/02/1949  
Joined BOP in 1979



**Mr. Mahmoud Maher Shawa**  
**Chief Risk Officer**  
Bachelor of Accounting – American  
University of Cairo – Egypt 2005  
Master of Finance – Bangor  
University – USA 2007  
Date of Birth: 24/07/1982  
Joined BOP in 2005



**Mr. Abdul Hai Youssef Shawa**  
**Head of the Audit and**  
**Inspection Department**  
Bachelor of Math– Ein-Shams  
University – Egypt 1981  
Date of Birth: 02/12/1957  
Joined BOP in 2002





## 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 - 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.



**Maher Jawad Farah**  
Member  
Bachelor of Civil Engineering – Cairo  
University - Egypt 1966  
Date of Birth: 21/03/1945  
Date of Membership: 2002

**Experience**  
1966 – 1982 Civil Engineer in different  
countries.  
1982 – 1997 Chairman of the International  
Contractor Group – Kuwait.  
1997 – 2007 Chairman of the International  
Contracting Company – Palestine.

**Memberships**  
Member of the Board of Directors – Birzeit  
Pharmaceutical Company (BPC) - 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.



**Dr. Hani Hassan Nigim**  
Member  
PhD - Mechanical Engineering – Leicester  
University 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 -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- Palestinian Pension Agency.  
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 – Palestine.  
Member – Mediterranean Network on Water Reclamation and  
Reuse - Spain.  
Member of the Board of Trustees – Al Azhar University Gaza – Palestine.  
Member of the Board of Trustees – Al-Quds Open University – Palestine.  
Associate Fellow – American Institute of Aeronautics and  
Astronautics (AIAA).



**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. – Palestine.  
Vice Chairman of the Board of Directors – The Palestine  
Trade Centre - PalTrade - Palestine.  
Vice-Chairman of the Board of Directors – The Middle  
East Pharmaceutical Industry Co. – Palestine.  
Vice-Chairman – Al-Amal for the Asphalt Co.– Palestine  
Member of the Board of Directors – Wataniya Mobile.  
Telecommunication Company - Palestine.  
Member of the Board of Directors – Palestinian Company  
for Electricity - Palestine.  
2005 - 2009 Member of the Board of Directors (Secre-  
tary 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.



**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.





## Board Members



**Tareq Taher Shaka**  
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**  
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 - Netherland.  
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 2010–Director of The European Palestinian  
Credit Guarantee Fund (EPCGF).  
2010 to present – Executive Director and Member  
of the Board of the European Palestinian Credit  
Guarantee Fund.  
2014 to present – Member of the Board and  
Member of the Risk Committee of  
Amen Bank - Tunisia.



**Tarek Aggad**  
Member  
B.A – Economics - Harvard University, USA – 1992  
Date of Membership: 2014

**Experience**  
Arab Palestinian Investment Company (APIC)  
Palestine - Chairman & CEO.  
Aggad Investment Company (AICO) Saudi  
Arabia - Executive Director.  
Siniora Food industries (SNRA) Jordan/Palestine  
Chairman.  
Unipal General Trading company-Palestine Chairman.  
Medical Supplies and Services (MSS)- Palestine  
Chairman.  
Palestine Automobile Company- Palestine –Chairman

**Memberships**  
Member of the Board of Directors - Palestine  
Investment Fund.  
Palestine Electricity Company (PEC)- Member of  
the Board of Directors.  
Palestine Power generation Company (PPGC)  
Member of the Board of Directors.  
Several other board memberships in Saudi Arabia,  
Jordan and Palestine.  
Member of the Board of Trustees and Board of  
Directors - the King Hussein Cancer Foundation,  
Jordan.  
Member of the Board of Trustees: King's Academy.



**Lana Abu-Hijleh**  
Member  
B.SC- Civil Engineering, University Of Iowa, USA – 1985  
Date of Membership: 2014

**Experience**  
2003 - Present –Country Director of Global Communities  
(Formerly known as CHF International – Palestine).  
1986 – 2003 – Assistant Resident Representative of the United  
Nations Development Program/Program of Assistance to the  
Palestinian People (UNDP/PAPP).

**Memberships**  
Member of the Board of Directors - Palestine Investment Fund  
Vice Chair - Palestine for a New Beginning.  
Member of the Board of Directors of the Palestine Student  
Lending Fund.  
Member of the Board of Trustees of Palestine Economic Policy  
Research Institute (MAS).  
Member of the Board of Directors of the Palestine Institute for  
Public Diplomacy.  
Member - Palestinian Business Women Forum.  
Member - Young Presidents' Organization (YPO/WPO).  
Fellow of the Middle East Leadership Network – The Aspen  
Institute.



**Abdullah Al-Ghanim**  
Member  
MBA - The Thunderbird School of Global Management - 2005  
Finance - Boston University - 1996  
Date of Membership: 2014

**Experience**  
2012 – Present - ASIYA Investment Co - Kuwait.  
2011- 2012 - International Finance Corporation - UAE.  
2010-2011 - Boubyan Bank - Kuwait.  
2006 – 2010 - HSBC Private Bank - Kuwait.  
2001 – 2006 - AlMuhalab Kuwaiti Real Estate – Kuwait.





## Board of Directors

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

The Board is elected by shareholders to oversee and guide management with the ultimate goal of increasing long-term shareholder value for the bank, while taking into account the interest of its stakeholders. The following functions are the common recurring activities of the Board in carrying out its guidance and oversight responsibility.

- Reviewing, approving, and monitoring BOP's long-term strategic

objectives and business plans of the executive management.

- Monitoring the overall performance of the bank and progress towards its strategic objectives.
- Assessing the major risks facing the bank's executive management and the steps taken by management to monitor and control such risks.
- Setting the level of 'Risk Appetite' of the bank and ensuring there is a culture of risk management through the organization.
- Overseeing the integrity of the financial statements, ensuring compliance with legal and regulatory requirements, the performance, qualifications, and independence of the external auditor, and the performance of the internal audit function.
- Reviewing and approving major business transactions, including significant credit decisions, capital allocations and expenditures, in line with the approved chart of authorities.

- Overseeing investment and financing activities of the bank and making major investment and financing decisions.
- Overseeing and approving the human resource policies, and framework and Corporate Governance of the bank.
- Selecting and recommending Director Nominees for election by Shareholders.
- Selecting, developing, and evaluating potential candidates for senior executive officer positions and overseeing the development of senior executive officer succession plans.
- Determining remuneration policies for board of directors and senior executives.
- Evaluating the overall performance and effectiveness of the Board and its members and taking corrective actions as needed.

- Overseeing the bank's corporate governance framework and ensuring compliance with agreed policies and provisions.
- Ensuring proper shareholder relations are maintained, shareholder rights are protected, and shareholder meetings are conducted in accordance with applicable laws and regulations.
- Ensuring stakeholder interests are considered and the bank conducts its business in a socially responsible manner to the extent practical.





## Board Committees

### Attendance of Board Members to Bank of Palestine's Board Meetings in 2014

Names of Board Members	30/1	9/2	16/3	21/4	25/5	22/6	14/9	26/10	7/12	Total attendance for each board member	Percentage of attendees
	1	2	3	4	5	6	7	8	9		
Mr. Hashim Hani Shawa	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	9	100 %
Mr. Mamon Abu Shahla*	Attended	Attended	Attended	Attended	Attended					5	55.56 %
Mr. Reyad Zimmou**	Attended	Attended	Attended	Attended						4	44.44 %
Mr. Youssef Mahmoud Nijm**	Attended	Attended	Attended	Attended						4	44.44 %
Dr. Awni Skaik**	Attended	Attended	Attended	Attended						4	44.44 %
Mr. Faysal Shawa	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	9	100 %
Dr. Hani Nigim	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	9	100 %
Mr. Maher Farah	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	9	100 %
Mr. Mohammed Nafiz Hirbawi	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended		8	88.89 %
Mr. Tareq Shaka	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	9	100 %
Mr. John Khoury	Attended	Attended	Attended	Attended	Attended		Attended	Attended	Attended	8	88.89 %
Mrs. Lana Abu Hijleh***					Attended	Attended	Attended	Attended	Attended	5	55.56 %
Mr. Tarek Aggad***					Attended	Attended	Attended		Attended	4	44.44 %
Mr. Abdullah Al-Ghanim***					Attended	Attended	Attended	Attended	Attended	5	55.56 %
Total attendance at each meeting	11	11	11	11	11	9	10	9	9	92	

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

\*\* Their membership ended on 25-04-2014

\*\*\* They were elected to join the board of directors on 25-04-2014

### Audit Committee

#### Committee Members:

Dr. Hani Nigim - Chairman of the Committee

Mr. Mohammed Nafez Hirbawi

Mrs. Lana Abu Hijleh

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.

- Ensuring 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 the 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.





## Board Committees

### Risk Management Committee

#### Committee Members:

Mr. John Khoury - Chairman of the Committee  
Mr. Mohammed Nafez Hirbawi  
Mrs. Lana Abu Hijleh

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

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

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

- Approve the overall risk management policies and ensure there is an effective Enterprise Risk Management framework in place to proactively identify, measure, mitigate, and

monitor all types of risk in the bank and to promote continuous dialogue about risk management throughout the organization (i.e., promoting a 'Risk Culture').

- Determine the overall 'Risk Appetite' of the bank and ensure the overall risk profile and tolerances are in line with the agreed appetite.
- Obtain assurance from the executive management and internal auditing that the risk processes and systems are operating effectively, with sound controls, and compliance with approved policies.
- Obtain assurance that the bank is complying with applicable laws and regulations regarding all risk management policies and procedures.
- Review the bank's capital adequacy and provisions to ensure they are in compliance with regulatory guidelines and in line with the risk profile of the bank.
- Review reports on a quarterly basis or 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 (with the help of Credit Risk Officer) to monitor and evaluate, as mandated by the PMA, "guidelines and policies to govern the process by which risk assessment and management is undertaken."

### Credit Committee

#### Committee Members:

Mr. Faysal Ghazi Shawa  
Chairman of the Committee  
Mr. Hashim Shawa  
Mr. Maher J. Farah  
Mr. Tareq Aggad

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

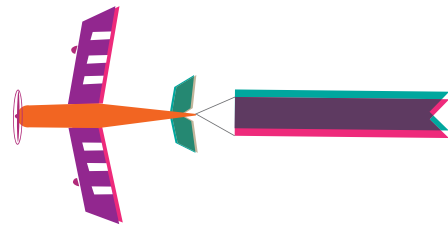
- Reviewing all credit reports and studies on a regular basis.
- Informing the board about the quality and the size of the credit portfolio. The committee

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.





