بنك فلسطين
BANK OF PALESTINE

ESTABLISHED 1960

2016

Annual Report & Financial Statements

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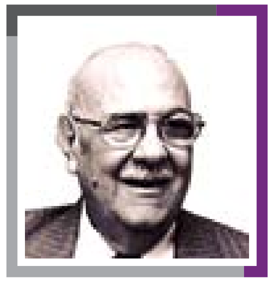


The late Hashim Atta Al Shawa,
Early founder of the Bank and who held it through different periods of turmoil and time periods, giving it the innate attributes of resilience and entrenched values.

The late Dr. Hani Hashim Al Shawa,
Former Chairman, whose legacy of sound management and modernized banking we are still upholding today, giving the bank a road map towards an inclusive vision and a sustainable strategy.

About Bank of Palestine (BOP)

Bank of Palestine has a long embedded presence and experience in Palestine dating back to 1960. Bank of Palestine is constantly growing to be financially inclusive, and socially responsible at the cutting edge of global financial practice and innovation. The bank has the most widespread branch network in Palestine of 69 branches with a paid up capital of $195 million, and assets of USD 4.11 billion and with 1,652 employees serving around 890,768 customers. BOP is engaged in retail, corporate, micro & SME, and Diaspora banking operations. BOP is the sole agent for issuing and acquiring Visa and MasterCard in Palestine with over 6,230 Point of Sale merchant terminals nationwide. BOP is involved in large project finance loan syndications. It adopts a holistic sustainability strategy; and has as such worked with the International Finance Corporation (IFC) to develop a stringent risk management & governance structure. BOP has been the leader in Corporate Social Responsibility (CSR) in Palestine dedicating 6% of its net profit to community & human development.

Bank of Palestine's stock (PEX: BOP) has been listed on the Palestine Exchange (PEX) since 2005. Bank of Palestine prides itself for maintaining a healthy and reliable dividends distribution commitment to its shareholders. For the last 10 years the bank has distributed in both stock dividends and cash dividends between 15%-37% of the par value of the stock annually. We have also seen a significant appreciation in the bank's market capitalization which was at USD$ 185 million as of Dec 31, 2007 and reached USD $516,773,015 as of December 31, 2016, representing 15.24% of the capitalization of the Palestine Exchange. This consistent distribution of profits has helped the bank maintain a healthy level of capital adequacy; enabling the bank to sustain its growth strategy and in turn honor its shareholder value commitment. The Bank has a diversified shareholder base from international institutional entities; such as the IFC; the private sector arm of the World Bank Group; and other international, local and diaspora investors.

Modernized Banking Rooted in Values

Our Vision

We aspire to become a valued & distinguished financial and banking institution on both the local and regional levels.

Our Mission

Bank of Palestine is endowed with a mission rooted in a value system that is humane and friendly, promoting real practice of inclusive banking and customer care. We will strive to grow while remaining local at heart with global standards, but energized with agile innovation in finance and banking in order to impact positively human and economic development at home and in the globe.

- Net profit of USD 53.055 million for year end 2016 with a 22.91% increase compared to USD 43.167 in 2015.
- Gross Income of USD 177.496 million for year-end 2016, up by 29.76%, compared with USD 136.787 million in 2015
- Total assets up by 47.88% at USD 4.118 billion at year end 2016 compared with USD 2.785 billion at the end of 2015
- Loans at USD 2.213 billion at year end 2016, up by 59.38 % compared to USD 1.388 billion at the end of 2015.
- Customer deposits at USD 3.143 billion at year end 2016, up by 40.15% from USD 2.242 billion at the end of 2015
- Total shareholders' equity reached USD 403.574 million year end 2016, an increase of 32% compared with USD 305.756 million at the end of 2015.

Hashim Shawa
Chairman and 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 31st, 2016.

Bank of Palestine (BOP), in year end results for 2016 was able to report its first consolidated annual results after the successful merger with Palestinian Commercial Bank (PCB) with an operating income of USD177,496,684 in 2016, compared with USD 136,787,234 for the same period in 2015, reflecting an increase of 29.76%. The bank's net profit reached USD 53,055,980 achieving a 22.91% increase in comparison with USD 43,167,433 in 2015.

The Bank was able to achieve both organic growth from its own operations and diversified income from investments in subsidiary companies; mainly from its increased stake in Islamic Banking Operations. The Bank's continued thrust into Medium & Small Enterprises -MSMEs including women banking with a healthy diversified lending strategy increased overall loan portfolio to USD 2,213,463,765 with a marked increase of 59.38%; compared to USD 1,388,805,441. BOP continued to maintain below industry standard Non Performing Loan Ratio of only 1.9%.

The bank's customer deposits reached USD 3,143,151,591 at the end of 2016, marking an increase of 40.15% compared with USD 2,242,782,298 at the end of 2015. These positive upward outcomes are a result of increased outreach to the unbanked segment of the population through sustained financial inclusion assisted by both an additional branch network spanning the West Bank and Gaza; in addition to enhancing Digital Banking channels; delivering online banking interface and mobile customer experience round the clock; reaching additional customer segments.

The Bank's total assets grew by 47.88 % reaching USD 4,118,629,230 compared with USD 2,785,203,240 at the end of 2015. While total shareholders› equity reached USD 403,574,797 with an increase of 32% compared with USD 305,756,304 in 2015.

Growth at Home

Bank of Palestine continued to grow organically as a result of its niche strategic direction towards MSME lending and women banking achieving higher goals and standards in financial inclusion. The year 2016 witnessed the successful completion of the Palestinian Commercial Bank (PCB) merger with Bank of Palestine with impact on our balance sheet affecting positively all our operational key performance indicators; assets, deposits, loans, branch network and client base. Additionally the consolidation of the Arab Islamic Bank (AIB) results have equally impacted both the Balance Sheet and P&L statement of our bank. This acquisition has provided the bank with full coverage of banking & financial services including Islamic Banking Solutions with a huge potential of growth in the local market for Islamic Banking which stands to grow at par with regional market shares. Today Bank of Palestine is acting as a group with additional resources covering all banking services; retail, corporate, MSME, and Islamic banking solutions.

Our other subsidiary investments also contributed to the diversified of financial results of 2016. Both Palpay with its increased market penetration in the electronic payment domain and Al Wasata brokerage firm in its marked volumes of transactions attracting additional customers, have reported positive results.

Growth Internationally

Bank of Palestine remains aware of its duty to also serve the more than 7.6 million Palestinians living in the diaspora, In addition to serving investors who are keen to do business with Palestine through offices outside Palestine. In 2016 the bank officially inaugurated its first representative office outside Palestine in Dubai, UAE at the Dubai International Financial Centre (DIFC). The office today is providing financial advisory and investment guidance to the well placed Palestinian Diaspora in the GCC and other interested investors. A second representative office in Santiago, Chile is scheduled for opening on during the 3rd Quarter of 2017; serving that country's 500,000 Chileans of Palestinian origin with evolving connections with their original home Palestine

Sustaining Financial Inclusion

The bank continued to build on its long term strategic financial inclusion commitments. The flagship women inclusion program "Felestineya" grew in its appeal and attracted more than 1000 women for its Mini-MBA program providing specially designed financial and non-financial skill set development to women business owners. The program offered women designed banking products of collateral free loans, gold collateral loans and other enablers providing the bank with access to an important under-banked population segment.

The MSME portfolio remains a clear manifestation of the Bank's implementation of its financial inclusion policies achieving a 32% growth in the portfolio and targeting new areas of scope and segments of the sector which continues to remain a dominant contributor to the Palestinian economy.

Modernized Banking

Bank of Palestine is keen to support its organic growth strategy with enhanced digital banking channels in addition to physical branch channels in line with modern banking trends and customer demands for digital banking platforms.

In 2016 the bank launched version 2 of the first Mobile application bank e allowing customers to have a more enhanced experience while settling their bills and transferring funds to a friend using their registered mobile number at the bank. This has helped the bank service more customers electronically increasing subscriptions in the bank e service to 60,000 customers.

In the area of cards business, Visa Electron cards were switched to Visa Debit cards enjoying instant issuing ability of these Debit Cards at all branches helping to further promote more plastic business and improving customer experience via more e channels and instant digital banking services.

Values

We refer to 2016 as the year we achieved: Modernized Banking Rooted in Values. 2016 as such; was the year we did not only grow in size, operations, and digital channels; but the year we also grew in values while continuing to apply highest standards of modern banking.

Bank of Palestine's efforts in financial inclusion aimed at serving the still 50% unbanked population was duly recognized by the Global Alliance for Banking on Values – GABV (www.gabv.org). Bank of Palestine was accepted as full-fledged member in the alliance as the first Bank from the Middle East Region.

The Bank was also awarded Best Global Bank in Financial Inclusion by the Banker Magazine of the Financial Times in December 2016 in recognition for its pioneering work in women inclusion under the women flagship Felestineya Program and for its innovative financial inclusion through electronic payment platforms targeting the rural and the unbanked in Palestine in partnership with our Fin Tech subsidiary PalPay.

As a bank committed to women inclusion inside and outside the bank, we have asked UN Women and the ILO to conduct a gender audit on the bank. We are happy with the results revealed in in the third quarter of 2016 showing BOP's gender inclusion practices as far reaching. Today women employees at senior and all levels make up 32% of the bank's total staff with an aim to reach the equilibrium level of 50% males- 50% females as part of our self-imposed Gender Equity inclusion policies.

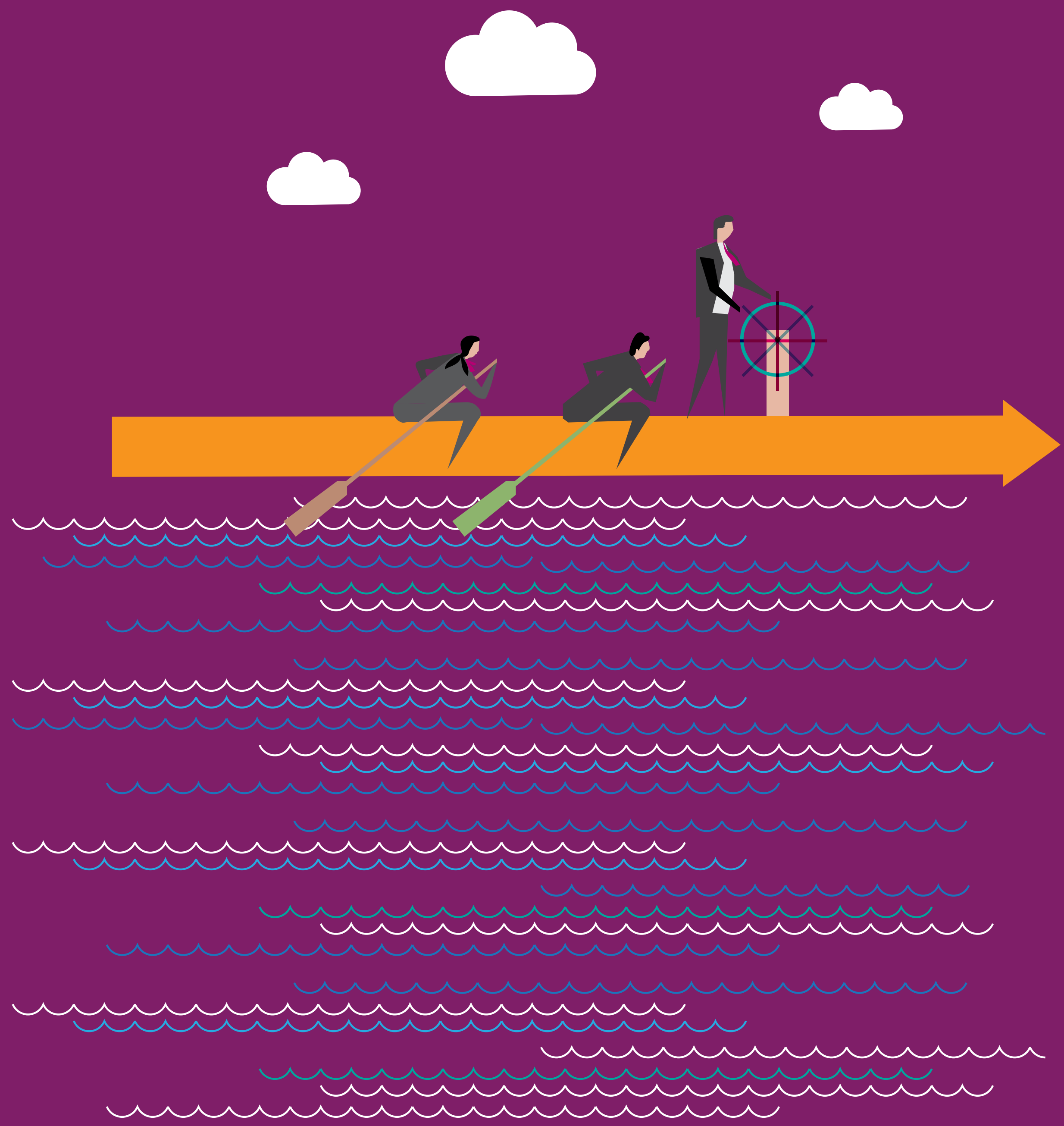
Future Outlook

Bank of Palestine is confident about the innate growth potentials imbedded in the Palestinian economy and banking sector. There is an opportunity to serve the more than 50% of the population that remains unbanked and the more than 76% of the population that is under the age of 34. Factoring these demographics and changing customer behaviors, the bank is focusing on developing e channels and delving more into digital banking to support efficient growth in line with new technology trends and customer segmentation.

As a bank responsible towards all its shareholders and stakeholders, we are aware of the fact that growth in assets and size is not our sole target. To continue to provide value to all; we have to remain sustainable and agile. The bank is working on efficiency enhancement post-merger to improve profits. We have created a Project Management Office and entrusted management with the strategic directive towards achieving sustainable profitable growth via enhanced efficiency, optimizing of resources, customer segmentation, and reduction of operational expenses while strengthening our risk management.

Hashim Shawa

Chairman and General Manager



The Palestine Monetary Authority

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 enjoys a strong regulatory environment especially in the banking sector. The Palestine Monetary Authority (PMA) has continued implementing Basel II & III instructions to banks operating in Palestine in 2016. The PMA continued to receive positive appraisal from international monetary agencies about its strict implementation of the Anti Money Laundering (AML) and CTF rules in Palestine. it should be noted that in 2015 the Palestinian President has also officially decreed Palestinian (AML) and CTF laws strengthening the legal environment in Palestine to combat all illegal activities. The PMA has created an independent Deposit Insurance Agency covering depositors and enhanced readiness for disaster recovery for the banking system.

Regulatory Environment

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.

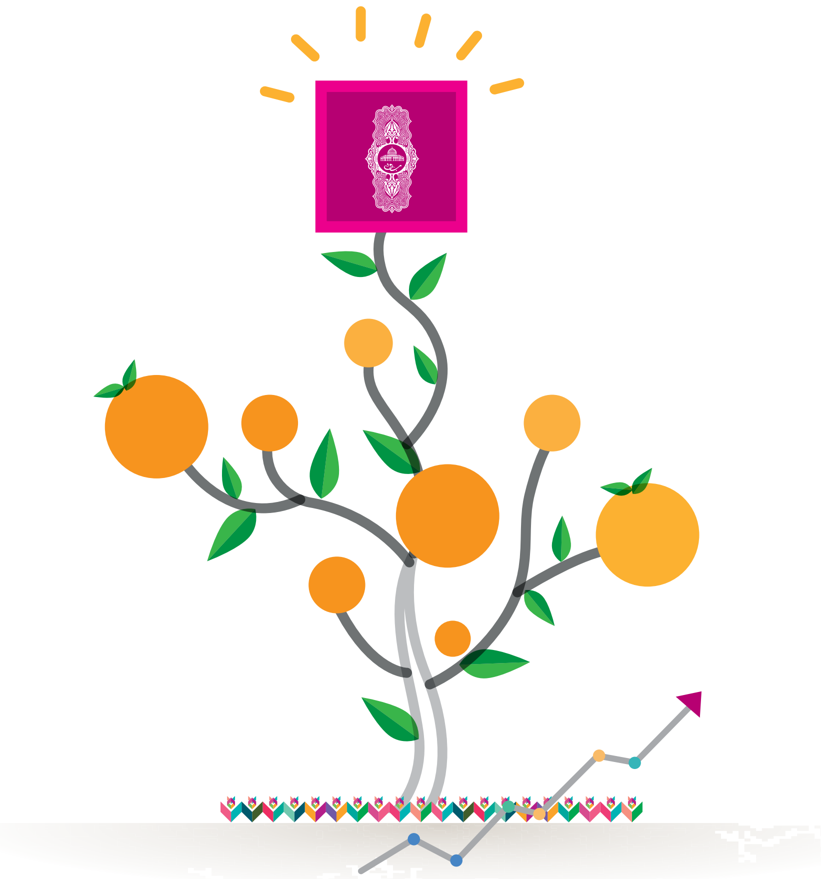
The PEX operates under the supervision of the Palestine Capital Market Authority (PCMA). It uses best-of-breed technology and strives to provide an enabling environment for trading that is characterized by equity, transparency, and competence as well as serving and maintaining the interest of investors. 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 48 listed companies trade on PEX as of 31 December 2016, 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 was accepted as a full member in The World Federation of Exchanges (WFE) in 2016. Membership was hailed a recognition for PEX's commitment to the highest levels of transparency, disclosure and investor protection, in spite of Palestine's geopolitical conditions, the surrounding regional environment and challenging economic conditions.

