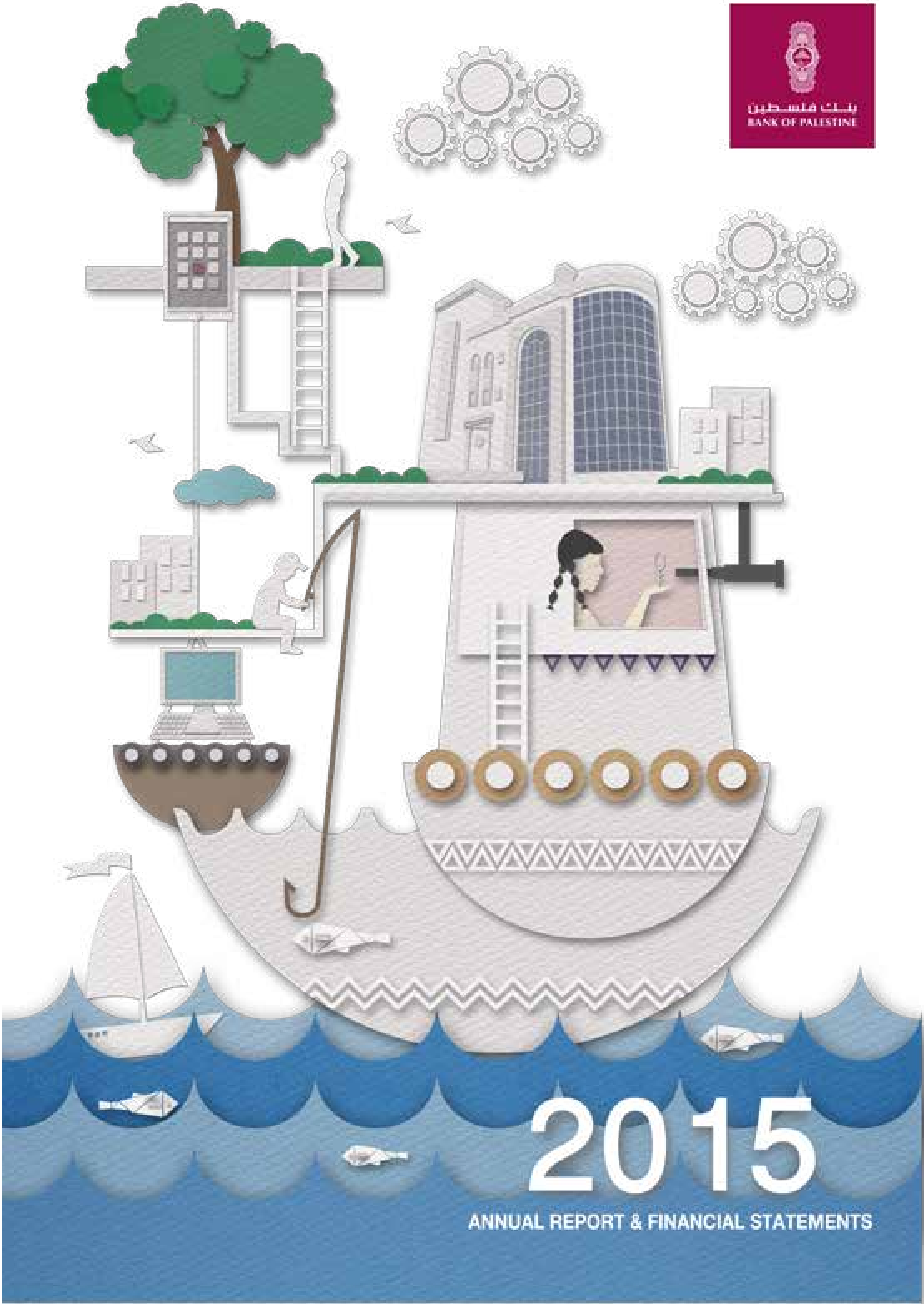
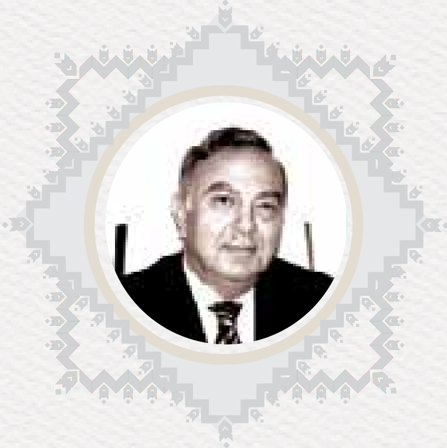
بنك فلسطين
BANK OF PALESTINE



2015

ANNUAL REPORT & FINANCIAL STATEMENTS

The late Hashem Atta Al Shawwa, early founder of the Bank; and the one who held it through different turmoil's and time periods, giving it the innate attributes of resilience and entrenched values.



The late Dr. Hani Hashem Al Shawwa, former Chairman, whose legacy of sound management and modernity in banking we are still upholding today, giving the bank a road map towards an inclusive vision and a sustainable strategy.

Sustaining Growth & Financial Inclusion

About the Bank

Bank of Palestine (BOP) is the first and largest bank with a well diversified branch network of 57 branches in Palestine, and a paid up capital of USD 175 million and total assets of over USD 2.78 billion. Established in 1960, BOP has successfully expanded its presence and operations throughout the country and now has around 1,405 employees serving 750,000 customers. BOP has around 23.23 % and 23.84 % market share of deposits and loans in Palestine. Operating as a universal bank, BOP is engaged in retail, corporate, SME and Micro, and Diaspora banking operations, with the largest card processing operations in Palestine.

As part of its strategy to sustain growth and financial inclusion BOP has been very active in promoting the SME Finance and Micro Finance sector in Palestine and the bank dedicated 200 million dollars to finance SMEs. Bank of Palestine's credit facilities to MSMEs increased by 33% in 2015 compared with 2014.

The Bank has increased outreach to support women inclusion in its banking services through "felestineya" program which includes credit facilitation and business trainings for women entrepreneurs and also increasing number of women employees at the Bank.

BOP is the sole agent for issuing and acquiring Visa and MasterCard in Palestine with around 5,900 Point of Sale merchant terminals nationwide.

In the past few years, and in cooperation with the International Finance Corporation (IFC), BOP was the first bank in Palestine to develop an integrated risk management structure, systems, procedures, and processes, as well as promoted and strengthening the bank's corporate governance practices. Bank of Palestine adopts a holistic sustainability strategy and has been the leader in Corporate Social Responsibility (CSR) in Palestine dedicating 6% of its net profit to community & human development.

The bank equally pays attention to its human resource development involving staff in continued exposure to know how and skill development and has continued to push within its employment policies reaching a target of having 6% of its total employee base from segments of population with special needs.

Bank of Palestine's stock (PEX: BOP) has been listed on the Palestine Exchange (PEX) since 2005. It is among the market's leading 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 nonbank clients a unique service, enabling them to pay utility bills and top up mobile phone credit using the bank's 5,900 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, Global Finance, Emeafinance and The Banker as the "Best Bank in Palestine".

TABLE OF CONTENTS

International Awards:

Sustaining an Award Winning Performance…

- Euromoney Award for Excellence – Best Bank in Palestine
- Global Finance – Best Bank in Palestine
- Global Finance – Best Trade Finance Bank in Palestine
- Emeafinance - Best CSR program in the Middle East
- Emeafinance – Best Bank in Palestine
- Emeafinance – Best CEO in the Middle East
- Emeafinance – Best Bank in the Middle East in Financial Inclusion
- The Banker – Best Bank in Palestine
- Asiamoney – Best Bank in Palestine
- CPI Financial/Banker ME – Best Bank in Palestine
- Middle East Investor Relations Society – Best Company for Investor Relations in Palestine
- Middle East Investor Relations Society – Best IR professional 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

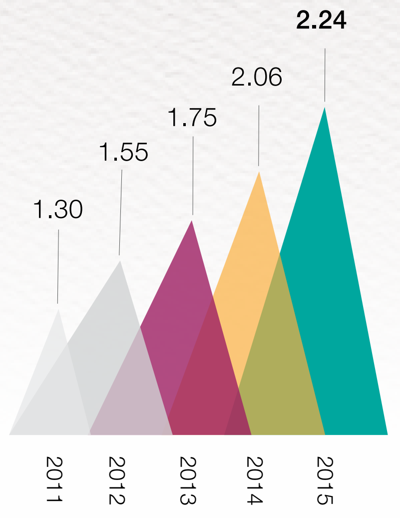
Our performance was recognized as Palestine's largest financial services provider with the most presence in branch network; and the strictest adherence to Global Banking Standards; while serving local needs with sustained financial inclusion

23.23%
Market share in deposits

23.84%
Market share in loans

Customer Deposits

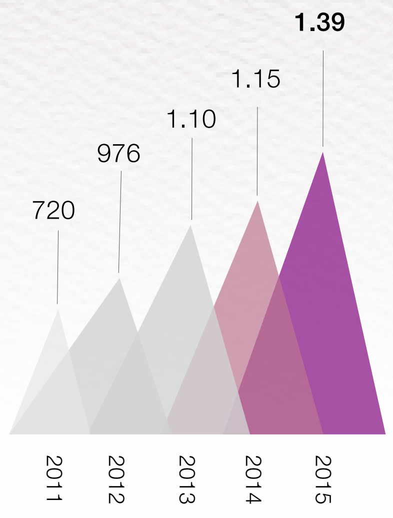
USD 2.24 billion



Customer deposits at USD 2.24 billion, up by 8.74% from USD 2.06 billion at the end of 2014

Loans

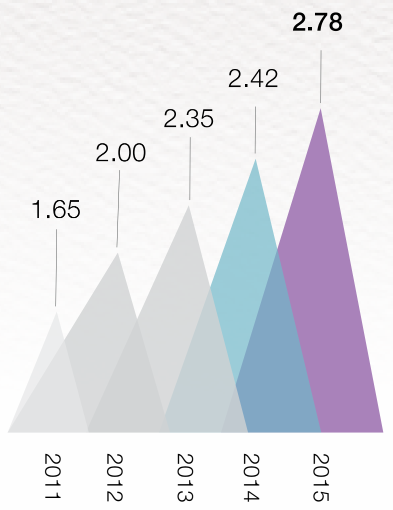
USD 1.39 billion



Loans at USD 1.39 billion, up by 20.57% compared to USD 1.15 billion at the end of 2014

Total assets

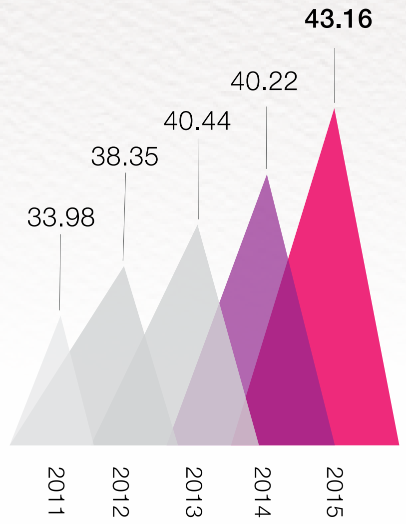
USD 2.78 billion



Total assets up 14.86% at USD 2.78 billion compared with USD 2.42 billion at the end of 2014

Net profit

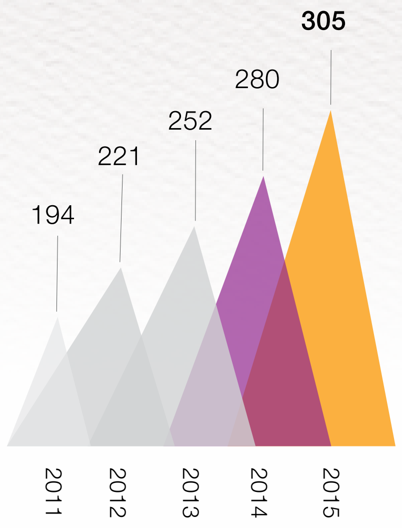
USD 43.16 million



Net profit of USD 43.16 million for the year 2015 with a 7.32% increase compared to 2014.

Total shareholders equity

USD 305 million



Total shareholders' equity reached USD 305.75 million, an increase of 9.16%, compared with USD 280 million in 2014

Hashim Shawa
Chairman of the Board
& General Manager

Dear Shareholders

On behalf of the Board of Directors of Bank of Palestine, its Executive Management and the entire Bank of Palestine family, I would like to present the Annual Report for the bank's operations and financial results for the year ending December 31/12/2015.

The Bank has managed to maintain another year of sustainable growth and financial inclusion. This has been the hallmark of the Bank's strategy throughout 2015, entrenching our status as the largest bank in Palestine with an expanding footprint and surpassing market indicators. We have done so, while adhering to sustainability principles in management, bearing responsibility, employing a prudent risk management strategy while providing value to our various stakeholders, starting with our shareholders, our customers, our staff, our suppliers and the overall community in Palestine.

The overall situation in Palestine, has remained static politically presenting a challenging economic landscape. The Bank has adapted itself to withstand this environment focusing on banking essentials, values, and sustainability; making use of market gaps through a strong adherence to financial inclusion. Our operational and financial results reported growth across all indicators. The bank achieved an operating income of USD 136,787,234 in 2015, compared with USD 120,288,657 for the same period in 2014, reflecting an increase of 13.7% This has allowed the bank's net profit to reach USD 43,167,433, achieving a 7.32% increase in comparison with USD 40,222,506 in 2014.

Adhering to the strategy of growth via financial inclusion, we have paid attention in 2015 to the economic base of the country; the Micro, Small and Medium Enterprises MSMEs and increased our overall loan portfolio to USD 1,388,805,441 with a marked increase of 20.57%; contributing to productivity and employment generation among this large engine of the economy. We have done this while preserving a Non Performing Loan Ratio of only 1.7%. A special campaign dedicating USD 200 million towards MSME has been the thrust of this effort in 2015 raising the percentage of credit to this segment to 33 % compared to 2014. We expect the allocation of MSMEs in our loan portfolio to become significant.

In support of the financial inclusion strategy, Bank of Palestine pioneered a special program "Felestineya" in 2015 focusing on economic and social empowerment for women both at the bank and in the market place. The program provided access to more women jobs at the bank including senior positions; raising the number of women employees to 32%. The program through novelty interventions such as the Mini-MBA in partnership with the IFC enabled skill set training in financial and nonfinancial knowhow allowing women to gain immediate access to finance and the confidence to create their own businesses while providing them with collateral free loans and "gold guaranteed" loans.

Customer satisfaction had remained our primal concern. The bank's customer deposits reached USD 2,242,782,298 at the end of 2015, marking an increase of 8.74% compared with USD 2,062,524,075 at the end of 2014. The bank's team worked hard to ensure their customer outreach is inclusive and expansive via increasing the branch network foot print inside Palestine to 57 branches; in addition to launching E-banking, E-commerce services intended to deliver online banking interface; in addition to the very dynamic new mobile banking application allowing customer experience to be elevated using mobile phones to transfer to accounts, transfer to a friend and pay bills. Plastic cards Business has also grown with market share on the rise again in 2015.

Other financial indicators that were equally indicative of the growth strategy were; total assets grew by %14.86 reaching USD 2,785,203,240 compared with USD 2,424,773,961 at the end of 2014. The Bank's total shareholders› equity reached USD 305,756,304 with an increase of 9.16% compared with 280,106,578 in 2014.

The bank'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 61.92 % indicating the bank's ability to further lending, the Liquid Assets Ratio is 37%, and the Capital Adequacy Ratio is 14.56%.

Diaspora Relations

Bank of Palestine's growth strategy was not confined to its home operations. The bank has embarked on creating footprints in key markets with Palestinian diaspora and business clusters. It has opened its first representative office in the International Financial Center (DIFC) in Dubai, UAE in pursuit of providing services to Palestinian Diaspora communities in the region and working with Palestine based corporate entities to meet their expanding financial services' needs domestically and abroad. Our Diaspora unit has expanded and continues to explore more opportunities to connect Palestine and its important diaspora communities in the region, Europe, the Americas and Australia.

Investor Relations and Dividends

Investor relations continues to be proactive, maintaining communications and disclosing periodic financial results, informing shareholders of main events. While also recruiting new investors into the bank's shares in order to keep a healthy & diversified shareholder base. In 2015, the bank distributed USD 34,200,000 from realized profits in 2014 to shareholders; USD 15 million as stock dividends - raising the bank's paid-up capital to USD 175 million - and USD 19,200,000 as cash dividends.

Subsidiary Operations

The bank's subsidiary PalPay® – Palestine Payments – was very active and successful during 2015. The number of electronic transactions conducted during the year through PalPay® reached more than 12 million, an increase of 29% 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 2015 PalPay® continued to build upon special system for the UN's World Food Program (WFP), which provided them with an innovative e-voucher solution that will enable them to seamlessly provide their stakeholders with the necessary assistance.

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 29% market share in terms of number of investors, USD 372 million trading volume in local regional markets, and more than USD 470 million worth of shares under management. In 2015, Al-Wasata won the EMEA Finance and the Global Investor ISF awards for Best Broker in Palestine for the third consecutive year

Human Resources

These results were enabled because of the dedication of hard working staff and empowered executive team. The bank under its sustainability practices not only continues to provide skill set training to its staff, but remains vigilante about meeting its quota to hire 6% of staff from the handicapped.

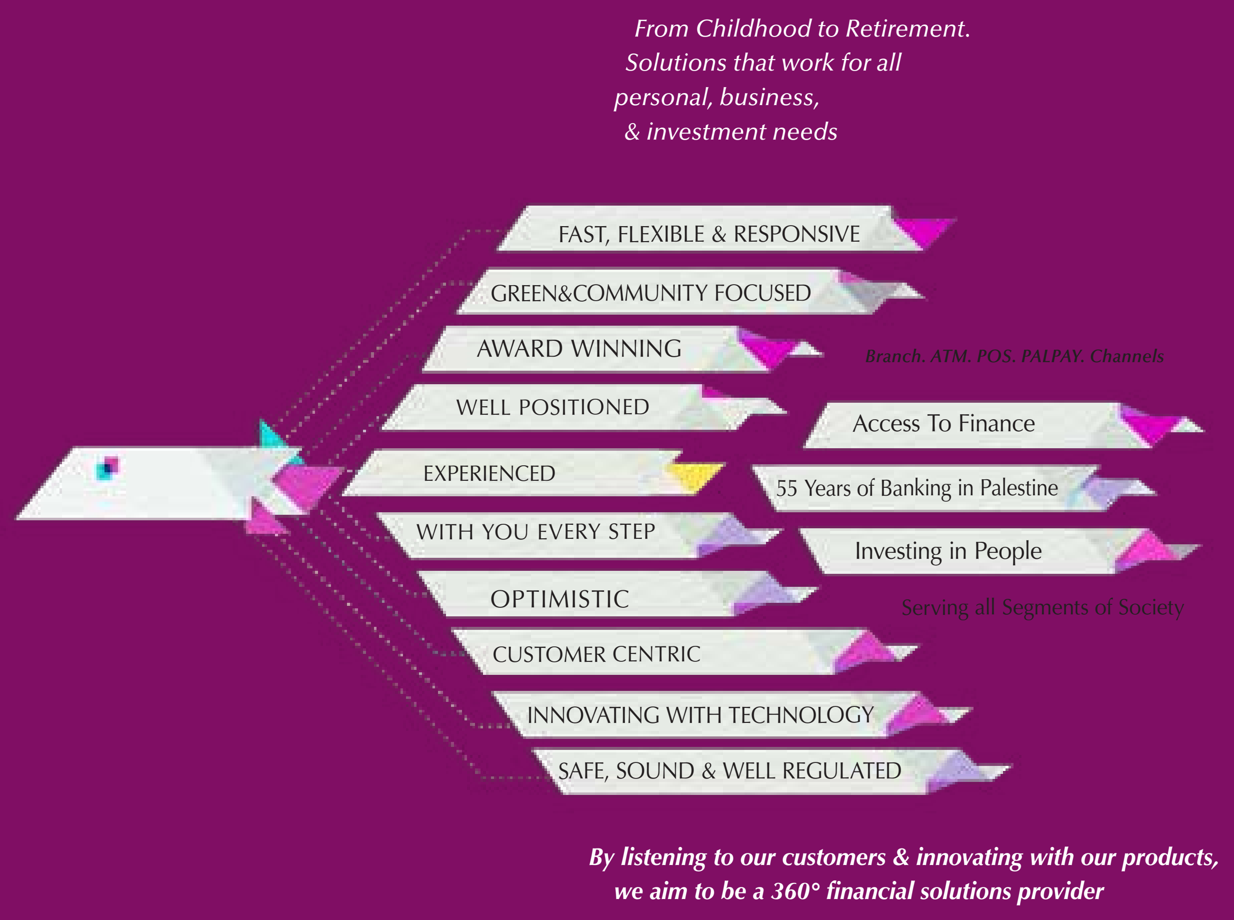
Values

Our sustainability practices also include a strategic commitment to community investments and services as part of our collective social responsibility. Up to 6% of gross profit has went to finance various community investments in education, health, sports, economic empowerment, culture, emergency and humanitarian relief.