## Human Resources & Corporate Governance Committee

### Committee Members:

Mr. Tareq Shaka - Chairman of the Committee

Dr. Hani Nigim

Mrs. Lana Abu Hijleh

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 fulfill 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 fulfillment 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

### Committee Members:

Mr. Maher J. Farah - Chairman of the Committee

Mr. Hashim Shawa

Mr. Faysal Ghazi Shawa

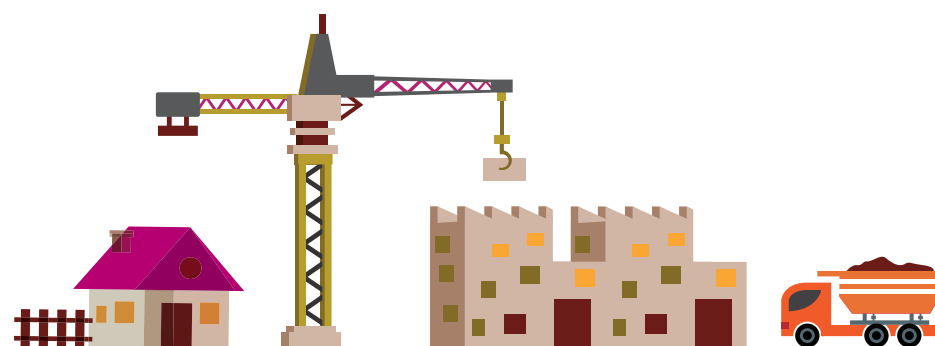
Mr. Abdullah Al-Ghanim

Mr. Tareq Aggad

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.



## Risk Management

The bank's underlying premise for managing risk is to protect and increase 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 Palestine Monetary Authority (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 organisation 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.

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:

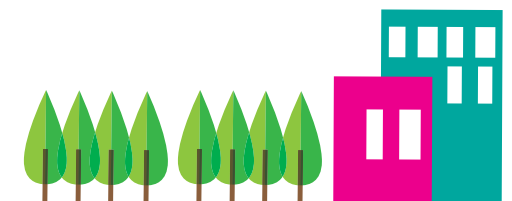
- A set of shared beliefs and attitudes throughout the organization characterising how BOP considers risks throughout its operations. This basic risk management philosophy is to be reflected in everything BOP does – by capturing it in policy statements, oral and written communications, decision making, 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.
- A commitment by everyone in the organization 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 training the 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 maximize 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





# Board Risk Committee-The Executive Risk Management Committee - ALCO

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, stressful economic conditions.
- Efficiently manage and allocate capital in order to optimize 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 include the following:
- 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 the 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.





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 transparency with our existing and potential investors is very important to us. Bank of Palestine organized and participated in several Investor Road Shows in Middle East, Europe and North and Latin America. In 2014 we created a new Investor Relations website ([www.bop.ps/en/ir](http://www.bop.ps/en/ir)), where we've disclosed all public information in accordance with our corporate governance structure – which meets international best practices and the regulations in Palestine. The information is presented in a way that is easily accessible and clear to all types of investors, fund managers, and financial media.

Also, this year for the third consecutive year we won the Middle East Investor Relations Society's award for "Best Company for Investor Relations in Palestine".

## Trading Activity in 2014 - Bank of Palestine

Bank of Palestine was listed on the Palestine Stock Exchange (PEX) in 2005. The table below indicates the trading activity in 2014 compared with 2013.

Description	2014	2013	Notes
Number of Shareholders	4,000	3,921	2.01% increase between 2013 and 2014
Number of Traded Shares	20,580,058	16,767,340	11.34% of total trading in PEX
Value of Traded Shares (USD)	59,209,037	50,402,400	16.73% of total trading in PEX
Number of Executed Transactions	4,727	6,395	11.46% of total transactions in PEX
Share Turnover Ratio	12.86 %	11.18 %	Number of traded shares/total number of shares
Trading Sessions where the share was traded	244	241	99.59% of total trading sessions in 2014
Market Capitalisation (USD)	448,000,000	480,000,000	14.06% of total PEX market capitalization
Highest Trading Price (USD)	3.30	3.33	
Lowest Trading Price (USD)	2.70	2.75	
Closing Price (USD)	2.80	3.20	

## Major Shareholders

At the end of 2014, the number of shareholders was 4,000 compared with 3,921 shareholders at the end of 2013.

Name	Number of Shares - End of 2014	Ownership Percentage - End of 2014	Number of Shares - End of 2013	Ownership Percentage - End of 2013
A. M. Al-Kharafi & Sons Trading Co.	12,210,061	7.63 %	11,446,897	7.63 %
Palestinian Investment Fund Group	9,306,559	5.82 %	10,467,988	6.98 %
Blakeney Management	8,665,292	5.41 %	7,774,834	5.18 %
International Finance Corporation (IFC)	7,974,403	4.98 %	7,500,000	5.00 %

## Board of Directors' Ownership

Member of the Board of Directors	Citizenship	Number of Shares - End of 2014	Ownership Percentage - End of 2014	Number of Shares - End of 2013	Ownership Percentage - End of 2013
Hashim H. H. Shawa - Chairman of the Board	Palestinian	6,299,001	3.94 %	5,905,295	3.94 %
Mamon A. H. Abu Shahla - Vice Chairman of the Board *	Palestinian	890,258	0.56 %	834,615	0.56 %
Maher J. Farah	French	767,744	0.48 %	723,758	0.48 %
Mohammed M. Hirbawi	Palestinian	210,162	0.13 %	197,027	0.13 %
Hani H. M. Nigim	Palestinian	172,334	0.11 %	161,563	0.11 %
Faysal G. Shawa	Palestinian	17,066	0.01 %	16,000	0.01 %
Tareq T. F. Al Shakaa	Palestinian	37,333	0.02 %	35,000	0.02 %
John Pierre Khoury	American	25,599	0.02 %	23,999	0.02 %
Tarek Aggad	Palestinian	21,333	0.01 %	-	-
Lana Jamal Abu Hijleh	Palestinian	17,066	0.01 %	-	-
Abdullah Qais Abdullah Al-Ghanim	Kuwaiti	17,066	0.01 %	9,121	0.01 %

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

## Board of Directors' First and Second Degree Relatives' Ownership

Name	Citizenship	Number of Shares - End of 2014	Number of Shares - End of 2013
Qadoumi Family	Palestinian	5,164,469	4,841,676
Huda Hani Shawa	Palestinian	4,754,217	4,457,065
Dina Hani Shawa	Palestinian	1,932,040	1,815,342
Linda Patrick Shawa	Palestinian	1,287,820	1,227,328
Bernardita Vigano Shawa	Swiss	119,403	111,940
Genevieve Chantal Marie Boimond	French	24,612	23,074

## Ownership of the Executive Management

Name	Title	Citizenship	Number of Shares - End of 2014	Number of Shares - End of 2013
Rushdi M. Ghalayini	Deputy General Manager - CRO	Palestinian	17,112	16,043
Alaa M. Al Redwan	Deputy General Manager - COO	Palestinian	12,261	13,839
Ihsan K. Shuashaa	Assistant General Manager - Chief Treasurer	Palestinian	13,082	14,140
Salman M. Qemailah	Assistant General Manager - CFO	Palestinian	45,092	42,274
Hani Salah Nasser	Assistant General Manager - West Bank Branches	Palestinian	13,838	12,974
Wael AbdAllatif Al Sourani	Assistant General Manager - Gaza Branches	Palestinian	31,481	29,514
Susan George Samaan Khoury	Assistant General Manager - Credit	Palestinian	9,573	8,975
Khamis F. Asfoor	Legal Advisor	Palestinian	15,342	14,384



## Senior Executive Management Salaries and Bonuses

General Manager, Deputy General Managers, and Assistant General Managers' salaries and bonuses amounted to USD 2,046,984 in 2014.

## 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 196,259 in 2014.

## Loans Granted to Senior Executive Management

Total loans granted to Senior Executive Management in 2014 was USD 5,924,759.

## Proposed Remuneration to Board of Directors

Proposed Board of Directors remuneration based on profits for the year 2014 is USD 920,000.

## 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.

## Legal Actions

The number of cases filed against the bank was (40) and (35), as at 31 December 2014 and 2013 respectively, which were considered part of the normal activity of the bank. Cases were equivalent to USD 11,529,284 and USD 6,765,167 as at 31 December 2014 and 2013 respectively. The bank's management and lawyer assess that these cases would not entail any liabilities other than what the bank has already allocated.

## 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.

## 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 2014, 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 2014.

## 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 2014 financial statements.

## Disseminating Information

In an effort to save the environment and natural resources, and to cut down on unnecessary expenditures, Bank of Palestine will not send a printed copy of the Annual Report to every shareholder. The Annual Report will be published on our Investor Relations website. Shareholders can also call the bank at the toll free number 1700-150-150 or +970 2 2946420 to request the printed report. The report will also be available in our branches and at the Annual General Assembly Meeting.

## Agenda and Recommendations of the Ordinary Assembly General Meeting (AGM)

The Board of Directors of Bank of Palestine PLC is pleased to invite shareholders to attend their Ordinary Assembly General Meeting 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 24, 2015.

## Meeting Agenda:

1. Discuss and approve the Board of Directors' Report.
2. Discuss and approve the auditor's report and the financial statements for the year 2014.
3. Discharge the chairman and members of the Board of Directors for the year 2014.
4. The appointment of an auditor for the financial year 2015 and appropriating the auditor's remuneration, or alternatively authorizing the board to do so.
5. Ratification of the Board of Director's remuneration.
6. Discuss and approve the Board of Directors recommendations to distribute USD 34.2 million from realized profits to shareholders as follows:
  - USD 15 million as stock dividends, equivalent to 9.375% of the nominal value of the share.
  - USD 19.2 million as cash dividends, equivalent to 12% of the nominal value of the share.

In proportion to each shareholder's ownership in paid capital as of April 23, 2015.





# Consolidated Financial Statements

DECEMBER 31, 2014





## 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. and its subsidiaries (the Bank) which comprise the consolidated statement of financial position as at December 31, 2014, 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 auditor's 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, 2014 and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Emphasis of a Matter

Without qualifying our opinion, as depicted in note (20) to the accompanying consolidated financial statements, the Bank reached a tax settlement during the year with the Ministry of Finance for the years from 2006 to 2012. Further, the Bank provides for taxes based on prevailing tax laws and the Presidential Decree (18) of the year 2007, which exempts taxpayers in Gaza from taxes. Accordingly, tax provisions do not include taxes on the Bank's results of operations from branches operating in Gaza.