It was a step towards positioning Palestine on the global investment scene and a positive indicator for many institutional investors and investment funds, reflecting compliance with international standards.

In another context 2016 was also the year the FTSE Russell indices upgraded PEX to Frontier Market status; enhancing PEX's competitive position among regional markets, giving it greater momentum and a wider spread globally.



Bank of Palestine Market Share
in the Palestine Exchange

%15.24

Bank of Palestine Market Share in deposits
in Banking Sector

% 29.67

Bank of Palestine Market Share in loans
in Banking Sector

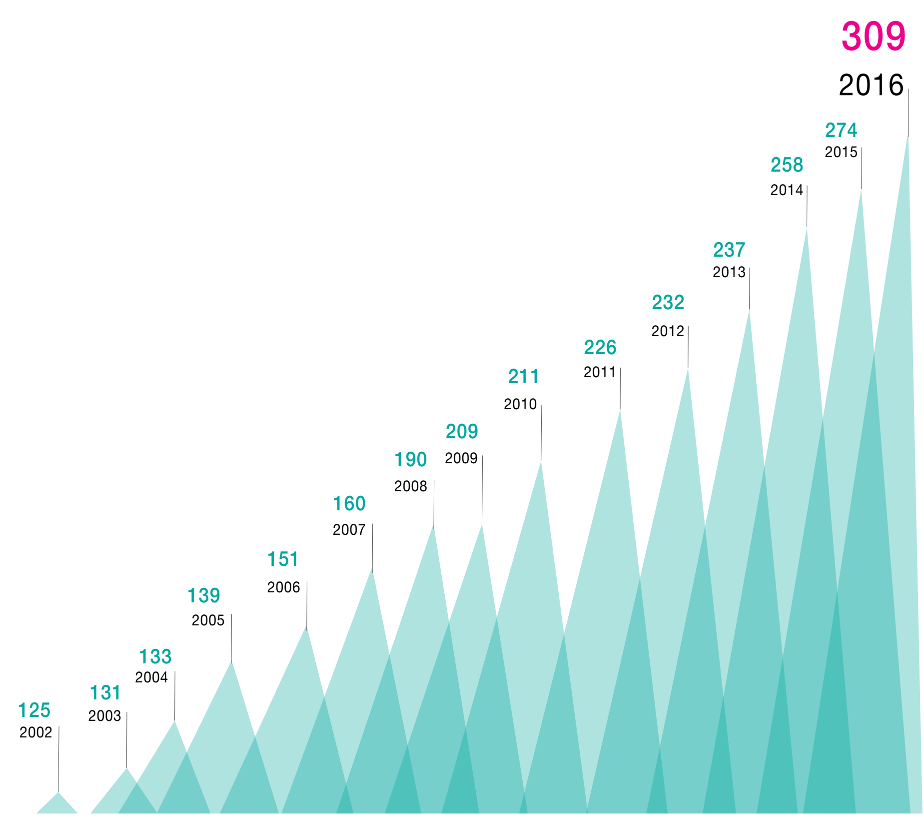
% 32.68

2016 -BOP indicators Benchmarked to the Banking Sector:

Total Assets (USD)	2012	2013	2014	2015	2016
Banking Sector	9,797,014,817	11,195,285,474	11,542,029,652	12,602,347,774	13,859,455,383
BOP	2,004,494,095	2,348,045,943	2,424,773,961	2,785,203,240	4,118,629,230

Deposits	2012	2013	2014	2015	2016
Banking Sector	7,484,129,223	8,306,247,172	8,935,342,947	9,654.597,508	10,595,777,751
BOP	1,554,493,702	1,745,563,265	2,062,524,075	2,242,782,298	3,143,151,591

Loans (USD)	2012	2013	2014	2015	2016
Banking Sector	4,111,307,849	4,480,286,185	4,895,882,595	5,824,694,875	6,865,906,898
BOP	976,394,928	1,103,641,018	1,151,825,644	1,388,805,441	2,213,463,765



2016 -BOP indicators Benchmarked to the Banking Sector

Fourteen banks operate within Palestine, seven of which are Palestinian. The growth potential for the banking sector in Palestine is very promising. There are currently 309 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.

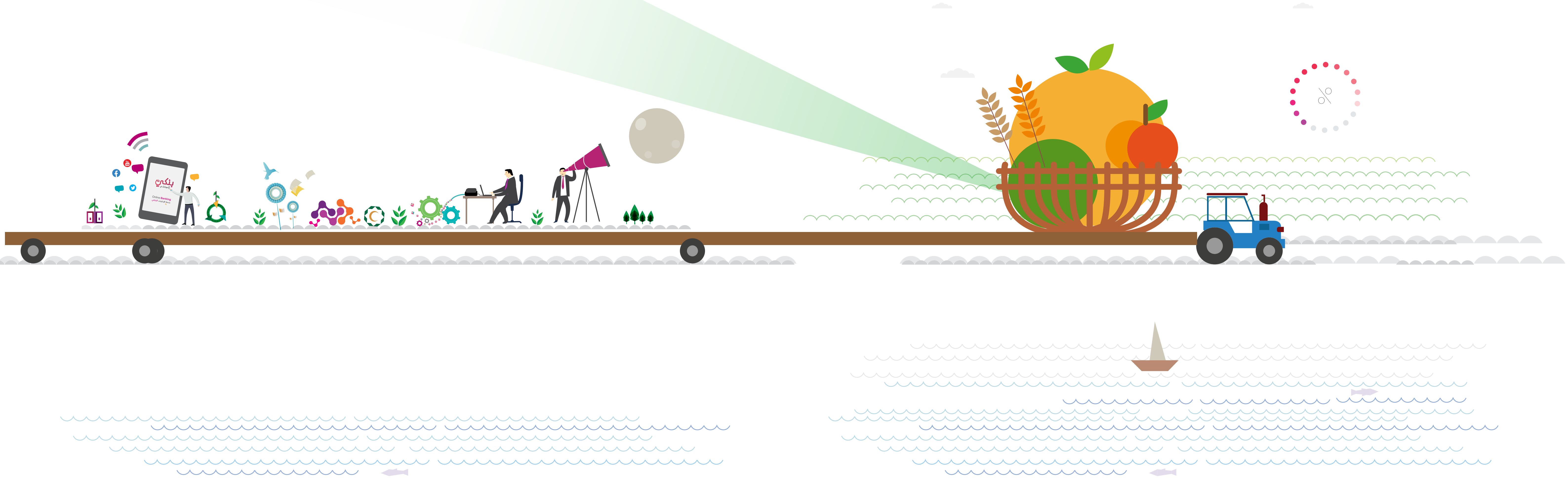
Bank of Palestine regards the relatively sparsely populated banking arena in Palestine as an opportunity both to extend the reach of its business and to provide high quality, innovative products and advisory services that ease the lives of its customers via banking services and financial inclusion.

Bank of Palestine's potential for growth is strong. During 2016, the banking sector assets increased by 9.97%, deposits by 9.75%, and loans by 17.87%.

With 67 branches and offices and still growing, Bank of Palestine, is strongly positioned to maintain its position as the clear leader in the banking sector in Palestine. 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.

Financial Inclusion & Modernized Banking Strategy:

Bank of Palestine has adopted a dual strategy of sustaining organic growth and diversification of income from subsidiaries. While the focus remains on organic growth from financial inclusion via physical branch expansion, loans to MSMEs, women, and enhanced digital channels plus customer Service; all have been important platforms for growth. Social and environmental responsibility are an integral part of the value system of Bank of Palestine since foundation in 1960. The bank's operational guidelines have been always accompanied by prudence, risk mitigation, governance, compliance while adhering with International banking standards; working hand in hand with Palestinian regulators and international financial partners.

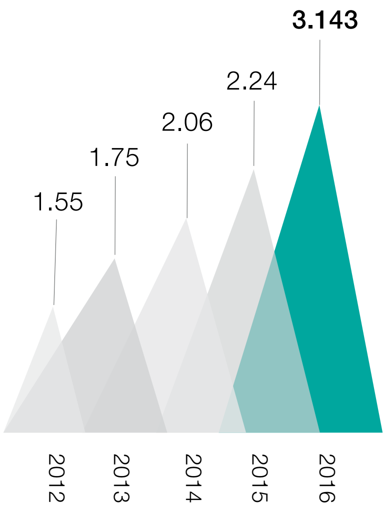


%32.68
market share of credit facilities

%29.67
market share of customer deposits

Deposits

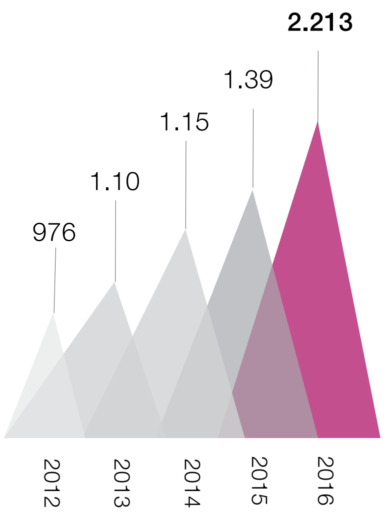
USD 3.143 billion



The merger with the Palestinian Commercial Bank (PCB) and increased branch network expansion has influenced both the deposit and asset base of the bank. Total bank customer deposits reached USD 3,143,151,591 at the end of 2016, marking an increase of 40.15% compared with USD 2,242,782,298 at the end of 2015.

Loans

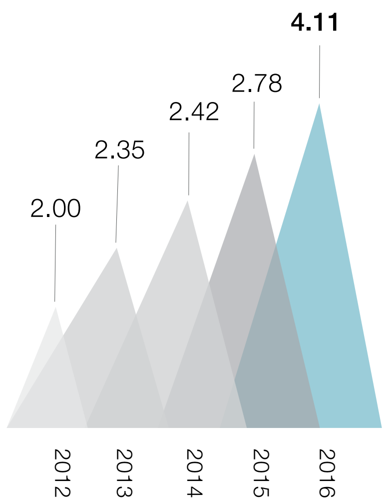
USD 2.213 billion



The drive for increased financial inclusion and ever segmentation of customer base has helped the bank to grow its lending base and achieve a healthy portfolio mix. The overall loan portfolio in 2016 was USD 2,213,463,765 with a marked increase of 59.38%; compared to USD 1,388,805,441. BOP's continued to maintain below industry standard Non Performing Loan Ratio of only 1.9%.

Assets

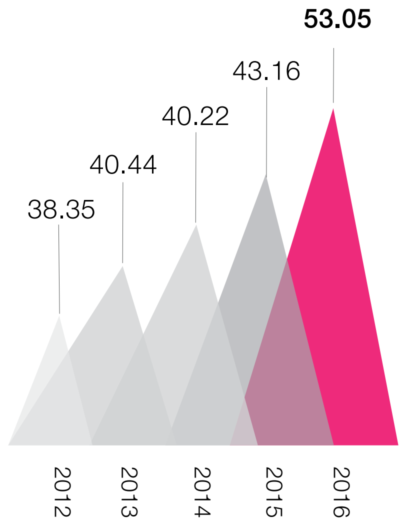
USD 4.11 billion



Bank of Palestine total assets grew by 47.88 % reaching USD 4,118,629,230 compared with USD 2,785,203,240 at the end of 2015.

Net Profit

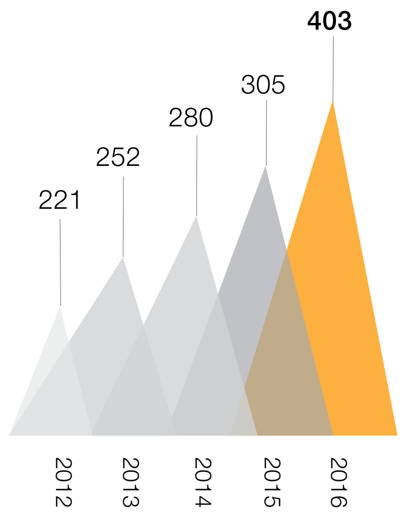
USD 53.05 m



Organic growth and diversification of income have positively influenced financial results. Bank of Palestine achieved an operating income of USD177,496,684 in 2016, compared with USD 136,787,234 for the same period in 2015, reflecting an increase of 29.76%. The bank's net profit reached USD 53,055,980 achieving a 22.91% increase in comparison with USD 43,167,433 in 2015.

Shareholders' Equity

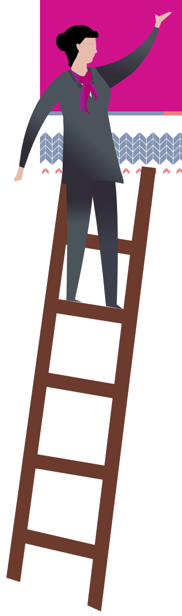
USD 403 m

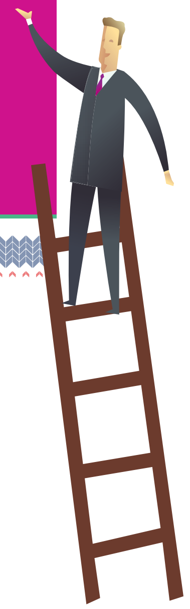


The Bank's paid capital post the merger stands at USD 195,000,000 providing the bank with a lead in capital adequacy. However, total shareholders' equity reached USD 403.574 million year end 2016, an increase of 32% compared with USD 305.756 million at the end of 2015.

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 most needed, providing wider access to finance and transacting services. Bank of Palestine now has 67 branches out of a total of 309 total bank branches in Palestine.

In 2016, 4 new branches were opened in; Al Bireh, Ramallah, Al Ram, and Nablus and 6 offices in Hebron, Beit Sahour, Bethlehem, Nablus, Jenin, Rafah and Gaza 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, providing them with a comfortable environment.

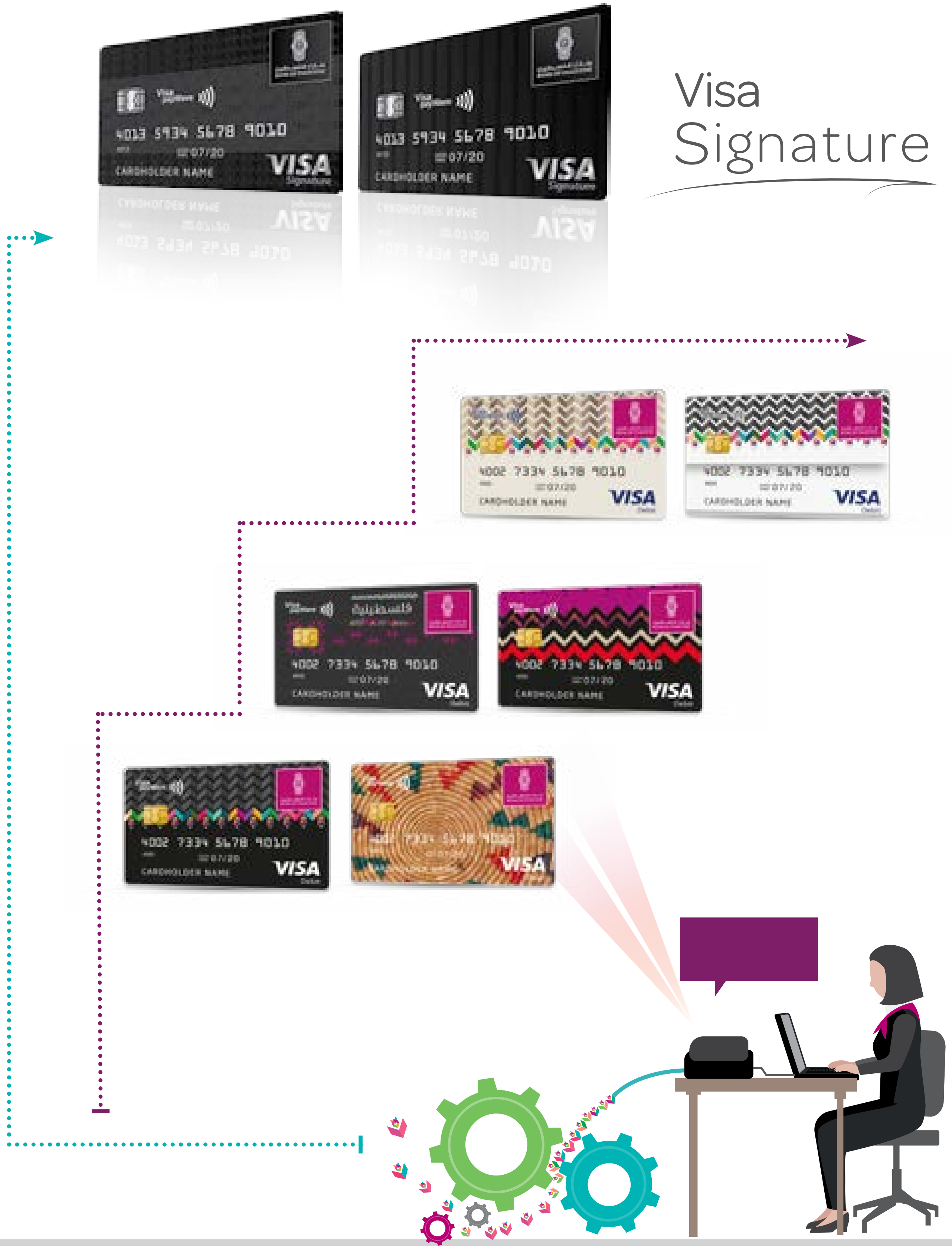




The Bank in 2016 invested in enhancing its products and services. BOP teams worked on introducing new technologies on cards such as Tap-and-go (Visa payWave and MasterCard payPass), 3D secure, and the ability to use it online. Debit cards replaced the Visa electron product with instant issuing at branches. With the enhanced features and instant issuing, debit cards now provide easy access to client's current account at all times via an ATM, POS terminal, or Internet locally and internationally.