Appreciation to our Stakeholders & Shareholders

As we bid farewell to another year of sustainable growth, we remain appreciative to all our stakeholders including the Palestinian Monetary Authority, the banking regulators. Key is our shareholders trust; which has enabled us to embark upon growth strategies both at home and abroad while we explore more innovations and opportunities to provide our banking services with confidence and international standards, building sustained shareholder value.

Hashim Shawa
Chairman and General Manager



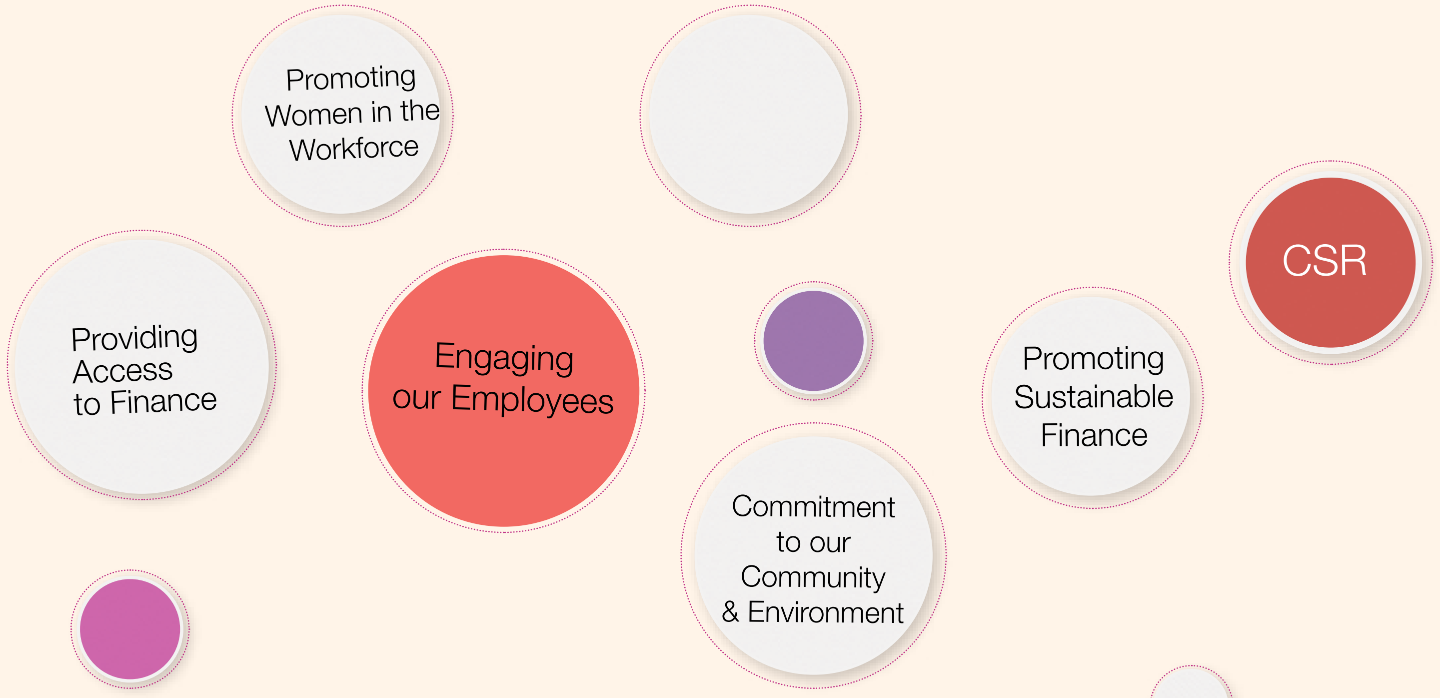
Management Discussions & Analysis

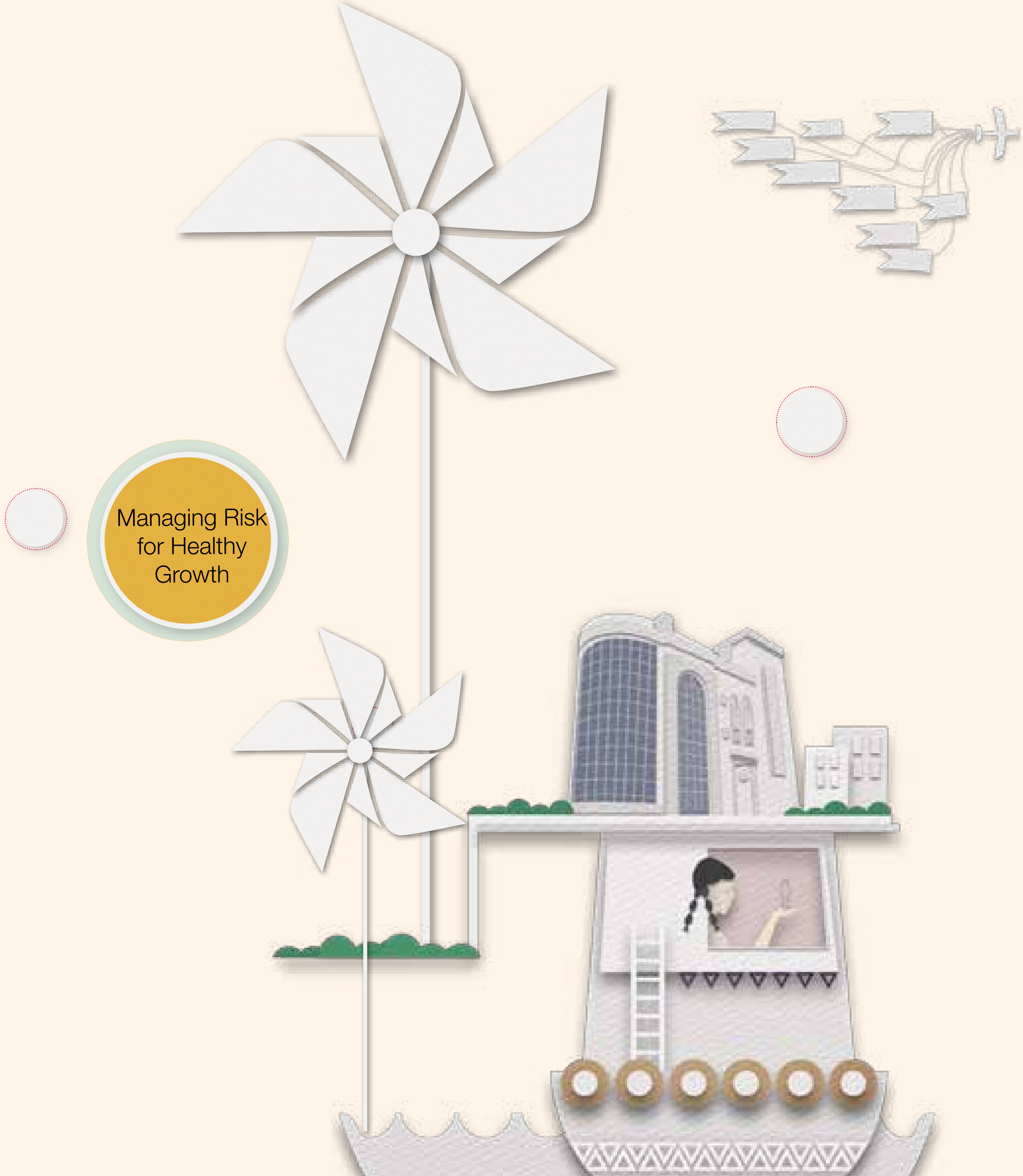
Strategy:

Bank of Palestine has adopted a dual strategy of sustaining growth and financial inclusion, making use of market gaps and niche market characteristics. Our executive management has continued to drive operations towards achieving a sustainable profitable growth despite operating in an adverse environment riddled with conflict and uncertainty. This has been attributed to operating with internal prudence, risk mitigation, governance, compliance and operating within International banking regulations working hand in hand with Palestinian regulators and international financial partners. The focus on inclusion via loans to SMEs, women, and enhanced Electronic customer Services has been an important platform for growth.

Future Outlook:

We continue to view the future outlook with confidence and prudence. Palestine remains endowed with a young population with 70% of the population under the age of 34 years, presenting an opportunity for the bank to service a wave of new comers to its customer base that will demand more online and mobile banking. Palestine is also deprived of 70% of its land and natural resources, whereby, future development of these lands and resources will also constitute new opportunities for growth and economic activity. Palestine is also bracing the advent after many years of deprivation of 3G Technology, providing ability for the bank to penetrate more customers using its mobile banking applications who are using smart phones powered with this technology. The bank will build on the strategy direction, seeking more partnerships and expansion. The bank will strive to inaugurate its second representative office outside Palestine after Dubai in the Chilean Capital, Santiago towards the last part of 2016, providing more impetus to its diaspora and international operations. In the next year, the bank is intent to bring into its spectrum of services; Islamic banking solutions; in addition to mainstream banking services provided by the mother entity at BOP.





Adopting a holistic strategy in our quest for

Sustainability

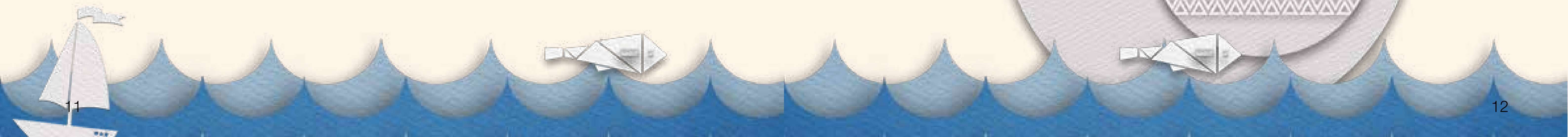
Social and environmental responsibility has been an integral part of the way Bank of Palestine operates since the bank was founded in 1960. Today, it is more important than ever before as we operate within a sustainable strategy meeting our economic mission while also showing responsibility to society in Palestine.

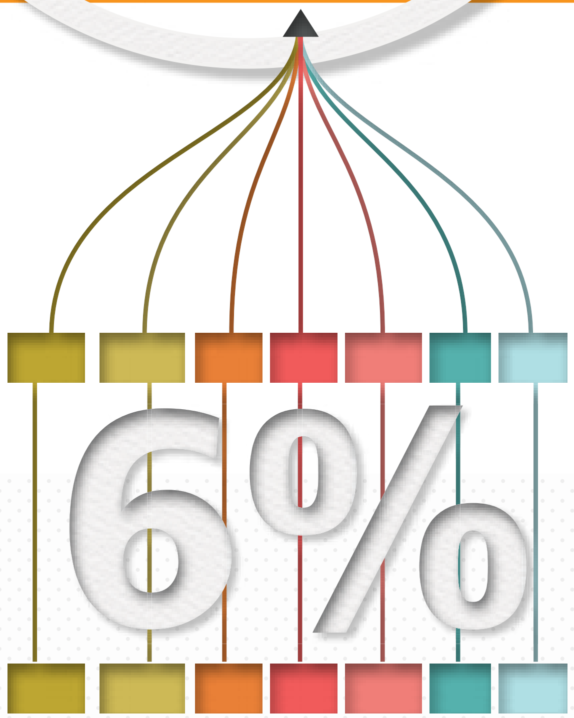
Bank of Palestine has been implementing an all-encompassing sustainability strategy, because we believe that true progress begins with social and economic development at a community level. Out of strong, stable communities will grow sustainable businesses, and sustainable businesses will help strengthen 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 support the banking community relations, reputation and value system.

By adopting a shared approach, the bank can be an influential contributor to economic and social progress. We have achieved certain milestones but strive to increase sustainability practices that are measurable as well:

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





Investments & Social Responsibility:

The bank is built on a value system that adheres to corporate governance, sustainability practices and community investments to create in addition to shareholder value; community impact as part of along respected social responsibility role. With the elevation of the social responsibility budget from the initial 1% of annual profits reaching 6% in 2015, more weight has been given to sustaining this responsibility in order to support the community with more impact and more value added. The bank is now looking for long term partnerships with community entities and social causes providers that are providing important social interventions. Often these interventions are in conformity with UN Global Compact principles enhancing the environment, access to information, skills and gender and human rights. Our community partners are recognized entities that are often part of international organizations dealing with subject matters ranging from Entrepreneurship, Art & Culture, Sports, Well Being, Education and the Environment. We often find synergies between our financial inclusion programs and Community partners in order to complete the circle of shared values. In 2016 we shall be looking for more concrete partnerships towards gearing our CSR budgets into dynamic Social Investments.

The risk management function at Bank of Palestine aims to establish a process to effectively identify, measure, manage, control and monitor risks faced by the Bank. The goal is to manage these risks to enhance the risk-return profile of the Bank's balance sheet by ensuring that risks:

- Remain within the approved risk appetite of the Bank as articulated by the Board of Directors (BoD) and embedded in the Bank's policies and procedures by way of risk limits;
- Are underwritten to increase long term shareholder value of the Bank and to protect other stakeholders including customers, suppliers, employees, investors, and the Palestine Monetary Authority (PMA).
- Are correlated with the profitability targets set by the Board and pursued by the business lines. The objective is an optimization of the risk return trade off within the boundaries set by the Board through the approved risk appetite.
- Are accurately and timely reflected in the Bank's risk reports enabling stakeholder to take adequate management decisions
- Risk management does not mean risk avoidance. Risks are an intrinsic part of banking business. BoP accepts risk-taking as part of its strategy to both create and preserve value, but the bank expects financial and non-financial returns commensurate with the risk.
- The following principles underlie the risk governance structure of BoP, and the risk management framework generally:
- The Risk Management Function is an independent function from any other units which have operational or business related responsibilities. Independence does not imply isolation, but quite the contrary, risk management, front office and back office support functions should be in close communication ensuring that risks are managed effectively throughout the Bank.
- Risk Management shall use its own independent information sources for prices and financial information (i.e. MIS/Business Objects ,Bloomberg, rating reports, audited financials).
- Risk Management shall be involved in the review of new products and services from the design phase and in any case pre-approval.
- Furthermore, Risk Management may propose means to optimise the risk adjusted return profile of the Bank, such as optimisation of liquidity and Credit Risk i.e. recommending certain portfolio allocations
- The methodologies and tools developed/ acquired by the Risk Management Department shall consider the 'principle of proportionality' by which it is acknowledged that BoP operates under a business environment of low to medium complexity and thus may be in a position to adequately manage risks by applying simpler yet robust methods.
- Risk Managment represents the 'second line of defence' in the control system of the Bank, having a clear role in ensuring effectiveness of controls in the first line (i.e. business units' controls).

Board Responsibilities

The Risk Management 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 Committee (BRC). 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 formally reviews the Risk Management Framework and the risk profile of the Bank at least annually or as internal or external events may dictate.

Responsibilities of the Board in relation to risk management include the following:

- Develops business strategy based on which a financial and risk budgets are drafted, including capital planning (ICAAP)
- Approves Risk Management Policies for the Bank and articulates risk appetite as part of the Risk Management Policies including risk tolerances and limits
- Establishes the risk governance structure as part of the Risk Management Policies
- Reviews significant risk issues highlighted by Board Risk Committee
- Delegates relevant authority to Board Risk Committee for ongoing review of the effectiveness of the Risk Management Framework
- Reports to shareholders on risk management as part of the annual report.
- The Board delegates responsibility to the Board Risk Committee (BRC) for the following:
- Ensure development and implementation of the Bank's risk management framework
- Review of risk management effectiveness and follow up of remedial actions
- Review of the risk profile of the Bank at least quarterly through the risk management reporting package prepared by the Risk Management Function
- Review Risk Management Policies at least annually and recommend changes, if required
- Ongoing oversight and monitoring of the Bank's material risk exposures
- Monitor compliance with Bank risk management policies, PMA regulations and any other external risk management requirements
- Approval of the appointment of the Chief Risk Officer and senior risk officers and of the risk management organizational charter.
- Executive Risk Management Committee (ERC)/ Assets and Liabilities Committee:
- ALCO in Bank of Palestine fulfills the role of an executive risk committee with a main emphasis on credit, operational, liquidity , Interest Rate risk and Market Risk. The risk monitoring function fulfilled by the ALCO is to provide insight to ALCO members about latest developments in BOP Risk Profile.
- Responsibilities of the ERC/ALCO include the following:
- Review Risk Management Framework (policies, processes, reports, methodologies) at least annually
- Keep the Bank within the agreed risk profile as defined in the Policies, approved by the Board, and recommend corrective action in case deviations form Policy are noticed
- Analyze RM reports and formulate management action points with the aim of keeping the Bank within agreed risk limits and/or optimising the risk structure of the Bank
- Oversee identification, assessment and management of Bank-wide material risks, including without limitation credit risk, operational risk, liquidity and interest rate risk of the Bank (specific reporting content is detailed in the relevant sections below)
- Yearly review the risk budget and capital plan in conjunction with the financial budget
- Consider the impact of changes in market, economic, political and competitive environments on the Bank's risk profile
- Monitor and review PMA guidelines and formulate compliance guidelines and timelines
- Report to the Board Risk Committee on all material matters arising from its review

- Develop risk awareness at all management and staff levels and assist Risk Management Function in developing a risk management culture in Bank of Palestine.
- Initiate/oversee a formal training program on Risk Management to the entire bank staff
- Review risk management policies before Board approval
- Review and discuss of large transactions, products, policies and procedures with an impact on the risk profile of the banks before the final approval of the board.

Risk Management Departments

The Risk Management Function, 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 management policies and procedures
- Develops risk management processes, methodologies, and reporting tools
- Monitors and reports the Bank's overall risk profile, as part of Board Risk Committee/ ALCO reporting
- Monitors compliance with risk policies and procedures (in coordination with the Compliance function)
- Preforms pre- and post-approval reviews of specific transactions as defined under specific risk management policies.
- Performs process based risk assessments and reports and results and recommendations to BRC/ALCO
- Supports the organization risk culture through development of a common risk language and Bank-wide risk training and support
- Provides interpretation of risk-related regulations and leading practices, and disseminates to business units
- Provides training to Branches and other business units on how to manage risks and tighten controls
- Review of large transactions, products, policies and procedures with an impact on the risk profile of the banks before the final approval.

Business Unit Responsibilities:

- As noted herein, the day-to-day risk management lies with the main risk takers which are the Branches or the HO business units Their responsibilities include the following:
- Identify, assess, measure, monitor and report various risks within their business lines
- Assess the effectiveness of controls in their daily processes as well as design, operate and monitor a suitable system of control (including without limitation segregation of duties, four eye principles, system controls etc)
- Recommend business proposals that meet the risk appetite as set out in these Policies
- Report risk issues and incidents " Operational Risk Losses" to the RMD on a regular basis

BOP has continued implementing its risk management strategy by enhancing the governance structure through having an active Risk committee and a Risk management function, and Compliance department 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, working in tandem with International Banking compliance requirements and local national regulatory requirements.

Palestine Monetary Authority

Palestine enjoys a strong regulatory environment especially in the banking sector. The Palestine Monetary Authority (PMA) has introduced Basel II instructions to banks operating in Palestine in 2015. Moreover the bank is enhancing its information security policies and procedures to be compliant with ISO 27001/2 information security standards. In 2015 the Palestinian President has also officially decreed Palestinian Anti Money Laundering (AML) and CTF laws strengthening the legal environment in Palestine to combat all illegal activities.

The Palestine Exchange (PEX)

The Palestine Exchange (PEX); 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. It is the first fully- automated stock exchange in the Arab world and the only Arab exchange that was fully owned by the private sector.

The PEX operates under the supervision of the Palestine Capital Market Authority (PCMA). 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 19 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 49 listed companies trade on PEX as of 31 December 2015, with market capitalization of about USD 3.30 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 on the watch list of the Financial Times (FTSE) for possible inclusion in their frontier market indices in September 2016. During 2015, PEX launched its E-disclosure system "IFSAH" to streamline the disclosure process of both listed and member companies, seeking to obtain the full membership of the World Federation of Exchanges (WFE), it also increased its market depth through a stream of new listings, and authorized four new custodian banks. It also conducted several workshops and seminars in the context of its investor education program.