Ernst & Young - Middle East

License # 206/2012

March 23, 2015  
Ramallah - Palestine

## Consolidated Statement of Financial Position

As at December 31, 2014

		2014	2013
	Notes	\$ U.S	\$ U.S
<b>ASSETS</b>			
Cash and balances with Palestine Monetary Authority	5	346,222,324	638,406,726
Balances at banks and financial institutions	6	581,758,608	350,748,099
Financial assets at fair value through profit or loss	7	7,367,695	7,085,308
Direct credit facilities	8	1,151,825,644	1,103,641,018
Financial assets at fair value through other comprehensive income	9	22,671,941	22,313,964
Financial assets at amortized cost	10	226,643,035	146,594,774
Investment in associates	11	18,692,906	17,070,699
Property, plant and equipment	12	47,981,522	39,587,275
Projects in progress	13	2,272,393	8,291,148
Other assets	14	19,337,893	14,306,932
<b>Total Assets</b>		<b>2,424,773,961</b>	<b>2,348,045,943</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Palestine Monetary Authority's deposits	15	24,086,209	90,206,966
Banks and financial institutions' deposits	16	753,769	142,399,691
Customers' deposits	17	1,908,480,620	1,668,535,234
Cash margins	18	154,043,455	77,028,031
Sundry provisions	19	18,320,233	16,373,477
Tax provisions	20	1,027,063	57,909,375
Other liabilities	21	37,956,034	43,574,195
<b>Total Liabilities</b>		<b>2,144,667,383</b>	<b>2,096,026,969</b>
<b>Equity</b>			
Paid-in share capital	1	160,000,000	150,000,000
Additional paid-in capital	22	9,034,692	9,034,692
Statutory reserve	23	32,023,745	28,006,564
Voluntarily reserve	23	147,932	95,845
General banking risks reserve	23	19,249,207	23,565,172
Pro-cyclicality reserve	23	27,849,613	22,005,031
Fair value reserve	9	(4,797,893)	(5,159,800)
Retained earnings		35,916,850	23,839,731
		279,424,146	251,387,235
Non-controlling interests	4	682,432	631,739
<b>Total Equity</b>		<b>280,106,578</b>	<b>252,018,974</b>
<b>Total Liabilities and Equity</b>		<b>2,424,773,961</b>	<b>2,348,045,943</b>

## Consolidated Income Statement

For the year ended December 31, 2014

		2014	2013
	Notes	\$ U.S	\$ U.S
Interest income	25	91,898,299	90,780,557
Interest expense	26	(16,427,666)	(14,858,145)
<b>Net interest income</b>		<b>75,470,633</b>	<b>75,922,412</b>
Net commissions	27	27,074,576	23,697,195
<b>Net interest and commissions income</b>		<b>102,545,209</b>	<b>99,619,607</b>
Foreign currency gain		3,894,867	3,599,199
Net gain from financial assets	28	960,984	1,770,512
Share of results of associates	11	868,648	763,376
Recovery of impairment allowance of credit facilities	8	1,319,424	-
Other revenues	29	10,699,525	6,941,081
<b>Gross profit</b>		<b>120,288,657</b>	<b>112,693,775</b>
<b>Expenses</b>			
Personnel expenses	30	(34,838,857)	(33,035,862)
Other operating expenses	31	(25,267,554)	(19,321,560)
Depreciation and amortization	14&12	(4,997,087)	(4,581,007)
Impairment allowance for direct credit facilities	8	(3,025,222)	(1,829,775)
Credit facilities written off		(442,463)	(810,498)
Palestine Monetary Authority fines	32	(58,209)	(77,077)
<b>Total expenses</b>		<b>(68,629,392)</b>	<b>(59,655,779)</b>
<b>Profit before taxes</b>		<b>51,659,265</b>	<b>53,037,996</b>
Taxes expense	20	(11,436,759)	(12,599,165)
<b>Profit for the year</b>		<b>40,222,506</b>	<b>40,438,831</b>
<b>Attributable to:</b>			
Shareholders of the Bank		40,171,813	40,465,951
Non-controlling interests	4	50,693	(27,120)
		40,222,506	40,438,831
Basic and diluted earnings per share	34	0.25	0.25



Consolidated Statement of Comprehensive Income

For the year ended December 31, 2014

		2014	2013
	Notes	\$ .U.S	\$ .U.S
Profit for the year		40,222,506	40,438,831
Other comprehensive income:			
Other comprehensive income items not to be reclassified to the consolidated income statement in subsequent periods:			
Change in the fair value of financial assets at fair value through other comprehensive income	9	361,145	423,847
Other comprehensive income		361,145	423,847
Total comprehensive income for the year		40,583,651	40,862,678
Attributable to:			
Shareholders of the Bank		40,532,958	40,889,798
Non-controlling Interests	4	50,693	(27,120)
		40,583,651	40,862,678

Consolidated Statement of Changes in Equity

For the year ended December 31, 2014

	Reserves										Non-controlling			
	Paid-in share capital	Additional paid-in capital	Statutory	Voluntarily	General banking risks	Pro-cyclicality	Fair value	Retained earnings	Equity	Non-controlling interests	Total equity			
2014	\$ .U.S	\$ .U.S	\$ .U.S	\$ .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	150,000,000	9,034,692	28,006,564	95,845	23,565,172	22,005,031	(5,159,800)	23,839,731	251,387,235	631,739	252,018,974			
Profit for the year	-	-	-	-	-	-	-	40,171,813	40,171,813	50,693	40,222,506			
Other comprehensive income	-	-	-	-	-	-	361,145	-	361,145	-	361,145			
Total comprehensive income	-	-	-	-	-	-	361,145	40,171,813	40,532,958	50,693	40,583,651			
Results of sale of financial assets recognized directly in retained earnings (Note9)	-	-	-	-	-	-	762	(762)	-	-	-			
Transfers to reserves	-	-	4,017,181	52,087	(4,315,965)	5,844,582	-	(5,597,885)	-	-	-			
Stock dividends (Note 24)	10,000,000	-	-	-	-	-	-	(10,000,000)	-	-	-			
Cash dividends (Note 24)	-	-	-	-	-	-	-	(12,500,000)	(12,500,000)	-	(12,500,000)			
Fractions of stock dividends distributed	-	-	-	-	-	-	-	3,953	3,953	-	3,953			
Balance, end of year	160,000,000	9,034,692	32,023,745	147,932	19,249,207	27,849,613	(4,797,893)	35,916,850	279,424,146	682,432	280,106,578			
	Reserves										Non-controlling			
	Paid-in share capital	Additional paid-in capital	Statutory	Voluntarily	General banking risks	Pro-cyclicality	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	\$ .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 (Note9)	-	-	-	-	-	-	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 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			

## Consolidated Statement of Cash Flows

For the year ended December 31, 2014

		2014	2013
	Notes	\$ .U.S	\$ .U.S
<b>Operating activities</b>			
Profit before taxes		51,659,265	53,037,996
Adjustments for:			
Depreciation and amortization		4,997,087	4,581,007
Net gain from financial assets		(960,984)	(1,770,512)
Impairment allowance for credit facilities		3,025,222	1,829,775
Recovery of impairment allowance for credit facilities		(1,319,424)	-
Sundry provisions		2,237,128	2,881,585
Bank's share of results of associates		(868,648)	(763,376)
Loss on disposal of property, plant and equipment		205	10,053
		58,769,851	59,806,528
<b>Changes in assets and liabilities:</b>			
Direct credit facilities		(49,890,424)	(129,075,865)
Statutory cash reserve		(17,972,431)	(25,714,545)
Other assets		(3,926,539)	449,830
Customers' deposits		239,945,386	179,963,070
Cash margins		77,015,424	11,106,493
Other liabilities		(6,844,488)	9,310,716
Net cash flows from operating activities before taxes and sundry provision		297,096,779	105,846,227
Taxes paid		(68,319,071)	-
Sundry provision paid		(290,372)	(278,607)
Net cash flows from operating activities		228,487,336	105,567,620
<b>Investing activities:</b>			
Purchase of financial assets at fair value through other comprehensive income		-	(7,387,889)
Purchase of financial assets at fair value through profit or loss		(749,224)	(44,910,464)
Purchase of financial assets at amortized cost		(109,480,383)	(48,473,296)
Proceeds from sale of financial assets at fair value through profit or loss and through other comprehensive income		66,692	41,374,872
Maturity of financial assets		29,474,290	25,447,433
Balances at banks and financial institutions matures in more than three months		(10,522,000)	(13,790,000)
Investment in associates		(753,559)	(488,229)
Dividends income received		1,752,679	1,907,734
Intangible assets		(1,508,275)	(780,849)
Projects in progress		(3,364,498)	(5,229,192)
Purchase of property, plant and equipment		(3,621,273)	(3,227,985)
Proceeds from sale of property, plant and equipment		16,840	170,590
Net cash flows used in investing activities		(98,688,711)	(55,387,275)
<b>Financing activities:</b>			
Cash dividends paid		(11,704,223)	(9,321,218)
Payments of non-controlling interests in a subsidiary's capital		-	75,000
Proceeds from fractions of stock dividends sold		3,953	7,387
Net cash flows used in financing activities		(11,700,270)	(9,238,831)
Increase in cash and cash equivalents		118,098,355	40,941,514
Cash and cash equivalents, beginning of the year		589,079,715	548,138,201
Cash and cash equivalents, end of year	33	707,178,070	589,079,715

## Notes to the Consolidated Financial Statements

December 31, 2014

### 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. \$ 160 million as at December 31, 2014.

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

The Bank carries out all of its banking activities which include opening current account, letter of credit, accepting deposits and lending money through its (21) branches and (33) offices located in Palestine.

The Bank's personnel reached (1,280) and (1,212) as at December 31, 2014 and 2013, respectively.

The consolidated financial statements were authorized for issuance by the Bank's Board of Directors during their meeting number (331) held on February 22, 2015 and by Palestine Monetary Authority (PMA) on March 23, 2015.

### 2. Consolidated Financial Statements

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiaries as at December 31, 2014.

The financial statements for Al-Wasata Securities Private Limited Shareholding Company (Al-Wasata Company), Investment 2000 Private Limited Shareholding Company (Investment 2000 Co.) and Palpay for Prepayment Systems (Palpay) 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 ownership in the subsidiaries' share capital was as follows:

	Country of incorporation and operations	Ownership		Subscribed capital	
		%		\$.U.S	
		2014	2013	2014	2013
Al-Wasata Company	Palestine	87	87	3,560,000	3,560,000
Palpay	Palestine	85	85	1,500,000	1,500,000
Investment 2000 Co.	Palestine	100	100	100,000	100,000



### 3. Accounting Policies

#### 3.1 Basis of preparation of consolidated financial statements

The accompanying consolidated financial statements as of December 31, 2014 have been prepared in accordance with International financial Reporting Standards (IFRS), as issued by International Accounting Standards Board (IASB), and in conformity with PMA regulations.

The consolidated financial statements have been prepared on a 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 2014. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Bank controls an investee if, and only if, the Bank has:

Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)

Exposure, or rights, to variable returns from its involvement with the investee

The ability to use its power over the investee to affect its returns

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 three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the financial statement from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

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

#### 3.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted the following amended IFRS as of January 1, 2014. The adoption will not have an effect on the financial position or performance of the Bank.

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

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

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

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

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

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

IFRIC Interpretation 21 Levies (IFRIC 21)

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

#### Standards Issued but not yet effective

The International Accounting Standards Board (IASB) issued standards, amendments and interpretations but are not yet effective, and have not been adopted by the Bank. These amendments and interpretations will not have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt these amendments and interpretations when they become effective.

#### Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

#### IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. This standard will be effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

#### IFRS 9 Financial Instruments

During July 2014, the IASB issued IFRS 9 “ Financial Instruments” with all the three phases. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement”. The Bank has implemented the first phase of IFRS 9 as issued during 2009. The date of initial implementation of the first phase of IFRS 9 was January 1, 2012. The new version of IFRS 9 will be implemented at the mandatory date on January 1, 2018, which will have an impact on the recognition and measurement of financial instruments.

#### 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.

Interest and commission on non-performing credit facilities are suspended according to PMA instructions. 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

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:

- uln the principal market for the asset or liability, or uln 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.

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.

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.

## Taxes provision

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 do 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 balances with banks and financial institutions maturing after three months and banks and financial institutions' deposits and restatement balances.