Titanium Master Premium Cards were offered to clients enabling them to enjoy the many exclusive benefits and features accompanying these cards, such as MENA airports lounge access and multiple offers and discounts across the region.

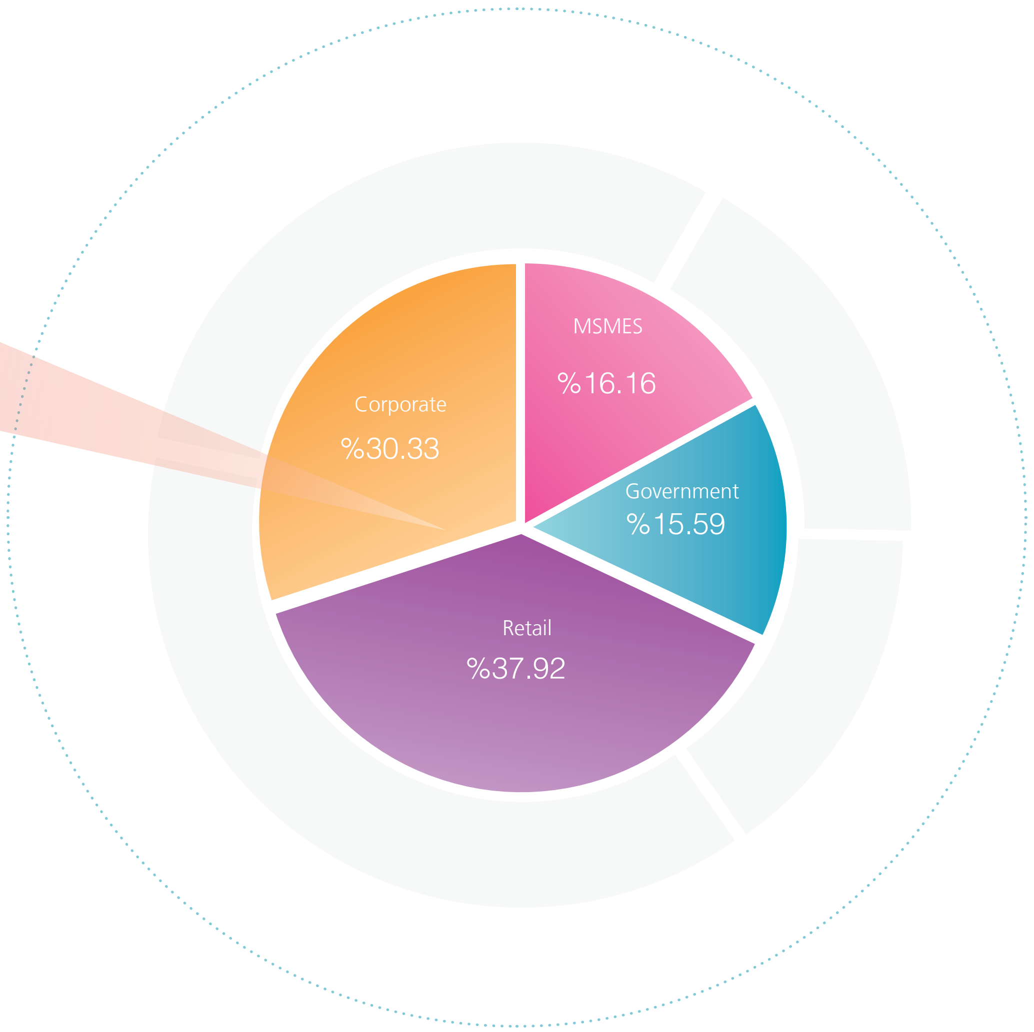
Visa Signature was offered as an ultra-premium credit card offered to clients where they can enjoy the many exclusive benefits and features accompanying these cards, such worldwide lounge access, Concierge service, discounts and offers. BOP grants 1% cash back for Visa signature cardholders when using the card in purchases overseas.



Bank of Palestine has continued to focus on financing and supporting micro, small, and medium sized enterprises (MSME) in 2016, 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 remains a strategic focus for the Bank in line with its efforts at sustaining growth in business and growth in financial inclusion.

Bank of Palestine's credit facilities to SMEs increased by 32% in 2016 with a marked activities in the field of partnership with industrial units and Industrial zones promoting the SME sector.

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. The Micro lending projects portfolio has increased by 25% in 2016. Bank of Palestine has financed MSMEs in several sectors including commerce, services, industry, agriculture, tourism, and construction.



“Felestinya” Women Program

As part of the bank’s strategy to provide access to finance to all segments of society, BOP continued working on enhancing its extensive programs for women in 2016 in order to meet their needs through banking and non-financial advisory services.

Bank of Palestine under its flagship “Felestineya” program 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 %36 (compared with %17 in 2008). The program through specialty interventions such as the Mini-MBA in partnership with the International Finance Corporation (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. With strict selection criteria, from the 142 women applicants only 40 were chosen. The Felestinya program for women also featured loans without collateral and accepting gold collateral from women as well to facilitate their financial inclusion. More than 1,280 women participated in the Banking Awareness programs in 2016 with more than 67 training sessions with a %42 increase in women participants compared to 2015.

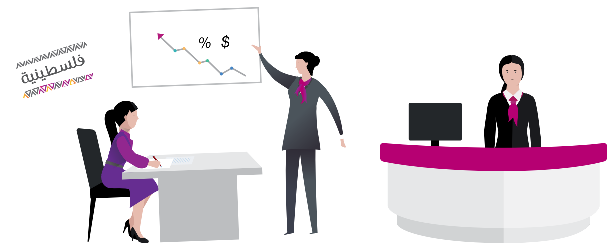
Other programs within the Felestiniya program included; Female “Entrepreneur of the Year” – annual training program and business plan competition in cooperation with the Business Women Forum (BWF). The participants receive extensive training and support in preparing their own business plans and then compete for the award; the program is in its third year.

Bank of Palestine has asked UN Women and the International Labor Orgnization (ILO) to conduct a gender audit on the bank. We are happy with the results revealed in Q2016 3 showing BOP’s gender inclusion practices as far reaching. Today women employees at senior and all levels make up %32 of the bank’s total staff with an aim to reach %50 males- %50 females as part of our Gender Equity inclusion policies

In recognition for its financial inclusion policies and its gender and digital inclusion strategies the Bank was recognized by several important international platforms and entities. It was accepted as a full member by the Global Alliance for Banking on Values – GABV (www.gabv.org), effectively becoming. he first Bank from the Middle East Region to join the alliance.

The Bank was also awarded Best Global Bank in Financial Inclusion by the Banker Magazine of the Financial Times in December 2016 in recognition for its pioneering work in women inclusion under the women flagship Felestineya Program and for its innovative financial inclusion through electronic payment platforms targeting the rural and the unbanked in Palestine. Other recognitions were Best Program for Women Empowerment by the Global Alliance for Banking for Women GBAW and Best Bank in the Middle East for Financial Inclusion by emeafinance in 2016.

global alliance
for banking
on values



Ibtikar Fund: Innovation Fund

Palestine has to deal with a reality of youth unemployment rate of %50 and with the fact that many young entrepreneurs do not have any available early stage financing. The country remains young with the following characteristics:

- %76 of the total population are youth under age of 34 years
- %75 of the youth use mobiles
- %45 of the youth use internet
- %85 of those youth download mobile apps

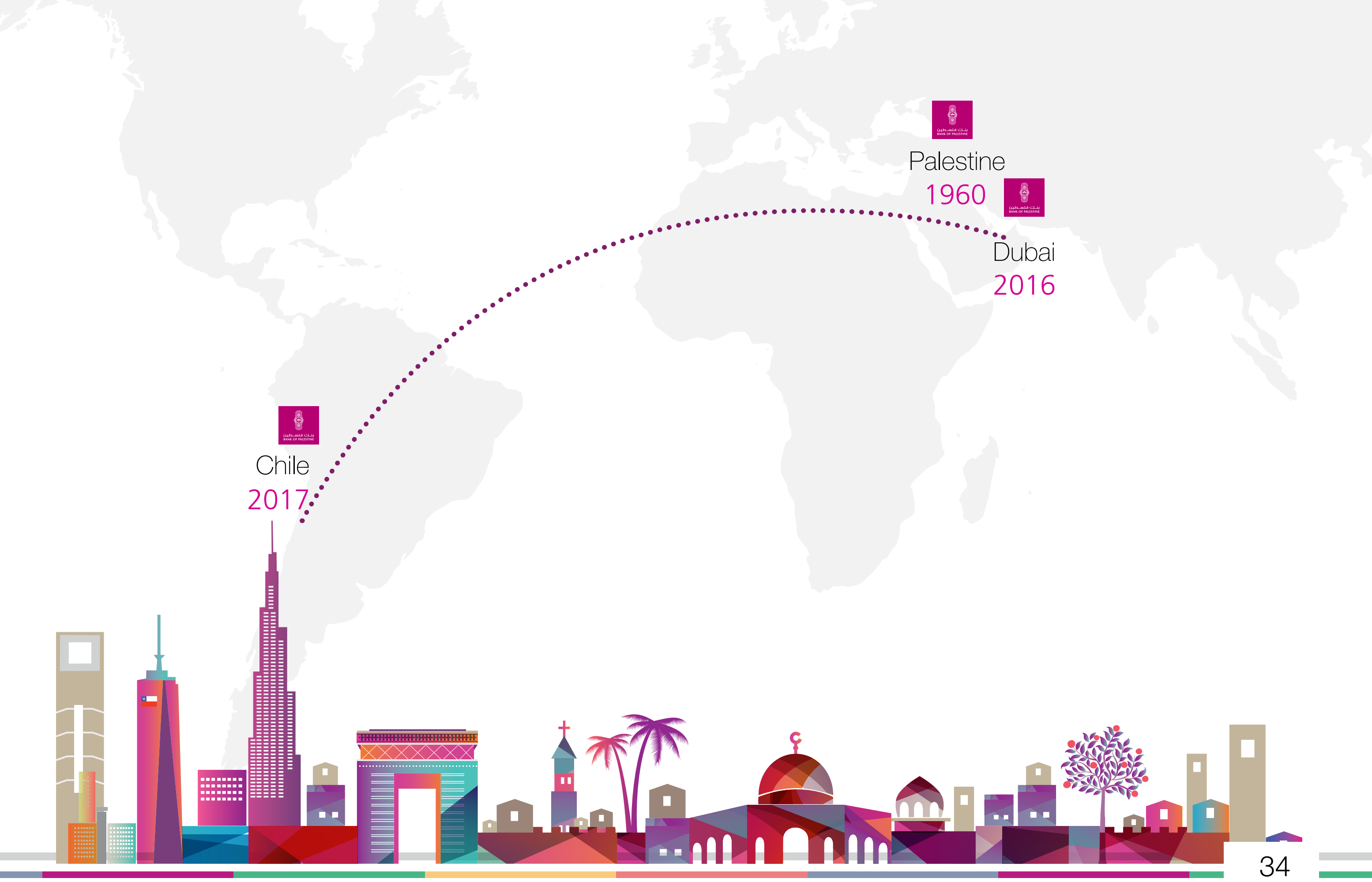
صندوق ابتكار
IBTIKAR FUND

This reality has provided a real opportunity for Bank of Palestine to step in to create a bridging mechanism to support investing into aspiring entrepreneurs. The Bank along with several like-minded partners has established a 11$ million Ibtikar Fund. The objective of this fund is to invest selectively in Palestinian early stage innovative ventures (focusing primarily in the ICT sectors). Through active participation of the fund managers and a network of experienced mentors, successful results were achieved and companies are enabled 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. Today the fund is covered with USD$ 8 million and has invested in 12 early stage companies, some of whom are doing well and internationally profiled.

Ibtikar Fund will be a game changer for Palestinian young entrepreneurs, as it closes a critical funding gap. 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.

Bank of Palestine continues to look towards regional and international presence abroad in order to serve the more than 7.6 million Palestinian diaspora who are eager to connect with their homeland Palestine via a credible financial intermediary. The bank has officially inaugurated its first Representative Office in Dubai at the Dubai International Financial Center, DIFC and has begun networking and offering financial advisory to diaspora and investor community in Dubai.

Plans are under way to open a second Representative Office in Santiago, Chile in the 3rd quarter of 2017 ushering the first presence for a Middle East bank in the continent serving more than the 500,000 diaspora Palestinians in Chile and more than 750,000 diaspora Palestinians in the rest of the continent.



sibos

Bank of Palestine is leveraging its continued participation in the world renowned SIBOS Banking Conference and Exhibition further expanding correspondent banking and networking relations with international Banks

With a total of 1,652 staff in 2016, Bank of Palestine continued to attract talented staff into its operations with a %17.58 increase compared to 2015. The bank continued to support job creating initiatives in the market place and continued to invest in training. Gender parity was an important milestone achieved this year. In 2016 UN Women and the International Labor Organization (ILO) were invited to conduct a gender audit of the Bank. The Bank achieved good marks, on its gender inclusion policies and parity between female employees with their male counterparts. The percentage of women employees in 2016 was %35.9 compared to %32 in 2015.

Overall Training Programs:

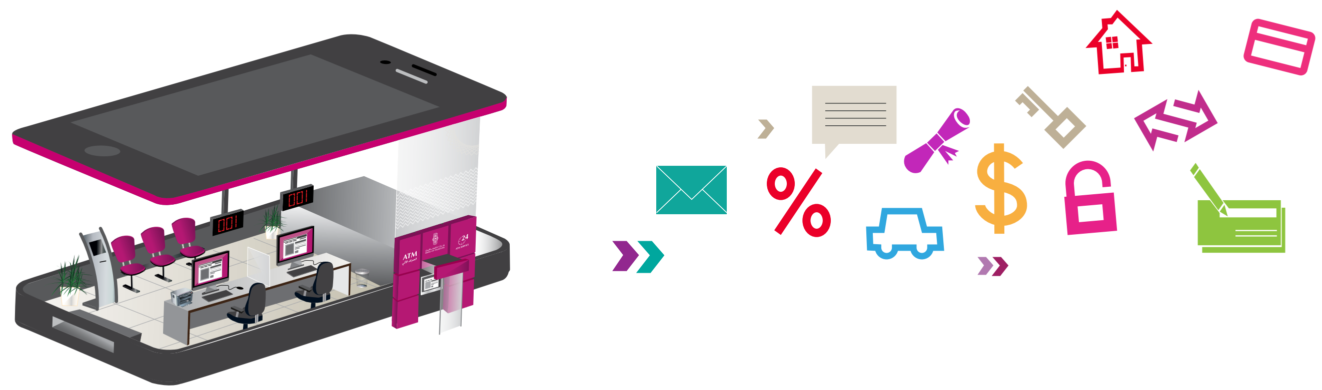
Training expenses in dollars	Number of participants	Number of training sessions	Year
493,564	2,598	237	2015
482,383	3,623	251	2016

The HR department played an instrumental role in absorbing the 154 former employees of the Palestinian Commercial Bank (PCB) post the merger with Bank of Palestine. This integration of the human resources was flawless and allowed the bank to benefit from additional banking talent to support its growth and expansion strategy.

2016 was an eventual year for the Information Technology Department. The department played an instrumental role in the smooth merger of Palestinian Commercial Bank (PCB) into Bank of Palestine. The department was able to migrate all PCB customers and their products and services, cards and facilities in a flawless way, converting all the PCB branches and ATMs into the systems of Bank of Palestine.
The department provided the ability to introduce debit and cards INSTANT ISSUING at all branches; allowing customers to receive their debit or credit card and their PIN instantly. During 2016 the bank upgraded its network to be fiber based; increasing the speed and bandwidth of the bank network with full redundancy across all branches, ATMs and regional offices.

Bank of Palestine in 2016 continued to invest in its IT infrastructure adding new servers, advanced storage technologies and cyber security elements in infrastructure (intrusion prevention systems, web application firewalls, end point security, server based security, next generation firewalls, data leakage protection); all steps towards PCI (payment and card industry) compliance. Business intelligence platform was also another major achievement in 2016 (work in progress) giving executives and line of business managers advanced dashboards to be followed by analytics based on mined data. Also in 2016 a new Internet banking was launched (similar features to Banke)

The Bank continued to enhance its E-Commerce platform permitting 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 after the installation of 3D secure identification system.



Mobile Banking

The Bank in partnership with its subsidiary PalPay® has launched version 2 of the State of the Art mobile application Banke. Banke allows our customers to have a full view of their banking products and services, P2P payments (pay to friend), Internal and external transfers, settle CC outstanding, and pay bills, top-up pre-paid phone, pay tuition and other utilities. This platform supported the bank's financial inclusion strategy allowing people in remote areas, given physical boundaries and lack of accessibility and the absence of 3G and 4G technology; to be serviced via their mobile phone. over 60,000 new self-registration subscribers to the program became online via Banke.

Project Management Office

Post-Merger of the Palestinian Commercial Bank (PCB), Bank of Palestine created a dedicated Project Management Office –PMO to help the bank in managing strategic projects designed to help the bank achieve efficiency, reduction in operational expenses and alignment of strategic projects.
The Project Management Office played a key role in the management of the merger deal between Bank of Palestine and the Palestinian Commercial Bank; dealing with regulators, legal counsel, stock market, human resources and technical teams and ensuring time tables and responsibilities are adhered to. The merger deal was executed without any glitches and enabled the bank to continue expanding and growing with confidence and foresight.