Total Assets	2011	2012	2013	2014	2015
Banking Sector	9, 110, 234, 260	9,797,014,817	11,195,285,474	11,542,029,652	**12,602,347,774**
BOP	1, 653, 960, 732	2,004,494,095	2,348,045,943	2,424,773,961	**2,785,203,240**
Deposits					
Banking Sector	6, 972, 474, 546	7,484,129,223	8,306,247,172	8,935,342,947	**9,654,597,508**
BOP	1, 296, 568, 931	1,554,493,702	1,745,563,265	2,062,524,075	**2,242,782,298**
Loans					
Banking Sector	3,487,055,390	4,111,307,849	4,480,286,185	4,895,882,595	**5,824,694,875**
BOP	720, 173, 048	976,394,928	1,103,641,018	1,151,825,644	**1,388,805,441**

Perectage Growth in Deposits and Loans (Year on Year)

Deposits	2011	2012	2013	2014	2015
Banking Sector	3.0%	7.3%	10.98%	7.57%	**8%**
BOP	3.6%	19.9%	12.29%	18.16%	**8.74%**

Loans	2011	2012	2013	2014	2015
Banking Sector	24.0%	17.9%	8.97%	9.28%	**19%**
BOP	32.1%	35.6%	13.03%	4.37%	**20.57%**

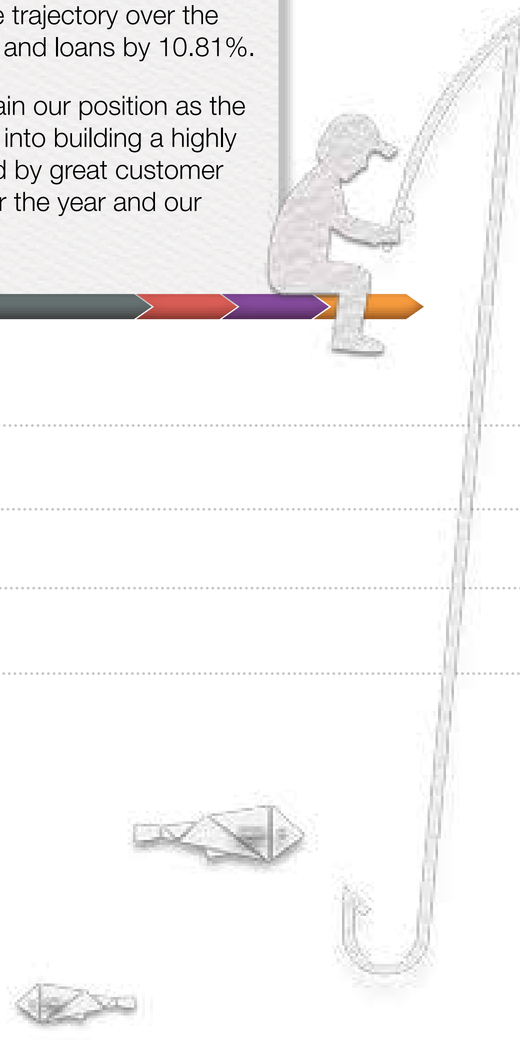
The Palestinian Banking Sector

Fifteen banks operate within Palestine, seven of which are Palestinian. The growth potential for the banking sector in Palestine is very promising. There are currently 274 branches that serve the entire Palestinian population of 4.75 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 via banking services and financial inclusion.

Bank of Palestine's potential for growth is strong. During 2015, the banking sector assets increased by 8%, deposits by 8%, and loans by 19%. Looking at the trajectory over the last five years, assets have increased by 6.70%, deposits by 6.73%, and loans by 10.81%.

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, and new partnerships which is reflected both in our results for the year and our positive outlook for the future.



Banking on Growth

Bank of Palestine continues to be Palestine's leading bank in terms of presence and branch network, and has further pursued its strategic plans to provide services to both urban and rural areas, to be present wherever we are most needed, providing wider access to finance and transacting services. Bank of Palestine now has 57 branches out of a total of 274 total bank branches in Palestine.

In 2015, three new sub-branches were opened; Nablus-Tulkarem Street sub-branch in the Nablus governorate, Industrial sub-branch in Gaza Strip, and Bedo sub-branch in Jerusalem Governorate. We also continued expanding and refurbishing our existing branches and sub-branches to keep up with the increase in our customer base and their needs, and to provide them with a comfortable environment.

With fast growing demand on banking products in unbanked regions and traditional centers of commerce, and an emerging youthful population, our strategy aims to satisfy the world standard of a maximum of 10,000 customers per branch. As such we aim to continue expanding our branch network, not only in pursuit of business but in fulfillment of financial inclusion to all customers and all regions.

Number of Employees

Headquarters | 399 employees

- 57 Branches
- 117 ATMs
- 5,914 POS
- 1,405 Employees
- 749,849 Customers

Diaspora Banking

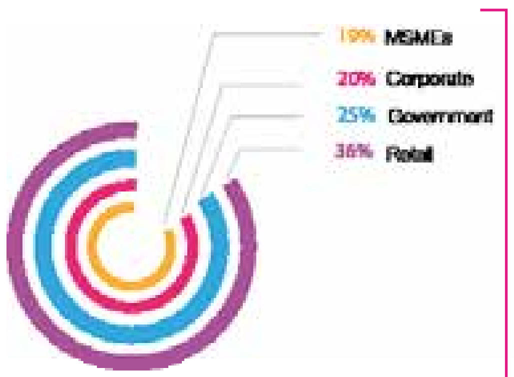
Internationally, Bank of Palestine remains cognizant of its duty to also serve the more than 7.6 million Palestinians living in the diaspora an estimated total GDP of USD 80 billion. In addition to serving investors who are keen to do business with Palestine through offices outside Palestine. The Diaspora unit was established four years ago with the aim of building these business relationships; while offering a range of services, including retail and corporate banking, business advisory services, investment and brokerage services for those who wish to invest in Palestine, with a dedicated team facilitating and presenting those services to our Diaspora community.

We have continued our efforts this year to connect with the Palestinian Diaspora through a variety of special roadshows while seeking to open Representative Offices in key Hubs. To this end, Bank of Palestine has been granted in 2015 an approval for opening its first representative office in Dubai at the Dubai International Financial Centre (DIFC) aiming to serve the UAE and wider GCC region (home to more than 300 thousand Palestinians), the bank has also submitted the application to the Central Bank in Santiago, Chile (home to about 500,000 Palestinians), to open a representative office serving Chileans of Palestinian origin with evolving connections with their original home Palestine.

Financial Inclusion

MSMEs Banking

Credit portfolio



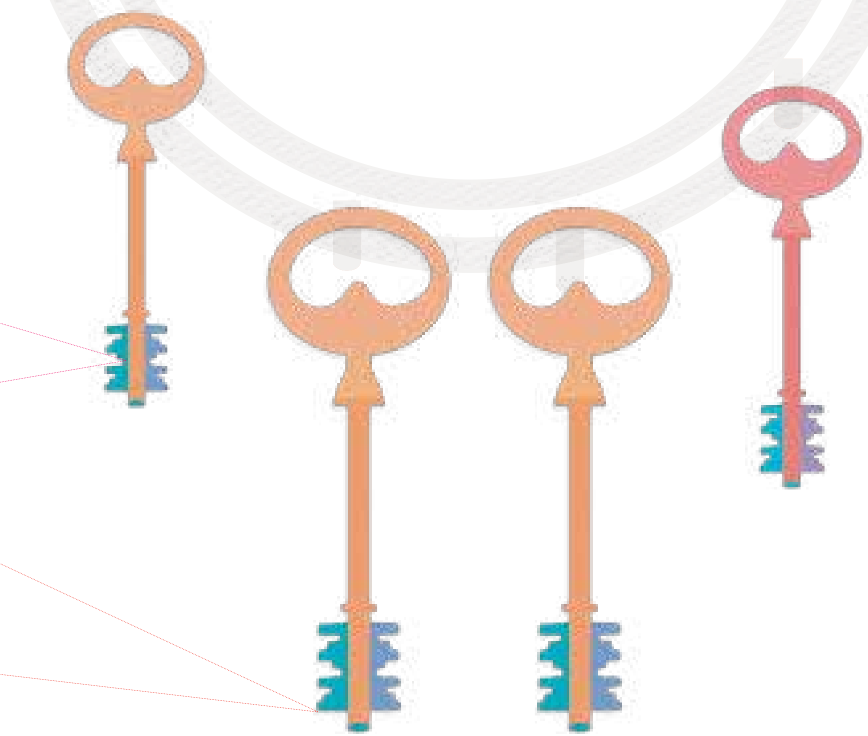
USD1.38 B

Bank of Palestine has continued to focus on financing and supporting micro, small, and medium sized enterprises (MSMEs), given the fact they are the engine of growth in an emerging economy like Palestine, and they contribute to reducing unemployment and increasing labor force productivity. According to the Palestinian Ministry of National Economy, 87% of the Palestinian workforce is employed in the MSME sector in Palestine. This focus is a strategic commitment of the Bank in line with its efforts at sustaining growth in business and growth in financial inclusion during the year 2015 Around 140,000 formal SMEs currently exist in Palestine. Compared with other markets, the SME sector is very stable and promising in Palestine and the demand for SME financing is expected to increase 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 business in Palestine. Despite their primay 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, in addition to active contribution to financial inclusion.

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 33% in 2015compared with 2014, and this was a result of the marketing campaign launched in 2015 as the bank dedicated USD 200 million to finance SMEs. the International Finance Corporation (IFC) estimated the financing gap for the MSME segment in Palestine at around USD 900 million. The latest campaign focusing on MSMEs is our thrust to raise the credit to this segment of the Palestinian society and Economy. This has raised the percentage of MSME lending to 19% from total loan portfolio.

While we continued focusing on providing access to finance the engine of the Palestinian economy – our Micro, Small and Medium Enterprises (MSMEs)-, we are keen to provide both banking and non-financial advisory services to SMEs and women in business to support their growth and development.

We launched the "Business Toolkit website" to support the growth and development of SMEs and women in business by providing tools and advisory services that help them advance their business and increase the chances to succeed. This strategy not only a success the bank achieving growth in its services but contributes to creating employment in order to stir growth in the national economy as well.

Felestinya

As part of the bank's strategy to provide access to finance to all segments of society, BOP continued working on restructuring and designing a full banking program for women in order to meet their needs through banking and non-financial advisory services. 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.

Bank of Palestine pioneered in 2015 a special program "Felestineya" focusing on economic and social empowerment for women both at the bank and in the market place. The program provided access to more women jobs at the bank including senior positions; raising the number of women employees to 32% (compared with 17% in 2007). We are also proud to have a female board member joined us last year. We also conducted several financial awareness sessions for a total of 900 female participants last year. The program through novelty interventions such as the Mini-MBA in partnership with the IFC enabled skill set training in financial and non-financial knowhow allowing women to gain immediate access to finance, marketing skills and other disciplines and the confidence to either create their own businesses or better manage existing business. The Felestinya program for women also featured loans without collateral and accepting gold collateral from women as well to facilitate their financial inclusion.

During 2015, we continued developing our Non-Financial Services offerings, these included: the online business toolkit mentioned before, where MSMEs can access to download different business related templates in the areas of business planning, marketing, human resources, and many others.

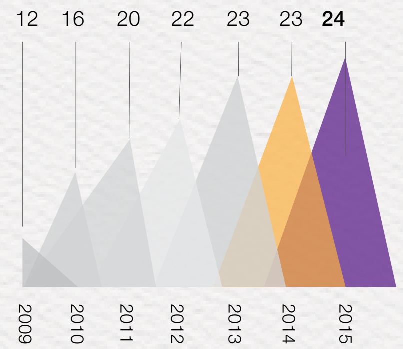
In recognition of the bank's concrete and sustained effort in financial inclusion and especially towards women via the myriad of women programs the bank was awarded as Best Bank in the Middle East for Financial Inclusion by emeafinance in 2015.

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. Points of sales for the various cards business increased to 5,900 in 2015, a 10% compared to 2014.

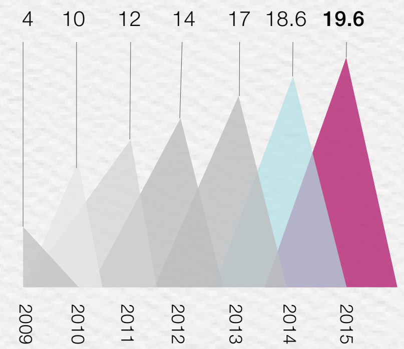
In 2015, Bank of Palestine continued to introduce kiosk machines that allow clients to conduct their banking transactions electronically, in addition to ATM machines in all the main branches that accept cash and check deposits. Moreover, in line with the bank's environmental policies, Bank of Palestine installed solar energy systems to operate its ATMs in different locations. ATMs grew by 5% to reach a total of 117.

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. We are also very proud that our ATM and POS network remained in operational during periods of closures and curfews providing people with the means to access their accounts to purchase food, medicine, and other necessities.

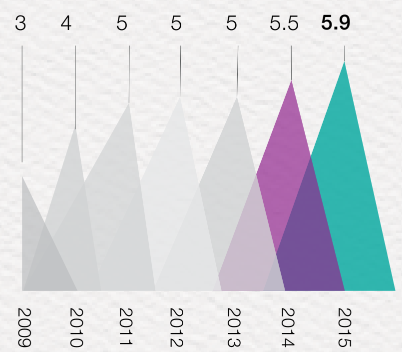
Credit Cards- thousands



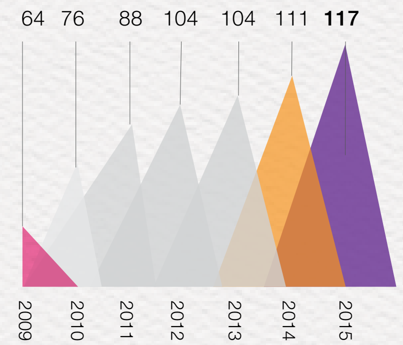
Easy Life Installment Cards Issued- thousands



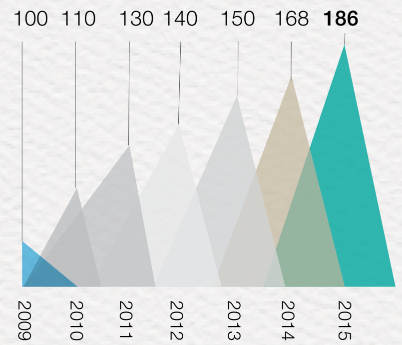
POS Merchant Terminals (POS)- thousands



ATMs



Visa Electron Cards Issued- thousands

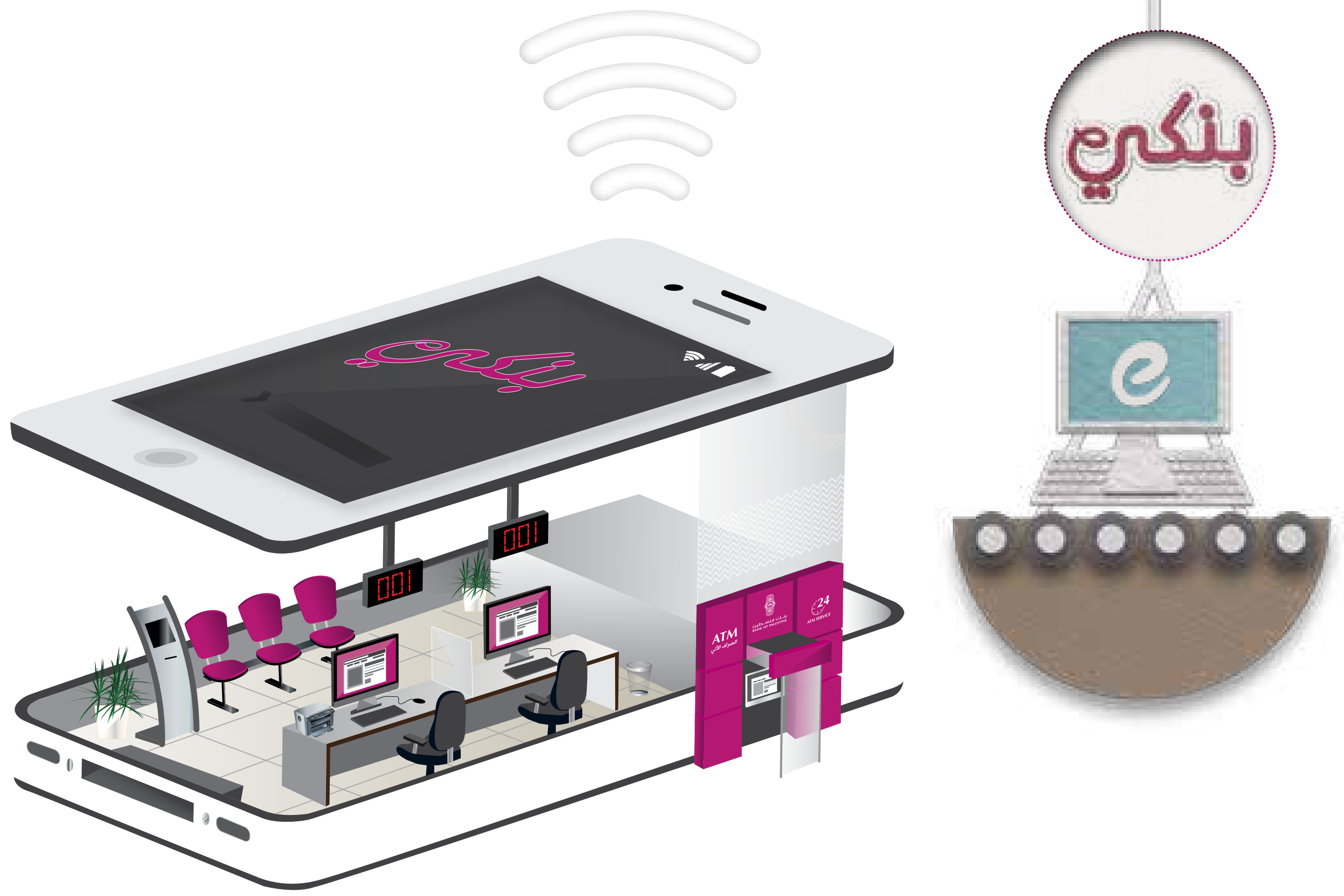


Electronic & Mobile Banking Channels

An E-Commerce platform was also introduced in 2015 to allow businesses and traders to use their plastic cards to and pay transactions via their internet sites with safety and security, saving on time and ease of transfers. This allows users of VISA and Master Card to use this service from any region after the installation of 3D secure identification system.