## 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 at amortized cost to estimate impairments, if any. Impairment losses are reflected in the consolidated income statement.
- End of service indemnity expense is calculated annually based on prevailing labor law and in agreement with the international accounting standards.
- 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	2014	2013
		%	%
Al Wasata	Palestine	13	13
PalPay	Palestine	15	15

:Accumulated balances of material non-controlling interest	2014	2013
	\$ .U.S	\$ .U.S
Al Wasata	571,500	503,787
PalPay	110,932	127,952
	682,432	631,739

:Profit (loss) allocated to material non-controlling interest	2014	2013
	\$ .U.S	\$ .U.S
Al Wasata	67,713	8,366
PalPay	(17,020)	(35,486)
	50,693	(27,120)

A summary of subsidiaries financial information before removing all intra-bank balances and transaction are provided below:

Summarized income statement information for the year ended December 31, 2014:

PalPay	Al Wasata	
U.S.\$	U.S.\$	
787,813	1,400,334	Revenues
(841,713)	(738,984)	General and administrative expenses
(130,942)	(61,731)	Depreciation
71,373	(78,751)	Other (expenses) revenues
(113,469)	520,868	Profit (loss) before tax
-	-	Income tax
(113,469)	520,868	Profit (loss) of the year
-	-	Other comprehensive income of the year
(113,469)	520,868	Total comprehensive income of the year

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

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

Summarized statement of financial position information as of December 31, 2014:

PalPay	Al Wasata	
U.S.\$	U.S.\$	
515,086	10,855,999	Current assets
400,914	475,675	Non-current assets
(122,058)	(6,488,430)	Current liabilities
(54,392)	(242,633)	Non-current liabilities
739,550	4,600,611	Total equity
		Attributable to:
628,618	4,029,111	Bank's shareholders
110,932	571,500	Non-controlling interests
739,550	4,600,611	

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

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

Summarized statement of cash flows information for the year ended December 31, 2014:

PalPay	Al Wasata	
U.S.\$	U.S.\$	
(194,080)	(1,362,547)	Operating activities
(51,479)	(9,044)	Investing activities
(245,559)	(1,371,591)	Decrease in cash and cash equivalents



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

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

## 5. Cash and Balances with Palestine Monetary Authority

This item comprises the following:

	2014	2013
	U.S.\$	U.S.\$
Cash on hand	159,968,658	423,520,959
Balances with PMA:		
Current and demand accounts	14,602,782	981,644
Time deposits maturing within 3 months or less	-	60,225,670
Statutory cash reserve	171,650,884	153,678,453
	346,222,324	638,406,726

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 between 0.07% and 0.10%.

## 6. Balances at Banks and Financial Institutions

This item comprises the following:

	2014	2013
	U.S.\$	U.S.\$
Local banks and financial institutions:		
Current and demand accounts	6,892	47,329
Deposits maturing within 3 months or less	29,682,652	36,734,838
	29,689,544	36,782,167
Foreign banks and financial institutions:		
Current and demand accounts	279,698,482	100,312,954
Deposits maturing within 3 months or less	248,058,582	199,862,978
Deposits maturing after 3 months	24,312,000	13,790,000
	552,069,064	313,965,932
	581,758,608	350,748,099

Non-interest bearing balances at banks and financial institutions as at December 31, 2014 and 2013 amounted to U.S. \$ 279,319,649 and U.S. \$ 100,138,431, respectively.  
Restricted balances at banks and financial institutions as at December 31, 2014 and 2013 amounted to U.S. \$ 1,132,110.

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

This item comprises investment in shares of companies listed at Palestine Securities Exchange the fair value of which amounted to U. S. \$ 7,367,695 and U.S. \$ 7,085,308 as at December 31, 2014 and 2013, respectively.

## 8. Direct Credit Facilities

This item comprises the following:

	2014	2013
	U.S.\$	U.S.\$
Retail		
Loans	385,063,243	328,288,709
Overdraft accounts	4,107,132	3,338,066
Credit cards	37,096,555	35,187,199
Current overdrafts	39,987,931	27,171,248
Corporate		
Loans	246,586,439	208,910,342
Overdraft accounts	126,105,513	121,113,875
Current overdrafts	29,014,626	34,554,674
Institutions		
Loans	11,615,374	10,363,957
Overdraft accounts	971,962	112,122
Current overdrafts	254,670	2,140,280
Public sector		
Loans	170,095,402	86,561,095
Overdraft accounts	115,317,814	258,102,308
	1,166,216,661	1,115,843,875
Suspended interest and commission	(4,383,794)	(3,938,745)
Impairment allowance for direct credit facilities	(10,007,223)	(8,264,112)
	1,151,825,644	1,103,641,018

Summary of movement on suspended interest is as follows:

	2014	2013
	U.S.\$	U.S.\$
Balance, beginning of the year	3,938,745	2,098,742
Suspended interest during the year	1,021,530	1,808,669
Suspended interest transferred to credit facilities being default for more than 6 years	(257,627)	-
Suspended interest written off	(120,744)	(31,334)
Foreign currency exchange differences	(198,110)	62,668
Balance, end of year	4,383,794	3,938,745

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

	2014	2013
	U.S.\$	U.S.\$
Balance, beginning of the year	8,264,112	6,440,340
Impairment allowance for the year	3,025,222	1,829,775
Recovered during the year	(1,319,424)	-
Credit facilities in default for more than 6 years	(558,625)	(20,172)
Impairment allowance for credit facilities written off	(103,983)	(55,052)
Foreign currency exchange differences	699,921	69,221
Balance, end of year	10,007,223	8,264,112

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

	2014	2013
	U.S.\$	U.S.\$
Balance, beginning of the year	2,674,645	2,733,903
Additions	558,625	20,172
Impairment allowance for credit facilities written off	(40,607)	(53,865)
Foreign currency exchange differences	(442,264)	(25,565)
Balance, end of year	2,750,399	2,674,645

Loans are presented net of their related interest and commission received in advance which amounted to U.S. \$ 2,879,137 and U.S. \$ 2,361,510 as at December 31, 2014 and 2013, respectively.

Downgraded direct credit facilities net of suspended interest and commissions according to PMA regulations as at December 31, 2014 and 2013 amounted to U.S. \$ 30,221,998 and U.S. \$ 25,544,192 representing (2.60%) and (2.30%) of credit facilities net of suspended interest and commissions, respectively. Defaulted credit facilities net of suspended interest and commissions as at December 31, 2014 and 2013 amounted to U.S.\$ 25,742,759 and U.S.\$ 24,439,564 representing (2.22%) and (2.20%) of credit facilities net of suspended interest and commissions, 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. \$ 4,636,087 and U.S. \$ 4,299,675 as at December 31, 2014 and 2013 and the balance of impairment allowance and suspended interest for defaulted accounts amounted to U.S.\$ 4,616,051 and U.S. \$ 4,280,650, respectively.

Direct credit facilities granted to the public sector as at December 31, 2014 and 2013 amounted to U.S. \$ 285,413,216 and U.S.\$ 344,663,403 representing (24.47%) and (30.89%) of gross direct credit facilities, respectively.

Direct credit facilities guaranteed by Palestine National Authority as at December 31, 2014 and 2013 amounted to U.S.\$ 7,362,834 and U.S.\$ 26,980,620 representing (0.63%) and (2.42%) of gross direct credit facilities, respectively.

The fair value of collaterals obtained in lieu of direct credit facilities amounted to U.S. \$ 321,833,856 and U.S. \$ 246,862,597 as at December 31, 2014 and 2013, respectively.

Credit facilities granted to non-residents amounted to U.S. \$ 4,768,919 and U.S. \$ 4,825,918 as at December 31, 2014 and 2013, respectively.

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

	2014	2013
	U.S.\$	U.S.\$
Manufacturing	57,235,956	49,195,572
Services	74,630,745	65,824,071
Retail and whole-sale	159,022,358	143,698,003
Real estate and construction	80,855,810	76,770,573
Transportation	566,107	2,000,961
Agriculture	5,799,849	6,094,595
Tourism	15,869,771	17,029,213
Financial sector	11,998,022	10,035,492
Public sector	285,144,415	344,362,091
Consumer commodities	470,709,834	396,894,559
	1,161,832,867	1,111,905,130

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

December 31, 2014				
Doubtful	Guarantor share	Outstanding balance	Granted	
U.S. \$	%	U.S. \$	U.S. \$	Type of credit facilities
4,706,393	70	9,629,599	14,725,059	Production loans
1,027,850	60	5,515,620	6,808,308	Operating loans
-	50	4,842,077	5,677,206	Development loans
-	35100-	3,795,537	5,873,487	SME loans
5,734,243		23,782,833	33,084,060	

December 31, 2013				
Doubtful	Guarantor share	outstanding balance	Granted	
U.S. \$	%	U.S. \$	U.S. \$	Type of credit facilities
5,574,399	70	7,057,823	11,769,500	Production loans
197,902	60	1,859,711	2,733,974	Operating loans
-	50	4,453,074	5,674,640	Development loans
-	35100-	5,132,522	6,165,509	SME loans
5,772,301		18,503,130	26,343,623	

## 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, 2014				
Local	5,015,813	1,193,508	243,310	6,452,631
Foreign	16,210,388	8,922	-	16,219,310
	21,226,201	1,202,430	243,310	22,671,941
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

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

	2014	2013
	U.S.\$	U.S.\$
Balance, beginning of the year	(5,159,800)	(6,222,738)
Sale of financial assets recognized directly in retained earnings	762	639,091
Change in fair value	361,145	423,847
Balance, end of year	(4,797,893)	(5,159,800)



## 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.\$
<b>December 31, 2014</b>				
Local	-	-	14,900,000	14,900,000
Foreign	86,222,823	125,520,212	-	211,743,035
	<u>86,222,823</u>	<u>125,520,212</u>	<u>14,900,000</u>	<u>226,643,035</u>
<b>December 31, 2013</b>				
Local	-	-	13,900,000	13,900,000
Foreign	41,725,928	90,968,846	-	132,694,774
	<u>41,725,928</u>	<u>90,968,846</u>	<u>13,900,000</u>	<u>146,594,774</u>

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 4.08% 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 10 years.

## 11. Investment in Associates

The details of this item are as following:

	Country of Incorporation	Owner-Ship %	December 31, 2014 U.S.\$	December 31, 2013 U.S.\$
Arab Islamic Bank	Palestine	21	13,617,662	12,750,395
The Palestinian Company for Money Transportation and Valuables and Banking Services (Aman)	Palestine	25	258,310	229,137
Abraj Co. for Development & Investment (Abraj)	Palestine	21	4,816,934	4,091,167
			<u>18,692,906</u>	<u>17,070,699</u>

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:

	2014 U.S.\$	2013 U.S.\$
Balance, beginning of the year	17,070,699	11,524,968
Additions*	753,559	488,229
Transferred from financial assets at FVTOCI**	-	4,294,126
Bank's share in the results of associates	868,648	763,376
Balance, end of year	<u>18,692,906</u>	<u>17,070,699</u>

\* Additions in 2014 represents payment in the share capital of Abraj. 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.

\*\* During 2013, the Bank 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.