Sustainability

Bank of Palestine has been implementing an all-encompassing sustainability strategy, because it believes that true progress begins with social and economic development at a community level. Out of strong, stable communities shall grow sustainable businesses, and sustainable businesses will help strengthen the wider economy and infrastructure of Palestine.
By adopting a shared approach, the bank can be an influential contributor to economic and social progress. We have achieved certain milestones below 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

Corporate Social Responsibility

The bank assigns a lot of value to its corporate social responsibility function and department. It has continued to dedicate %6 of its total profit towards community investments. The work is done 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.
In 2016 the flagship Zamala program has celebrated its achievement by convening a conference with the 120 professors and faculty members who partook in the program of visiting international academic centers of excellence and returning back with knowledge transfer to their local universities.

Another milestone achievement in 2016 was the successful music marathon. A 12 hour Music Marathon in support of Breast Cancer Treatment

For over five years during the Global Breast Cancer Awareness month of October, Bank of Palestine has been a national champion in raising awareness for breast cancer in Palestine. Through partnerships with the Dunya Clinic for Breast Cancer and others we have organized awareness campaigns in an effort to encourage early detection and treatment. This year we wanted to draw bigger and wider attention to the cause and reach the masses. As such, Bank of Palestine, in collaboration with our cultural partners Le Trio Joubran, organized a first of its kind Music Marathon Concert of 12 hours nonstop performance that took place on the 26th , 2016 in Ramallah. The purpose of the Marathon Concert is to raise funds to purchase a mobile clinic which will provide early breast cancer detection services to all communities in the West Bank especially the underserved marginalized areas. The funds raised will also cover the costs of tests and procedures for advanced breast cancer in the Gaza Strip in partnership with the Red Crescent Society.

The 12 hours Music Marathon Concert was be led by Le Trio Joubran who were joined by 41 artists; singers, musicians, dancers, and poets from Palestine in what was termed as “the biggest good will and fundraising music concert in history” and has dramatically increased awareness around breast cancer early detection and treatment and breaking stigmas associated with the disease. In addition to the massive awareness that was generated; the concert was able to raise the targeted USD$ 1 million.

Investor Relations

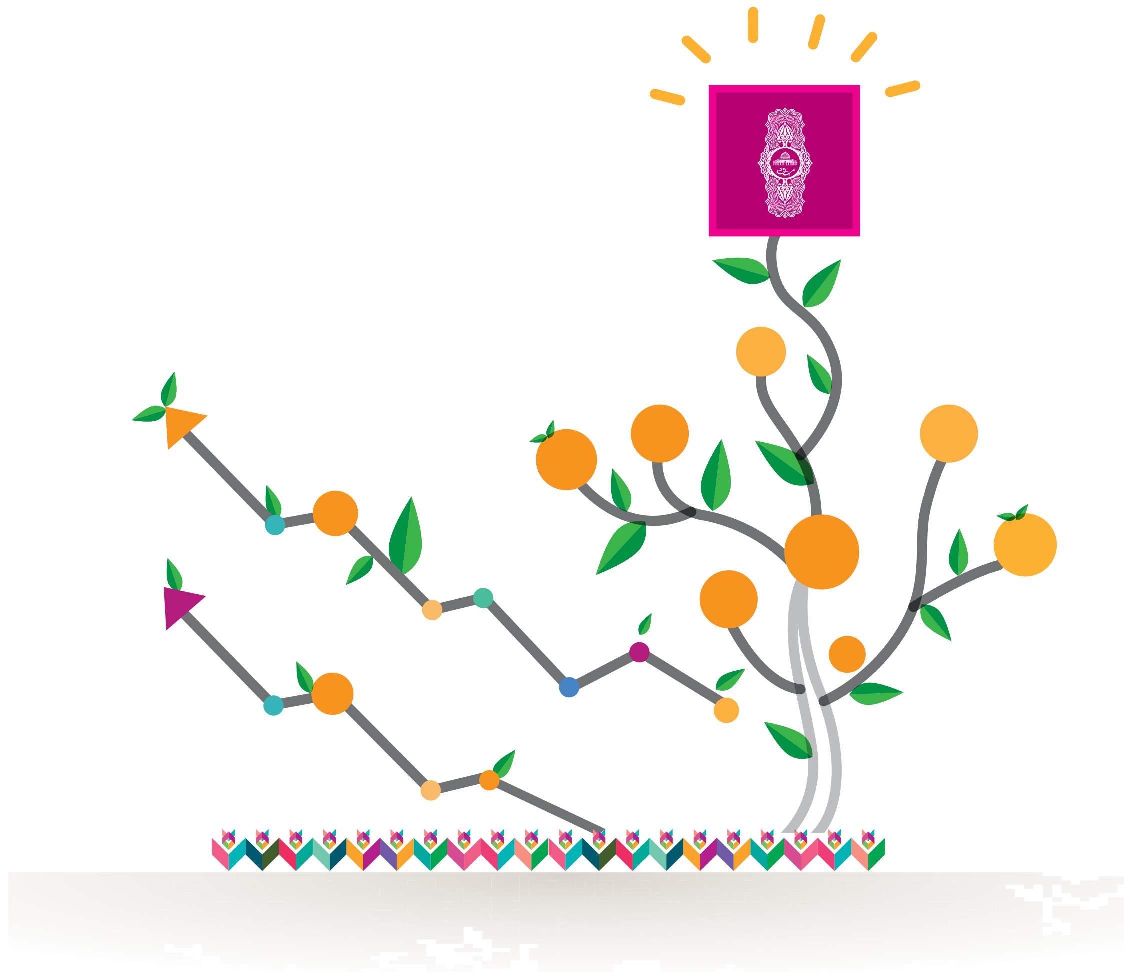
The Investor Relations Department played an instrumental role in the transfer of the former shareholders of the Palestinian Commercial Bank (PCB) into the Bank of Palestine shareholder registry. The PCB 487 shareholders became BOP shareholders with a share swap ratio of (3:1) providing BOP with an increased shareholder base of 4,761 shareholders.

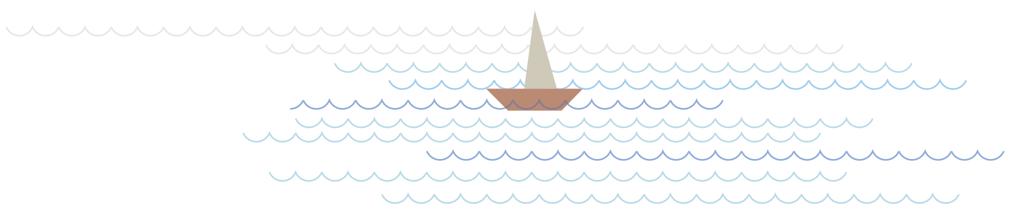
Through a more dynamic Investor Relations website (www.bop.ps/en/ir), the department is able to upload all public information; disclosures in real time and in accordance with our corporate governance structure – which meets international best practices and the regulations in Palestine. The information is presented in a way that is easily accessible and clear to all types of investors, fund managers, and the financial media.

IR activities

The IR department embarked on an active networking developing investor relations spanning different regions of the globe:

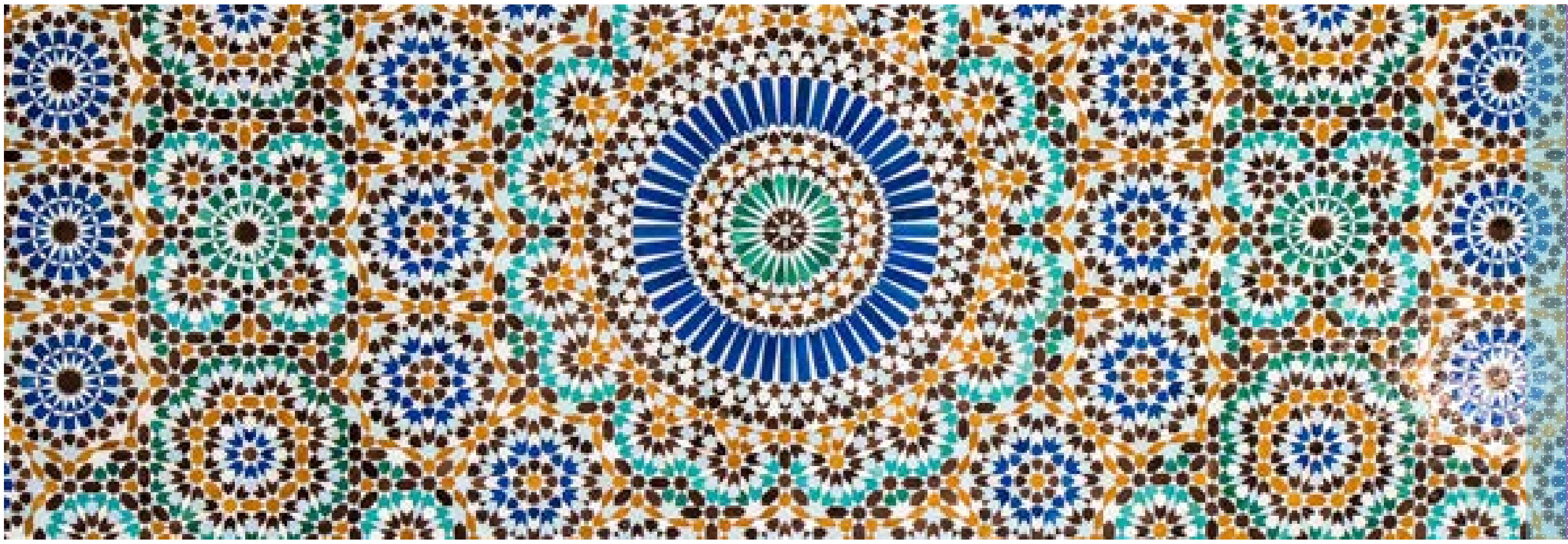
Activity	Destination	Time period
World Economic Summit for the New Champions	Tianjin, China	June 2016
Middle East Investor Relations Association	Dubai, UAE	September 2016
Khazanah Mega Trends Forum	Kuala Lumpur, Malaysia	September 2016
European Road Show	Geneva, Switzerland	October 2016
Middle East Banking Forum	Abu Dhabi, UAE	November 2016
European Road Show	London, UK	December 2016
USA Road Show	Washington DC, Houston, Minneapolis	December 2016

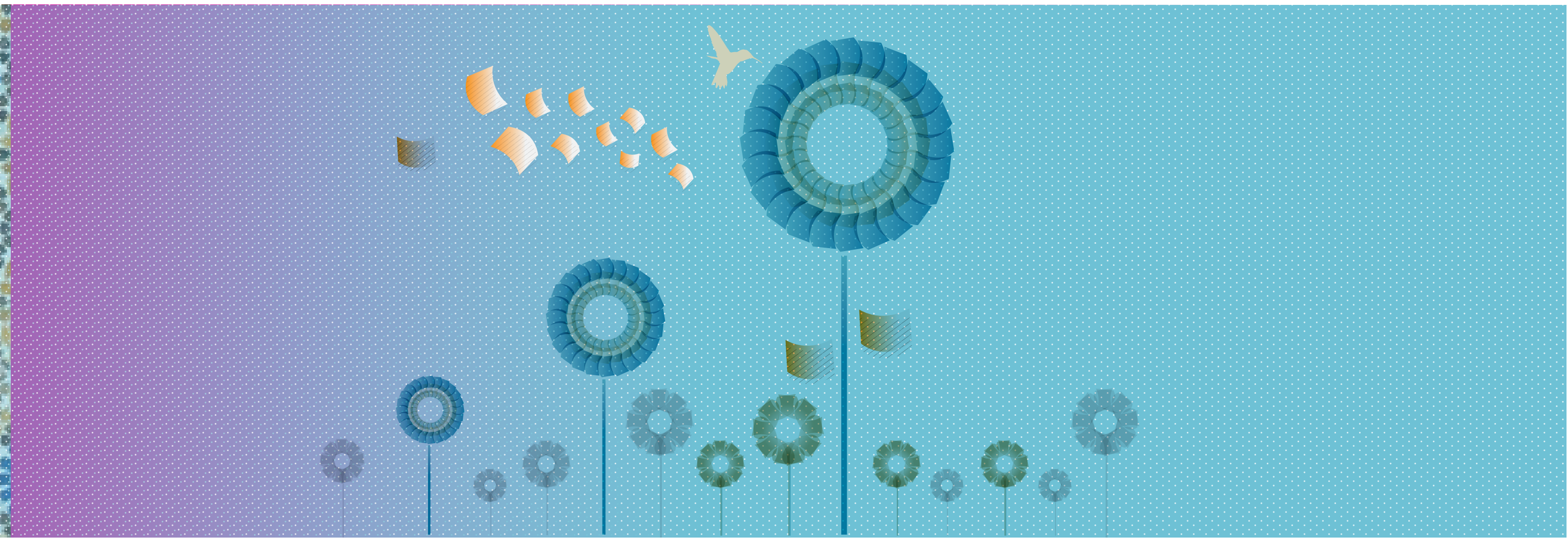




Adhering to the strategy of financial inclusion and in line with new developments in the Palestinian market, Bank of Palestine received a Safe Custody license in 2014 from the Palestinian Capital Market Authority, and in 2015 from the Palestine Exchange (PEX), to perform the Safe Custody for securities listed on PEX for local and foreign investors.

Bank of Palestine aims to provide a safe and easy channel for investing in PEX as well as performing the Safe Custody duties in the most professional way to serve its clients and keeping them up to date with the latest market conditions and corporate news. Main functions of the Safe Custody Department include Customers› Securities safekeeping, as well as following up and informing the client about any corporate actions related to collecting income generated from securities, arranging settlement of exchange transaction, and providing regular reports about the market. in addition to attending general meetings and taking actions on behalf of our clients based upon their request.



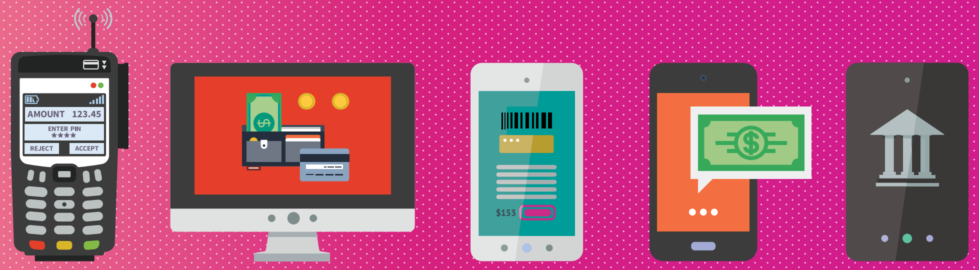


البنك الإسلامي العربي
Arab Islamic Bank

Arab Islamic Bank (AIB), is the latest subsidiary addition to Bank of Palestine Group, and in essence is the Islamic banking arm for Bank of Palestine, allowing it to provide with its 16 branches Islamic Banking solutions to a growing segment of customers requiring such sharia' compliant solutions. The bank has assets of USD$ 614 million, deposits of USD613$ million with net profits in 2016 of USD$ 6.2 million. Benchmarked against banking sector AIB's assets grew by %22 while the assets growth in the entire banking sector was %01 clearly indicating the potential for growth for AIB in the coming years.

الوساطة
AL WASATA

Al-Wasata Securities, has been the fastest growing brokerage company in Palestine playing a major role in the acquisition of new investors into 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 %21 market share in terms of number of investors, USD 342 million trading volume in local & regional markets, and more than USD 509 million worth of shares under management. In 2016, Al-Wasata won the EMEA Finance and the Global Investor ISF awards for Best Broker in Palestine for the fourth consecutive year.



PALPAY®

PalPay® – Palestine Payments – PalPay® – Palestine Payments – 2016 was an active year for PalPay making use of the many POS machines enabling payment of bills from various outlets continuing to revolutionize the payment systems in Palestine. The number of electronic transactions conducted during the year through PalPay® reached more than 1.3 million, an increase of %30 compared with last year. The company also continued to sign agreements with additional various types of billers in Palestine to allowing their clients to make e-payments through the PalPay® system. PalPay® has raised to 60 entities the number of service customers using its platform. The company was able to enter the important e voucher market serving international relief agencies who wanted to move away from cash handouts and food handouts to an electronically monitored system of e vouchers where Palpay was able to use its existing system and network to provide solutions to these agencies.

Sustaining an Award Winning Performance…
Our performance was recognized as Palestine's largest financial services provider with the most spread branch network and adherence to Global Banking Standards while serving local needs with sustained financial inclusion:

- The Banker. Best Global Bank in Financial Inclusion
- 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
- 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

Bank of the Year for Financial Inclusion

Bank of Palestine was awarded Best Global Bank in Financial Inclusion by "The Banker" Magazine of the Financial Times in recognition for its pioneering program "Felestineya" in financial inclusion targeting unbanked and underserved women providing them with banking products, in addition to non financial advisory services to help empower them and assist them in managing their home finances and starting or growing their business. The award was also granted based on the innovative use of digital platforms and financial technology to provide electronic payment platforms for the unbanked in rural areas of Palestine to pay their bills and micro loan installments, and to receive humanitarian food vouchers via the bank's fintech company PalPay.

Code of 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.

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 321,381 in 2016.

Loans Granted to Senior Executive Management:
Total loans granted to Senior Executive Management in 2016 was USD 4,537,217.

Proposed Remuneration to Board of Directors
Proposed Board of Directors remuneration based on profits for the year 2016 is USD 1,169,826.