Mobile Banking

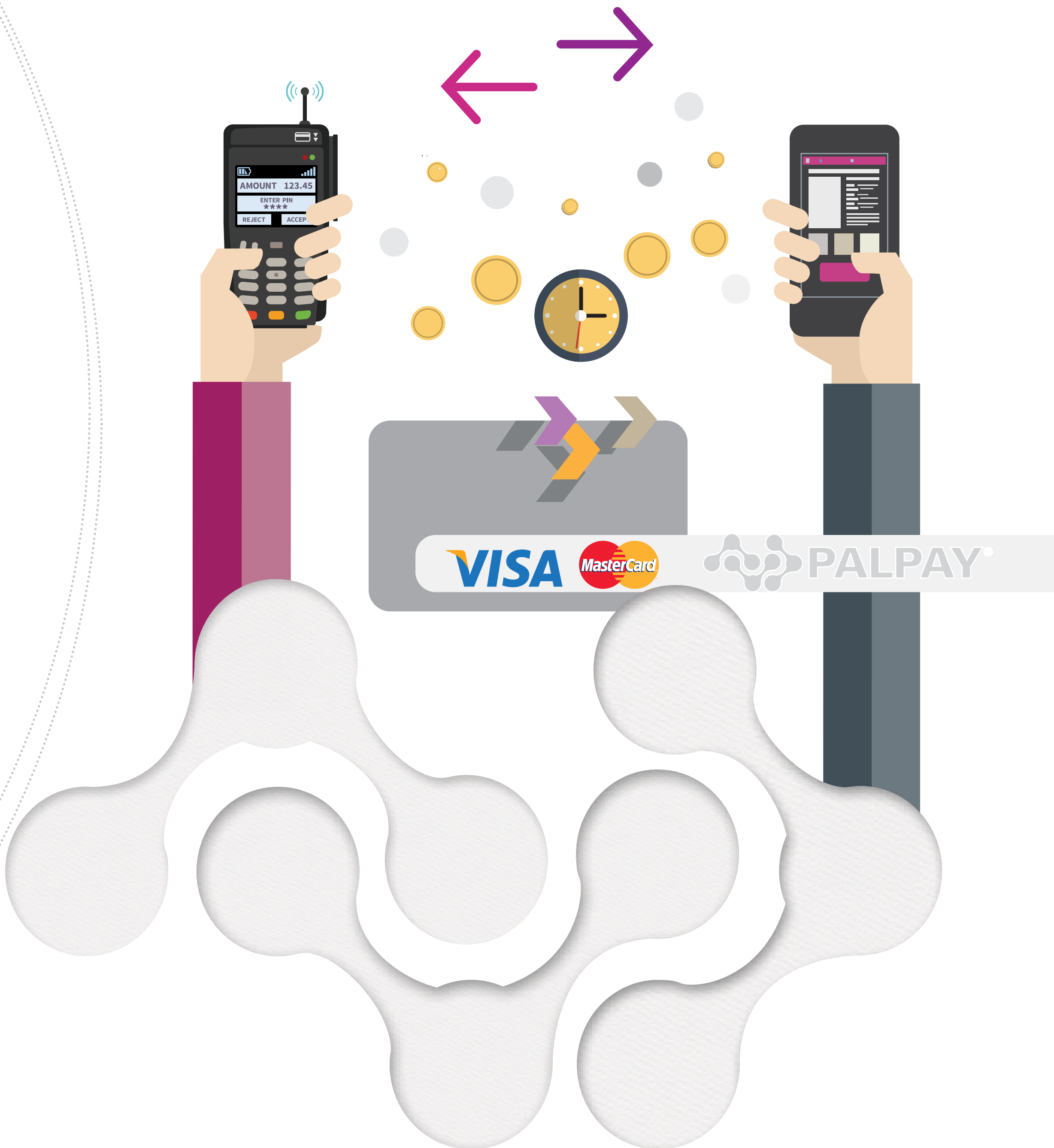
The Bank in partnership with its subsidiary PalPay® has launched the first Mobile application e-bank allowing customers to pay their bills and transfer funds to a friend using registered mobile number at the bank. This has helped the bank service more customers electronically and especially with mobile as step that will assist in financial inclusion for people in remote areas, given physical boundaries and lack of accessibility and the absence of 3G and 4G technology. We expect the pervasiveness of this mobile app once 3G is introduced later on this year.



PALPAY®

Development of Electronic Payment Services in Palestine

PalPay® – Palestine Payments – is a subsidiary of the bank set up in 2011 with the mission of facilitating electronic payments through a large network of more than 5,900 Points of Sale distributed throughout the country in shops, supermarkets, restaurants, and hotels. In 2015 PalPay increased its electronic transactions by 29% with 28 corporate customer and the company continues to grow business with an increasing segment of the population in demand for such ease of payment.

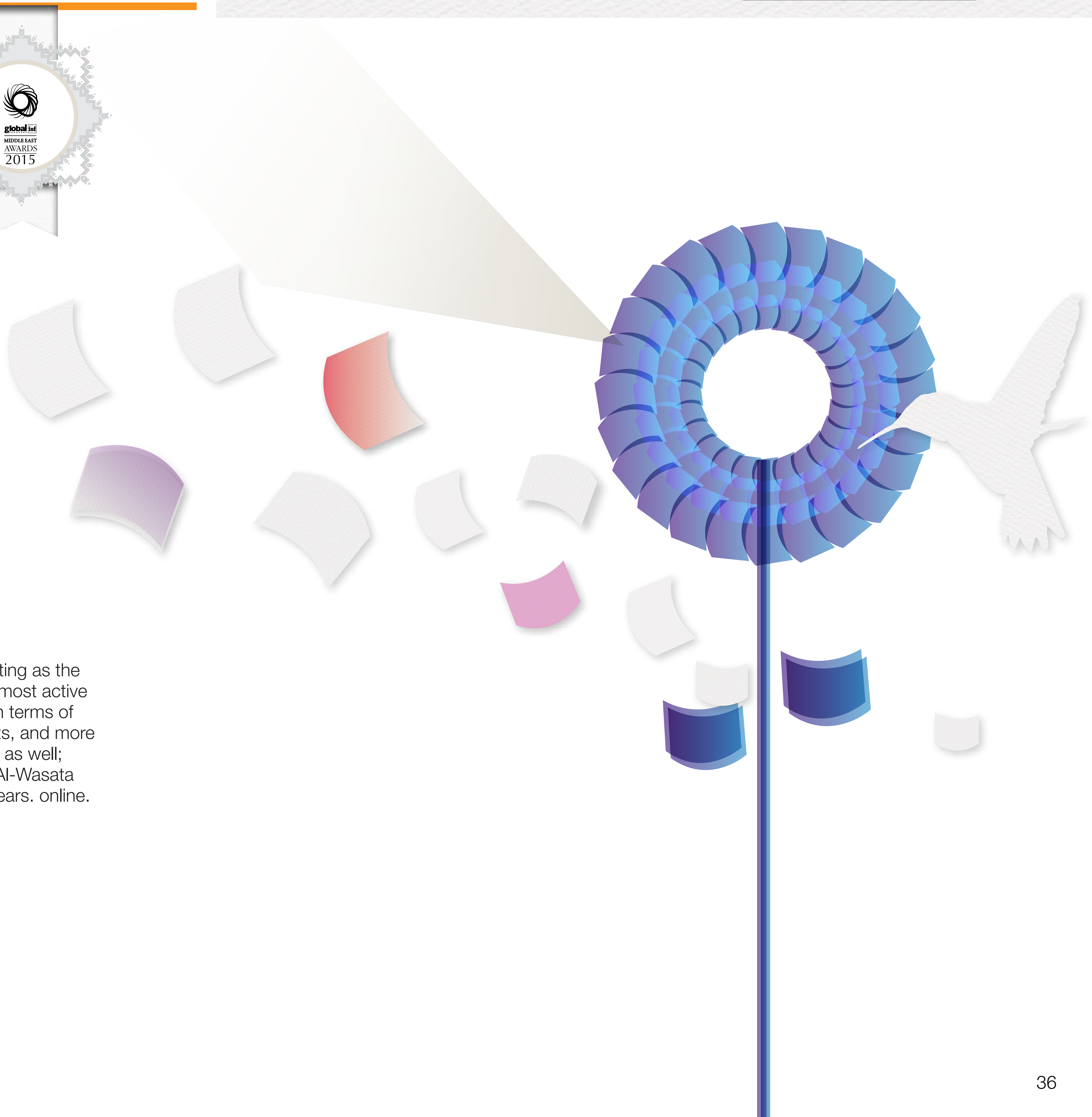


الوساطة
AL WASATA

Best Brokerage Company in Palestine for the Year 2015

2015 Achievements

Al-Wasata Securities is another subsidiary of the bank set up in 2005, operating as the bank's investment arm. Al-Wasata continues to be recognized for being the most active brokerage firm on the Palestine Exchange. It now has a 29% market share in terms of number of investors, USD 372 million trading volume in local regional markets, and more than USD 470 million worth of shares under management. It offers E-trading as well; allowing customers to manage their portfolio investment accounts In 2015, Al-Wasata won emeafinance award for Best Broker in Palestine for three consecutive years. online.

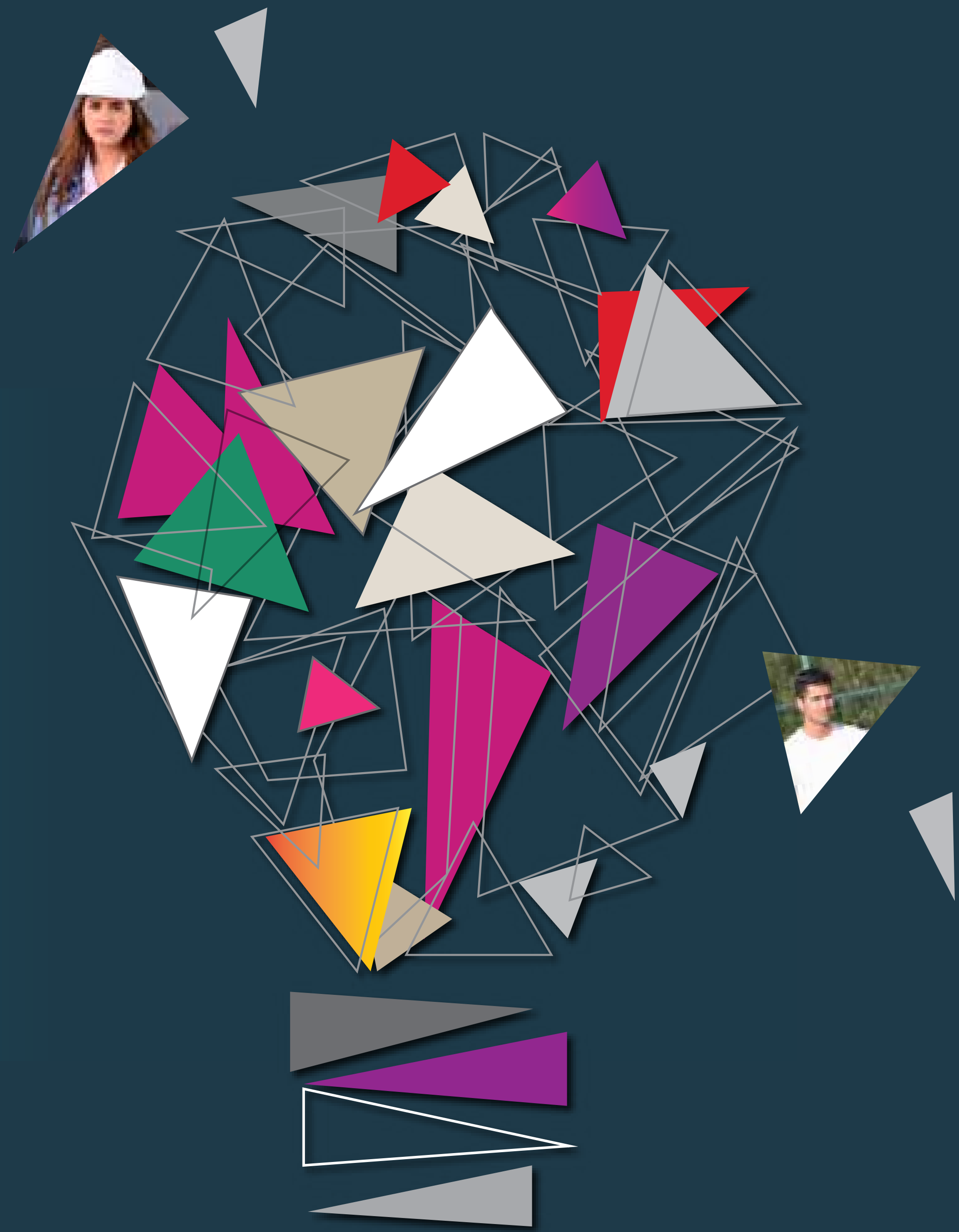


صندوق ابتكار
IBTIKAR FUND

As part of investing into aspiring entrepreneurs, Bank of Palestine along with several partners like PIF and Sharakat have established 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 providding them with sustainability and moving them away from donor dependency in a space where private sector management is needed. The fund fills a void in the entrepreneurial eco system providing early start ups with seed funding to graduate to angel and venture capital investments.



To streamline and institutionalize communications with investors, Bank of Palestine established an investor relations department in 2011. The department is entrusted with providing shareholders with information on the bank's performance and on the market. As our shareholder base increased by more than 70% since we listed on the Palestine Exchange (PEX) in 2005.

Maintaining strong and consistent relationships and transparency with our existing and potential investors is very important to us.

Investor Relations Activities:

- Participation in investment conferences in the GCC and MENA Region
- Participation in Investment conferences in London, North America
- Road shows to Dubai, Abu Dhabi, Singapore, Chile
- Conducted several Investor conference calls

Through a more dynamic Investor Relations website (www.bop.ps/en/ir), the department is able to upload all public information; disclosures in real time and 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 the financial media.

IR at BOP has received various awards in 2015 related to investor relations, including:

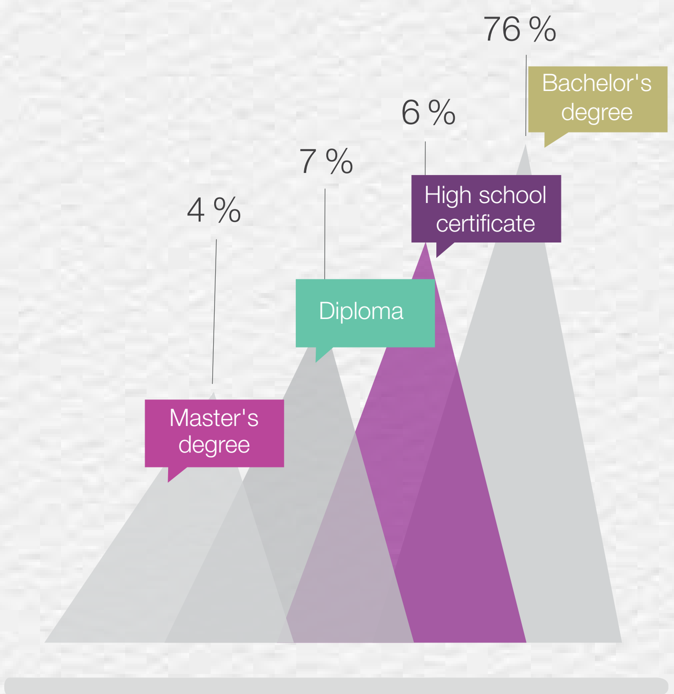
- "Best Company for Investor Relations in Palestine" award for the fourth consecutive year
- "Best Investor Relations Professional in Palestine"

Dividends Policy:

Bank of Palestine has had a consistent dividends policy with combination of Cash Dividends and Share Dividends throughout the past period.

Description (BOP)	2014	2015	Notes
Number of Shareholders	4,000	4,087	increase between 2014 and 2015 2.18%
Number of Traded Shares	20,580,058	38,871,609	of total trading in PEX 22.18%
Value of Traded Shares (USD)	59,209,037	104,804,214	of total trading in PEX 32.71%
Number of Executed Transactions	4,727	5,393	of total transactions in PEX 17.39%
Share Turnover Ratio	12.86%	22.21%	Number of traded shares/total number of shares
Trading Sessions where the share was traded	244	246	of total trading sessions in 2015 100%
Market Capitalization (USD)	448,000,000	525,000,000	of total PEX market capitalization 15.72%
Highest Trading Price (USD)	3.30	3.01	
Lowest Trading Price (USD)	2.70	2.45	
Closing Price (USD)	2.80	3.00	

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 %
2015	**1,405**	**358**	**32 %**



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 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.

At Bank of Palestine we not only invest in our employees but we continue to provide access to knowledge, exposure to global practices and interperso al skills, you can find below a summary of our training activities for 2015:

Year	Number of training sessions	Number of participants	Training expenses in dollars
2015	237	2598	493,564
2014	169	2835	293,904

On average, each employee attended almost 1.85 training programs in 2015

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	4	1.7%	87	6.2%
Internal training / workshops	114	48%	2100	149.5%
Local training / workshops	97	41%	356	25.3%
International training / workshops	19	8%	33	2.3%
Professional certificates and diplomas programs	3	1.3%	22	1.6%
Total	237	100%	2598	184.9%

Knowledge details/ Skills provided to Bank of Palestine staff

Training programs	Number of actual training sessions	Number of participants
Financial management and investment	27	306
New employee orientation	4	87
Financing and bank credit	11	193
Technical and logistics services	3	13
Control and audit	8	66
Banking operations	27	408
Banking risks	10	56
Managerial and behavioral skills	127	1391
Seminars and conferences banking	2	6
Information technology	18	72
Total	237	2598

Details of the training center's activities

1. Preparing and qualifying new employees (new employee orientation)

Number of training sessions	Number of trainees/participants	Location of the training
4	87	Training center at BOP (Ramallah-Gaza)

2. Internal training

Number of training/workshop sessions	Number of trainees/participants	Location of the training
114	2100	Training center at BOP (Ramallah-Gaza-Nablus-Jenin-Bethlehem-Hebron)

3. Local training

Number of training/workshop sessions	Number of trainees/participants	Training / workshop promoter
97	356	– Palestinian banking institute – Ernst & Young – AMIDEAST – General co. for consulting and training – Ways international – Scholarship Training – Expert Training Center – Accent LTL – HorseMillstones – SIDA – Vision Plus

4. International training / workshops

Number of training/workshop	Number of trainees/participants	Location of the training
19	33	Amman – London – Dubai – Beirut - Abu Dhabi – Berlin - Singapore

5. Professional certificates and diplomas programs

Number of training/workshop sessions	Number of trainees /participants	Training/workshop promoter
3	22	– Palestinian Banking Institute – Vision Plus

THE GLOBAL COMPACT
WE SUPPORT

Sustainable finance is fundamental to our aim of creating longterm 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

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 strategy setting function, while 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:

I: Board Governance

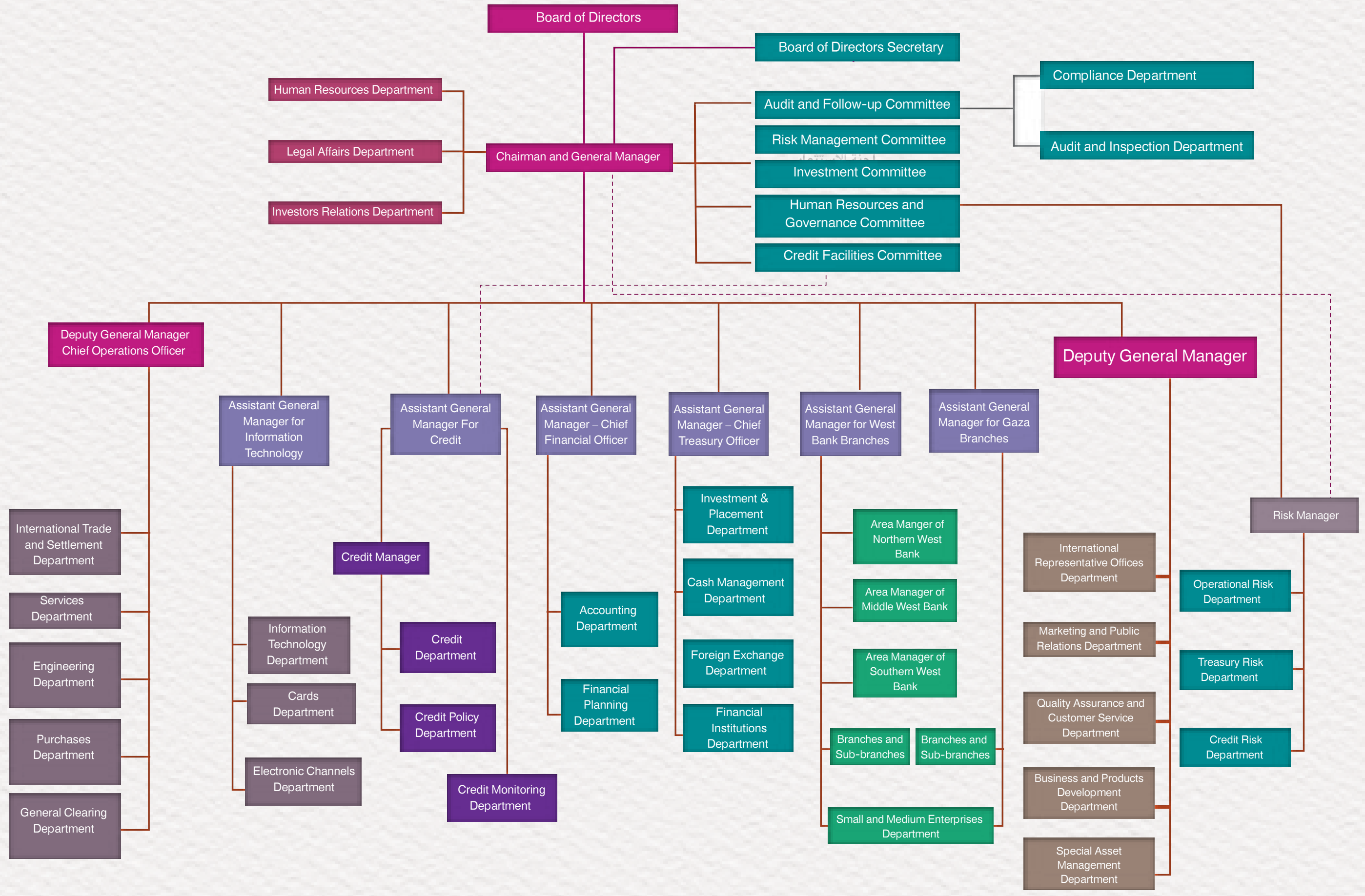
BOP strives to maintain an effective, professional, and well-functioning board of directors given its key role for ensuring corporate governance in the Bank's departments and activities.