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

	Arab Islamic Bank		Aman		Abraj	
	2014 U.S.\$	2013 U.S.\$	2014 U.S.\$	2013 U.S.\$	2014 U.S.\$	2013 U.S.\$
<b>The financial position of associates:</b>						
Total assets	561,908,064	469,814,701	739,092	808,476	34,502,190	32,016,251
Total liabilities	(494,178,295)	(407,482,937)	(181,716)	(362,727)	(9,890,658)	(7,272,373)
Total equity	67,769,092	62,331,764	557,376	445,749	24,611,532	24,743,878
Bank's share	14,223,251	13,089,670	139,344	111,437	5,168,421	5,196,214
Book value before adjustment	14,223,251	13,089,670	139,344	111,437	5,168,421	5,196,214
Adjustments	(605,589)	(339,275)	118,966	117,700	(351,487)	(1,105,047)
Book value after adjustment	13,617,662	12,750,395	258,310	229,137	4,816,934	4,091,167
<b>Revenues and business results:</b>						
Revenues	19,970,307	16,790,818	1,211,066	929,538	46,400	1,306,553
Operational, administrative and general expenses	(13,030,823)	(10,637,208)	(1,051,411)	(1,009,661)	(116,511)	(140,375)
Depreciation and amortization	(1,210,854)	(1,181,147)	(26,581)	(12,375)	(4,406)	(3,990)
Finance costs	-	-	-	-	(99,810)	(95,708)
Other (expenses) revenues	-	-	(16,382)	9,048	60,645	2,626,432
Income (loss) before tax	5,728,630	4,972,463	116,692	(83,450)	(113,682)	3,692,912
Tax expense	(1,598,786)	(1,462,000)	-	-	-	(220,000)
Net income (loss) of the year before adjustments	4,129,844	3,510,463	116,692	(83,450)	(113,682)	3,472,912
Adjustments	-	-	-	-	(18,664)	(2,612,211)
Net income (loss) of the year after adjustments	4,129,844	3,510,463	116,692	(83,450)	(132,346)	860,701
Bank's share	867,267	737,197	29,173	(20,862)	(27,792)	47,041

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

## 12. Property, Plant and Equipment

	Buildings and real estate	Furniture and equipment	Computers	Leasehold improvements	Vehicles	Total
2014	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
<u>Cost:</u>						
Balance, beginning of the year	27,557,594	35,641,947	6,622,721	3,095,852	2,019,711	74,937,825
Additions	4,111,442	8,334,042	164,376	276,057	118,609	13,004,526
Disposals	-	(2,060)	-	-	(54,768)	(56,828)
Balance, end of year	31,669,036	43,973,929	6,787,097	3,371,909	2,083,552	87,885,523
<u>Accumulated depreciation:</u>						
Balance, beginning of the year	4,031,842	21,398,028	6,021,725	2,492,643	1,406,312	35,350,550
Depreciation charge	417,605	3,452,951	233,674	312,118	176,886	4,593,234
Disposals	-	(993)	-	-	(38,790)	(39,783)
Balance, end of year	4,449,447	24,849,986	6,255,399	2,804,761	1,544,408	39,904,001
<u>Net book value</u>						
December 31, 2014	27,219,589	19,123,943	531,698	567,148	539,144	47,981,522
	Buildings and real estate	Furniture and equipment	Computers	Leasehold improvements	Vehicles	Total
2013	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
<u>Cost:</u>						
Balance, beginning of the year	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)
Balance, end of year	27,557,594	35,641,947	6,622,721	3,095,852	2,019,711	74,937,825
<u>Accumulated depreciation:</u>						
Balance, beginning of the year	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)
Balance, end of year	4,031,842	21,398,028	6,021,725	2,492,643	1,406,312	35,350,550
<u>Net book value</u>						
December 31, 2013	23,525,752	14,243,919	600,996	603,209	613,399	39,587,275

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, 2014 and 2013.

Property, plant and equipment include U.S. \$ 22,629,106 and U.S. \$ 18,400,724 of fully depreciated assets that are still operational as at December 31, 2014 and 2013, respectively.

## 13. Projects in Progress

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

	2014	2013
	U.S.\$	U.S.\$
Balance, beginning of the year	8,291,148	5,040,203
Additions	3,364,498	5,229,192
Transfers to property, plant and equipment	(9,383,253)	(1,978,247)
Balance, end of the year	2,272,393	8,291,148

The estimated cost to complete projects in progress is U.S. \$ 31,661,564 as at December 31, 2014.

## 14. Other Assets

This item comprises the following:

	2014	2013
	U.S.\$	U.S.\$
Prepayments	2,773,973	3,219,254
Stationery and printings	1,284,479	1,438,180
Intangible assets *	3,226,098	2,121,676
Accrued interest and commissions	2,974,481	2,201,515
Trade receivables due from subsidiaries' customers	6,270,934	3,147,068
Clearing checks	187,589	50,412
Other debit balances	2,620,339	2,128,827
	19,337,893	14,306,932

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

	2014	2013
	U.S.\$	U.S.\$
Balance, beginning of the year	2,121,676	1,656,459
Additions	1,508,275	780,849
Amortization	(403,853)	(315,632)
Balance, end of year	3,226,098	2,121,676

## 15. Palestine Monetary Authority's Deposits

This item represents PMA's deposits maturing within three months in the amount of U.S. \$ 24,086,209 and U.S. \$ 90,206,966 as at December 31, 2014 and 2013, 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.\$
<b>December 31, 2014</b>			
Local	123	-	123
Foreign	753,646	-	753,646
	<u>753,769</u>	<u>-</u>	<u>753,769</u>
<b>December 31, 2013</b>			
Local	-	79,338,470	79,338,470
Foreign	63,061,221	-	63,061,221
	<u>63,061,221</u>	<u>79,338,470</u>	<u>142,399,691</u>

## 17. Customers' Deposits

This item comprises the following:

	2014	2013
	U.S.\$	U.S.\$
Current and demand deposits	804,124,845	696,379,503
Saving deposits	601,258,207	545,553,169
Time deposits	492,143,316	413,138,761
Debit balances – temporarily credit	10,954,252	13,463,801
	<u>1,908,480,620</u>	<u>1,668,535,234</u>

Public sector deposits amounted to U.S. \$ 287,600,583 and U.S. \$ 157,900,665 representing 15.07% and 9.46% of total deposits as at December 31, 2014 and 2013, respectively.

Non-interest bearing deposits amounted to U.S.\$ 1,421,135,570 and U.S.\$ 1,258,310,308 representing 74.46% and 75.41% of total deposits as at December 31, 2014 and 2013, respectively.

Dormant deposits amounted to U.S.\$ 49,621,993 and U.S.\$ 76,416,598 representing 2.6% and 4.58% of total deposits as at December 31, 2014 and 2013, respectively.

Restricted deposits amounted to U.S.\$ 1,230,491 and U.S.\$ 1,509,786 representing 0.06% and 0.09% of total deposits as at December 31, 2014 and 2013, respectively.

## 18. Cash Margins

This item represents cash margins against:

	2014	2013
	U.S.\$	U.S.\$
Direct credit facilities	118,490,162	35,052,282
Indirect credit facilities	26,182,962	33,162,218
Others	9,370,331	8,813,531
	<u>154,043,455</u>	<u>77,028,031</u>

## 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.\$
<b>December 31, 2014</b>				
Employees' end of service provision	14,857,897	2,237,128	(290,372)	16,804,653
Lawsuits provision	1,515,580	-	-	1,515,580
	<u>16,373,477</u>	<u>2,237,128</u>	<u>(290,372)</u>	<u>18,320,233</u>
<b>December 31, 2013</b>				
Employees' end of service provision	12,254,919	2,881,585	(278,607)	14,857,897
Lawsuits provision	1,515,580	-	-	1,515,580
	<u>13,770,499</u>	<u>2,881,585</u>	<u>(278,607)</u>	<u>16,373,477</u>

## 20. Tax Provisions

Movement on tax provisions during the year 2014 and 2013 are as follows:

	2014	2013
	U.S.\$	U.S.\$
Balance, beginning of the year	57,909,375	45,310,210
Provision for the year	11,436,759	12,599,165
Paid during the year	(68,319,071)	-
Balance, end of year	<u>1,027,063</u>	<u>57,909,375</u>

Details of taxes provision is as follows:

	2014	2013
	U.S.\$	U.S.\$
Provision for the year	12,427,899	12,599,165
Prior year's taxes	334,460	-
Tax incentives discount	(1,325,600)	-
Tax expenses presented in the consolidated income Statement	<u>11,436,759</u>	<u>12,599,165</u>

During 2014, the Bank reached a tax settlement with the Ministry of Finance which included income taxes, value added tax and payroll taxes for the years from 2006 to 2012. The settlement was based on the Presidential Decree no. (18) of the year 2007 which exempted the Bank from income tax and value added tax on income generated by Gaza branches and from payroll taxes on the Bank's employees in Gaza branches. The settlement resulted in providing additional income tax in the amount of U.S. \$ 334,460 recorded in the consolidated income statement.

The Bank did not reach a final settlement with Value Added Taxes and Income Tax departments for the Bank's results of operations for the year 2013. The Bank submitted the tax declaration for 2013 on time and the tax consultant is following up on obtaining tax clearance. Actual taxes depend on the outcome of the final clearance with the tax authorities.

Reconciliation between accounting income and taxable income is as follows:

	2014	2013
	U.S.\$	U.S.\$
Accounting profit	51,659,265	53,037,996
Non-taxable income	(4,247,041)	(1,658,818)
Non-deductible expenses	7,044,958	10,374,167
Gross income subject to VAT	54,457,182	61,753,345
Net income subject to VAT*	37,261,172	42,806,590
Less: VAT	(5,139,472)	(5,904,357)
VAT on payroll	(3,766,235)	(3,428,200)
Income subject to income tax	28,355,465	33,474,033
Income tax	5,669,489	6,694,807
Provision computed for the year	10,808,961	12,599,165
Provision provided for the year	12,427,899	12,599,165
Prior year's taxes	334,460	-
Tax incentives discount	(1,325,600)	-
Tax expenses	11,436,759	12,599,165
Effective tax rate	22%	24%

\* 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.

## 21. Other Liabilities

This item comprises the following:

	2014	2013
	U.S.\$	U.S.\$
Certified checks	7,241,220	5,197,835
Taxes payable	5,808,254	19,661,927
Accounts payable	5,472,329	4,027,281
Transactions in-transit with PMA	3,453,673	2,832,882
Dividends payable	3,361,469	2,565,692
Temporary deposits	2,832,057	1,330,251
Accrued interests	2,158,932	2,428,240
Board of Directors bonuses	920,000	990,000
Due to employees' saving fund *	619,057	437,012
Others	6,089,043	4,103,075
	37,956,034	43,574,195

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 for each share 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

For 2013, the item represents the amount of general banking risk reserve deducted in accordance with PMA's regulations number (3/2013) based on 2% 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 (8/2014), the percentage of general banking risks reserve on direct credit facilities has been amended to become 1.5% for the year 2014. 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, 2014, approved dividends distribution of U.S. \$ 22,500,000, for the results of the Bank’s operations for the year 2013, as stock dividends of U.S. \$ 10,000,000 and as cash dividends of U.S. \$ 12,500,000 based on pro-rata ownership of the Bank’s shareholders in the Bank’s share capital.

The Bank’s general assembly, during its meeting held on April 26, 2013, approved dividends distribution of U.S. \$ 26,050,000, for the results of the Bank’s operations 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 Bank’s share capital.