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

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

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

Legal Actions
Number of cases filed against the bank was (73) and (51), as at 31 December 2016 and 2015 respectively, which were considered part of the normal activity of the bank. Cases were equivalent to USD 12,515,965 and USD 12,111,145 as at 31 December 2016 and 2015 respectively. The bank's management and lawyer assess that these cases would not entail any liabilities other than what the bank has already allocated.

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

Control of the Company
There are no direct or indirect parties who control the company.
The Board of Directors Sessions
Nine Board of Directors meeting sessions were held in 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 2016.

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 2016 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
Risk Management
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.

Risk Governance:
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

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

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

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

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

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

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

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

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

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

Mr. 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. 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. 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. 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.

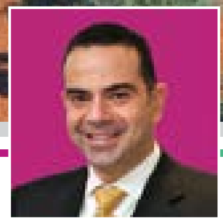
Tareq Taher Shaka
Member
Bachelor of Business Law – Ohio University Athens - USA 1987
Date of Birth: 18/02/1964
Date of Membership: 2010

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

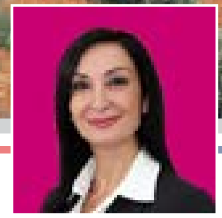
Experience
1976 – 1979 Director of the Bank of Boston - USA
1980 – 1981 Assistant Vice President - Bank of Boston - USA.
1981 – 1985 Vice President and General Manager of Bank of Boston - Nigeria.
1985 – 1989 Vice President and General Manager of Bank of Boston - Netherland.
1989 – 1992 Chairman and 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

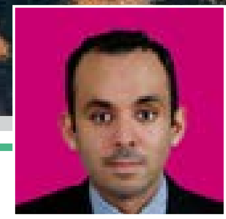


Lana Abu-Hijleh

Member
B.SC- Civil Engineering, University Of Iowa, USA – 1985

Date of Membership: 2014

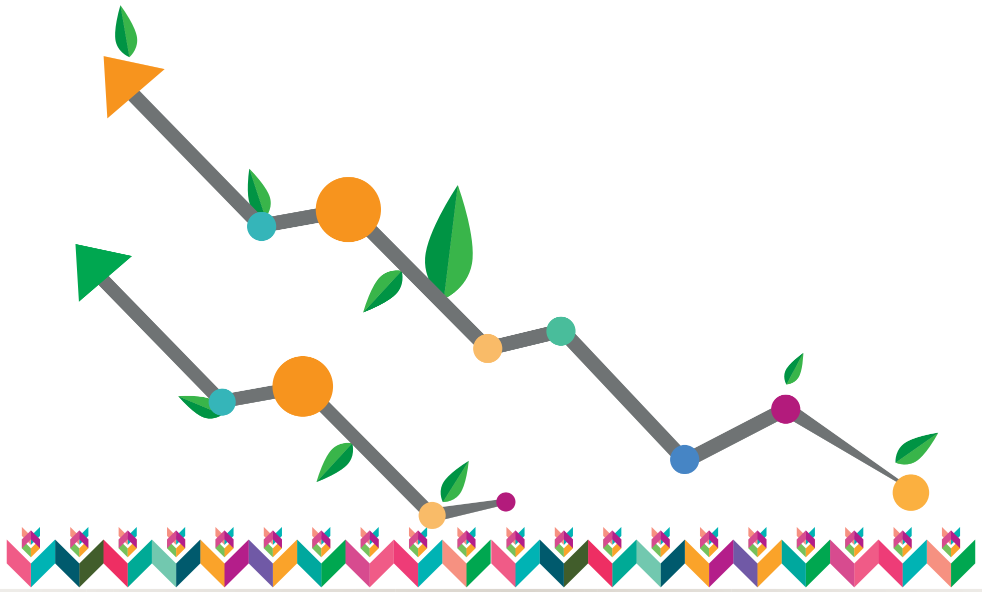
Experience
1986 – 2003 – Assistant Resident Representative of the United Nations Development Program/Program of Assistance to the Palestinian People (UNDP/PAPP).
2003 - Present –Country Director of Global Communities (Formerly known as CHF International – Palesti



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



Audited Consolidated Financial Results 2016

EY
Building a better working world

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

Tel: +972 2 242 1011
Fax: +972 2 242 2324
www.ey.com

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Bank of Palestine P.L.C

Opinion

We have audited the consolidated financial statements of Bank of Palestine and its subsidiaries (the Bank), which comprise the consolidated statement of financial position as at December 31, 2016, consolidated income statement, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to note (23) 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 Gaza branches. Actual taxes expected to be paid depend on the outcome of final settlement with the taxes authorities. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context .

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of credit facilities

Impairment of credit facilities to customers is one of the most significant matters that impact the reported results of the Bank, in addition of being an area that requires a considerable amount of judgment for determining impairment event and the measurement of impairment loss.

Judgement is applied to the inputs of the measurement process of impairment including valuation of collateral, and determining the default date, and the resultant impairment is calculated from that date. Direct credit facilities amounted as at December 31, 2016 to U.S. $ 2,240,844,838 before provisions for impairment of U.S. $ 20,742,087 and interest in suspense of U.S. $ 6,638,986, the net of which represent 53.74% of total assets as at December 31, 2016. Disclosures of impairment of credit facilities are detailed in note (8) to the consolidated financial statements.

We selected a sample of non-performing and watch list facilities schedules to test impairment including collateral valuation for the purpose of assessing the impairment allowance required based on the date of default. We also selected a sample from the performing facilities to determine whether management had identified all impairment events and to evaluate collective impairment .

Business acquisitions

The Bank acquired an additional 31% of the Arab Islamic Bank (AIB) share capital to reach a controlling interest of 51.98%. As a result, AIB's financial statements were consolidated with the Bank's financial statements from the date of acquisition. As the business combination was achieved in stages, the Bank's previously held equity interest in AIB were re-measured to fair value as at the acquisition date which resulted in recognizing a gain in the amount of U.S. $ 2,062,233 in the consolidated income statement. In addition, the Bank recognized a goodwill of U.S. $ 3,774,558. Furthermore, the Bank acquired the banking portfolio of Palestine Commercial Bank (PCB) which comprised PCB's assets and liabilities and in return, the Bank issued 10,008,685 shares to the shareholders of PCB on the basis of one share of the Bank's shares issued for each three shares held by the shareholders of PCB. Actual acquisition and transfer of the banking portfolio took place on September 8, 2016. Details of the acquisition are referred to in note (2) to the consolidated financial statements.

IFRSs require that identifiable assets and liabilities acquired in a business combination be measured at their fair value. The acquisition is material and significant judgement is required in relation to the fair value of assets acquired and liabilities assumed including the resulting goodwill and non-controlling interests .

We assessed management's analysis of the fair value of the identifiable assets acquired and liabilities assumed in acquisitions and recomputed gain from valuation of previously held equity in AIB and the resulting goodwill. We examined agreement's terms and conditions in relation to the acquisition and evaluated the procedures applied to identify and valuate assets and liabilities on acquisition. We checked the accounting and the implementation of the purchase price allocation of the transaction. We also assessed disclosures made about the acquisitions in the consolidated financial statements.

Other information included in the Bank's 2016 Annual Report

Other information consists of the information included in the Bank's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2016 Annual Report is expected to be made available to us after the date of this auditor's report .

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon .

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements as at December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young - Middle East
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Ernst & Young

Ramallah - Palestine
March 23, 2017

Consolidated Statement of Financial Position
As at December 31, 2016

	Notes	2016 U.S. $	2015 U.S. $
ASSETS			
Cash and balances with Palestine Monetary Authority	5	801,160,640	684,752,354
Balances at banks and financial institutions	6	621,058,507	319,370,957
Financial assets at fair value through profit and loss	7	10,117,262	7,159,702
Direct credit facilities and Islamic financing	8	2,213,463,765	1,388,805,441
Financial assets at fair value through other comprehensive income	9	37,186,147	24,348,175
Financial assets at amortized cost	10	256,782,668	253,816,907
Investment in associates	11	5,006,039	18,776,355
Investment properties	12	15,904,566	-
Property, plant and equipment	13	69,320,409	50,059,029
Projects in progress	14	8,522,483	2,982,306
Intangible assets	15	10,421,612	4,468,172
Other assets	16	69,685,132	30,663,842
Total Assets		4,118,629,230	2,785,203,240
LIABILITIES AND EQUITY			
Liabilities			
Palestine Monetary Authority's deposits	17	308,987,536	58,989,649
Banks and financial institutions' deposits	18	89,225,299	101,273,608
Customers' deposits	19	2,981,754,664	2,153,616,828
Cash margins	20	161,396,927	89,165,470
Subordinated loan	21	50,000,000	-
Sundry provisions	22	28,867,116	21,727,908
Tax provisions	23	6,519,249	2,926,053
Other liabilities	24	88,303,642	51,747,420
Total Liabilities		3,715,054,433	2,479,446,936
Equity			
Paid-in share capital	1	195,008,685	175,000,000
Additional paid-in capital	25	24,848,415	9,034,692
Statutory reserve	26	41,431,505	36,332,937
Voluntarily reserve	26	246,052	205,523
General banking risks reserve	26	30,553,490	22,655,293
Pro-cyclicality reserve	26	39,001,737	34,232,752
Fair value reserve	9	(297,057)	(3,109,880)
Retained earnings		36,171,383	30,647,037
Total equity holders of the Bank		366,964,210	304,998,354
Non-controlling interests	4	36,610,587	757,950
Total Equity		403,574,797	305,756,304
Total Liabilities and Equity		4,118,629,230	2,785,203,240

The accompanying notes from 1 to 50 are an integral part of these consolidated financial statements

Consolidated Income Statement
For the year ended December 31, 2016

	Notes	2016 U.S. $	2015 U.S. $
Interest income	28	129,049,764	105,308,242
Interest expense	29	(28,052,964)	(17,420,310)
Net interest income		100,996,800	87,887,932
Net financing and investment income	30	15,147,458	-
Net commissions	31	32,991,476	27,767,636
Net interest, financing, investment and commissions income		149,135,734	115,655,568
Foreign currency gain		10,469,506	7,861,779
Net gain from financial assets	32	715,965	660,465
Recovery of impairment allowance for direct credit facilities	8	3,184,656	1,259,978
Change in fair value of investment properties	12	1,076,303	-
Share of results of associates	11	433,477	1,189,884
Gain from business combination	2	2,070,113	-
Other revenues	33	10,398,861	10,159,560
Gross profit		177,484,615	136,787,234
Expenses			
Personnel expenses	34	(52,720,908)	(40,842,825)
Other operating expenses	35	(42,017,903)	(31,001,357)
Depreciation and amortization	12&14	(8,157,934)	(6,065,634)
Impairment allowance for direct credit facilities and Islamic financing	8	(6,175,232)	(3,782,218)
Credit facilities written off		(408,548)	(519,745)
Palestine Monetary Authority's fines	36	(5,000)	(5,000)
Total expenses		(109,485,525)	(82,216,779)
Profit before taxes		67,999,090	54,570,455
Taxes expense	23	(14,943,110)	(11,403,022)
Profit for the year		53,055,980	43,167,433
Attributable to:			
Equity holders of the Bank		50,985,680	43,091,915
Non-controlling interests	4	2,070,300	75,518
		53,055,980	43,167,433
Basic and diluted earnings per share	38	0.27	0.23

The accompanying notes from 1 to 50 are an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income
For the year ended December 31, 2016

	Notes	2016 U.S. $	2015 U.S. $
Profit for the year		53,055,980	43,167,433
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	9	3,152,619	1,676,967
Other comprehensive income		3,152,619	1,676,967
Total comprehensive income for the year		56,208,599	44,844,400
Attributable to:			
Equity holders of the Bank		54,138,299	44,768,882
Non-controlling Interests	4	2,070,300	75,518
		56,208,599	44,844,400

The accompanying notes from 1 to 50 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity
For the year ended December 31, 2016

	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
2016	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	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
Profit for the year	-	-	-	-	-	-	-	50,985,680	50,985,680	2,070,300	53,055,980
Other comprehensive income	-	-	-	-	-	-	3,152,619	-	3,152,619	-	3,152,619
Total comprehensive income	-	-	-	-	-	-	3,152,619	50,985,680	54,138,299	2,070,300	56,208,599
Results of sale of financial assets recognized directly in retained earnings	-	-	-	-	-	-	(339,796)	339,796	-	-	-
Non-controlling interest resulted from business combination (note 2)	-	-	-	-	-	-	-	-	-	33,908,742	33,908,742
Additional paid-in capital resulted from business combination (note 25)	-	15,813,723	-	-	-	-	-	-	15,813,723	-	15,813,723
Capital increase resulted from business combination (note 2)	10,008,685	-	-	--	-	-	-	-	10,008,685	-	10,008,685
Transfers to reserves	-	-	5,098,568	40,529	7,898,197	4,768,985	-	(17,806,279)	-	-	-
Stock dividends (note 27)	10,000,000	-	-	-	-	-	-	(10,000,000)	-	-	-
Cash dividends (note 27)	-	-	-	-	-	-	-	(18,000,000)	(18,000,000)	(126,405)	(18,126,405)
Fractions of stock dividends distributed	-	-	-	-	-	-	-	5,149	5,149	-	5,149
Balance, end of year	195,008,685	24,848,415	41,431,505	246,052	30,553,490	39,001,737	(297,057)	36,171,383	366,964,210	36,610,587	403,574,797

	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 27)	15,000,000	-	-	-	-	-	-	(15,000,000)	-	-	-
Cash dividends (note 27)	-	-	-	-	-	-	-	(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

The accompanying notes from 1 to 50 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows
For the year ended December 31, 2016

	Notes	2016 U.S. $	2015 U.S. $
Operating activities			
Profit before taxes		67,999,090	54,570,455
Adjustments for:			
Depreciation and amortization		8,157,934	6,065,634
Net gain from financial assets		(715,965)	(660,465)
Impairment allowance for credit facilities and Islamic financing		6,175,232	3,782,218
Recovery of impairment allowance for credit facilities		(3,184,656)	(1,259,978)
Sundry provisions		4,757,463	3,896,094
Change in fair value of investment properties – net		(788,671)	-
Bank's share of results of associates		(433,477)	(1,189,884)
Gain on disposal of property, plant and equipment		(101,937)	(434,442)
		81,865,013	64,769,632
Changes in assets and liabilities:			
Direct credit facilities and Islamic financing		(376,225,200)	(239,502,037)
Statutory cash reserve		(38,649,100)	(28,842,043)
Other assets		(16,910,637)	(14,552,047)
Customers' deposits		195,434,199	245,136,208
Cash margins		35,273,251	(64,877,985)
Other liabilities		24,806,725	12,046,741
Net cash flows used in operating activities before taxes and sundry provision		(94,405,749)	(25,821,531)
Taxes paid		(12,495,516)	(9,504,032)
Sundry provision paid		(785,715)	(488,419)
Net cash flows used in operating activities		(107,686,980)	(35,813,982)
Investing activities:			
Purchase of financial assets at fair value through other comprehensive income		(2,238,000)	-
Purchase of financial assets at fair value through profit and loss		(3,536,944)	-
Purchase of financial assets at amortized cost		(59,203,370)	(63,363,135)
Proceeds from sale of financial assets at fair value through profit or loss and through other comprehensive income		2,805,746	11,779
Maturity of financial assets		77,878,497	36,189,263
Deposits at banks and financial institutions mature in more than three months		11,567,565	(19,412,000)
Investments at Islamic banks maturing after three months		(2,322,642)	-
Investment in associates		-	(50,000)
Investment in subsidiaries		(24,208,435)	1,156,435
Cash and cash equivalents transferred to bank resulted from business combination		175,314,639	-
Dividends income received		1,946,681	1,704,136
Intangible assets		(2,240,190)	(1,802,339)
Projects in progress		(8,411,015)	(1,419,378)
Purchase of investment properties		(380,983)	-
Proceeds from sale of investment properties		649,965	-
Purchase of property, plant and equipment		(12,746,738)	(6,966,189)
Proceeds from sale of property, plant and equipment		396,470	519,592
Net cash flows from (used in) investing activities		155,271,246	(53,431,836)
Financing activities:			
Subordinated loan		50,000,000	-
Cash dividends paid		(18,419,384)	(18,294,451)
Proceeds from fractions of stock dividends sold		5,149	5,326
Net cash flows from (used in) financing activities		31,585,765	(18,289,125)
Increase (decrease) in cash and cash equivalents		79,170,031	(107,534,943)
Cash and cash equivalents, beginning of the year		599,643,127	707,178,070
Cash and cash equivalents, end of year	37	678,813,158	599,643,127

The accompanying notes from 1 to 50 are an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements
December 31, 2016

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. $ 195,008,685 as at December 31, 2016.

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 (26) branches and (41) offices located in Palestine. In addition, PMA authorized the opening of 2 representation offices; one the City of Dubai in United Arab Emirates and another in Chile. The number of branches of the Arab Islamic Bank / subsidiary was (13) branches in addition to one office, (note 2).

The Bank's personnel reached (1,652) and (1,405) as at December 31, 2016 and 2015, respectively. The number of employees of subsidiaries was (461) employees.

The consolidated financial statements were authorized for issuance by the Bank's Board of Directors during their meeting number (349) held on February 12, 2017 and by Palestine Monetary Authority (PMA) on March 20, 2017.

2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at December 31, 2016.

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

	Country of incorporation and operations	Ownership %		Subscribed capital U.S.$	
		2016	2015	2016	2015
Arab Islamic Bank	Palestine	51.98	-	50,000,000	-
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

The reporting dates of the subsidiaries and the Bank are identical. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Bank's accounting policies.