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.

Board committees have been set up to ensure best governance. 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.

Board Responsibilities & Committees

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.

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 Board on the appropriate remedial steps.

• Coordinating with Risks Management Committee to present the financial statements of the bank.

• Studying the financial system employed at the bank and making recommendations to improve it and guarantee that they fairly represent the situation and that no false data are reported.

• Putting in place a system that allows employees to report secretly on fears of potential violations and in a manner that makes it possible to investigate them independently and follow them up without supervisors penalizing them or colleagues looking down at them. The audit committee shall monitor the implementation of these procedures.

• Acting as a liaison between the board of directors and the external auditor, the board of directors and the internal auditor and between the internal and external auditors.

• Following up on the bank's adherence to its internal code of professional conduct and adherence to external laws and regulations.

• Informing the board of directors of issues that require its immediate intervention and offering recommendations on the appropriate remedial steps.

• The audit committee shall submit reports to the board of directors on all matters that fall within its scope of work thereby enabling it to carry out its function of monitoring the management of the bank and submitting to shareholders and investors factual and documented information.

Risk Management Committee

Committee Members:

Mr. John Khoury - Chairman of the Committee

Mr. 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 Bank 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 fulfil its role, the Committee shall have the following authorities and responsibilities:

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

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

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

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

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

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

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

Investment Committee

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.

Senior Executive Management Salaries and Bonuses
General Manager, Deputy General Managers, and Assistant General Managers’ salaries and bonus-es amounted to USD 2,753,256 in 2015.

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 390,820 in 2015.

Loans Granted to Senior Executive Management:
Total loans granted to Senior Executive Management in 2015 was USD 3,818,560.

Proposed Remuneration to Board of Directors
Proposed Board of Directors remuneration based on profits for the year 2015 is USD 990,000.

Dependence on Main providers and Customers
There is no main local or foreign provider or customer, who represents 10% or more of total purchas-es and/or sales.

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

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

Legal Actions
Number of cases filed against the bank was (51) and (40), as at 31 December 2015 and 2014 respectively, which were considered part of the normal activity of the bank. Cases were equivalent to USD 12,111,145 and USD 11,529,284 as at 31 December 2015 and 2014 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 net-work 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.

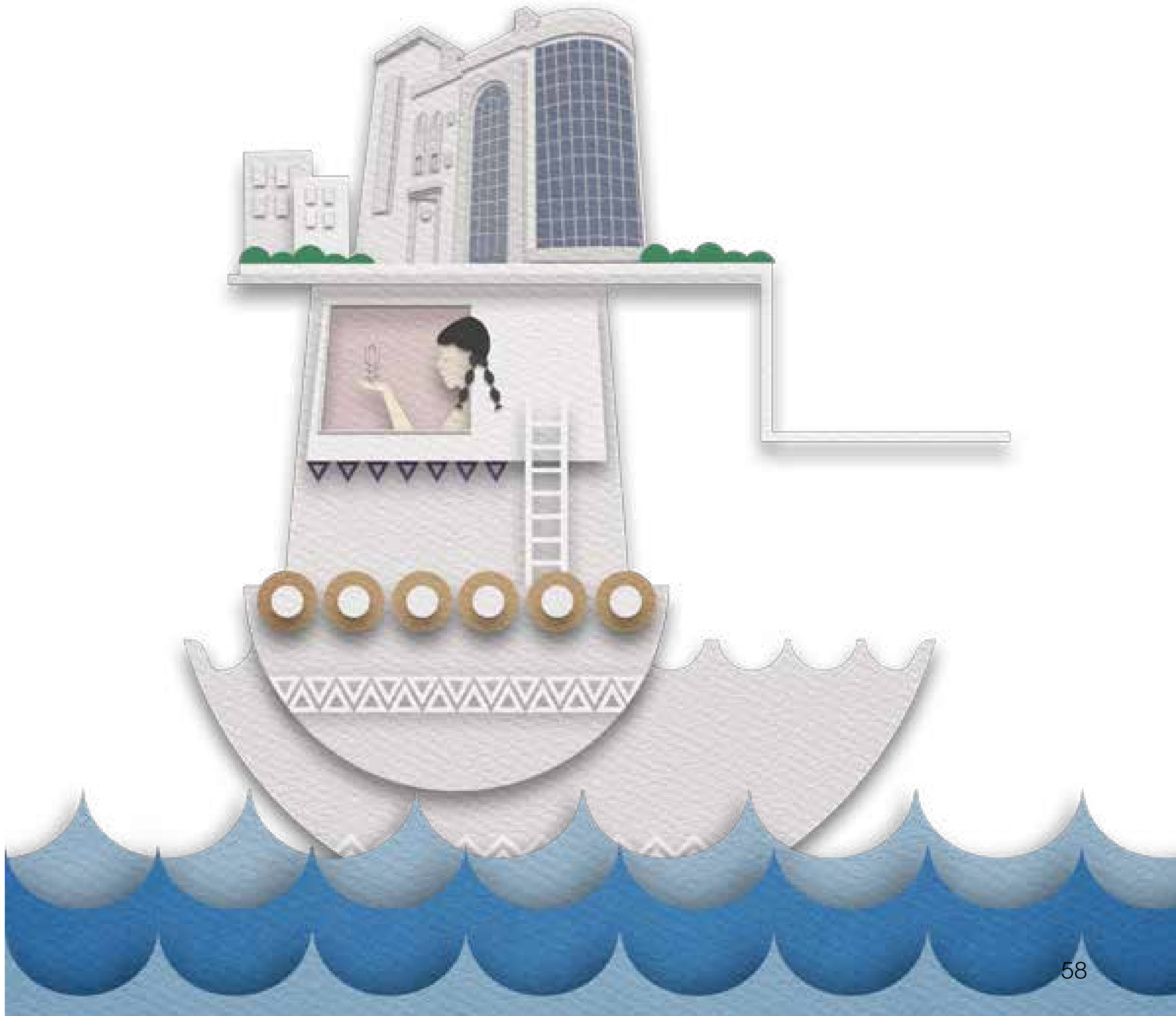
The Board of Directors Sessions
Nine Board of Directors meeting sessions were held in 2015, in addition to the board committees’ meetings, to carry out the tasks entrusted in the members as stated in the Code of Corporate Governance and the internal procedures of the bank.

Special Voting by Shareholders
No issues requested a special voting by shareholders during the year 2015.

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 2015 financial statements.

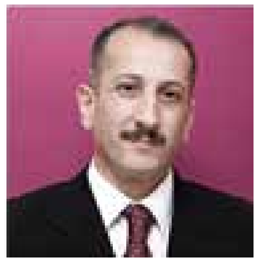
Disseminating Information
The Annual Report will be sent to all shareholders at their registered email address with an invitation to attend the General Assembly. The report will also be available in all of our branches and an electronic version will be available on our website http://www.bop.ps/en/home



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



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

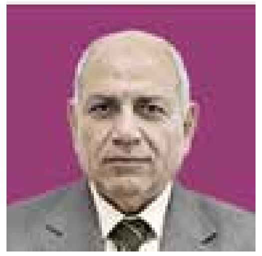
Mr. Salman Mohammed Tuama Qemailah
Assistant General Manager– Chief Financial Officer
Bachelor of Commerce in Accounting Ain Shams University, Cairo- Egypt 1981
Date of Birth: 08/07/1958
Joined BOP in 1982

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

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



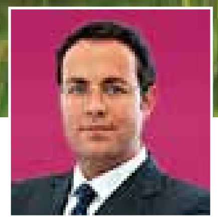
Mr. Saqer Mahmoud Jundia
Head of the Compliance Department
Bachelor of Economics and Political Science – Alexandria University – Egypt 1970
Master of Business and Commerce – Banha University – Egypt 1990
Date of Birth: 01/02/1949
Joined BOP in 1979

Mr. Hasan Majed Al-Afifi
Assistant General Manager for Information Technology
Bachelor of Industrial Engineering – Roosevelt University - Chicago, ILL. USA 1985
Bachelor of Computing Information Systems – Roosevelt University - Chicago, ILL. USA 1985
Date of Birth: 12/06/1962
Joined BOP in 2015

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

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

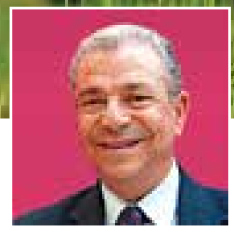
Board Members



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.

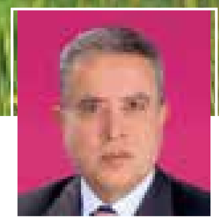
Memberships
Member of the Institute of International Finance (IIF) Emerging Markets Advisory Council (EMAC).
Member of the Board of Directors - Abraj Real Estate Investment and Development Company.
Member of General Assembly - The Palestine Investment Fund (PIF).
Member of the Board of Trustees - Bethlehem University.



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.

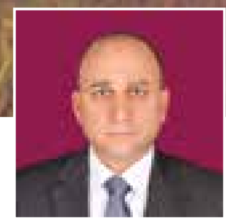
Memberships
Member of the Board of Directors – Birzeit Pharmaceutical Company (BPC) - Palestine.
Member of the Board of Directors – Arab Hotels Company (AHC) – Palestine.
Member of the Board of Directors – Abraj Real Estate Investment and Development Company - Palestine.



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 (Secretary General) – Businessmen Association Gaza – Palestine
2006 - 2007 Member – Palestinian Shippers› Council – Palestine.
Member of the Engineers Syndicate (TBP) - USA.
Member of the Contractors Union - Palestine.
Member of the Engineers Syndicate Gaza – Palestine.
Member of the Palestinian Businessmen Association.

Mohammed Nafiz Mohammed Hirbawi
Member
Business Administration Diploma Community University - Jordan
Date of Birth: 08/09/1954
Date of Membership: 2006

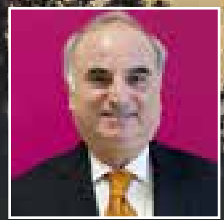
Experience
1978 to present – Chairman of the Board of Directors, Al Ahlia Carton. Co., Hebron - Palestine.
1992 – 2002 – Vice Chairman of the Board of Directors, National Carton. Industry, Nablus – Palestine.
1993 to present – Chairman of the Board of Directors, Paper Industries. Co. Hebron - Palestine.
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.

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.



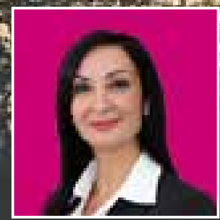
John Khoury
Member
Bachelor of Economics and Political Science Bowdoin College - USA 1970.
An intensive management programme equivalent to Master of Business Administration 1980.
Advanced Management Programmes 1980 – 1993.
Date of Birth: 25/06/1949.
Date of Membership: 2010

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.
2015 to Present – Chairman of the Board of the Stichting European Credit Guarantee Foundation
2015 to Present – Chairman of the Board of the Rural Credit Guarantee Foundation, Albania

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

Experience
Arab Palestinian Investment Company (APIC) Palestine - Chairman & CEO.
Al- 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
1986 – 2003 – Assistant Resident Representative of the United Nations Development Program/Program of Assistance to the Palestinian People (UNDP/PAPP).
2003 - Present –Country Director of Global Communities (Formerly known as CHF International – Palestine).

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 Director of Vitas Company for Microf-inance
Member of the Board of Directors of the Palestine Institute for Public Diplomacy.
Member - Palestinian Business Women Forum.
Member – Education for Employment Foundation
Member - Young Presidents' Organization (YPO/WPO).
Fellow of the Middle East Leadership Network – The Aspen Institute.
Chair of the Board of Trustees - El Funoun Group

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

Experience
2001 – 2006 - AlMuhalab Kuwaiti Real Estate – Kuwait.
2006 – 2010 - HSBC Private Bank - Kuwait.
2010-2011 - Boubyan Bank - Kuwait.
2011- 2012 - International Finance Corporation - UAE.
2012 to Present - ASIYA Investment Co - Kuwait.
2015 - Assistant General Manager - Investment Banking, Gulf Bank of Kuwait

Major Shareholders

Name	Number of Shares - End of 2015	Ownership Percentage - End of 2015	Number of Shares - End of 2014	Ownership Percentage - End of 2014
Qais Abdullah Al-Ghanim	11,389,434	6.51%	3,409,391	2.13%
International Finance Corporation (IFC)	8,722,003	4.98%	7,974,403	4.98%
Blakeney Management	7,439,143	4.25%	8,665,292	5.41%

Board of Directors' Ownership

Member of the Board of Directors	Citizenship	Number of Shares - End of 2015	Ownership Percentage - End of 2015	Number of Shares - End of 2014	Ownership Percentage - End of 2014
Hashim H. H. Shawa - Chairman of the Board	Palestinian	6,889,532	3.94%	6,299,001	3.94%
Maher J. Farah	Palestinian	839,720	0.48%	767,744	0.48%
Mohammed M. Hirbawi	Palestinian	25,802	0.15%	210,162	0.13%
Hani H. M. Nigim	Palestinian	195,500	0.11%	172,334	0.11%
Faysal G. Shawa	Palestinian	18,665	0.01%	17,066	0.01%
Tareq T. F. Al Shakaa	Palestinian	58,000	0.03%	37,333	0.02%
John Pierre Khoury	American	27,998	0.02%	25,599	0.02%
Tarek Aggad	Palestinian	23,332	0.01%	21,333	0.01%
Lana Jamal Abu Hijleh	Palestinian	19,995	0.01%	17,066	0.01%
Abdullah Qais Abdullah Al-Ghanim	Kuwaiti	18,665	0.01%	17,066	0.01%

Board of Directors First Degree Relatives Ownership

Name	Citizenship	Number of Shares - End of 2015	Number of Shares - End of 2014
Qadoumi Family	Palestinian	5,648,636	5,164,469
Huda Hani Shawa	Palestinian	5,199,924	4,754,217
Dina Hani Shawa	Palestinian	2,103,168	1,932,040
Linda Patrick Shawa	Palestinian	1,398,553	1,287,820
Bernardita Vigano Shawa	Swiss	130,597	119,403
Genevieve Chantal Marie Boimond	French	53,856	24,612

Executive Management Ownership

Name	Title	Citizenship	Number of Shares - End of 2015	Number of Shares - End of 2014
Rushdi M. Ghalayini	Deputy General Manager	Palestinian	18,716	17,112
Alaa M. Al Redwan	Deputy General Manager	Palestinian	13,410	12,261
Ihsan K. Shuashaa	Assistant General Manager	Palestinian	14,308	13,082
Salman M. Qemailah	Assistant General Manager	Palestinian	49,319	45,092
Hani Salah Nasser	Assistant General Manager	Palestinian	46,072	13,838
Wael AbdAllatif Al Sourani	Assistant General Manager	Palestinian	34,432	31,481
Susan George Samaan Khoury	Assistant General Manager	Palestinian	10,470	9,573
Khamis F. Asfoor	Legal Advisor	Palestinian	18,950	15,342
Hasan M. Al- Afifi	Assistant General Manager	Palestinian	18,703	

BANK OF PALESTINE P.L.C

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

Ernst & Young
P.O. Box 1373
7th Floor,
PADICO House Bldg.
Al-Masyoun
Ramallah-Palestine

Tel: +972 22421011
Fax: +972 22422324
www.ey.com

Building a better working world

90 Years in MENA

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, 2015, and the consolidated income statement, consolidated statement of 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 the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2015 and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, as depicted in note (20) to the accompanying consolidated financial statements, the Bank provides for taxes based on prevailing tax laws and the Presidential Decree no. (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. Actual taxes depend on the outcome of final settlement with the taxes authorities.

Ernst & Young – Middle East
License # 206/2012

Ernst + Young

Maher Abushaaban
License # 155/1998

March 14, 2016
Ramallah - Palestine

Consolidated Statement of Financial Position
As at December 31, 2015

	Notes	2015 U.S.$	2014 U.S.$
ASSETS			
Cash and balances with Palestine Monetary Authority	5	684,752,354	346,222,324
Balances at banks and financial institutions	6	319,370,957	581,758,608
Financial assets at fair value through profit and loss	7	7,159,702	7,367,695
Direct credit facilities	8	1,388,805,441	1,151,825,644
Financial assets at fair value through other comprehensive income	9	24,348,175	22,671,941
Financial assets at amortized cost	10	253,816,907	226,643,035
Investment in associates	11	18,776,355	18,692,906
Property, plant and equipment	12	50,059,029	47,981,522
Projects in progress	13	2,982,306	2,272,393
Other assets	14	35,132,014	19,337,893
Total Assets		2,785,203,240	2,424,773,961
LIABILITIES AND EQUITY			
Liabilities			
Palestine Monetary Authority's deposits	15	58,989,649	24,086,209
Banks and financial institutions' deposits	16	101,273,608	753,769
Customers' deposits	17	2,153,616,828	1,908,480,620
Cash margins	18	89,165,470	154,043,455
Sundry provisions	19	21,727,908	18,320,233
Tax provisions	20	2,926,053	1,027,063
Other liabilities	21	51,747,420	37,956,034
Total Liabilities		2,479,446,936	2,144,667,383
Equity			
Paid-in share capital	1	175,000,000	160,000,000
Additional paid-in capital	22	9,034,692	9,034,692
Statutory reserve	23	36,332,937	32,023,745
Voluntarily reserve	23	205,523	147,932
General banking risks reserve	23	22,655,293	19,249,207
Pro-cyclicality reserve	23	34,232,752	27,849,613
Fair value reserve	9	(3,109,880)	(4,797,893)
Retained earnings		30,647,037	35,916,850
Total equity holders of the Bank		304,998,354	279,424,146
Non-controlling interests	4	757,950	682,432
Total Equity		305,756,304	280,106,578
Total Liabilities and Equity		2,785,203,240	2,424,773,961

Consolidated Income Statement
For the year ended December 31, 2015

	Notes	2015 U.S.$	2014 U.S.$
Interest income	25	105,308,242	91,898,299
Interest expense	26	(17,420,310)	(16,427,666)
Net interest income		87,887,932	75,470,633
Net commissions	27	27,767,636	27,074,576
Net interest and commissions income		115,655,568	102,545,209
Foreign currency gain		7,861,779	3,894,867
Net gain from financial assets	28	660,465	960,984
Share of results of associates	11	1,189,884	868,648
Recovery of impairment allowance for direct credit facilities	8	1,259,978	1,319,424
Other revenues	29	10,159,560	10,699,525
Gross profit		136,787,234	120,288,657
Expenses			
Personnel expenses	30	(40,842,825)	(34,838,857)
Other operating expenses	31	(31,001,357)	(25,267,554)
Depreciation and amortization	12&14	(6,065,634)	(4,997,087)
Impairment allowance for direct credit facilities	8	(3,782,218)	(3,025,222)
Credit facilities written off		(519,745)	(442,463)
Palestine Monetary Authority's fines	32	(5,000)	(58,209)
Total expenses		(82,216,779)	(68,629,392)
Profit before taxes		54,570,455	51,659,265
Taxes expense	20	(11,403,022)	(11,436,759)
Profit for the year		43,167,433	40,222,506
Attributable to:			
Equity holders of the Bank		43,091,915	40,171,813
Non-controlling interests	4	75,518	50,693
		43,167,433	40,222,506
Basic and diluted earnings per share	34	0.25	0.23

The accompanying notes from 1 to 47 are an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income
For the year ended December 31, 2015

	Notes	2015 U.S.$	2014 U.S.$
Profit for the year		43,167,433	40,222,506
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	1,676,967	361,145
Other comprehensive income		1,676,967	361,145
Total comprehensive income for the year		44,844,400	40,583,651
Attributable to:			
Equity holders of the Bank		44,768,882	40,532,958
Non-controlling Interests	4	75,518	50,693
		44,844,400	40,583,651

The accompanying notes from 1 to 47 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity
For the year ended December 31, 2015