## 25. Interest Income

This item comprises interest revenues earned on the following accounts:

	2014	2013
	U.S.\$	U.S.\$
Loans	44,377,352	37,159,067
Overdraft accounts	24,701,400	30,871,159
Current overdrafts	8,659,505	8,466,383
Financial assets	7,202,267	7,813,869
Credit cards	3,285,275	3,124,403
Balances at banks and financial institutions	3,672,256	3,344,811
Balances with PMA	244	865
	91,898,299	90,780,557

## 26. Interest Expense

This item comprises interest expense incurred on the following accounts:

	2014	2013
	U.S.\$	U.S.\$
Interest on customers' deposits		
Time deposits	11,771,190	11,137,570
Saving accounts	1,476,700	402,846
Current and demand accounts	207,970	54,455
	13,455,860	11,594,871
Interest on PMA's deposits	1,139,982	1,255,332
Interest on banks and financial institutions' deposits	1,831,824	2,007,942
	16,427,666	14,858,145

## 27. Net Commissions

This item comprises commissions against the following:

	2014	2013
	U.S.\$	U.S.\$
Commissions income:		
Direct credit facilities	9,458,703	7,264,868
Indirect credit facilities	4,032,779	4,395,812
Salaries commission	3,242,458	3,093,954
Bank transfers	3,568,128	3,652,016
Checks	3,486,647	3,200,277
Accounts management	1,848,326	1,117,245
Other banking services	2,604,117	1,778,139
	28,241,158	24,502,311
Less: Commission expense	(1,166,582)	(805,116)
	27,074,576	23,697,195

## 28. Net Gain from Financial Assets

This item comprises the following:

	2014	2013
	U.S.\$	U.S.\$
Gain (loss) from sale of financial assets at fair value through profit or loss	621	(493,767)
Dividends from investments	1,752,679	1,907,734
Unrealized (losses) gains from revaluation of financial assets through profit or loss	(404,695)	642,345
Investment management commission	(387,621)	(285,800)
	960,984	1,770,512

## 29. Other Revenues

	2014	2013
	U.S.\$	U.S.\$
Visa and Master cards issuance fees	4,947,980	4,480,496
Safe boxes rental	103,799	91,365
Recovery of tax provision no longer needed	2,844,898	-
Securities trading commissions	1,370,570	811,737
Sundry	1,432,278	1,557,483
	10,699,525	6,941,081

## 30. Personnel Expenses

	2014	2013
	U.S.\$	U.S.\$
Salaries and related benefits	24,352,922	22,527,706
Provision for employees' end of service	2,237,128	2,881,585
VAT on salaries	3,766,235	3,428,200
Bonuses and rewards	1,379,185	1,458,339
Clothing allowances	739,897	710,308
Travel and transportation	215,716	181,104
Training expenses	284,584	411,626
Medical expenses	1,464,229	1,070,571
Bank's contribution to saving fund	398,961	366,423
	34,838,857	33,035,862

### 31. Other Operating Expenses

	2014	2013
	U.S.\$	U.S.\$
Palestine Deposit Insurance Corporation *	4,759,102	100,000
Advertising	3,752,545	3,695,475
Social responsibility **	2,292,919	2,536,692
Telephone, postage and fax	1,731,175	1,684,350
Stationery and printings	1,170,849	1,215,111
Maintenance and repairs	1,995,971	1,820,499
Rent	1,377,268	1,192,527
Board of Directors bonuses	920,000	990,000
Utilities	1,494,571	1,094,262
Travel and seminars	522,565	556,672
License fees	599,597	521,337
Subscriptions fees	413,110	558,605
Fuel	774,507	650,604
Professional fees	637,875	405,952
Insurance	436,630	337,816
Cash shipping expense	740,012	638,804
Hospitality	217,418	219,808
Vehicles expense	270,830	145,103
Printing checks	201,616	119,704
Board of Directors meeting allowances	2,521	2,592
Sundry	956,473	835,647
	25,267,554	19,321,560

\* Palestine Deposit Insurance Corporation was established in accordance with Law number (7) of the year 2013. Under this law and starting from the year 2014, banks are required to accrue and account for an annual fee of %0.3 of total deposits specified by the law.

\*\* The Bank is committed to support social responsibility projects and activities in Palestine through contributions towards the development of various sectors including education, youth, innovation, sport, health and environment, culture and arts, development and economic, diaspora affairs, humanitarian effort and women empowerment. In addition, the Bank encourages its employees to engage in voluntary work by engaging them in developmental projects in cooperation with partner organizations and humanitarian initiatives.

### 32. Palestinian Monetary Authority Fines

This item represents fines imposed on the Bank during 2014 by PMA:

	2014
	U.S.\$
Non-compliance with the requirements of the Financial Follow-up Unit	28,209
Non-compliance with credit concentration and related parties credit facilities regulations	10,000
Non-compliance with regulation no. 72014/ related to banking controls	5,000
Non-compliance with timeframe of clearing internal controls observations raised during inspection	5,000
Not obtaining PMA's approval to prepare and facilitate the Bank's office in Bedya	5,000
Receiving student payments nearby the suggested location of the Bank's office in Hebron University	5,000
	58,209

### 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:

	2014	2013
	U.S.\$	U.S.\$
Cash and balances with PMA	346,222,324	638,406,726
Add:		
Balances at banks and financial institutions		
	581,758,608	350,748,099
	927,980,932	989,154,825
Less:		
Balances at banks and financial institutions		
matures in more than 3 months	(24,312,000)	(13,790,000)
PMA deposits	(24,086,209)	(90,206,966)
Banks and financial institutions' deposits	(753,769)	(142,399,691)
Statutory cash reserve	(171,650,884)	(153,678,453)
	707,178,070	589,079,715

### 34. Basic and Diluted Earnings Per Share

	2014	2013
	U.S.\$	U.S.\$
Profit for the year attributable to shareholders of the Bank	40,171,813	40,465,951
	Shares	Shares
Weighted average of subscribed shares	160,000,000	160,000,000
	U.S.\$	U.S.\$
Basic and diluted earnings per share attributable to shareholders of the Bank	0.25	0.25



## 35. Related Party Transactions

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

2014	Associates	Board of directors and executive management	Others*	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$
<u>Consolidated statement of financial position items:</u>				
Direct credit facilities	769,231	5,923,230	15,774,301	22,466,762
Deposits	898,152	570,835	9,940,395	11,409,382
<u>Commitments and contingencies</u>				
Letters of guarantees	-	607,853	153,965	761,818
Letters of credit	-	60,780	-	60,780
Unutilized limits	-	317,290	7,543,513	7,860,803
<u>Consolidated Income statement items:</u>				
Interest and commissions earned	58,627	132,879	425,135	616,641
Interest and commissions paid	-	8,263	93,086	101,349

2013	Associates	Board of directors and executive management	Others*	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$
<u>Consolidated statement of financial position items:</u>				
Direct credit facilities	1,384,615	5,924,759	15,447,461	22,756,835
Deposits	434,531	2,388,894	1,504,840	4,328,265
<u>Commitments and contingencies</u>				
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
<u>Consolidated Income statement items:</u>				
Interest and commissions earned	55,422	117,856	694,495	867,773
Interest and commissions paid	-	512	22,628	23,140
<u>Additional information:</u>				
Non-performing credit facilities	-	-	14,329	14,329
Impairment allowance on credit facilities	-	-	8,510	8,510

\* 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, 2014 and 2013 represent 1.95% and 2.06%, respectively, from the net direct credit facilities.

Net direct credit facilities granted to related parties as at December 31, 2014 and 2013 represent 12.05% and 13.68%, respectively, from the Bank's regulatory capital.

Interest on U.S. \$ direct credit facilities ranges between 2% to 14.4%.

Interest on ILS direct credit facilities ranges between 10% to 16%.

Interest on U.S. \$ deposits ranges between 0.75% to 1.25%.

Compensation of key management personnel:

	2014	2013
	U.S.\$	U.S.\$
General Manager	713,040	719,281
Executive management salaries and related benefits	1,250,485	1,231,172
Executive management end of service provision	83,459	229,942
Board of Directors' Bonuses	920,000	990,000
Board of Directors' meeting allowance	2,521	2,592

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

	2014	2013
	U.S.\$	U.S.\$
Hashim Hani Al Shawa	90,000	90,000
Faysal Ghazi Alshawa	90,000	90,000
Hani Hassan Nijim	90,000	90,000
Maher Jawad Farah	90,000	90,000
Tareq Al Shakaa	90,000	90,000
Mohammed Hirbawi	80,000	90,000
John Khoury	80,000	90,000
Mamon Abu Shahla	50,000	90,000
Abdallah Alghnim	50,000	-
Lana Abu Hajla	50,000	-
Youssef Mohamoud Nijm	40,000	90,000
Reyad Ali Zimmou	40,000	90,000
Awni Muhi Aldeen Skaik	40,000	90,000
Tariq Al Aqad	40,000	-
Total	920,000	990,000

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 2.29% and 2.45% of net income for the years 2014 and 2013, 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 the years 2014 and 2013.

The following table provides the fair value measurement hierarchy of the Bank’s assets as of December 31, 2014:

Measurement of Fair Value by					
		Total	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non- observable inputs (Level 3)
	Date of Evaluation	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 7):	December 31, 2014	7,367,695	7,367,695	-	-
Financial assets at fair value through other comprehensive income (note 9):					
Quoted	December 31, 2014	21,226,201	21,226,201	-	-
Unquoted	December 31, 2014	243,310	-	-	243,310
Units in the investment portfolio	December 31, 2014	1,202,430	-	1,202,430	-

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

Measurement of Fair Value by					
		Total	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non- observable inputs (Level 3)
	Date of Evaluation	U.S.\$	U.S.\$	U.S.\$	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	-

### 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, 2014 and 2013:

	Carrying amount		Fair value	
	2014	2013	2014	2013
	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Financial assets				
Cash and balances with PMA	346,222,324	638,406,726	346,222,324	638,406,726
Balances at banks and financial institutions	581,758,608	350,748,099	581,758,608	350,748,099
Financial assets at fair value through profit or loss	7,367,695	7,085,308	7,367,695	7,085,308
Direct credit facilities	1,151,825,644	1,103,641,018	1,151,825,644	1,103,641,018
Financial assets at fair value through other comprehensive income:				
Quoted stocks	21,226,201	20,804,796	21,226,201	20,804,796
Unquoted stocks	243,310	175,920	243,310	175,920
Investment portfolios	1,202,430	1,333,248	1,202,430	1,333,248
Financial assets at amortized cost:				
Treasury bills	86,222,823	41,725,928	86,222,823	41,725,928
Quoted bonds	125,520,212	90,968,846	122,236,222	89,353,630
Unquoted bonds	14,900,000	13,900,000	14,900,000	13,900,000
Other financial assets	10,865,754	6,477,410	10,865,754	6,477,410
Total assets	2,347,355,001	2,275,267,299	2,344,071,011	2,273,652,083
Financial liabilities				
PMA deposits	24,086,209	90,206,966	24,086,209	90,206,966
Banks and financial institutions'				
Deposits	753,769	142,399,691	753,769	142,399,691
Customers' deposits	1,908,480,620	1,668,535,234	1,908,480,620	1,668,535,234
Cash margins	154,043,455	77,028,031	154,043,455	77,028,031
Other financial liabilities	32,147,780	23,912,268	32,147,780	23,912,268
Total liabilities	2,119,511,833	2,002,082,190	2,119,511,833	2,002,082,190

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 value of net 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.

Fair values for interest bearing financial instruments were assessed by discounting expected cash flows using interest rates for items with similar terms and risk characteristics.

Fair value of credit facilities was determined through the study of different variables such as interest rates, risk factors and the debtor’s solvency. The fair value of credit facilities approximate their carrying amounts as of December 31, 2014.