The Bank's General Assembly in an extra-ordinary meeting held on March 25, 2016 approved to acquire an additional 31% of the share capital of the Arab Islamic Bank (AIB) to reach a controlling interest of 51.98%. As a result, the financial statements of AIB have been consolidated with the Bank's consolidated financial statements. AIB contributed a profit in the amount of U.S. $ 4,169,937 during the period from the acquisition date on April 29, 2016 to December 31, 2016. Non-controlling interest's share of profit amounted to U.S. $ 2,002,404.

The Bank recorded the acquisition using the fair value of assets and liabilities at the date of acquisition, which resulted in a goodwill of U.S. $ 3,774,558. In addition, non-controlling interest was measured at the fair value. As acquisition was made on stages, AIB's shares owned by the Bank prior to acquisition were re-measured at fair value at acquisition date resulting in gain of U.S. $ 2,062,233 recorded in the consolidated income statement.

The purchase price allocation was initially determined and will be finalized within one year from the date of acquisition according to the standards. The fair value of the assets and liabilities of AIB at the acquisition date are as follows:

Assets	U.S. $
Cash and balances with Palestine Monetary Authority	124,250,702
Balances with banks and financial institutions	133,867,501
Investments at Islamic banks	6,022,642
Direct Islamic financing	369,317,389
Financial assets at fair value through comprehensive income	9,108,855
Financial assets at amortized cost	13,250,000
Investment properties	15,174,615
Property and equipment	11,526,191
Other assets	30,346,705
	712,864,600
Liabilities	
Banks and financial institutions' deposits	51,151,306
Customer deposits and unrestricted investment accounts	553,828,019
Cash margins	23,798,923
Sundry provisions	3,187,792
Tax provisions	1,000,755
Other liabilities	9,284,015
	642,250,810
The fair value of the net assets	70,613,790
Non-controlling interests share in the net assets at fair value	(33,908,742)
Fair value of the investment in Arab Islamic Bank	(40,479,606)
Goodwill	3,774,558

The financial statements of the subsidiaries are consolidated with the Bank's financial statements based on the consolidation of a line-by-line basis of assets, liabilities and result of the Bank with the assets, liabilities, and results of subsidiaries after eliminating all intercompany balances and transactions between the Bank and its subsidiary.

In addition, on September 8, 2016, the Bank executed the acquisition of the banking portfolio of the Commercial Bank of Palestine (PCB) according to a resolution made in the Bank's extra-ordinary meeting held on March 25, 2016. The acquisition agreement between the Bank and PCB was signed on April 4, 2016 after PCB's shareholder approval in an extra-ordinary meeting. As a result, the Bank acquired the assets and assumed liabilities of PCB as at the acquisition agreement date as an initial financial position in exchange of issuing one share of the Bank's shares against three shares of PCB's shares issued to PCB shareholders. Accordingly, total number of shares issued by the Bank was 10,008,685 shares against 30,026,056 shares of PCB's shares. This resulted in an increase in the Bank's paid-in share capital in the amount of U.S. $ 10,008,685 and a gain of U.S. $ 7,880 recognized in the consolidated income statement.

The fair value of the assets and liabilities of PCB at the date of acquisition is as follows:

Assets	U.S. $
Cash and balances with Palestine Monetary Authority	15,358,049
Balances with banks and financial institutions	30,391,803
Financial assets at fair value through profit or loss	1,438,642
Direct Islamic financing	140,034,105
Financial assets at fair value through comprehensive income	1,222,845
Financial assets at amortized cost	11,479,401
Property and equipment	7,763,243
Other assets	2,720,476
	210,408,564
Liabilities and equity	
Liabilities	
Banks and financial institutions deposits	27,963,319
Customer deposits and cash margin	152,520,229
Sundry Provisions	699,128
Other liabilities	3,395,601
	184,578,277
Equity	
Paid in capital	10,008,685
Additional paid in capital	15,813,723
Retained earnings	7,879
Total equity	25,830,287
Total liabilities and equity	210,408,564

3. Accounting Policies

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements as at December 31, 2016 have been prepared in accordance with International Financial Reporting Standards (IFRSs), 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 and investment properties that have been measured at fair value at the date of the consolidated financial statements.

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

3.2 Basis of consolidation of financial statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at December 31, 2016. 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 IFRSs, 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.

IFRS 9 Financial Instruments

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.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies the accounting treatment for all revenues 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 Programs,
- 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 number 15 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.

Income from Islamic financing is recognized based on the accrual basis of accounting. 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 and Islamic financing

Credit facilities and Islamic financing 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, commission and profits on non-performing credit facilities and Islamic financing 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 facilities are recognized as revenues.

In accordance with PMA regulations, credit facilities and Islamic financing 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. Islamic Sukuk are measured at cost. The Bank determines whether there is any evidence that the financial assets are impaired. If this is the case, the Bank calculates the amount of impairment and recognizes the amount in the consolidated income statement. Interest revenue from the financial assets at amortized cost is recognized in the consolidated income statement.

Derecognition of financial assets

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

Fair value measurement

The Bank measures most of its financial instruments, and discloses some of its non-financial assets such as investment properties, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

  Liability.

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

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

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.

Assets obtained by the Bank by calling on collateral

Assets obtained by the Bank by calling on collateral are stated in the consolidated statement of financial position under "Other assets" at the lower of the carrying value or fair value of the assets. These assets are revaluated individually at the date of the consolidated financial statements at fair value. Any impairment loss is recorded in the income statement. However, any appreciation in the assets' value is not recorded as gain. Subsequently, the gain resulted from the appreciation of the assets value is recorded in the consolidated income statement to extent of the impairment loss previously recorded.

Investments Properties

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments properties. Investments properties are measured initially at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value and changes in fair value are recognized in the consolidated income statement.

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 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. The useful lives for those assets are reviewed, and any modifications are processed in the subsequent periods.

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The acquisition cost represents the total fair value of the consideration paid on the date of acquisition and the value of the non-controlling interests in the acquiree. At any business combination, the Bank assesses the non-controlling interests' share of the acquiree at fair value. Acquisition costs are recognized in the consolidated statement of income.

Upon acquisition, the Bank evaluates and classifies the financial assets and liabilities of the acquiree in accordance with the contractual terms and economic conditions at the date of acquisition.

In the case of a business combination as a result of the acquisition, the investment previously classified as the acquiree is measured at fair value on the date of acquisition. The difference between the fair value and the carrying amount of an investment previously recognized is recognized in the consolidated income statement.

Goodwill arising on the acquisition of subsidiaries is recognized at cost, which represents the increase in the consideration transferred from the Bank's share of net assets and liabilities acquired from the subsidiary. If the consideration is less than the fair value of the net assets of the subsidiary, the difference is recognized as gain in the consolidated income statement.

Subsequent to initial recognition, goodwill is recognized at cost less any accumulated impairment losses. For the purpose of carrying out a study on impairment of goodwill, goodwill is allocated at the acquisition date to the units or group of units generating cash and expected to benefit from the consolidation process, regardless of whether the other assets and liabilities of the Bank have been allocated to these units or not.

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 amounts 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 of Palestine'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.
- Investment properties are appraised by using real estate valuation experts.
- 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	2016 %	2015 %
Arab Islamic Bank	Palestine	48.02	-
Al Wasata	Palestine	13	13
PalPay	Palestine	15	15

Accumulated balances of material non-controlling interest:

	2016 U.S. $	2015 U.S. $
Arab Islamic Bank	35,911,146	-
Al Wasata	572,653	646,370
PalPay	126,788	111,580
	36,610,587	757,950

Profit allocated to material non-controlling interest:

	2016 U.S. $	2015 U.S. $
Arab Islamic Bank	2,002,404	-
Al Wasata	52,688	74,870
PalPay	15,208	648
	2,070,300	75,518

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

Summarized income statement information for the year ended December 31, 2016:

	AIB*	Al Wasata	PalPay
	U.S. $	U.S. $	U.S. $
Revenues	16,060,043	1,172,258	969,476
General and administrative expenses	(11,496,432)	(748,270)	(717,069)
Depreciation and amortization	(1,114,883)	(63,200)	(153,387)
Other revenues	2,482,170	44,506	27,814
Profit before tax	5,930,898	405,294	126,834
Income tax	(1,760,961)	-	(25,448)
Profit of the year	4,169,937	405,294	101,386
Other comprehensive income	(346,584)	-	-
Total comprehensive income of the year	3,823,353	405,294	101,386

* The income statement information of AIB represent a summary of AIB's income statement for the period from the date when control was established on April 29, 2016 to December 31, 2016 (note 2).

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 (expenses) 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 statement of financial position information as at December 31, 2016:

	AIB	Al Wasata	PalPay
	U.S. $	U.S. $	U.S. $
Total assets	791,442,161	8,350,925	1,145,947
Total liabilities	(716,232,307)	(3,769,110)	(300,692)
Total equity	75,209,854	4,581,815	845,255
Attributable to:			
Bank's shareholders	39,298,708	4,009,162	718,467
Non-controlling interests	35,911,146	572,653	126,788
	75,209,854	4,581,815	845,255

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

	Al Wasata	PalPay
	U.S. $	U.S. $
Total assets	19,142,154	862,334
Total liabilities	(13,965,633)	(118,465)
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 cash flows information for the year ended December 31, 2016:

	AIB	Al Wasata	PalPay
	U.S. $	U.S. $	U.S. $
Operating activities	(80,479,148)	(1,301,986)	413,110
Investing activities	(17,868,045)	(14,846)	(290,226)
Financing activities	55,791,552	(1,000,000)	-
Decrease (increase) in cash and cash equivalents	(42,555,641)	(2,316,832)	122,884

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)

5. Cash and Balances with Palestine Monetary Authority

This item comprises the following:

	2016	2015
	U.S. $	U.S. $
Cash on hand	452,604,350	469,882,569
Balances with PMA:		
Current and demand accounts	46,987,100	14,376,858
Swap deposits	18,025,388	-
Statutory cash reserve	283,543,802	200,492,927
	801,160,640	684,752,354

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 or profits 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 or profits on current accounts.

6. Balances at Banks and Financial Institutions

This item comprises the following:

	2016	2015
	U.S. $	U.S. $
Local banks and financial institutions:		
Current and demand accounts	3,953,368	103,116
Deposits maturing within 3 months or less	67,069,088	18,000,000
	71,022,456	18,103,116
Foreign banks and financial institutions:		
Current and demand accounts	326,888,547	126,003,791
Deposits maturing within 3 months or less	160,798,152	131,540,050
Deposits maturing after 3 months	53,326,710	43,724,000
	541,013,409	301,267,841
Investment at Islamic banks:		
Investment maturing within 3 months	3,000,000	-
Investment maturing after 3 months	8,322,642	-
	11,322,642	-
Impairment loss on investment at Islamic banks	(2,300,000)	-
	9,022,642	-
	621,058,507	319,370,957

Non-interest or profits bearing balances at banks and financial institutions as at December 31, 2016 and 2015 amounted to U.S. $ 330,828,659 and U.S. $ 126,106,907, respectively. In addition, balances at banks and financial institutions include swap deposits with local banks amounted to U.S. $ 34,609,488 as at December 31, 2016.

Restricted balances at banks and financial institutions as at December 31, 2016 and 2015 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. $ 10,117,262 and U.S. $ 7,159,702 as at December 31, 2016 and 2015, respectively.

8. Direct Credit Facilities and Islamic Financing

This item comprises the following:

	2016	2015
	U.S. $	U.S. $
Retail		
Loans	584,282,723	403,501,225
Overdraft accounts	1,139,516	4,543,822
Credit cards	36,941,886	39,139,439
Current overdrafts	58,817,618	52,110,904
Islamic financing	145,653,113	-
Corporate and institutions		
Loans	608,115,332	417,986,914
Overdraft accounts	153,611,858	112,318,652
Current overdrafts	32,246,750	29,769,416
Islamic financing	222,458,996	-
Public sector		
Loans	177,059,584	182,451,085
Overdraft accounts	167,959,116	164,662,667
Islamic financing	52,558,346	-
	2,240,844,838	1,406,484,124
Suspended interest, commission and profits	(6,638,986)	(5,158,202)
Impairment allowance	(20,742,087)	(12,520,481)
	2,213,463,765	1,388,805,441

Summary of movement on suspended interest, commission and profit is as follows:

	2016	2015
	U.S. $	U.S. $
Balance, beginning of the year	5,158,202	4,383,794
Suspended interest and profits as a results of business combination	643,267	-
Suspended interest and profits during the year	1,748,030	1,684,604
Recovered during the year	(424,156)	(396,682)
Suspended interest and profits transferred to credit facilities and Islamic financing being default for more than 6 years	(23,832)	(71,650)
Suspended interest written off	(924,748)	(323,932)
Suspended profits transferred to revenues	(28,716)	-
Foreign currency exchange differences	490,939	(117,932)
Balance, end of year	6,638,986	5,158,202

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

	2016	2015
	U.S. $	U.S. $
Balance, beginning of the year	12,520,481	10,007,223
Impairment allowance as a results of business combination	5,550,536	-
Impairment allowance for the year	6,175,232	3,782,218
Recovered during the year	(3,184,656)	(1,259,978)
In default for more than 6 years	(102,928)	(98,141)
Impairment allowance written off	(880,826)	(225,369)
Foreign currency exchange differences	664,248	314,528
Balance, end of year	20,742,087	12,520,481

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

	2016	2015
	U.S. $	U.S. $
Balance, beginning of the year	2,741,550	2,750,399
Impairment allowance transferred to bank as a result of business combination	7,579,676	-
Additions	102,928	98,141
Recovered during the year	(16,013)	(14,854)
Impairment allowance written off	(35,960)	(6,555)
Foreign currency exchange differences	212,213	(85,581)
Balance, end of year	10,584,394	2,741,550

Loans are presented net of their related interest and commission received in advance which amounted to U.S. $ 9,611,210 and U.S. $ 3,824,482 as at December 31, 2016 and 2015, respectively. In addition, direct Islamic financing net of unearned profits amounted to U.S. $ 45,239,146 as at December 31, 2016.

Downgraded direct credit facilities and Islamic financing net of suspended interest, commissions and profits according to PMA regulations as at December 31, 2016 and 2015 amounted to U.S. $ 68,624,649 and U.S. $ 37,369,254 representing (3.06%) and (2.66%) of credit facilities net of suspended interest, commissions and profits, respectively.

Defaulted credit facilities and Islamic financing net of suspended interest, commissions and profits as at December 31, 2016 and 2015 amounted to U.S. $ 44,353,263 and U.S. $ 22,880,355 representing (1.99%) and (1.63%) of credit facilities net of suspended interest, commissions and profits, respectively.

According to PMA circular number (1/2008), defaulted credit facilities and Islamic financing for more than 6 years were excluded from the consolidated financial statements. These defaulted facilities amounted to U.S. $ 22,095,365 and U.S. $ 4,704,492 as at December 31, 2016 and 2015 and the balance of impairment allowance and suspended interest and profits for defaulted accounts amounted to U.S. $ 20,942,781 and U.S. $ 4,621,299, respectively.

Direct credit facilities and Islamic financing granted to the public sector as at December 31, 2016 and 2015 amounted to U.S. $ 397,577,046 and U.S. $ 347,113,752 representing (17.74%) and (24.68%) of gross direct credit facilities and Islamic financing, respectively.

Direct credit facilities and Islamic financing guaranteed by Palestine National Authority as at December 31, 2016 and 2015 amounted to U.S. $ 5,408,824 and U.S. $ 6,432,631 representing (0.24%) and (0.46%) of gross direct credit facilities and Islamic financing, respectively.

The fair value of collaterals obtained in lieu of direct credit facilities and Islamic financing amounted to U.S. $ 824,466,897 and U.S. $ 440,998,181 as at December 31, 2016 and 2015, respectively.

Credit facilities and Islamic financing granted to non-residents amounted to U.S. $ 14,213,660 and U.S. $ 5,052,184 as at December 31, 2016 and 2015, respectively.

Following is the distribution of credit facilities and Islamic financing net of suspended interest and profits by economic sector:

	2016	2015
	U.S. $	U.S. $
Manufacturing	95,816,519	65,276,944
Services sector	163,829,941	94,977,243
Retail and whole-sale	348,712,071	188,343,111
Real estate and construction	451,483,149	100,840,281
Transportation	3,587,760	1,325,902
Agriculture	38,783,399	7,711,117
Tourism	31,991,072	24,597,263
Financial sector	46,892,608	18,839,416
Public sector	397,577,046	347,110,123
Consumer commodities	655,532,287	552,304,522
	2,234,205,852	1,401,325,922

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

	December 31, 2016			
	Granted	Outstanding balance	Guarantor share	Doubtful
Type of credit facilities	U.S. $	U.S. $	%	U.S. $
Production loans	15,493,746	8,658,241	70	1,311,498
Operating loans	23,265,260	15,247,851	60	632,594
Development loans	28,109,751	19,904,031	50	2,109,962
SME loans	8,884,952	6,379,741	35-100	36,687
	75,753,709	50,189,864		4,090,741

	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

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, 2016				
Local	10,952,627	1,390,108	4,777,725	17,120,460
Foreign	19,797,932	-	267,755	20,065,687
	30,750,559	1,390,108	5,045,480	37,186,147
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

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

	2016	2015
	U.S. $	U.S. $
Balance, beginning of the year	(3,109,880)	(4,797,893)
Change in fair value	3,152,619	1,676,967
Fair value reserve of sold financial assets recognized directly in retained earnings	(339,796)	11,046
Balance, end of year	(297,057)	(3,109,880)

10. Financial Assets at Amortized Cost

The details of this item are as following:

	Treasury bills	Quoted bonds	Unquoted bonds	Islamic Sukuk	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2016					
Local	6,543,115	-	3,900,000	-	10,443,115
Foreign	78,875,707	147,463,846	-	20,000,000	246,339,553
	85,418,822	147,463,846	3,900,000	20,000,000	256,782,668
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

Interest on U.S. Dollar financial assets at amortized cost ranges between 2.13% and 9%

Interest on Jordanian Dinar financial assets at amortized cost ranges between 3.86% and 6.49%.