	Paid-in share capital	Additional paid-in capital	Reserves: Statutory	Reserves: Voluntarily	Reserves: General banking risks	Reserves: Pro-cyclicality	Reserves: Fair value	Retained earnings	Equity holders of the Bank	Non-controlling interests	Total equity
2015	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	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
Profit for the year	-	-	-	-	-	-	-	43,091,915	43,091,915	75,518	43,167,433
Other comprehensive income	-	-	-	-	-	-	1,676,967	-	1,676,967	-	1,676,967
Total comprehensive income	-	-	-	-	-	-	1,676,967	43,091,915	44,768,882	75,518	44,844,400
Results of sale of financial assets recognized directly in retained earnings (Note 9)	-	-	-	-	-	-	11,046	(11,046)	-	-	-
Transfers to reserves	-	-	4,309,192	57,591	3,406,086	6,383,139	-	(14,156,008)	-	-	-
Stock dividends (Note 24)	15,000,000	-	-	-	-	-	-	(15,000,000)	-	-	-
Cash dividends (Note 24)	-	-	-	-	-	-	-	(19,200,000)	(19,200,000)	-	(19,200,000)
Fractions of stock dividends distributed	-	-	-	-	-	-	-	5,326	5,326	-	5,326
Balance, end of year	175,000,000	9,034,692	36,332,937	205,523	22,655,293	34,232,752	(3,109,880)	30,647,037	304,998,354	757,950	305,756,304

	Paid-in share capital	Additional paid-in capital	Reserves: Statutory	Reserves: Voluntarily	Reserves: General banking risks	Reserves: Pro-cyclicality	Reserves: Fair value	Retained earnings	Equity holders of the Bank	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.$
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 (Note 9)	-	-	-	-	-	-	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

The accompanying notes from 1 to 47 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows
For the year ended December 31, 2015

	Notes	2015 U.S.$	2014 U.S.$
<u>Operating activities</u>			
Profit before taxes		54,570,455	51,659,265
Adjustments for:			
Depreciation and amortization		6,065,634	4,997,087
Net gain from financial assets		(660,465)	(960,984)
Impairment allowance for credit facilities		3,782,218	3,025,222
Recovery of impairment allowance for credit facilities		(1,259,978)	(1,319,424)
Sundry provisions		3,896,094	2,237,128
Bank’s share of results of associates		(1,189,884)	(868,648)
(Gain) loss on disposal of property, plant and equipment		(434,442)	205
		64,769,632	58,769,851
Changes in assets and liabilities:			
Direct credit facilities		(239,502,037)	(49,890,424)
Statutory cash reserve		(28,842,043)	(17,972,431)
Other assets		(14,552,047)	(3,926,539)
Customers' deposits		245,136,208	239,945,386
Cash margins		(64,877,985)	77,015,424
Other liabilities		12,046,741	(6,844,488)
Net cash flows (used in) from operating activities before taxes and sundry provision		(25,821,531)	297,096,779
Sundry provision paid		(488,419)	(290,372)
Taxes paid		(9,504,032)	(68,319,071)
Net cash flows (used in) from operating activities		(35,813,982)	228,487,336
<u>Investing activities:</u>			
Purchase of financial assets at fair value through profit and loss		-	(749,224)
Purchase of financial assets at amortized cost		(63,363,135)	(109,480,383)
Proceeds from sale of financial assets at fair value through profit or loss and through other comprehensive income		11,779	66,692
Maturity of financial assets		36,189,263	29,474,290
Deposits at banks and financial institutions mature in more than three months		(19,412,000)	(10,522,000)
In vestment in associates		(50,000)	(753,559)
Purchase of financial assets at fair value through other comprehensive income		1,156,435	-
Dividends income received		1,704,136	1,752,679
Intangible assets		(1,802,339)	(1,508,275)
Projects in progress		(1,419,378)	(3,364,498)
Purchase of property, plant and equipment		(6,966,189)	(3,621,273)
Proceeds from sale of property, plant and equipment		519,592	16,840
Net cash flows used in investing activities		(53,431,836)	(98,688,711)
<u>Financing activities:</u>			
Cash dividends paid		(18,294,451)	(11,704,223)
Proceeds from fractions of stock dividends sold		5,326	3,953
Net cash flows used in financing activities		(18,289,125)	(11,700,270)
(Decrease) increase in cash and cash equivalents		(107,534,943)	118,098,355
Cash and cash equivalents, beginning of the year		707,178,070	589,079,715
Cash and cash equivalents, end of year	33	599,643,127	707,178,070

The accompanying notes from 1 to 47 are an integral part of these consolidated financial statements

1. General

Bank of Palestine P.L.C. (the Bank) was established in 1960 and was 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.$ 175 million as at December 31, 2015.

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 (36) offices located in Palestine. The Bank has 2 representation offices; one the City of Dubai in United Arab Emirates and the other is in country of Chile

The Bank's personnel reached (1,405) and (1,280) as at December 31, 2015 and 2014, respectively.

The consolidated financial statements were authorized for issuance by the Bank's Board of Directors during their meeting number (340) held on February 21, 2016 and by Palestine Monetary Authority (PMA) on March 14, 2016.

2. Consolidated Financial Statements

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiaries as at December 31, 2015.

The financial statements for Al-Wasata Securities Private Limited Shareholding Company (Al-Wasata Company), 2000 Company for Investment and Money Transport, 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.$	
		2015	2014	2015	2014
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 consolidated financial statements as of December 31, 2015 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 2015. 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 polices

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted amended IFRS which they became effective. The adoption of these amendments did not have an impact on the financial position or performance of the Bank.

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

<u>IFRS 9 Financial Instruments</u>

During July 2015, 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.

<u>IAS 1 Disclosure Initiative - Amendment</u>

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization - Amendment

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.
The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases.

IFRS 15 supersedes the following standards and interpretations:

- IAS 11 Construction Contracts,
- IAS 18 Revenue,
- IFRIC 13 Customer Loyalty Programmes,
- IFRIC 15 Agreements for the Construction of Real Estate,
- IFRIC 18 Transfers of Assets from Customers; and
- SIC-31 Revenue—Barter Transactions Involving Advertising Services.

The standard is effective for annual periods beginning on or after January 1, 2018, and early adoption is permitted.

IFRS 16 Leases

During January 2016, the IASB issued IFRS 16 "Leases" which sets out the principles for the recognition, measurement, presentation and disclosure of leases.
IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The new standard will be effective for annual periods beginning on or after January 1, 2019 with early application is permitted.

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:

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

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

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

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	6 - 17
Computers	5 - 10
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 restricted 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).
- The Bank 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	2015	2014
		%	%
Al Wasata	Palestine	13	13
PalPay	Palestine	15	15

Accumulated balances of material non-controlling interest:

	2015	2014
	U.S.$	U.S.$
Al Wasata	646,370	571,500
PalPay	111,580	110,932
	757,950	682,432

Profit (loss) allocated to material non-controlling interest:

	2015	2014
	U.S.$	U.S.$
Al Wasata	74,870	67,713
PalPay	648	(17,020)
	75,518	50,693

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, 2015:

	Al Wasata	PalPay
	U.S.$	U.S.$
Revenues	1,433,934	1,294,088
General and administrative expenses	(802,372)	(1,218,807)
Depreciation	(64,263)	(146,283)
Other revenues	8,611	75,321
Profit before tax	575,910	4,319
Income tax	-	-
Profit of the year	575,910	4,319
Other comprehensive income of the year	-	-
Total comprehensive income of the year	575,910	4,319

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

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

Summarized statement of financial position information as at December 31, 2015:

	Al Wasata	PalPay
	U.S.$	U.S.$
Current assets	18,665,820	510,727
Non-current assets	476,334	349,941
Current liabilities	(13,707,681)	(22,694)
Non-current liabilities	(257,952)	(94,105)
Total equity	5,176,521	743,869
Attributable to:		
Bank's shareholders	4,530,151	632,289
Non-controlling interests	646,370	111,580
	5,176,521	743,869

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

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

Summarized statement of cash flows information for the year ended December 31, 2015:

	Al Wasata	PalPay
	U.S.$	U.S.$
Operating activities	(1,748,994)	(39,917)
Investing activities	(64,922)	(95,310)
Decrease in cash and cash equivalents	(1,813,916)	(135,227)

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

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

5. Cash and Balances with Palestine Monetary Authority

This item comprises the following:

	2015	2014
	U.S.$	U.S.$
Cash on hand	469,882,569	159,968,658
Balances with PMA:		
Current and demand accounts	14,376,858	14,602,782
Statutory cash reserve	200,492,927	171,650,884
	684,752,354	346,222,324

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.

6. Balances at Banks and Financial Institutions

This item comprises the following:

	2015	2014
	U.S.$	U.S.$
Local banks and financial institutions:		
Current and demand accounts	103,116	6,892
Deposits maturing within 3 months or less	18,000,000	29,682,652
	18,103,116	29,689,544
Foreign banks and financial institutions:		
Current and demand accounts	126,003,791	279,698,482
Deposits maturing within 3 months or less	131,540,050	248,058,582
Deposits maturing after 3 months	43,724,000	24,312,000
	301,267,841	552,069,064
	319,370,957	581,758,608

Non-interest bearing balances at banks and financial institutions as at December 31, 2015 and 2014 amounted to U.S.$ 126,106,907 and U.S.$ 279,705,374, respectively.

Restricted balances at banks and financial institutions as at December 31, 2015 and 2014 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 in Palestine Securities Exchange the fair value of which amounted to U.S.$ 7,159,702 and U.S.$ 7,367,695 as at December 31, 2015 and 2014, respectively.

8. Direct Credit Facilities

This item comprises the following:

	2015	2014
	U.S.$	U.S.$
Retail		
Loans	403,501,225	385,063,243
Overdraft accounts	4,543,822	4,107,132
Credit cards	39,139,439	37,096,555
Current overdrafts	52,110,904	39,987,931
Corporate		
Loans	402,694,577	246,586,439
Overdraft accounts	111,086,139	126,105,513
Current overdrafts	29,530,838	29,014,626
Institutions		
Loans	15,292,337	11,615,374
Overdraft accounts	1,232,513	971,962
Current overdrafts	238,578	254,670
Public sector		
Loans	182,451,085	170,095,402
Overdraft accounts	164,662,667	115,317,814
	1,406,484,124	1,166,216,661
Suspended interest and commission	(5,158,202)	(4,383,794)
Impairment allowance for direct credit facilities	(12,520,481)	(10,007,223)
	1,388,805,441	1,151,825,644

Summary of movement on suspended interest is as follows:

	2015	2014
	U.S.$	U.S.$
Balance, beginning of the year	4,383,794	3,938,745
Suspended interest during the year	1,684,604	1,021,530
Recovered during the year	(396,682)	-
Suspended interest transferred to credit facilities being default for more than 6 years	(71,650)	(257,627)
Suspended interest written off	(323,932)	(120,744)
Foreign currency exchange differences	(117,932)	(198,110)
Balance, end of year	5,158,202	4,383,794

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

	2015	2014
	U.S.$	U.S.$
Balance, beginning of the year	10,007,223	8,264,112
Impairment allowance for the year	3,782,218	3,025,222
Recovered during the year	(1,259,978)	(1,319,424)
Credit facilities in default for more than 6 years	(98,141)	(558,625)
Impairment allowance for credit facilities written off	(225,369)	(103,983)
Foreign currency exchange differences	314,528	699,921
Balance, end of year	12,520,481	10,007,223

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

	2015	2014
	U.S.$	U.S.$
Balance, beginning of the year	2,750,399	2,674,645
Additions	98,141	558,625
Recovered during the year	(14,854)	-
Impairment allowance for credit facilities written off	(6,555)	(40,607)
Foreign currency exchange differences	(85,581)	(442,264)
Balance, end of year	2,741,550	2,750,399

Loans are presented net of their related interest and commission received in advance which amounted to U.S.$ 3,824,482 and U.S.$ 2,879,137 as at December 31, 2015 and 2014, respectively.

Downgraded direct credit facilities net of suspended interest and commissions according to PMA regulations as at December 31, 2015 and 2014 amounted to U.S.$ 37,369,254 and U.S.$ 30,221,998 representing (2.67%) and (2.60%) of credit facilities net of suspended interest and commissions, respectively.

Defaulted credit facilities net of suspended interest and commissions as at December 31, 2015 and 2014 amounted to U.S.$ 24,056,843 and U.S.$ 25,742,759 representing (1.72%) and (2.22%) 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.$ 4,704,492 and U.S.$ 4,636,087 as at December 31, 2015 and 2014 and the balance of impairment allowance and suspended interest for defaulted accounts amounted to U.S.$ 4,621,299 and U.S.$ 4,616,051, respectively.

Direct credit facilities granted to the public sector as at December 31, 2015 and 2014 amounted to U.S.$ 347,133,752 and U.S.$ 285,413,216 representing (24.68%) and (24.47%) of gross direct credit facilities, respectively.

Direct credit facilities guaranteed by Palestine National Authority as at December 31, 2015 and 2014 amounted to U.S.$ 6,432,631 and U.S.$ 7,362,834 representing (0.46%) and (0.63%) of gross direct credit facilities, respectively.

The fair value of collaterals obtained in lieu of direct credit facilities amounted to U.S.$ 440,998,181 and U.S.$ 321,833,856 as at December 31, 2015 and 2014, respectively.

Credit facilities granted to non-residents amounted to U.S.$ 5,052,184 and U.S.$ 4,768,919 as at December 31, 2015 and 2014, respectively.

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

	2015	2014
	U.S.$	U.S.$
Manufacturing	65,276,944	57,235,956
Services	94,977,243	74,630,745
Retail and whole-sale	188,343,111	159,022,358
Real estate and construction	100,840,281	80,855,810
Transportation	1,325,902	566,107
Agriculture	7,711,117	5,799,849
Tourism	24,597,263	15,869,771
Financial sector	18,839,416	11,998,022
Public sector	347,110,123	285,144,415
Consumer commodities	552,304,522	470,709,834
	1,401,325,922	1,161,832,867

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

	December 31, 2015			
	Granted	Outstanding balance	Guarantor share	Doubtful
Type of credit facilities	U.S.$	U.S.$	%	U.S.$
Production loans	14,763,243	8,662,714	70	678,694
Operating loans	17,115,639	13,461,620	60	222,929
Development loans	17,258,963	14,653,901	50	-
SME loans	6,398,973	5,188,500	35-100	89,734
	55,536,818	41,966,735		991,357

	December 31, 2014			
	Granted	outstanding balance	Guarantor share	Doubtful
Type of credit facilities	U.S.$	U.S.$	%	U.S.$
Production loans	14,725,059	9,629,599	70	4,706,393
Operating loans	6,808,308	5,515,620	60	1,027,850
Development loans	5,677,206	4,842,077	50	-
SME loans	5,873,487	3,795,537	35-100	-
	33,084,060	23,782,833		5,734,243

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, 2015				
Local	5,212,844	1,105,082	225,397	6,543,323
Foreign	17,804,852	-	-	17,804,852
	23,017,696	1,105,082	225,397	24,348,175
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

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

	2015	2014
	U.S.$	U.S.$
Balance, beginning of the year	(4,797,893)	(5,159,800)
Change in fair value	1,676,967	361,145
Sale of financial assets recognized directly in retained earnings	11,046	762
Balance, end of year	(3,109,880)	(4,797,893)

10. Financial Assets at Amortized Cost

The details of this item are as following:

	Treasury bills	Quoted bonds	Unquoted bonds	Total
	U.S.$	U.S.$	U.S.$	U.S.$
December 31, 2015				
Local	-	-	14,900,000	14,900,000
Foreign	90,213,330	148,703,577	-	238,916,907
	90,213,330	148,703,577	14,900,000	253,816,907
December 31, 2014				
Local	-	-	14,900,000	14,900,000
Foreign	86,222,823	125,520,212	-	211,743,035
	86,222,823	125,520,212	14,900,000	226,643,035

Interest on U.S.$ financial assets at amortized cost ranges between 2.38% and 9%

Interest on Jordanian Dinar financial assets at amortized cost ranges between 3.63% and 6.55%.

Interest on EURO financial assets at amortized cost 3.63%.

Interest on Sterling Pound financial assets at amortized cost range between 7.13% and 7.25%.

Interest on Kuwaiti Dinar financial assets at amortized cost range between 4.5% and 5.65%.

These financial assets mature within a period of more than one month to 10 years.

11. Investment in Associates

The details of this item are as following:

	Country of Incorporation	Ownership 2015 %	Ownership 2014 %	Subscribed Capital 2015 U.S.$	Subscribed Capital 2014 U.S.$
Arab Islamic Bank	Palestine	21	21	13,869,325	13,617,662
Abraj Co. for Development & Investment (Abraj)	Palestine	21	21	4,542,102	4,816,934
The Palestinian Company for Money Transportation and Valuables and Banking Services (Aman)	Palestine	30	25	364,928	258,310
				18,776,355	18,692,906

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.

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.

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.

Following is the movement of the investment in associates:

	2015 U.S.$	2014 U.S.$
Balance, beginning of the year	18,692,906	17,070,699
Additions*	50,000	753,559
Bank's share in the results of associates	1,189,884	868,648
Cash dividends from associates	(1,156,435)	-
Balance, end of year	18,776,355	18,692,906

* Additions in 2015 represent payment in the share capital of Aman. Additions in 2014 comprise the Bank's in the share capital of Abraj.

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

	Arab Islamic Bank		Abraj		Aman	
	2015	2014	2015	2014	2015	2014
The financial position of associates:	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$
Total assets	650,593,114	561,908,064	37,730,540	34,502,190	1,144,102	739,092
Total liabilities	(581,587,989)	(494,178,295)	(10,840,016)	(9,890,658)	(260,253)	(181,716)
Total equity	69,005,125	67,729,769	26,890,524	24,611,532	883,849	557,376
Bank's share	14,491,076	14,223,251	5,647,010	5,168,421	220,962	139,344
Book value before adjustments	14,491,076	14,223,251	5,647,010	5,168,421	220,962	139,344
Cash dividends	(840,692)	-	(315,743)	-	-	-
Adjustments	218,941	(605,589)	(789,165)	(351,487)	143,966	118,966
Book value after adjustments	13,869,325	13,617,662	4,542,102	4,816,934	364,928	258,310
Revenues and results of operations:						
Revenues	22,348,949	19,970,307	734,560	46,400	1,289,963	1,211,066
Operational, administrative and general expenses	(14,144,110)	(13,030,823)	(300,647)	(116,511)	(1,000,267)	(1,051,411)
Depreciation and amortization	(1,394,147)	(1,210,854)		(4,406)	(27,496)	(26,581)
Finance costs	-	-	(347,276)	(99,810)	-	-
Other revenues (expenses)	-	-	143,175	60,645	7,190	(16,382)
Income (loss) before tax	6,810,692	5,728,630	229,812	(113,682)	269,390	116,692
Tax expense	(1,609,000)	(1,598,786)	(35,000)	-	(42,917)	-
Net income (loss) of the year before adjustments	5,201,692	4,129,844	194,812	(113,682)	226,473	116,692
Adjustments	-	-	-	(18,664)	-	-
Net income (loss) of the year after adjustments	5,201,692	4,129,844	194,812	(132,346)	226,473	116,692
Bank's share	1,092,355	867,267	40,911	(27,792)	56,618	29,173

Management believes that the fair values of the investments in the associates are not materially different from the carrying values.

12. Property, Plant and Equipment

2015	Buildings and real estate U.S.$	Furniture and equipment U.S.$	Computers U.S.$	Leasehold improvements U.S.$	Vehicles U.S.$	Total U.S.$
Cost:						
Balance, beginning of the year	31,669,036	43,973,929	6,787,097	3,371,909	2,083,552	87,885,523
Additions	-	4,907,743	335,574	419,591	2,012,746	7,675,654
Disposals	-	(22,255)	-	-	(1,046,731)	(1,068,986)
Balance, end of year	31,669,036	48,859,417	7,122,671	3,791,500	3,049,567	94,492,191
Accumulated depreciation:						
Balance, beginning of the year	4,449,447	24,849,986	6,255,399	2,804,761	1,544,408	39,904,001
Depreciation charge	489,567	4,256,446	224,824	242,713	291,819	5,505,369
Disposals	-	(20,865)	-	-	(955,343)	(976,208)
Balance, end of year	4,939,014	29,085,567	6,480,223	3,047,474	880,884	44,433,162
Net book value December 31, 2015	26,730,022	19,773,850	642,448	744,026	2,168,683	50,059,029

2014	Buildings and real estate U.S.$	Furniture and equipment U.S.$	Computers U.S.$	Leasehold improvements U.S.$	Vehicles U.S.$	Total U.S.$
Cost:						
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
Accumulated depreciation:						
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
Net book value December 31, 2014	27,219,589	19,123,943	531,698	567,148	539,144	47,981,522

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, 2015 and 2014.