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:

	2014			2013		
	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	1,640,352,467	2,424,020,315	337,828,084	1,880,776,421	2,284,984,713	258,030,124
Israel	67,831,129	-	4,746,076	39,796,928	-	675,813
Jordan	237,505,696	-	19,492,850	130,538,472	-	882,150
Europe	266,879,722	-	14,012,288	207,524,272	57,499,353	21,284,792
USA	56,901,697	-	160,450	16,725,451	-	2,344,633
Others	155,303,250	753,646	15,849,716	72,684,399	5,561,877	13,002,736
Total	2,424,773,961	2,424,773,961	392,089,464	2,348,045,943	2,348,045,943	296,220,248
By sector						
Retail	457,821,873	982,759,438	206,081,706	388,681,890	885,123,013	113,870,377
Corporate, institutions and Public sector	694,003,771	1,088,841,534	186,007,758	714,959,128	860,440,252	176,226,677
Treasury	1,206,157,002	24,839,977	-	1,182,219,570	232,606,657	-
Others	66,791,315	328,333,012	-	62,185,355	369,876,021	6,123,194
Total	2,424,773,961	2,424,773,961	392,089,464	2,348,045,943	2,348,045,943	296,220,248

39. 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

	2014	2013
	U.S.\$	U.S.\$
Consolidated statement of financial position items		
Balances with PMA	186,253,666	214,885,767
Balances at banks and financial institutions	581,758,608	350,748,099
Direct credit facilities:		
Retail	457,821,873	388,681,890
Corporate and institutions	409,299,593	371,123,582
Public sector	284,704,178	343,835,546
Financial assets at amortized cost	226,643,035	146,594,774
Other assets	10,865,754	6,477,410
	2,157,346,707	1,822,347,068
Commitments and contingencies		
Letters of guarantees	146,158,635	148,317,718
Letters of credit	25,464,919	20,419,707
Acceptances	25,288,727	17,770,417
Unutilized credit facilities limits	195,177,183	109,712,406
	392,089,464	296,220,248

## Credit risk exposure for each risk rating

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

	December 31, 2014			
	Retail	Corporate and institutions	Public sector	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Low risk	3,218,299	53,357,551	284,704,178	341,280,028
Acceptable risk	445,058,084	345,272,757	-	790,330,841
From which is due:				
Until 30 days	121,339	12,984,423	-	13,105,762
Watch list	1,971,031	2,508,208	-	4,479,239
Non-performing:				
Substandard	4,573,387	2,543,845	-	7,117,232
Doubtful	11,434,060	10,866,223	709,038	23,009,321
Total	466,254,861	414,548,584	285,413,216	1,166,216,661
Suspended interest and commissions	(2,104,157)	(2,010,836)	(268,801)	(4,383,794)
Impairment allowance for credit facilities	(6,328,831)	(3,238,155)	(440,237)	(10,007,223)
	457,821,873	409,299,593	284,704,178	1,151,825,644
	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

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

December 31, 2014	December 31, 2014			
	Retail	Corporate and institutions	Public sector	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Collaterals against:				
Low risk	1,841,128	20,019,328	79,283,153	101,143,609
Acceptable risk	19,871,827	186,112,875	-	205,984,702
Watch list	711,630	448,953	-	1,160,583
Non-performing:				
Substandard	1,361,901	1,966,373	-	3,328,274
Doubtful	4,349,414	5,867,274	-	10,216,688
Total	28,135,900	214,414,803	79,283,153	321,833,856
Comprising :				
Cash margins	11,464,934	27,742,075	79,283,153	118,490,162
Precious metals	119,972	662,953	-	782,925
Quoted stocks	103,077	5,449,489	-	5,552,566
Vehicles and equipment	8,037,879	12,969,356	-	21,007,235
Real estate	8,410,038	167,590,930	-	176,000,968
	28,135,900	214,414,803	79,283,153	321,833,856
	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



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

	Palestine	Arab Countries	Israel	Europe	USA	Others	Total
2014	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Cash and balances with PMA	186,253,666	-	-	-	-	-	186,253,666
Balances at banks and financial institutions	29,682,652	206,623,903	67,095,177	239,875,119	37,760,431	721,326	581,758,608
Direct credit facilities	1,147,056,725	3,764,056	735,952	134,887	117,717	16,307	1,151,825,644
Financial assets at amortized cost	14,900,000	111,782,131	-	26,869,716	19,023,549	54,067,639	226,643,035
Other financial assets	10,865,754	-	-	-	-	-	10,865,754
Total as at December 31, 2014	1,388,758,797	322,170,090	67,831,129	266,879,722	56,901,697	54,805,272	2,157,346,707
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

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

	Financial	Industrial	Commerce	Real estate	Financial securities	Public sector	Others	Total
2014	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Cash and balances with PMA	186,253,666	-	-	-	-	-	-	186,253,666
Balances at banks and financial institutions	581,758,608	-	-	-	-	-	-	581,758,608
Direct credit facilities	11,998,022	56,788,752	155,752,916	79,497,117	-	284,704,178	563,084,659	1,151,825,644
Financial assets at amortized cost	77,129,608	3,900,000	-	-	90,867,823	-	54,745,604	226,643,035
Other financial assets	-	-	-	-	-	-	10,865,754	10,865,754
Total as at December 31, 2013	857,139,904	60,688,752	155,752,916	79,497,117	90,867,823	284,704,178	628,696,017	2,157,346,707
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

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

	2014		2013	
	Increase in interest rate	Interest income sensitiv-ity (consolidated income statement)	Increase in interest rate	Interest income sensitiv-ity (consolidated income statement)
Currency	(basis points)	U.S.\$	(basis points)	U.S.\$
US Dollar	+ 10	749,725	+ 10	632,025
Jordanian Dinar	+ 10	128,344	+ 10	141,968
Israeli Shekels	+ 10	274,222	+ 10	119,054
Other currencies	+ 10	16,432	+ 10	18,389

Interest rate re-pricing sensitivity gap

December 31, 2014	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 1 year	More than a year	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
<b>Assets</b>						
Cash and balances with PMA	-	-	-	-	346,222,324	346,222,324
Balances at banks and financial institutions	255,700,464	22,426,495	24,312,000	-	279,319,649	581,758,608
Financial assets at fair value through profit or loss	-	-	-	-	7,367,695	7,367,695
Direct credit facilities	442,217,118	52,426,933	80,183,083	134,900,834	442,097,676	1,151,825,644
Financial assets at fair value through other comprehensive income	-	-	-	-	22,671,941	22,671,941
Financial assets at amortized cost	1,501,542	7,052,439	7,256,927	17,162,954	193,669,173	226,643,035
Investment in associates	-	-	-	-	18,692,906	18,692,906
Property, plant and equipment	-	-	-	-	47,981,522	47,981,522
Projects in progress	-	-	-	-	2,272,393	2,272,393
Other assets	-	-	-	-	19,337,893	19,337,893
Total Assets	699,419,124	81,905,867	111,752,010	152,063,788	635,766,849	2,424,773,961
<b>Liabilities</b>						
PMA deposits	24,086,209	-	-	-	-	24,086,209
Banks and financial institutions' deposits	753,769	-	-	-	-	753,769
Customers' deposits	319,722,705	86,252,622	32,462,033	43,935,789	4,971,901	1,421,135,570
Cash margins	-	-	-	-	154,043,455	154,043,455
Sundry provisions	-	-	-	-	18,320,233	18,320,233
Tax provisions	-	-	-	-	1,027,063	1,027,063
Other liabilities	-	-	-	-	37,956,034	37,956,034

Total Liabilities	344,562,683	86,252,622	32,462,033	43,935,789	4,971,901	1,632,482,355	2,144,667,383
<b>Equity</b>							
Paid-in share capital	-	-	-	-	-	160,000,000	160,000,000
Additional paid-in capital	-	-	-	-	-	9,034,692	9,034,692
Statutory reserve	-	-	-	-	-	32,023,745	32,023,745
Voluntarily reserve	-	-	-	-	-	147,932	147,932
General banking risks reserve	-	-	-	-	-	19,249,207	19,249,207
Pro-cyclicality reserve	-	-	-	-	-	27,849,613	27,849,613
Fair value reserve	-	-	-	-	-	(4,797,893)	(4,797,893)
Retained earnings	-	-	-	-	-	35,916,850	35,916,850
	-	-	-	-	-	279,424,146	279,424,146
Non-controlling interests	-	-	-	-	-	682,432	682,432
Total Equity	-	-	-	-	-	280,106,578	280,106,578
Total liabilities and equity	344,562,683	86,252,622	32,462,033	43,935,789	4,971,901	1,912,588,933	2,424,773,961
Interest rate re-pricing sensitivity gap	354,856,441	(4,346,755)	79,289,977	108,127,999	630,794,948	(1,168,722,610)	-
Cumulative gap	354,856,441	350,509,686	429,799,663	537,927,662	1,168,722,610	-	-

<b>December 31, 2013</b>							
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 1 year	More than a year	Non-interest bearing items	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Total assets	439,740,201	47,743,986	82,665,655	395,833,141	594,458,885	787,604,075	2,348,045,943
Total liabilities and equity	493,314,168	66,303,197	35,611,258	49,744,505	4,032,780	1,699,040,035	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	-	-



## 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:

	2014		2013	
	Increase in currency rate	Effect on consolidated income statement	Increase in currency rate	Effect on consolidated income statement
Currency	(%)	U.S.\$	(%)	U.S.\$
ILS	+10	(29,497)	+10	297,796
Other currencies	+10	54,186	+10	27,787

Following is the foreign currencies position of the Bank:

	JOD	ILS	Others	Total
December 31, 2014	U.S.\$	U.S.\$	U.S.\$	U.S.\$
<b>Assets</b>				
Cash and balances with PMA	51,721,606	172,406,424	7,243,896	231,371,926
Balances at banks and financial institutions	164,617,732	129,683,445	91,033,210	385,334,387
Financial assets at fair value through profit or loss	6,101,379	-	-	6,101,379
Direct credit facilities	89,509,364	324,197,965	12,562,840	426,270,169
Financial assets at fair value through other comprehensive Income	16,210,388	-	-	16,210,388
Financial assets at amortized cost	84,012,145	-	4,286,979	88,299,124
Other assets	1,865,594	-	1,808,705	3,674,299
<b>Total Assets</b>	<b>414,038,208</b>	<b>626,287,834</b>	<b>116,935,630</b>	<b>1,157,261,672</b>
<b>Liabilities</b>				
PMA deposits	-	451,377	23,634,832	24,086,209
Banks and financial institutions' deposits	372,663	-	-	372,663
Customers' deposits	404,118,646	591,621,486	88,229,583	1,083,969,715
Cash margins	8,472,291	18,794,401	4,000,699	31,267,391
Other liabilities	2,820,540	15,715,539	528,660	19,064,739
<b>Total Liabilities</b>	<b>415,784,140</b>	<b>626,582,803</b>	<b>116,393,774</b>	<b>1,158,760,717</b>
Statement of financial position concentration	(1,745,932)	(294,969)	541,856	(1,499,045)
Commitments and contingencies	19,649,761	149,615,478	19,712,842	188,978,081
	JOD	ILS	Others	Total
December 31, 2013	U.S.\$	U.S.\$	U.S.\$	U.S.\$
<b>Total assets</b>	<b>349,383,137</b>	<b>812,856,350</b>	<b>71,840,949</b>	<b>1,234,080,436</b>
<b>Total liabilities and Equity</b>	<b>353,923,045</b>	<b>809,878,391</b>	<b>71,563,076</b>	<b>1,235,364,512</b>
Statement of financial position concentration	(4,539,908)	2,977,959	277,873	(1,284,076)
Commitments and contingencies	18,561,435	65,772,083	19,812,712	104,146,230