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%

Local financial assets at amortized cost includes the Bank investment in the Palestinian governmental treasury bills according to a circular of PMA No. (64/2016) according to which the upper limit of the price discount of treasury bills in the currency of the New Israeli Shekel 8% and in the currency of the U.S dollar (LIBOR 6 months +3%) annually.

Financial assets include investment in Islamic Sukuk from the UAE, Bahrain, Turkey, Kuwait, Saudi Arabia, Qatar and Indonesia with an expected return between 2.48% and 10.5%. 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 2016	Ownership 2015	Subscribed Capital 2016	Subscribed Capital 2015
		%	%	U.S. $	U.S. $
Arab Islamic Bank*	Palestine	-	21		13,869,325
Abraj Co. for Development & Investment (Abraj)**	Palestine	21	21	4,546,341	4,542,102
The Palestinian Company for Money Transportation and Valuables and Banking Services (Aman) ***	Palestine	30	30	459,698	364,928
				5,006,039	18,776,355

Following is the movement of the investment in associates:

	2016	2015
	U.S. $	U.S. $
Balance, beginning of the year	18,776,355	18,692,906
Additions	24,208,435	50,000
Bank's share in the results of associates	433,477	1,189,884
Transferred to investment in subsidiaries	(38,412,228)	-
Cash dividends from associates	-	(1,156,435)
Balance, end of year	5,006,039	18,776,355

* Arab Islamic Bank (AIB) was incorporated in Al-Bireh, and started its banking activities in the early 1996, through providing banking services, financing, trading and investing activities in accordance with the directives of the Islamic Shari'a Rules through its headquarter in Al-Bireh city and its branches in Palestine. AIB has a subscribed share capital of 50 million share with a par value of 1 U.S. $ per share. The Bank's investment in AIB was reclassified from an investment in an associate to an investment in a subsidiary as of the date on which the Bank acquired a controlling interest; and its financial statements have been consolidated with the Bank's financial statements since that date (note 2).

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

	Arab Islamic Bank		Abraj		Aman	
	2016	2015	2016	2015	2016	2015
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
The financial position of associates:						
Total assets	-	650,593,114	35,873,598	37,730,540	1,798,559	1,144,102
Total liabilities	-	(581,587,989)	(8,962,887)	(10,840,016)	(598,810)	(260,253)
Total equity	-	69,005,125	26,910,711	26,890,524	1,199,749	883,849
Bank's share	-	14,491,076	5,651,249	5,647,010	359,925	220,962
Book value before adjustments	-	14,491,076	5,651,249	5,647,010	359,925	220,962
Cash dividends	-	(840,692)	-	(315,743)	-	-
Adjustments	-	218,941	(1,104,908)	(789,165)	99,773	143,966
Book value after adjustments	-	13,869,325	4,546,341	4,542,102	459,698	364,928
Revenues and results of operations:						
Revenues	8,095,814	22,348,949	782,985	976,411	673,154	485,324
Operational, administrative and general expenses	(5,069,864)	(14,144,110)	(324,046)	(300,647)	(287,519)	(195,628)
Depreciation and amortization	(495,066)	(1,394,147)	-	-	(18,244)	(27,496)
Finance costs	-	-	(424,719)	(347,276)	-	-
Other revenues (expenses)	-	-	24,703	(98,676)	20,509	7,190
Income before tax	2,530,884	6,810,692	58,923	229,812	387,900	269,390
Tax expense	(480,000)	(1,609,000)	(11,500)	(35,000)	(72,000)	(42,917)
Net income for year after tax	2,050,884	5,201,692	47,423	194,812	315,900	226,473
Other comprehensive income	(458,180)	(47,572)	(27,236)	-	-	-
Total comprehensive income	1,592,704	5,154,120	20,187	194,812	315,900	226,473
Bank's share	334,468	1,092,355	4,239	40,911	94,770	56,618

* The income statement information for AIB represent a summary of the income statement for the period from January 1, 2016 to the acquisition date on April 29, 2016 (note 2)

12. Investment Properties

This item represents investment properties arising from business combination (note 2). Investment properties are stated at fair value and changes in fair value are recognized in the consolidated income statement. Following is the movement on investment properties:

	2016
	U.S. $
Balance, beginning of the year	15,097,245
Additions during the year	380,983
Disposals during the year	(649,965)
Change in fair value during the year	1,076,303
Balance, end of year	15,904,566

13. Property, Plant and Equipment

2016	Buildings and real estate	Furniture and equipment	Computers	Leasehold improvements	Vehicles	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:						
Balance, beginning of the year	31,669,036	48,859,417	7,122,671	3,791,500	3,049,567	94,492,191
Business combination (note 2)	901,580	12,045,788	3,766,548	-	683,062	17,396,978
Additions	7,978,106	8,528,906	2,208,446	692,087	823,622	20,231,167
Disposals	-	(354,464)	(234,258)	-	(514,989)	(1,103,711)
Balance, end of year	40,548,722	69,079,647	12,863,407	4,483,587	4,041,262	131,016,625
Accumulated depreciation:						
Balance, beginning of the year	4,939,014	29,085,567	6,480,223	3,047,474	880,884	44,433,162
Business combination (note 2)	89,230	7,406,715	2,722,293	-	208,320	10,426,558
Depreciation for the year	521,147	5,598,472	718,438	320,515	487,102	7,645,674
Disposals	-	(252,117)	(229,023)	-	(328,038)	(809,178)
Balance, end of year	5,549,391	41,838,637	9,691,931	3,367,989	1,248,268	61,696,216
Net book value December 31, 2016	34,999,331	27,241,010	3,171,476	1,115,598	2,792,994	69,320,409

2015	Buildings and real estate	Furniture and equipment	Computers	Leasehold improvements	Vehicles	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:						
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 for the year	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

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, 2016 and 2015.

Property, plant and equipment include U.S. $ 23,206,798 and U.S. $ 22,435,422 of fully depreciated assets that are still operational as at December 31, 2016 and 2015, respectively.

14. Projects in Progress

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

	2016	2015
	U.S. $	U.S. $
Balance, beginning of the year	2,982,306	2,272,393
Business combination (note 2)	1,111,073	-
Additions	8,411,015	1,419,378
Transfers to property, plant and equipment	(3,981,911)	(709,465)
Balance, end of the year	8,522,483	2,982,306

As at December 31, 2016, the estimated cost to complete projects in progress is U.S. $ 11,489,352.

15. Intangible Assets

This item comprises the following:

	2016	2015
	U.S. $	U.S. $
Computer software*	6,647,054	4,468,172
Goodwill - note (2)	3,774,558	-
	10,421,612	4,468,172

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

	2016	2015
	U.S. $	U.S. $
Balance at the beginning of the year	4,468,172	3,226,098
Business combination (note 2)	946,017	-
Additions	2,240,190	1,802,339
Amortization	(1,007,325)	(560,265)
Balance at the end of the year	6,647,054	4,468,172

16. Other Assets

This item comprises the following:

	2016	2015
	U.S.$	U.S.$
Account receivable, advances and temporary expenses of subsidiaries	23,973,781	16,045,467
Clearing checks	20,324,729	17,125
Prepayments	9,446,902	4,928,305
Stationery and printings material and equipment in stores	2,839,713	3,116,210
Accrued interest and commissions	3,500,275	3,094,159
Assets obtained by the Bank by calling on collateral	1,626,928	-
Deferred tax assets	1,850,698	-
Other debit balances	6,122,106	3,462,576
	69,685,132	30,663,842

17. Palestine Monetary Authority's Deposits

This item comprises the following:

	2016	2015
	U.S. $	U.S. $
Time deposits mature within 3 months	290,987,536	58,989,649
Swap deposits	18,000,000	-
	308,987,536	58,989,649

18. 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, 2016			
Local	-	68,187,057	68,187,057
Foreign	144,918	20,893,324	21,038,242
	144,918	89,080,381	89,225,299
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

19. Customers' Deposits

This item comprises the following:

	2016	2015
	U.S. $	U.S. $
Current and demand deposits	1,170,859,972	921,749,842
Saving deposits	724,488,449	628,727,190
Time deposits	678,535,366	596,235,861
Debit balances – temporarily credit	11,582,385	6,903,935
	2,585,466,172	2,153,616,828
Unrestricted investment accounts		
Saving deposits	290,343,642	-
Time deposits	105,944,850	-
	396,288,492	-
	2,981,754,664	2,153,616,828

Public sector deposits amounted to U.S. $ 177,247,129 and U.S. $ 224,550,291 representing 5.943% and 10.43% of total deposits as at December 31, 2016 and 2015, respectively.

Non-interest and non-profit bearing deposits amounted to U.S. $ 1,885,499,594 and U.S. $ 1,533,802,688 representing 63.23% and 71.22% of total deposits as at December 31, 2016 and 2015, respectively.

Dormant deposits amounted to U.S. $ 113,112,660 and U.S. $ 90,689,846 representing 3.79% and 4.21% of total deposits as at December 31, 2016 and 2015, respectively.

Restricted deposits amounted to U.S. $ 17,834,132 and U.S. $ 9,288,701 representing 0.60% and 0.43% of total deposits as at December 31, 2016 and 2015, respectively.

20. Cash Margins

This item represents cash margins against:

	2016	2015
	U.S. $	U.S. $
Direct credit facilities and Islamic financing	114,912,392	45,286,207
Indirect credit facilities and Islamic financing	30,069,651	32,975,274
Others	16,414,884	10,903,989
	161,396,927	89,165,470

21. Subordinated Loan

During the year, the Bank obtained the subordinated loan in accordance with a subordinated loan agreement signed on June 20, 2016 with International Finance Corporation (IFC) in the amount of U.S. $ 50 million payable on 10 semiannual installments with 5 years of grace period. The first installment is due on December 15, 2021 and the last installment will become due on June 15, 2026. The loan is subject to average annual interest rate of 7.52%. The interest will paid on semiannual basis started December 15, 2016. The Bank includes the loan as part of the second tranche of the Bank's capital in accordance with the PMA's regulations and Basel Committee regulations when computing its capital adequacy percentage.

22. Sundry Provisions

	Balance, beginning of the year	Business combination	Provided during the year	Paid during year	Balance, end of year
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2016					
Employees' end of service provision	20,212,328	2,763,605	4,757,463	(785,715)	26,947,681
Lawsuits provision	1,515,580	403,855	-	-	1,919,435
	21,727,908	3,167,460	4,757,463	(785,715)	28,867,116
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

23. Tax Provisions

Movement on tax provisions during the year 2016 and 2015 are as follows:

	2016	2015
	U.S. $	U.S. $
Balance, beginning of the year	2,926,053	1,027,063
Tax provisions resulted from business combination	1,145,602	-
Provision for the year	14,943,110	11,403,022
Paid during the year	(12,495,516)	(9,504,032)
Balance, end of year	6,519,249	2,926,053

Details of taxes provision is as follows:

	2016	2015
	U.S. $	U.S. $
Provision for the year	15,744,337	12,131,582
Tax incentives discount	(801,227)	(728,560)
Tax expenses presented in the consolidated income statement	14,943,110	11,403,022

Reconciliation between accounting income and taxable income is as follows:

	2016	2015
	U.S. $	U.S. $
Accounting profit	67,999,090	54,570,455
Adjustments to calculate Value Added Tax	(15,117,009)	(13,466,097)
Profit subject to Value Added Tax*	52,882,081	41,104,358
Value Added Tax	(7,294,080)	(5,669,567)
Adjustments to calculate income tax	(4,592,644)	(4,122,066)
Income subject to income tax	40,995,357	31,312,725
Income tax	6,149,304	4,696,909
Provision computed for the year	13,443,384	10,366,476
Provision provided for the year	15,744,337	12,131,582
Tax incentives discount	(801,227)	(728,560)
Tax expenses	14,943,110	11,403,022
Effective tax rate	22%	21%

* This item represents taxable income for the Bank of Palestine'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. 18 Allocation of branches' income and expenses is based on estimates determined by management. Accordingly, taxes provision does not include taxes as resulting of operating of the Bank of Palestine in Gaza. Further, the item include taxable income of subsidiaries.

The Bank of Palestine has not reached a final settlement with the Income Tax Department and the Value Added Tax on the results of its operations for 2013, 2014 and 2015. The Bank has submitted the tax declaration during the legal period. The actual amounts of taxes that may be paid are dependent on final clearance results with the tax services.

As at December 31, 2016, 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.

24. Other Liabilities

	2016	2015
	U.S. $	U.S. $
Taxes payable	8,802,828	8,070,302
Certified checks	20,057,166	7,303,894
Accounts payable on subsidiaries	2,423,733	12,582,992
Transactions in-transit with PMA	30,115,739	4,632,058
Dividends payable	3,974,039	4,267,018
Temporary deposits	4,277,895	4,290,190
Accrued interests	6,293,541	3,102,493
Return on unrestricted investment accounts	448,600	-
Board of Directors bonuses	1,062,857	990,000
Due to employees' saving fund *	833,187	601,056
Deferred tax liabilities	1,894,634	-
Others	8,119,423	5,907,417
	88,303,642	51,747,420

* 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.

25. 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.

On March 25, 2016, the extraordinary General Assembly of the Bank resolved to acquire the Commercial Bank of Palestine (PCB), which resulted in issuing 10,008,685 shares of Bank's shares to the shareholders of PCB. The share price of Bank of Palestine of U.S. $ 1 par value was U.S. $ 2.58. This resulted in additional paid-in capital of U.S. $ 15,813,723 (note 2).

26. 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 the Banks' capital against banking risks. The reserve is not to be utilized or reduced without PMA's prior approval. During the year, the total accumulated reserve reached 20% of the Bank's paid-in share capital; accordingly, the deduction was stopped.

27. Dividends

The Bank's General Assembly, during its meeting held on March 25, 2016, approved dividends distribution of U.S. $ 28,000,000, for the results of the Bank's operations for the year 2015, as stock dividends of U.S. $ 10,000,000 and as cash dividends of U.S. $ 18,000,000 based on pro-rata ownership of the Bank's shareholders in the Bank's share capital. Al Wasata (Subsidiary) distribute cash dividends in the amount of U.S. $ 1,000,000 out of which an amount of U.S. $ 126,405 represents the share of non-controlling interests.

At its meeting held on April 24, 2015, the Bank's General Assembly approved a dividend of U.S. $ 34,200,000 on the results of the Bank's operations for the year 2014 with U.S. $ 15,000,000 as stock dividends and U.S. $ 19,200,000 as cash dividends based on pro-rata ownership of the Bank's shareholders in the Bank's share capital.

28. Interest Income

This item comprises interest revenues earned on the following accounts:

	2016	2015
	U.S. $	U.S. $
Loans	76,620,398	59,837,726
Overdraft accounts	22,453,262	18,901,654
Current overdrafts	13,340,535	11,048,470
Financial assets	10,429,228	9,572,217
Credit cards	2,365,803	2,225,158
Balances at banks and financial institutions	3,837,602	3,720,353
Balances with PMA	2,936	2,664
	129,049,764	105,308,242

29. Interest Expense

This item comprises interest and profits incurred on the following accounts:

	2016	2015
	U.S.$	U.S.$
Interest on customers' deposits		
Time deposits	22,169,198	16,177,836
Saving accounts	1,814,754	477,191
Current and demand accounts	165,961	242,849
	24,149,913	16,897,876
Interest on PMA's deposits	1,762,944	117,485
Interest on banks and financial institutions' deposits	2,140,107	404,949
	28,052,964	17,420,310

30. Net investments and financing income

This item comprises net investment and financing income from the Arab Islamic Bank on the following accounts:

	For the period from April 29, 2016 to December 31, 2016
	U.S.$
Revenues from financing	15,327,022
Investment returns	1,287,857
	16,614,879
Less: Return of unrestricted investment accounts	(1,475,846)
The Bank's share of investment and financing income	15,139,033
Bank's share of income from restricted investment accounts	8,425
	15,147,458

31. Net Commissions

This item comprises commissions against the following:

	2016	2015
	U.S.$	U.S.$
Commissions income:		
Direct credit facilities	10,746,478	9,383,251
Indirect credit facilities	3,811,808	3,803,751
Salaries commission	3,144,926	3,101,169
Bank transfers	4,372,288	3,999,518
Checks	4,939,676	3,972,556
Accounts' management	2,873,011	2,292,478
Islamic financing commissions	1,969,274	-
Other banking services	3,536,204	2,634,525
	35,393,665	29,187,248
Less: Commission expense	(2,402,189)	(1,419,612)
	32,991,476	27,767,636

32. Net Gain from Financial Assets

This item comprises the following:

	2016	2015
	U.S.$	U.S.$
Dividends from investments	1,946,681	1,704,136
Gain from sale of financial assets at fair value through profit or loss	(16,335)	-
Unrealized losses from revaluation of financial assets through profit or loss	(579,385)	(207,993)
Investment management expenses	(634,996)	(835,678)
	715,965	660,465

33. Other Revenues

	2016	2015
	U.S.$	U.S.$
Visa and Master cards issuance fees	5,730,975	4,820,282
Safe boxes rental	134,281	120,890
Gain on disposal of property, plant and equipment	101,937	434,442
Securities trading commissions	1,023,089	1,401,662
Sundry	3,408,579	3,382,284
	10,398,861	10,159,560

34. Personnel Expenses

	2016	2015
	U.S.$	U.S.$
Salaries and related benefits	35,184,640	26,617,353
Provision for employees' end of service	4,565,933	3,889,748
VAT on salaries	5,467,550	4,122,066
Bonuses and rewards	2,420,056	2,200,016
Clothing allowances	455,490	715,216
Travel and transportation	400,995	315,283
Training expenses	742,304	644,245
Medical expenses	2,134,770	1,457,782
Bank's contribution to saving fund	1,349,170	881,116
	52,720,908	40,842,825

35. Other Operating Expenses

	2016	2015
	U.S.$	U.S.$
Palestine Deposit Insurance Corporation *	7,447,100	5,530,547
Advertising	5,241,520	4,481,536
Social responsibility **	3,474,588	3,118,544
Telephone, postage and fax	3,378,364	2,074,208
Stationery and printings	1,718,842	1,417,780
Maintenance and repairs	3,524,814	2,523,470
Rent	2,709,847	1,670,524
Board of Directors bonuses	1,062,856	990,000
Utilities	1,373,992	1,139,022
Travel and seminars	1,301,669	771,686
License fees	699,284	565,348
Subscriptions fees	1,044,498	660,312
Fuel	870,006	794,339
Professional fees	1,442,353	853,308
Insurance	1,268,172	1,139,316
Cash shipping expense	1,004,398	1,074,897
Hospitality	401,461	344,407
Vehicles expense	164,777	121,469
Printing checks	167,951	99,842
Sundry	3,721,411	1,630,802
	42,017,903	31,001,357

* Banks are required to accrue and account for an annual fee of %0.3 of total deposits specified by the Law No. (7) of the year 2013.