Property, plant and equipment include U.S.$ 22,638,351 and U.S.$ 22,629,106 of fully depreciated assets that are still operational as at December 31, 2015 and 2014, 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:

	2015 U.S.$	2014 U.S.$
Balance, beginning of the year	2,272,393	8,291,148
Additions	1,419,378	3,364,498
Transfers to property, plant and equipment	(709,465)	(9,383,253)
Balance, end of the year	2,982,306	2,272,393

As at December 31, 2015, the estimated cost to complete projects in progress is U.S.$ 36,081,963.

14. Other Assets

This item comprises the following:

	2015	2014
	U.S.$	U.S.$
Prepayments	4,928,305	2,773,973
Stationery and printings	3,116,210	1,284,479
Intangible assets *	4,468,172	3,226,098
Accrued interest and commissions	3,094,159	2,974,481
Trade receivables due from subsidiaries' customers	16,045,467	6,270,934
Clearing checks	17,125	187,589
Other debit balances	3,462,576	2,620,339
	35,132,014	19,337,893

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

	2015	2014
	U.S.$	U.S.$
Balance, beginning of the year	3,226,098	2,121,676
Additions	1,802,339	1,508,275
Amortization	(560,265)	(403,853)
Balance, end of year	4,468,172	3,226,098

15. Palestine Monetary Authority's Deposits

This item represents PMA's deposits maturing within three months in the amount of U.S.$ 58,989,649 and U.S.$ 24,086,209 as at December 31, 2015 and 2014, respectively.

16. Banks and Financial Institutions' Deposits

This item comprises the following:

	Current and demand accounts	Term deposits maturing within 3 months	Total
	U.S.$	U.S.$	U.S.$
December 31, 2015			
Local	3,841,352	40,460,948	44,302,300
Foreign	1,711,300	55,260,008	56,971,308
	5,552,652	95,720,956	101,273,608
December 31, 2014			
Local	123	-	123
Foreign	753,646	-	753,646
	753,769	-	753,769

17. Customers' Deposits

This item comprises the following:

	2015	2014
	U.S.$	U.S.$
Current and demand deposits	921,749,842	804,124,845
Saving deposits	628,727,190	601,258,207
Time deposits	596,235,861	492,143,316
Debit balances – temporarily credit	6,903,935	10,954,252
	2,153,616,828	1,908,480,620

Public sector deposits amounted to U.S.$ 224,550,291 and U.S.$ 287,600,583 representing 10.43% and 15.07% of total deposits as at December 31, 2015 and 2014, respectively.

Non-interest bearing deposits amounted to U.S.$ 1,530,768,245 and U.S.$ 1,416,433,836 representing 71.08% and 74.22% of total deposits as at December 31, 2015 and 2014, respectively.

Dormant deposits amounted to U.S.$ 90,689,846 and U.S.$ 49,621,993 representing 4.21% and 2.60% of total deposits as at December 31, 2015 and 2014, respectively.

Restricted deposits amounted to U.S.$ 9,288,701 and U.S.$ 1,230,491 representing 0.43% and 0.06% of total deposits as at December 31, 2015 and 2014, respectively.

18. Cash Margins

This item represents cash margins against:

	2015	2014
	U.S.$	U.S.$
Direct credit facilities	45,286,207	118,490,162
Indirect credit facilities	32,975,274	26,182,962
Others	10,903,989	9,370,331
	89,165,470	154,043,455

19. Sundry Provisions

	Balance, beginning of the year	Provided during the year	Paid during year	Balance, end of year
	U.S.$	U.S.$	U.S.$	U.S.$
December 31, 2015				
Employees' end of service provision	16,804,653	3,896,094	(488,419)	20,212,328
Lawsuits provision	1,515,580	-	-	1,515,580
	18,320,233	3,896,094	(488,419)	21,727,908
December 31, 2014				
Employees' end of service provision	14,857,897	2,237,128	(290,372)	16,804,653
Lawsuits provision	1,515,580	-	-	1,515,580
	16,373,477	2,237,128	(290,372)	18,320,233

20. Tax Provisions

Movement on tax provisions during the year 2015 and 2014 are as follows:

	2015	2014
	U.S.$	U.S.$
Balance, beginning of the year	1,027,063	57,909,375
Provision for the year	11,403,022	11,436,759
Paid during the year	(9,504,032)	(68,319,071)
Balance, end of year	2,926,053	1,027,063

Details of taxes provision is as follows:

	2015	2014
	U.S.$	U.S.$
Provision for the year	12,131,582	12,427,899
Prior year's taxes	-	334,460
Tax incentives discount	(728,560)	(1,325,600)
Tax expenses presented in the consolidated income statement	11,403,022	11,436,759

The Bank reached a tax settlement with the taxes authorities up to the year 2012. The Bank submitted the tax declaration for subsequent years on time. Further, the Bank provides for taxes based on prevailing tax laws and the Presidential Decree no. (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. Actual taxes expected to be paid depend on the outcome of final settlement with the taxes authorities.

Reconciliation between accounting income and taxable income is as follows:

	2015	2014
	U.S.$	U.S.$
Accounting profit	54,570,455	51,659,265
Non-taxable income	(5,300,575)	(4,247,041)
Non-deductible expenses	10,063,808	7,044,958
Gross income subject to VAT	59,333,688	54,457,182
Net income subject to VAT*	41,104,358	37,261,172
Less: VAT	(5,669,567)	(5,139,472)
VAT on payroll	(4,122,066)	(3,766,235)
Income subject to income tax	31,312,725	28,355,465
Income tax	4,696,909	5,669,489
Provision computed for the year	10,366,476	10,808,961
Provision provided for the year	12,131,582	12,427,899
Prior year's taxes	-	334,460
Tax incentives discount	(728,560)	(1,325,600)
Tax expenses	11,403,022	11,436,759
Effective tax rate	21%	22%

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

As at December 31, 2015, income tax and value added tax rates were %15 and %16, respectively. According to Law No. (4) for the year 2014, concerning the amendment of Law No. (8) for the year 2011 related to income taxes; income tax rate on profits resulted from financing small and medium enterprises equals to %10.

21. Other Liabilities

	2015	2014
	U.S.$	U.S.$
Taxes payable	8,070,302	5,808,254
Certified checks	7,303,894	7,241,220
Accounts payable on associates	12,582,992	5,472,329
Transactions in-transit with PMA	4,632,058	3,453,673
Dividends payable	4,267,018	3,361,469
Temporary deposits	4,290,190	2,832,057
Accrued interests	3,102,493	2,158,932
Board of Directors bonuses	990,000	920,000
Due to employees' saving fund *	601,056	619,057
Others	5,907,417	6,089,043
	51,747,420	37,956,034

* Up to May 31, 2015, the Bank deducted %5 of each employee's monthly basic salary and matched it with an additional %5 as the Bank's contribution. Starting from June 1, 2015, the Bank amended its saving scheme with respect to the Bank's contribution and became as follows:

  - 5% for employees in service for less than 5 years
  - 8% for employees in service for the period from 5 years to less than 10 years
  - 10% for employees in service for the period of more than 10 years

Al Wasata deducts %5 of each employee's monthly basic salary and matches it with a similar amount.

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

The item represents the amount of general banking risk reserve deducted in accordance with PMA's regulations number (8/2015) based on 1.5% of direct credit facilities after deducting impairment allowance for credit facilities and suspended interest and 0.5% of indirect credit facilities. 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 24, 2015, approved dividends distribution of U.S.$ 34,200,000, for the results of the Bank's operations for the year 2014, as stock dividends of U.S.$ 15,000,000 and as cash dividends of U.S.$ 19,000,000 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 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.

25. Interest Income

This item comprises interest revenues earned on the following accounts:

	2015	2014
	U.S.$	U.S.$
Loans	59,837,726	44,377,352
Overdraft accounts	18,901,654	24,701,400
Current overdrafts	11,048,470	8,659,505
Financial assets	9,572,217	7,202,267
Credit cards	2,225,158	3,672,256
Balances at banks and financial institutions	3,720,353	3,285,275
Balances with PMA	2,664	244
	105,308,242	91,898,299

26. Interest Expense

This item comprises interest expense incurred on the following accounts:

	2015	2014
	U.S.$	U.S.$
Interest on customers' deposits		
Time deposits	16,177,836	11,771,190
Saving accounts	477,191	1,476,700
Current and demand accounts	242,849	207,970
	16,897,876	13,455,860
Interest on PMA's deposits	117,485	1,139,982
Interest on banks and financial institutions' deposits	404,949	1,831,824
	17,420,310	16,427,666

27. Net Commissions

This item comprises commissions against the following:

	2015	2014
	U.S.$	U.S.$
Commissions income:		
Direct credit facilities	9,383,251	9,458,703
Indirect credit facilities	3,803,751	4,032,779
Salaries commission	3,101,169	3,242,458
Bank transfers	3,999,518	3,568,128
Checks	3,972,556	3,486,647
Accounts' management	2,292,478	1,848,326
Other banking services	2,634,525	2,604,117
	29,187,248	28,241,158
Less: Commission expense	(1,419,612)	(1,166,582)
	27,767,636	27,074,576

28. Net Gain from Financial Assets

This item comprises the following:

	2015	2014
	U.S.$	U.S.$
Dividends from investments	1,704,136	1,752,679
Gain from sale of financial assets at fair value through profit or loss	-	621
Unrealized losses from revaluation of financial assets through profit or loss	(207,993)	(404,695)
Investment management expenses	(835,678)	(387,621)
	660,465	960,984

29. Other Revenues

	2015	2014
	U.S.$	U.S.$
Visa and Master cards issuance fees	4,820,282	4,947,980
Safe boxes rental	120,890	103,799
Gain (loss) on disposal of property, plant and equipment	434,442	(205)
Recovery of tax provisions no longer needed	-	2,844,898
Securities trading commissions	1,401,662	1,370,570
Sundry	3,382,284	1,432,483
	10,159,560	10,699,525

30. Personnel Expenses

	2015	2014
	U.S.$	U.S.$
Salaries and related benefits	26,617,353	24,352,922
Provision for employees' end of service	3,889,748	2,237,128
VAT on salaries	4,122,066	3,766,235
Bonuses and rewards	2,200,016	1,379,185
Clothing allowances	715,216	739,897
Travel and transportation	315,283	215,716
Training expenses	644,245	284,584
Medical expenses	1,457,782	1,464,229
Bank's contribution to saving fund	881,116	398,961
	40,842,825	34,838,857

31. Other Operating Expenses

	2015	2014
	U.S.$	U.S.$
Palestine Deposit Insurance Corporation *	5,530,547	4,759,102
Advertising	4,481,536	3,752,545
Social responsibility **	3,118,544	2,292,919
Telephone, postage and fax	2,074,208	1,731,175
Stationery and printings	1,417,780	1,170,849
Maintenance and repairs	2,523,470	1,995,971
Rent	1,670,524	1,377,268
Board of Directors bonuses	990,000	920,000
Utilities	1,139,022	1,494,571
Travel and seminars	771,686	522,565
License fees	565,348	599,597
Subscriptions fees	660,312	413,110
Fuel	794,339	774,507
Professional fees	853,308	637,875
Insurance	1,139,316	436,630
Cash shipping expense	1,074,897	740,012
Hospitality	344,407	217,418
Vehicles expense	121,469	270,830
Printing checks	99,842	201,616
Board of Directors meeting allowances	-	2,521
Sundry	1,630,802	956,473
	31,001,357	25,267,554

* 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 participate 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 a fine imposed on the Bank during 2015 by PMA in the amount of U.S.$ 5,000 due to non-compliance with circular No (4/2005) and fair credit.

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:

	2015	2014
	U.S.$	U.S.$
Cash and balances with PMA	684,752,354	346,222,324
Add:		
Balances at banks and financial institutions	319,370,957	581,758,608
	1,004,123,311	927,980,932
Less:		
Balances at banks and financial institutions matures in more than 3 months	(43,724,000)	(24,312,000)
PMA deposits	(58,989,649)	(24,086,209)
Banks and financial institutions' deposits	(101,273,608)	(753,769)
Statutory cash reserve	(200,492,927)	(171,650,884)
	599,643,127	707,178,070

34. Basic and Diluted Earnings Per Share

	2015	2014
	U.S.$	U.S.$
Profit for the year attributable to shareholders of the Bank	43,091,915	40,171,813
	Shares	Shares
Weighted average of subscribed shares	175,000,000	175,000,000
	U.S.$	U.S.$
Basic and diluted earnings per share attributable to shareholders of the Bank	0.25	0.23

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:

2015	Associates	Board of Directors and executive management	Others*	Total
	U.S.$	U.S.$	U.S.$	U.S.$
Consolidated statement of financial position items:				
Direct credit facilities	2,162,043	6,166,891	19,168,121	27,497,055
Deposits	420	1,051,692	6,540,684	7,592,796
Commitments and contingencies				
Letters of guarantees	-	456,624	241,170	697,794
Letters of credit	-	111,814	43,855	155,669
Unutilized limits	-	1,388,771	8,726,440	10,115,211
Consolidated Income statement items:				
Interest and commissions earned	42,516	158,679	1,030,213	1,231,408
Interest and commissions paid	-	6,503	101,539	108,042

2014	Associates	Board of Directors and executive management	Others*	Total
	U.S.$	U.S.$	U.S.$	U.S.$
Consolidated statement of financial position items:				
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
Commitments and contingencies				
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
Consolidated Income statement items:				
Interest and commissions earned	58,627	132,879	425,135	616,641
Interest and commissions paid	-	8,263	93,086	101,349

* 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, 2015 and 2014 represent 1.98% and 1.95%, respectively, from the net direct credit facilities.
- Net direct credit facilities granted to related parties as at December 31, 2015 and 2014 represent 11.69% and 12.03%, respectively, from the Bank's regulatory capital.
- Interest on U.S.$ direct credit facilities ranges between 1.8% to 14.4%.
- Interest on ILS direct credit facilities ranges between 3% to 16%.
- Interest on JOD direct credit facilities ranges between 7.5% to 11%.
- Interest on U.S.$ deposits ranges between 0.75% to 1.8%.

Compensation of key management personnel:

	2015	2014
	U.S.$	U.S.$
General Manager	788,641	713,040
Executive management's salaries and related benefits	1,691,582	1,250,485
Executive management's end of service provision	273,033	83,459
Board of Directors' Bonuses	990,000	920,000
Board of Directors' meeting allowance	-	2,521

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

	2015	2014
	U.S.$	U.S.$
Hashim Hani Al Shawa	104,823	90,000
Faysal Ghazi Alshawa	93,178	90,000
Hani Hassan Nijim	104,823	90,000
Maher Jawad Farah	104,823	90,000
Tareq Al Shakaa	104,823	90,000
Mohammed Hirbawi	104,823	80,000
John Khoury	104,823	80,000
Abdallah Alghanim	104,823	50,000
Lana Abu Hajla	104,823	50,000
Tariq Al Aqad	58,238	40,000
Mamon Abu Shahla	-	50,000
Youssef Mohamoud Nijim	-	40,000
Reyad Ali Zimmou	-	40,000
Awni Muhi Aldeen Skaik	-	40,000
	990,000	920,000

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 2.3% and 2.29% of profit for the year attributable to equity holders of the Bank for the years 2015 and 2014, respectively.

36. 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, 2015 and 2014:

	Carrying amount		Fair value	
	2015	2014	2015	2014
	U.S.$	U.S.$	U.S.$	U.S.$
Financial assets				
Cash and balances with PMA	684,752,354	346,222,324	684,752,354	346,222,324
Balances at banks and financial institutions	319,370,957	581,758,608	319,370,957	581,758,608
Financial assets at fair value through profit or loss	7,159,702	7,367,695	7,159,702	7,367,695
Direct credit facilities	1,388,805,441	1,151,825,644	1,388,805,441	1,151,825,644
Financial assets at fair value through other comprehensive income:				
Quoted stocks	23,017,696	21,226,201	23,017,696	21,226,201
Investment portfolios	1,105,082	1,202,430	1,105,082	1,202,430
Unquoted stocks	225,397	243,310	225,397	243,310
Financial assets at amortized cost:				
Treasury bills	90,213,330	86,222,823	90,213,330	86,222,823
Quoted bonds	148,703,577	125,520,212	148,656,929	122,236,222
Unquoted bonds	14,900,000	14,900,000	14,900,000	14,900,000
Other financial assets	21,602,202	10,865,754	21,602,202	10,865,754
Total assets	2,699,855,738	2,347,355,001	2,699,809,090	2,344,071,011
Financial liabilities				
PMA deposits	58,989,649	24,086,209	58,989,649	24,086,209
Banks and financial institutions' Deposits	101,273,608	753,769	101,273,608	753,769
Customers' deposits	2,153,616,828	1,908,480,620	2,153,616,828	1,908,480,620
Cash margins	89,165,470	154,043,455	89,165,470	154,043,455
Other financial liabilities	43,677,118	32,147,780	43,677,118	32,147,780
Total liabilities	2,446,722,673	2,119,511,833	2,446,722,673	2,119,511,833

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, some customers' deposits, some cash margins, and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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 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 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, 2015.

37. 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 2015 and 2014.