## 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:

	2014			2013	
	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	736,770	501,581	708,531	486,051
Foreign markets	+10	-	1,621,039	-	1,594,464

### 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.

The table below summarizes the assets and liabilities on the basis of the remaining contractual maturities as at December 31, 2014 and 2013, respectively:

December 31, 2014	U.S.\$	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.\$	U.S.\$
<b>Assets</b>									
Cash and balances with PMA	174,571,440	-	-	-	-	-	-	171,650,884	346,222,324
Balances at banks and financial institutions	533,888,003	22,426,495	24,312,000	-	-	-	-	1,132,110	581,758,608
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	7,367,695	7,367,695
Direct credit facilities	128,186,539	61,377,205	103,070,391	260,349,884	330,772,549	268,069,076	-	-	1,151,825,644
<b>Financial assets at fair value through other comprehensive income</b>									
Financial assets at amortized cost	1,501,542	7,052,439	7,256,927	17,162,954	64,358,778	129,310,395	-	22,671,941	226,643,035
Investment in associates	-	-	-	-	-	-	-	18,692,906	18,692,906
Property, plant and equipment	-	-	-	-	-	-	-	47,981,522	47,981,522
Projects in progress	-	-	-	-	-	-	-	2,272,393	2,272,393
Other assets	10,865,754	-	-	-	-	-	-	8,472,139	19,337,893
<b>Total assets</b>	<b>849,013,278</b>	<b>90,856,139</b>	<b>134,639,318</b>	<b>277,512,838</b>	<b>395,131,327</b>	<b>397,379,471</b>	<b>280,241,590</b>	<b>2,424,773,961</b>	
<b>Liabilities:</b>									
PMA deposits	24,086,209	-	-	-	-	-	-	-	24,086,209
Banks and financial institutions' deposits	753,769	-	-	-	-	-	-	-	753,769
Customers' deposits	418,550,298	170,819,318	412,890,615	345,510,348	377,645,997	183,064,044	-	-	1,908,480,620
<b>Equity</b>									
Paid-in share capital	-	-	-	-	-	-	-	160,000,000	160,000,000
Additional paid-in capital	-	-	-	-	-	-	-	9,034,692	9,034,692
Statutory reserve	-	-	-	-	-	-	-	32,023,745	32,023,745
Voluntarily reserve	-	-	-	-	-	-	-	147,932	147,932
General banking risks reserve	-	-	-	-	-	-	-	19,249,207	19,249,207
Pro-cyclicality reserve	-	-	-	-	-	-	-	27,849,613	27,849,613
Fair value reserve	-	-	-	-	-	-	-	(4,797,893)	(4,797,893)
Retained earnings	-	-	-	-	-	-	-	35,916,850	35,916,850
Non-controlling interests	-	-	-	-	-	-	-	279,424,146	279,424,146
Total equity	-	-	-	-	-	-	-	682,432	682,432
Total liabilities and equity	475,538,056	250,102,471	419,338,245	352,893,717	429,462,606	192,176,738	-	280,106,578	2,424,773,961
Maturity gap	373,475,222	(159,246,332)	(284,698,927)	(75,380,879)	(34,331,279)	205,202,733	(25,020,538)	-	-
Cumulative gap	373,475,222	214,228,890	(70,470,037)	(145,850,916)	(180,182,195)	25,020,538	-	-	-



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 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.\$	U.S.\$
<b>Assets</b>								
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
<b>Total assets</b>	<b>928,157,831</b>	<b>57,784,754</b>	<b>93,086,334</b>	<b>214,401,992</b>	<b>548,174,494</b>	<b>249,452,059</b>	<b>256,988,479</b>	<b>2,348,045,943</b>
<b>Liabilities:</b>								
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
<b>Total liabilities</b>	<b>985,252,585</b>	<b>240,309,697</b>	<b>178,437,024</b>	<b>156,105,131</b>	<b>429,553,315</b>	<b>12,424,438</b>	<b>93,944,779</b>	<b>2,096,026,969</b>

<b>Equity</b>								
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	-	-

## 40. Maturities of Assets and Liabilities

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

	December 31, 2014			
	Up to 1 year	More than 1 year	Without maturity	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$
<b>Assets</b>				
Cash and balances with PMA	174,571,440	-	171,650,884	346,222,324
Balances at banks and financial institutions	580,626,498	-	1,132,110	581,758,608
Financial assets at fair value through profit or loss	-	-	7,367,695	7,367,695
Direct credit facilities	552,984,019	598,841,625	-	1,151,825,644
Financial assets at fair value through other comprehensive income	-	-	22,671,941	22,671,941
Financial assets at amortized cost	32,973,862	193,669,173	-	226,643,035
Investment in associates	-	-	18,692,906	18,692,906
Property, plant and equipment	-	-	47,981,522	47,981,522
Projects in progress	-	-	2,272,393	2,272,393
Other assets	10,865,754	-	8,472,139	19,337,893
<b>Total Assets</b>	<b>1,352,021,573</b>	<b>792,510,798</b>	<b>280,241,590</b>	<b>2,424,773,961</b>
<b>Liabilities</b>				
PMA deposits	24,086,209	-	-	24,086,209
Banks and financial institutions' deposits	753,769	-	-	753,769
Customers' deposits	1,347,770,579	560,710,041	-	1,908,480,620
Cash margins	93,114,152	60,929,303	-	154,043,455
Sundry Provisions	-	-	18,320,233	18,320,233
Tax provisions	-	-	1,027,063	1,027,063
Other liabilities	32,147,780	-	5,808,254	37,956,034
<b>Total Liabilities</b>	<b>1,497,872,489</b>	<b>621,639,344</b>	<b>25,155,550</b>	<b>2,144,667,383</b>
<b>Equity</b>				
Paid-in share capital	-	-	160,000,000	160,000,000
Additional paid-in capital	-	-	9,034,692	9,034,692
Statutory reserve	-	-	32,023,745	32,023,745
Voluntarily reserve	-	-	147,932	147,932
General banking risks reserve	-	-	19,249,207	19,249,207
Pro-cyclicality reserve	-	-	27,849,613	27,849,613
Fair value reserve	-	-	(4,797,893)	(4,797,893)
Retained earnings	-	-	35,916,850	35,916,850
	-	-	279,424,146	279,424,146
Non-controlling interests	-	-	682,432	682,432
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>280,106,578</b>	<b>280,106,578</b>
<b>Total Liabilities and Equity</b>	<b>1,497,872,489</b>	<b>621,639,344</b>	<b>305,262,128</b>	<b>2,424,773,961</b>
Maturity gap	(145,850,916)	170,871,454	(25,020,538)	-
Cumulative maturity gap	(145,850,916)	25,020,538	-	-

	December 31, 2013			
	Up to 1 year	More than 1 year	Without maturity	Total
	U.S.\$	U.S.\$	U.S.\$	U.S.\$
<b>Assets</b>				
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
<b>Total Assets</b>	<b>1,293,430,911</b>	<b>797,626,553</b>	<b>256,988,479</b>	<b>2,348,045,943</b>
<b>Liabilities</b>				
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
<b>Total Liabilities</b>	<b>1,560,104,437</b>	<b>441,977,753</b>	<b>93,944,779</b>	<b>2,096,026,969</b>
<b>Equity</b>				
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
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>252,018,974</b>	<b>252,018,974</b>
<b>Total Liabilities and Equity</b>	<b>1,560,104,437</b>	<b>441,977,753</b>	<b>345,963,753</b>	<b>2,348,045,943</b>
Maturity gap	(266,673,526)	355,648,800	(88,975,274)	-
Cumulative maturity gap	(266,673,526)	88,975,274	-	-



41. 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	2014	Other	2013	Total
	U.S.\$	U.S.\$	U.S.\$		U.S.\$		U.S.\$
Gross revenues	40,292,426	69,017,755	14,557,355		14,015,369	137,882,905	128,357,036
Impairment allowance for direct credit facilities	(2,046,316)	(978,906)	-		-	(3,025,222)	(1,829,775)
Recovery of impairment allowance for direct credit facilities	1,242,374	77,050	-		-	1,319,424	-
Segment results	30,048,302	62,780,801	11,585,549		12,848,783	117,263,435	110,864,000
Unallocated expenses						(65,604,170)	(57,826,004)
Profit before taxes						51,659,265	53,037,996
Taxes expense						(11,436,759)	(12,599,165)
Profit for the year						40,222,506	40,438,831
Other segment information:							
Depreciation and amortization						4,997,087	4,581,007
Capital expenditures						8,494,046	9,238,026

Total segment assets	457,821,873	694,003,771	1,206,157,002	66,791,315	2,424,773,961	2,348,045,943
Total segment liabilities	982,759,438	1,088,841,534	24,839,977	48,226,434	2,144,667,383	2,096,026,969

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	
	2014	2013	2014	2013	2014	2013
	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$
Gross revenues	127,244,862	117,888,329	10,638,043	10,468,707	137,882,905	128,357,036
Total assets	1,640,352,467	1,880,776,421	784,421,494	467,269,522	2,424,773,961	2,348,045,943
Capital expenditures	8,494,046	9,238,026	-	-	8,494,046	9,238,026

42. 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. \$ 10 million and U.S. \$ 16 million during 2014 and 2013, respectively, through stock dividends making up capital to reach U.S. \$ 160 million and U.S. \$ 150 million as of December 31, 2014 and 2013, respectively.

The capital adequacy ratio is computed in accordance with the PMA’s regulations derived from Basel Committee regulations. The following are the capital adequacy rates for 2014 compared to 2013:

	2014			2013		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S.\$	%	%	U.S.\$	%	%
Regulatory capital	186,827,481	7.7	13.11	166,318,565	7.08	13.95
Basic capital	225,829,884	9.3	15.85	206,840,318	8.81	17.35

43. Commitments and Contingent Liabilities

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

	2014	2013
	U.S.\$	U.S.\$
Letters of guarantees	146,158,635	148,317,718
Letters of credit	25,464,919	20,419,707
Acceptances	25,288,727	17,770,417
Unutilized credit facilities limits	195,177,183	109,712,406
	392,089,464	296,220,248

Outstanding forward contracts as at December 31, 2014 amounted to U. S. \$ 3,962,347, which are hedged with other banks, in addition to obtaining cash margin ranging from 5% to 10% from contract value to cover unforeseen price changes and customers’ non-compliance with the signed contracts.

## 44. Lawsuits Against the Bank

The number of lawsuits filed against the Bank as at December 31, 2014 and 2013 was (40) and (35) in the normal course of business with a total amount of U.S. \$ 11,529,284 and U.S. \$ 6,765,167, respectively. Bank's management and lawyer believe that provision made against these litigations is sufficient (Note 19).

## 45. Concentration of Risk in Geographical Area

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

## 46. 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 customers regardless of their location.
- Develop the Bank's computer systems and information technology.
- Provide training opportunities for the Bank's employees at different levels.

## 47. Comparative Figures

Certain corresponding figures for 2013 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.