The following table provides the fair value measurement hierarchy of the Bank's assets as of December 31, 2015:

			Measurement of Fair Value by		
			Quoted prices in active markets	Significant observable input	Significant non-observable inputs
	Date of Evaluation	Total	(Level 1)	(Level 2)	(Level 3)
		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, 2015	7,159,702	7,159,702	-	-
Financial assets at fair value through other comprehensive income (note 9):					
Quoted	December 31, 2015	23,017,696	23,017,696	-	-
Units in the investment portfolio	December 31, 2015	1,105,082	-	1,105,082	-
Unquoted	December 31, 2015	225,397	-	-	225,397

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

	Date of Evaluation	Total	Measurement of Fair Value by: Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
		U.S.$	U.S.$	U.S.$	U.S.$
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	-	-
Units in the investment portfolio	December 31, 2014	1,202,430	-	1,202,430	-
Unquoted	December 31, 2014	243,310	-	-	243,310

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:

	2015			2014		
	Assets	Liabilities and equity	Items out of consolidated statement of financial position	Assets	Liabilities and equity	Items out of consolidated statement of financial position
By geographical area						
Palestine	2,222,165,011	2,728,231,932	318,551,424	1,640,352,467	2,424,020,315	337,828,084
Israel	36,952,598	-	1,073,983	67,831,129	-	4,746,076
Jordan	216,715,650	1,711,300	13,476,243	237,505,696	-	19,492,850
Europe	138,913,643	25,608,190	18,635,770	266,879,722	-	14,012,288
USA	26,897,004	-	551,107	56,901,697	-	160,450
Others	143,559,334	29,651,818	10,147,587	155,303,250	753,646	15,849,716
Total	2,785,203,240	2,785,203,240	362,436,114	2,424,773,961	2,424,773,961	392,089,464
By sector						
Retail	494,272,998	822,712,861	218,279,836	457,821,873	982,759,438	206,081,706
Corporate, institutions and public sector	894,532,443	1,423,237,989	-	694,003,771	1,088,841,534	186,007,758
Treasury	1,311,270,549	160,263,258	144,156,278	1,206,157,002	24,839,977	-
Others	85,127,250	378,989,132	-	66,791,315	328,333,012	-
Total	2,785,203,240	2,785,203,240	362,436,114	2,424,773,961	2,424,773,961	392,089,464

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

	2015	2014
	U.S.$	U.S.$
Consolidated statement of financial position items		
Balances with PMA	214,869,785	186,253,666
Balances at banks and financial institutions	319,370,957	581,758,608
Direct credit facilities:		
Retail	494,272,998	457,821,873
Corporate and institutions	547,664,620	409,299,593
Public sector	346,867,823	284,704,178
Financial assets at amortized cost	253,816,907	226,643,035
Other assets	21,602,202	10,865,754
	2,198,465,292	2,157,346,707
Commitments and contingencies		
Letters of guarantees	180,079,687	146,158,635
Letters of credit	19,981,010	25,464,919
Acceptances	25,594,303	25,288,727
Unutilized credit facilities limits	136,781,114	195,177,183
	362,436,114	392,089,464

Credit risk exposure for each risk rating

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

	December 31, 2015			
	Retail	Corporate and institutions	Public sector	Total
	U.S.$	U.S.$	U.S.$	U.S.$
Low risk	4,470,297	92,961,509	346,857,670	444,289,476
Acceptable risk	484,268,569	435,398,623	-	919,667,192
From which is due:				
Until 30 days	12,974,994	16,546,015	885,261	30,406,270
Watch list	3,162,250	11,326,649	-	14,488,899
Non-performing:				
Substandard	2,071,812	1,519,424	-	3,591,236
Doubtful	5,322,462	18,868,777	256,082	24,447,321
Total	499,295,390	560,074,982	347,113,752	1,406,484,124
Suspended interest and commissions	(774,816)	(4,379,757)	(3,629)	(5,158,202)
Impairment allowance for credit facilities	(4,247,576)	(8,030,605)	(242,300)	(12,520,481)
	494,272,998	547,664,620	346,867,823	1,388,805,441

	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

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

	December 31, 2015			
	Retail	Corporate and institutions	Public sector	Total
	U.S.$	U.S.$	U.S.$	U.S.$
Collaterals against:				
Low risk	2,773,817	73,754,374	-	76,528,191
Acceptable risk	18,321,290	335,054,579	-	353,375,869
Watch list	410,217	3,582,883	-	3,993,100
Non-performing:				
Substandard	929,197	524,493	-	1,453,690
Doubtful	3,595,948	2,041,230	10,153	5,647,331
Total	26,030,469	414,957,559	10,153	440,998,181
Comprising :				
Cash margins	2,741,569	42,534,485	10,153	45,286,207
Precious metals	253,595	477,719	-	731,314
Quoted stocks	88,506	7,896,112	-	7,984,618
Vehicles and equipment	5,703,302	18,775,174	-	24,478,476
Real estate	17,243,497	345,274,069	-	362,517,566
	26,030,469	414,957,559	10,153	440,998,181

	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

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

2015	Palestine U.S.$	Arab Countries U.S.$	Israel U.S.$	Europe U.S.$	USA U.S.$	Others U.S.$	Total U.S.$
Cash and balances with PMA	214,869,785	-	-	-	-	-	214,869,785
Balances at banks and financial institutions	18,103,116	66,923,427	36,355,618	122,766,138	4,087,000	71,135,658	319,370,957
Direct credit facilities	1,383,753,257	150,044	596,980	4,008,309	101,466	195,385	1,388,805,441
Financial assets at amortized cost	14,900,000	131,840,882	-	12,139,196	22,708,538	72,228,291	253,816,907
Other financial assets	21,602,202	-	-	-	-	-	21,602,202
Total as at December 31, 2015	1,653,228,360	198,914,353	36,952,598	138,913,643	26,897,004	143,559,334	2,198,465,292
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

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

2015	Financial U.S.$	Industrial U.S.$	Commercial U.S.$	Real estate U.S.$	Financial securities U.S.$	Public sector U.S.$	Others U.S.$	Total U.S.$
Cash and balances with PMA	214,869,785	-	-	-	-	-	-	214,869,785
Balances at banks and financial institutions	319,370,957	-	-	-	-	-	-	319,370,957
Direct credit facilities	18,055,782	64,504,742	184,650,524	99,334,288	479,412	346,867,823	674,912,870	1,388,805,441
Financial assets at amortized cost	79,631,471	3,900,000	-	-	104,755,413	-	65,530,023	253,816,907
Other financial assets	-	-	-	-	-	-	21,602,202	21,602,202
December 31, 2015	631,927,995	68,404,742	184,650,524	99,334,288	105,234,825	346,867,823	762,045,095	2,198,465,292
Total as at December 31, 2014	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

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:

	2015		2014	
Currency	Increase in interest rate (basis points)	Interest income sensitivity (consolidated income statement) U.S.$	Increase in interest rate (basis points)	Interest income sensitivity (consolidated income statement) U.S.$
US Dollar	10	727,161	10	744,638
Jordanian Dinar	10	127,958	10	128,344
Israeli Shekels	10	162,444	10	274,222
Other currencies	10	35,212	10	16,432

Interest rate re-pricing sensitivity gap

December 31, 2015

	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.$
Assets							
Cash and balances with PMA	-	-	-	-	-	684,752,354	684,752,354
Balances at banks and financial institutions	129,991,537	19,548,513	41,537,800	2,186,200	-	126,106,907	319,370,957
Financial assets at fair value through profit or loss	-	-	-	-	-	7,159,702	7,159,702
Direct credit facilities	304,960,157	76,300,094	95,659,557	389,460,717	522,424,916	-	1,388,805,441
Financial assets at fair value through other comprehensive income	-	-	-	-	-	24,348,175	24,348,175
Financial assets at amortized cost	-	749,975	7,052,186	29,542,306	216,472,440	-	253,816,907
Investment in associates	-	-	-	-	-	18,776,355	18,776,355
Property, plant and equipment	-	-	-	-	-	50,059,029	50,059,029
Projects in progress	-	-	-	-	-	2,982,306	2,982,306
Other assets	-	-	-	-	-	35,132,014	35,132,014
Total Assets	434,951,694	96,598,582	144,249,543	421,189,223	738,897,356	949,316,842	2,785,203,240
Liabilities							
PMA deposits	58,989,649	-	-	-	-	-	58,989,649
Banks and financial institutions' deposits	101,273,608	-	-	-	-	-	101,273,608
Customers' deposits	179,972,753	186,612,411	48,394,719	113,007,443	94,861,257	1,530,768,245	2,153,616,828
Cash margins	-	-	-	-	-	89,165,470	89,165,470
Sundry provisions	-	-	-	-	-	21,727,908	21,727,908
Tax provisions	-	-	-	-	-	2,926,053	2,926,053
Other liabilities	-	-	-	-	-	51,747,420	51,747,420
Total Liabilities	340,236,010	186,612,411	48,394,719	113,007,443	94,861,257	1,696,335,096	2,479,446,936
Equity							
Paid-in share capital	-	-	-	-	-	175,000,000	175,000,000
Additional paid-in capital	-	-	-	-	-	9,034,692	9,034,692
Statutory reserve	-	-	-	-	-	36,332,937	36,332,937
Voluntarily reserve						205,523	205,523
General banking risks reserve	-	-	-	-	-	22,655,293	22,655,293
Pro-cyclicality reserve	-	-	-	-	-	34,232,752	34,232,752
Fair value reserve	-	-	-	-	-	(3,109,880)	(3,109,880)
Retained earnings	-	-	-	-	-	30,647,037	30,647,037
Total equity holders of the Bank	-	-	-	-	-	304,998,354	304,998,354
Non-controlling interests	-	-	-	-	-	757,950	757,950
Total Equity	-	-	-	-	-	305,756,304	305,756,304
Total liabilities and equity	340,236,010	186,612,411	48,394,719	113,007,443	94,861,257	2,002,091,400	2,785,203,240
Interest rate re-pricing sensitivity gap	94,715,684	(90,013,829)	95,854,824	308,181,780	644,036,099	(1,052,774,558)	-
Cumulative gap	94,715,684	4,701,855	100,556,679	408,738,459	1,052,774,558	-	-

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	Non-interest bearing items	Total
	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$
Total assets	699,033,399	81,905,867	111,752,010	152,063,788	635,766,849	744,252,048	2,424,773,961
Total liabilities and equity	349,264,417	86,252,622	32,462,033	43,935,789	4,971,901	1,907,887,199	2,424,773,961
Interest rate re-pricing sensitivity gap	349,768,982	(4,346,755)	79,289,977	108,127,999	630,794,948	(1,163,635,151)	-
Cumulative gap	349,768,982	345,422,227	424,712,204	532,840,203	1,163,635,151	-	-

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:

	2015		2014	
	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	316,490	10	(29,497)
Other currencies	10	528,264	10	54,186

Following is the foreign currencies position of the Bank:

	JOD	ILS	Others	Total
December 31, 2015	U.S.$	U.S.$	U.S.$	U.S.$
Assets				
Cash and balances with PMA	67,219,603	481,574,883	9,091,473	557,885,959
Balances at banks and financial institutions	56,212,503	25,003,196	90,120,970	171,336,669
Financial assets at fair value through profit and loss	5,940,817	-	-	5,940,817
Direct credit facilities	254,562,847	386,481,061	18,543,041	659,586,949
Financial assets at fair value through other comprehensive Income	17,804,852	-	-	17,804,852
Financial assets at amortized cost	88,677,590	-	8,865,255	97,542,845
Other assets	2,331,271	2,588,698	326,628	5,246,597
Total Assets	492,749,483	895,647,838	126,947,367	1,515,344,688
Liabilities				
PMA deposits	-	43,846,617	15,143,031	58,989,648
Banks and financial institutions' deposits	1,373,943	98,079,385	1,482,800	100,936,128
Customers' deposits	481,451,084	712,765,932	98,966,237	1,293,183,253
Cash margins	7,544,412	23,252,733	5,653,866	36,451,011
Other liabilities	2,071,861	14,538,269	418,798	17,028,928
Total Liabilities	492,441,300	892,482,936	121,664,732	1,506,588,968
Statement of financial position concentration	308,183	3,164,902	5,282,635	8,755,720
Commitments and contingencies	17,842,793	90,072,805	26,643,985	134,559,583

	JOD	ILS	Others	Total
December 31, 2014	U.S.$	U.S.$	U.S.$	U.S.$
Total assets	414,038,208	626,287,834	116,935,630	1,157,261,672
Total liabilities and Equity	415,784,140	626,582,803	116,393,774	1,158,760,717
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

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:

		2015		2014	
	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	715,970	521,284	736,770	501,581
Foreign markets	10	-	1,780,485	-	1,621,039

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, 2015 and 2014, respectively:

December 31, 2015	Up to 1 Month U.S.$	More than 1 month to 3 months U.S.$	More than 3 months to 6 months U.S.$	More than 6 months up to 1 year U.S.$	More than 1 year to 3 years U.S.$	More than 3 years U.S.$	Without maturity U.S.$	Total U.S.$
Assets								
Cash and balances with PMA	484,259,427	-	-	-	-	-	200,492,927	684,752,354
Balances at banks and financial institutions	254,966,334	19,548,513	41,537,800	2,186,200	-	-	1,132,110	319,370,957
Financial assets at fair value through profit and loss	-	-	-	-	-	-	7,159,702	7,159,702
Direct credit facilities	45,253,058	66,764,490	82,000,332	474,852,928	377,463,987	342,470,646	-	1,388,805,441
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	24,348,175	24,348,175
Financial assets at amortized cost	-	749,975	7,052,186	29,542,306	45,353,868	171,118,572	-	253,816,907
Investment in associates	-	-	-	-	-	-	18,776,355	18,776,355
Property, plant and equipment	-	-	-	-	-	-	50,059,029	50,059,029
Projects in progress	-	-	-	-	-	-	2,982,306	2,982,306
Other assets	21,602,202	-	-	-	-	-	13,529,812	35,132,014
Total assets	806,081,021	87,062,978	130,590,318	506,581,434	422,817,855	513,589,218	318,480,416	2,785,203,240
Liabilities:								
PMA deposits	58,989,649	-	-	-	-	-	-	58,989,649
Banks and financial institutions' deposits	101,273,608	-	-	-	-	-	-	101,273,608
Customers' deposits	456,441,992	187,500,650	460,846,760	389,353,238	458,519,634	200,954,554	-	2,153,616,828
Cash margins	-	-	5,619,616	9,149,355	63,732,477	10,664,022	-	89,165,470
Sundry provisions	-	-	-	-	-	-	21,727,908	21,727,908
Tax provisions	-	-	-	-	-	-	2,926,053	2,926,053
Other liabilities	43,677,118	-	-	-	-	-	8,070,302	51,747,420
Total liabilities	660,382,367	187,500,650	466,466,376	398,502,593	522,252,111	211,618,576	32,724,263	2,479,446,936
Equity								
Paid-in share capital	-	-	-	-	-	-	175,000,000	175,000,000
Additional paid-in capital	-	-	-	-	-	-	9,034,692	9,034,692
Statutory reserve	-	-	-	-	-	-	36,332,937	36,332,937
Voluntarily reserve							205,523	205,523
General banking risks reserve	-	-	-	-	-	-	22,655,293	22,655,293
Pro-cyclicality reserve	-	-	-	-	-	-	34,232,752	34,232,752
Fair value reserve	-	-	-	-	-	-	(3,109,880)	(3,109,880)
Retained earnings	-	-	-	-	-	-	30,647,037	30,647,037
Total equity holders of the Bank	-	-	-	-	-	-	304,998,354	304,998,354
Non-controlling interests	-	-	-	-	-	-	757,950	757,950
Total equity	-	-	-	-	-	-	305,756,304	305,756,304
Total liabilities and equity	660,382,367	187,500,650	466,466,376	398,502,593	522,252,111	211,618,576	338,480,567	2,785,203,240
Maturity gap	145,698,654	(100,437,672)	(335,876,058)	108,078,841	(99,434,256)	301,970,642	(20,000,151)	-
Cumulative gap	145,698,654	45,260,982	(290,615,076)	(182,536,235)	(281,970,491)	20,000,151	-	-

December 31, 2014	Up to 1 Month U.S.$	More than 1 month to 3 months U.S.$	More than 3 months to 6 months U.S.$	More than 6 months up to 1 year U.S.$	More than 1 year to 3 years U.S.$	More than 3 years U.S.$	Without maturity U.S.$	Total U.S.$
Assets								
Cash and balances with PMA	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 and 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
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	64,358,778	129,310,395	-	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
Total assets	849,013,278	90,856,139	134,639,318	277,512,838	395,131,327	397,379,471	280,241,590	2,424,773,961
Liabilities:								
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
Cash margins	-	79,283,153	6,447,630	7,383,369	51,816,609	9,112,694	-	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
Total liabilities	475,538,056	250,102,471	419,338,245	352,893,717	429,462,606	192,176,738	25,155,550	2,144,667,383
Equity								
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
Total equity holders of the Bank	-	-	-	-	-	-	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	475,538,056	250,102,471	419,338,245	352,893,717	429,462,606	192,176,738	305,262,128	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	-	-

40. Maturities of Assets and Liabilities

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

	December 31, 2015			
	Up to 1 year	More than 1 year	Without maturity	Total
	U.S.$	U.S.$	U.S.$	U.S.$
Assets				
Cash and balances with PMA	484,259,427	-	200,492,927	684,752,354
Balances at banks and financial institutions	318,238,847	-	1,132,110	319,370,957
Financial assets at fair value profit and loss	-	-	7,159,702	7,159,702
Direct credit facilities	668,870,808	719,934,633	-	1,388,805,441
Financial assets at fair value through other comprehensive income	-	-	24,348,175	24,348,175
Financial assets at amortized cost	37,344,467	216,472,440	-	253,816,907
Investment in associates	-	-	18,776,355	18,776,355
Property, plant and equipment	-	-	50,059,029	50,059,029
Projects in progress	-	-	2,982,306	2,982,306
Other assets	21,602,202	-	13,529,812	35,132,014
Total Assets	1,530,315,751	936,407,073	318,480,416	2,785,203,240
Liabilities				
PMA deposits	58,989,649	-	-	58,989,649
Banks and financial institutions' deposits	101,273,608	-	-	101,273,608
Customers' deposits	1,494,142,640	659,474,188	-	2,153,616,828
Cash margins	14,768,971	74,396,499	-	89,165,470
Sundry Provisions	-	-	21,727,908	21,727,908
Tax provisions	-	-	2,926,053	2,926,053
Other liabilities	43,677,118	-	8,070,302	51,747,420
Total Liabilities	1,712,851,986	733,870,687	32,724,263	2,479,446,936
Equity				
Paid-in share capital	-	-	175,000,000	175,000,000
Additional paid-in capital	-	-	9,034,692	9,034,692
Statutory reserve	-	-	36,332,937	36,332,937
Voluntarily reserve	-	-	205,523	205,523
General banking risks reserve	-	-	22,655,293	22,655,293
Pro-cyclicality reserve	-	-	34,232,752	34,232,752
Fair value reserve	-	-	(3,109,880)	(3,109,880)
Retained earnings	-	-	30,647,037	30,647,037
Total equity holders of the Bank	-	-	304,998,354	304,998,354
Non-controlling interests	-	-	757,950	757,950
Total equity	-	-	305,756,304	305,756,304
Total Liabilities and Equity	1,712,851,986	733,870,687	338,480,567	2,785,203,240
Maturity gap	(182,536,235)	202,536,386	(20,000,151)	-
Cumulative maturity gap	(182,536,235)	20,000,151	-	-

	December 31, 2014			
	Up to 1 year	More than 1 year	Without maturity	Total
	U.S.$	U.S.$	U.S.$	U.S.$
Assets				
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 and 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
Total Assets	1,352,021,573	792,510,798	280,241,590	2,424,773,961
Liabilities				
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
Total Liabilities	1,497,872,489	621,639,344	25,155,550	2,144,667,383
Equity				
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
Total equity holders of the Bank	-	-	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	1,497,872,489	621,639,344	305,262,128	2,424,773,961
Maturity gap	(145,850,916)	170,871,454	(25,020,538)	-
Cumulative maturity gap	(145,850,916)	25,020,538	-	-

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	Other	Total 2015	Total 2014
	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$
Gross revenues	66,610,227	42,346,532	20,956,285	25,714,112	155,627,156	137,882,905
Impairment allowance for direct credit facilities	(1,787,394)	(1,994,824)	-	-	(3,782,218)	(3,025,222)
Recovery of impairment allowance for direct credit facilities	549,439	710,539	-	-	1,259,978	1,319,424
Segment results	47,402,524	40,351,708	19,536,674	29,496,328	136,787,234	120,288,657
Unallocated expenses					(82,216,779)	(68,629,392)
Profit before taxes					54,570,455	51,659,265
Taxes expense					(11,403,022)	(11,436,759)
Profit for the year					43,167,433	40,222,506
Other segment information:						
Depreciation and amortization					6,065,634	4,997,087
Capital expenditures					10,187,906	8,494,046
Total segment assets	494,272,998	894,532,443	1,311,270,549	85,127,250	2,785,203,240	2,424,773,961
Total segment liabilities	822,712,861	1,423,237,989	160,263,258	73,232,828	2,479,446,936	2,144,667,383

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 2015	Domestic 2014	Foreign 2015	Foreign 2014	Total 2015	Total 2014
	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$
Gross revenues	144,841,722	127,244,862	10,785,434	10,638,043	155,627,156	137,882,905
Total assets	2,222,165,011	1,640,352,467	563,038,229	784,421,494	2,785,203,240	2,424,773,961
Capital expenditures	10,187,906	8,494,046	-	-	10,187,906	8,494,046

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 through stock dividends in the amount of U.S.$ 15 million and U.S.$ 10 million during 2015 and 2014, respectively, making up capital to reach U.S.$ 175 million and U.S.$ 160 million as of December 31, 2015 and 2014, 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 2015 compared to 2014:

	2015			2014		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S.$	%	%	U.S.$	%	%
Regulatory capital	235,135,097	8.44	14.46	186,827,481	7.7	13.11
Basic capital	250,337,732	8.99	15.40	225,829,884	9.3	15.85

43. Commitments and Contingent Liabilities

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

	2015	2014
	U.S.$	U.S.$
Letters of guarantees	180,079,687	146,158,635
Letters of credit	19,981,010	25,464,919
Acceptances	25,594,303	25,288,727
Unutilized credit facilities limits	136,781,114	195,177,183
	362,436,114	392,089,464

Outstanding forward contracts as at December 31, 2015 amounted to U. S. $ 13,553,205, which are not disclosed as part of commitments and contingent liabilities as the Bank hedges risks of these contracts with other banks. In addition, the Bank obtains 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, 2015 and 2014 was (51) and (40) in the normal course of business with a total amount of U.S.$ 12,111,145 and U.S.$ 11,529,284, respectively. Bank's management and lawyer believe that no additional provision is required other than what was provided for (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 finance 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. Subsequent Events

The Bank's Board of Directors agreed on March 3, 2016 to acquire additional 31% of the share capital of the Arab Islamic Bank which will increase the Bank's shareholding to 51.98%. In addition, the Bank's Board of Directors agreed to merge with the Commercial Bank of Palestine (CBP) by issuing one share of the Bank's shares against three shares of the CBP. The acquisition and merger were approved by Palestinian Monetary Authority and are subject to Bank's shareholders' approval in its extra-ordinary meeting expected to be held on March 25, 2016.