** 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.

36. Palestinian Monetary Authority Fines

This item represents a fine imposed by the Palestinian Monetary Authority on the Bank during the year ended December 31, 2016 amounting to US $ 5,000 due to the commencement of the work on a property leased by the Bank's operation before obtaining the approval of PMA as required by Instructions No. (2/2011).

37. 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:

	2016	2015
	U.S.$	U.S.$
Cash and balances with PMA	801,160,640	684,752,354
Add:		
Balances at banks and financial institutions	621,058,507	319,370,957
	1,422,219,147	1,004,123,311
Less:		
Balances at banks and financial institutions matures in more than 3 months	(53,326,710)	(43,724,000)
Investment maturing after 3 months	(8,322,642)	-
PMA deposits	(308,987,536)	(58,989,649)
Banks and financial institutions' deposits	(89,225,299)	(101,273,608)
Statutory cash reserve	(283,543,802)	(200,492,927)
	678,813,158	599,643,127

38. Basic and Diluted Earnings Per Share

	2016	2015
	U.S.$	U.S.$
Profit for the year attributable to shareholders of the Bank	50,985,680	43,091,915
	Shares	Shares
Weighted average of subscribed shares	187,550,158	185,000,000
	U.S.$	U.S.$
Basic and diluted earnings per share attributable to shareholders of the Bank	0.27	0.23

39. 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:

2016	**Associates**	**Major shareholders**	**Board of Directors and executive management**	**Others***	**Total**
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Consolidated statement of financial position items:					
Direct credit facilities and Islamic financing	1,694,867	-	10,955,366	26,790,329	39,440,562
Deposits	30,002	-	26,755,003	3,017,954	29,802,959
Subordinated loan	-	50,000,000	-	-	50,000,000
Commitments and contingencies					
Letters of guarantees	-	-	543,636	492,466	1,036,102
Letters of credit	-	-	-	107,780	107,780
Unutilized limits	-	-	1,011,631	8,126,305	9,137,936
Consolidated Income statement items:					
Interest and commissions earned	98,796	-	347,767	1,046,972	1,493,535
Interest and commissions paid	-	889,332	153,129	92,819	1,135,280

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

* 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 Islamic financing granted to related parties as at December 31, 2016 and 2015 represent 1.38% and 1.98% respectively, from the net direct credit facilities and Islamic financing.

– Net direct credit facilities and Islamic financing granted to related parties as at December 31, 2016 and 2015 represent 7.97% and 11.69% 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 1.25%.

Compensation of key management personnel:

	2016	2015
	U.S.$	U.S.$
General Manager	800,231	788,641
Executive management's salaries and related benefits	2,473,494	1,691,582
Executive management's end of service provision	274,270	273,033
Board of Directors' bonuses and expenses	1,169,826	990,000

* This item includes the board of directors' remuneration of Bank of Palestine in the amount of U.S. $ 990,000 for the year 2016. The following are the details:

	2016	2015
	U.S. $	U.S. $
Hashim Hani Al Shawa	100,125	104,823
Faysal Ghazi Alshawa	100,125	93,178
Hani Hassan Nijim	100,125	104,823
Maher Jawad Farah	100,125	104,823
Tareq Al Shakaa	100,125	104,823
Mohammed Hirbawi	100,125	104,823
John Khoury	100,125	104,823
Abdallah Alghanim	100,125	104,823
Lana Abu Hajla	100,125	104,823
Tariq Al Aqad	88,875	58,238
	990,000	990,000

Article no. (56) of the Bank's bylaw, states that 5% of the Banks' annual net income is distributed to the members of the Board of Directors. Actual bonuses distributed were 1.87% and 2.29% of profit for the years 2016 and 2015, respectively.

40. 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, 2016 and 2015:

	Carrying amount		Fair value	
	2016	2015	2016	2015
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Cash and balances with PMA	801,160,640	684,752,354	801,160,640	684,752,354
Balances at banks and financial institutions	621,058,507	319,370,957	621,058,507	319,370,957
Financial assets at fair value through profit or loss	10,117,262	7,159,702	10,117,262	7,159,702
Direct credit facilities and Islamic financing	2,213,463,765	1,388,805,441	2,213,463,765	1,388,805,441
Financial assets at fair value through other comprehensive income:				
Quoted stocks	30,750,559	23,017,696	30,750,559	23,017,696
Investment portfolios	1,390,108	1,105,082	1,390,108	1,105,082
Unquoted stocks	5,045,480	225,397	5,045,480	225,397
Financial assets at amortized cost:				
Treasury bills	85,418,822	90,213,330	85,543,706	90,213,330
Quoted bonds	147,463,846	148,703,577	150,023,688	148,656,929
Unquoted bonds	3,900,000	14,900,000	3,900,000	14,900,000
Islamic sukuk	20,000,000		20,000,000	
Other financial assets	52,588,202	21,602,202	52,588,202	21,602,202
Total assets	3,992,357,191	2,699,855,738	3,995,041,917	2,699,809,090
Financial liabilities				
PMA deposits	308,987,536	58,989,649	308,987,536	58,989,649
Banks and financial institutions' Deposits	89,225,299	101,273,608	89,225,299	101,273,608
Customers' deposits	2,981,754,664	2,153,616,828	2,981,754,664	2,153,616,828
Cash margins	161,396,927	89,165,470	161,396,927	89,165,470
Subordinated loan	50,000,000	-	50,000,000	-
Other financial liabilities	77,606,180	43,677,118	77,606,180	43,677,118
Total liabilities	3,668,970,606	2,446,722,673	3,668,970,606	2,446,722,673

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 Islamic and financing 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, 2016.

41. 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 following table provides the fair value measurement hierarchy of the Bank's assets as of December 31, 2016:

			Measurement of Fair Value by		
	Date of Evaluation	Total U.S. $	Quoted prices in active markets (Level 1) U.S. $	Significant observable input (Level 2) U.S. $	Significant non-observable inputs (Level 3) U.S. $
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 7):	December 31, 2016	10,117,262	10,117,262	-	-
Financial assets at fair value through other comprehensive income (note 9):					
Quoted	December 31, 2016	30,750,559	30,750,559	-	-
Units in the investment portfolio	December 31, 2016	1,390,108	-	1,390,108	-
Unquoted	December 31, 2016	5,045,480	-	-	5,045,480

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

			Measurement of Fair Value by		
	Date of Evaluation	Total U.S. $	Quoted prices in active markets (Level 1) U.S. $	Significant observable input (Level 2) U.S. $	Significant non-observable inputs (Level 3) U.S. $
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 7):	December 31, 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 Bank has not made any transfers between the above levels during 2016 and 2015.

42. 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:

	2016			2015		
	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	3,287,974,279	4,047,590,983	402,555,657	2,222,165,011	2,728,231,932	318,551,424
Israel	93,688,693	-	1,174,346	36,952,598	-	1,073,983
Jordan	324,173,213	5,122,399	14,735,589	216,715,650	1,711,300	13,476,243
Europe	220,977,891	15,007,259	20,377,270	138,913,643	25,608,190	18,635,770
USA	39,327,022	50,000,000	602,608	26,897,004	-	551,107
Others	152,488,132	908,589	11,095,871	143,559,334	29,651,818	10,147,587
Total	4,118,629,230	4,118,629,230	450,541,341	2,785,203,240	2,785,203,240	362,436,114
By sector						
Retail	820,087,196	1,377,309,721	194,238,068	494,272,998	822,712,861	218,279,836
Corporate, institutions and public sector	1,393,376,569	1,816,901,527	255,543,973	894,532,443	1,423,237,989	-
Treasury	1,791,730,324	467,513,633	-	1,311,270,549	160,263,258	144,156,278
Others	113,435,141	456,904,349	759,300	85,127,250	378,989,132	-
Total	4,118,629,230	4,118,629,230	450,541,341	2,785,203,240	2,785,203,240	362,436,114

43. 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

	2016	2015
	U.S. $	U.S. $
Consolidated statement of financial position items		
Balances with PMA	348,556,290	214,869,785
Balances at banks and financial institutions	621,058,507	319,370,957
Direct credit facilities and Islamic financing:		
Retail	818,736,739	494,272,998
Corporate and institutions	997,399,648	547,664,620
Public sector	397,327,378	346,867,823
Financial assets at amortized cost	256,782,668	253,816,907
Other assets	52,588,202	21,602,202
	3,492,449,432	2,198,465,292
Commitments and contingencies		
Letters of guarantees	193,531,051	180,079,687
Letters of credit	21,743,186	19,981,010
Acceptances	13,709,692	25,594,303
Unutilized credit facilities limits	221,557,412	136,781,114
	450,541,341	362,436,114

Credit risk exposure for each risk rating

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

	December 31, 2016			
	Retail	Corporate and institutions	Public sector	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Low risk	111,962,198	132,658,156	397,317,225	641,937,579
Acceptable risk	695,796,414	827,847,210	-	1,523,643,624
From which is due:				
Until 30 days	9,038,933	24,402,431	11,107,921	44,549,285
Watch list	7,121,132	17,150,254	-	24,271,386
Non-performing:				
Substandard	3,225,218	5,129,707	-	8,354,925
Doubtful	8,729,894	33,647,609	259,821	42,637,324
Total	826,834,856	1,016,432,936	397,577,046	2,240,844,838
Suspended interest, commissions and profits	(1,257,815)	(5,381,171)	-	(6,638,986)
Impairment allowance for credit facilities and Islamic financing	(6,840,302)	(13,652,117)	(249,668)	(20,742,087)
	818,736,739	997,399,648	397,327,378	2,213,463,765

	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

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

	December 31, 2016			
	Retail	Corporate and institutions	Public sector	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Collaterals against:				
Low risk	57,299,721	101,711,588	356,306	159,367,615
Acceptable risk	108,291,479	527,525,841	-	635,817,320
Watch list	3,509,797	10,366,259	-	13,876,056
Non-performing:				
Substandard	574,494	1,481,890	-	2,056,384
Doubtful	1,064,206	12,275,163	10,153	13,349,522
Total	170,739,697	653,360,741	366,459	824,466,897
Comprising :				
Cash margins	21,497,533	88,750,096	317,309	110,564,938
Precious metals	234,274	639,866	-	874,140
Quoted stocks	379,520	22,473,554	-	22,853,074
Vehicles and equipment	46,369,210	28,845,945	49,150	75,264,305
Real estate	102,259,160	512,651,280	-	614,910,440
	170,739,697	653,360,741	366,459	824,466,897

	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

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

	Palestine	Arab Countries	Israel	Europe	USA	Others	Total
2016	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances with PMA	348,556,290	-	-	-	-	-	348,556,290
Balances at banks and financial institutions	71,022,456	173,047,691	93,668,642	190,731,933	16,302,216	76,285,569	621,058,507
Direct credit facilities and Islamic financing	2,199,250,105	8,905,070	20,051	5,144,765	142,369	1,405	2,213,463,765
Financial assets at amortized cost	10,443,115	121,854,765	-	25,101,193	22,882,437	76,501,158	256,782,668
Other financial assets	52,588,202	-	-	-	-	-	52,588,202
Total as at December 31, 2016	2,681,860,168	303,807,526	93,688,693	220,977,891	39,327,022	152,788,132	3,492,449,432
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

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

	Financial	Industrial	Commercial	Real estate	Financial securities	Public sector	Others	Total
2016	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances with PMA	348,556,290	-	-	-	-	-	-	348,556,290
Balances at banks and financial institutions	621,058,507	-	-	-	-	-	-	621,058,507
Direct credit facilities and Islamic financing	53,607,779	94,577,882	334,240,142	449,832,709	482,518	397,327,378	883,395,357	2,213,463,765
Financial assets at amortized cost	64,866,804	3,900,000	-	-	98,844,423	-	89,171,441	256,782,668
Other financial assets	-	-	-	-	-	-	52,588,202	52,588,202
December 31, 2016	1,088,089,380	98,477,882	334,240,142	449,832,709	99,326,941	397,327,378	1,025,155,000	3,492,449,432
Total as at 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

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:

	2016		2015	
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	732,660	10	727,161
Jordanian Dinar	10	168,063	10	127,958
New Israeli Shekels	10	288,164	10	162,444
Other currencies	10	9,796	10	35,212

Interest rate re-pricing sensitivity gap

December 31, 2016	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	-	-	-	-	-	801,160,640	801,160,640
Balances at banks and financial institutions	212,419,720	14,034,667	19,870,200	18,824,400	1,132,110	354,777,410	621,058,507
Financial assets at fair value through profit or loss	-	-	-	-	-	10,117,262	10,117,262
Direct credit facilities and Islamic financing	584,746,167	91,899,274	136,959,602	402,441,226	577,722,584	419,694,912	2,213,463,765
Financial assets at fair value through other comprehensive income	-	-	-	-	-	37,186,147	37,186,147
Financial assets at amortized cost	6,476,307	6,222,159	7,470,344	12,889,967	203,723,891	20,000,000	256,782,668
Investment in associates	-	-	-	-	-	5,006,039	5,006,039
Investment properties	-	-	-	-	-	15,904,566	15,904,566
Property, plant and equipment	-	-	-	-	-	69,320,409	69,320,409
Projects in progress	-	-	-	-	-	8,522,483	8,522,483
Intangible assets	-	-	-	-	-	10,421,612	10,421,612
Other assets	-	-	-	-	-	69,685,132	69,685,132
Total Assets	803,642,194	112,156,100	164,300,146	434,155,593	782,578,585	1,821,796,612	4,118,629,230
Liabilities							
PMA deposits	215,005,416	-	-	-	75,982,120	18,000,000	308,987,536
Banks and financial institutions' deposits	39,312,448	15,000,000	-	-	-	34,912,851	89,225,299
Customers' deposits	246,158,423	129,460,965	73,700,650	146,070,876	107,459,173	2,278,904,577	2,981,754,664
Cash margins	-	-	-	-	-	161,396,927	161,396,927
Subordinated loan	-	-	-	-	50,000,000	-	50,000,000
Sundry provisions	-	-	-	-	-	28,867,116	28,867,116
Tax provisions	-	-	-	-	-	6,519,249	6,519,249
Other liabilities	-	-	-	-	-	88,303,642	88,303,642
Total Liabilities	500,476,287	144,460,965	73,700,650	146,070,876	233,441,293	2,616,904,362	3,715,054,433
Equity							
Paid-in share capital	-	-	-	-	-	195,008,685	195,008,685
Additional paid-in capital	-	-	-	-	-	24,848,415	24,848,415
Statutory reserve	-	-	-	-	-	41,431,505	41,431,505
Voluntarily reserve	-	-	-	-	-	246,052	246,052
General banking risks reserve	-	-	-	-	-	30,553,490	30,553,490
Pro-cyclicality reserve	-	-	-	-	-	39,001,737	39,001,737
Fair value reserve	-	-	-	-	-	(297,057)	(297,057
Retained earnings	-	-	-	-	-	36,171,383	36,171,383
Total equity holders of the Bank	-	-	-	-	-	366,964,210	366,964,210
Non-controlling interests	-	-	-	-	-	36,610,587	36,610,587
Total Equity	-	-	-	-	-	403,574,797	403,574,797
Total liabilities and equity	500,476,287	144,460,965	73,700,650	146,070,876	233,441,293	3,020,766,562	4,118,629,230
Interest rate re-pricing sensitivity gap	303,165,907	(32,304,865)	90,599,496	288,084,717	549,137,292	(1,198,782,547)	-
Cumulative gap	303,165,907	270,861,042	361,460,538	649,545,255	1,198,682,547	-	-

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. $
Total assets	434,951,694	96,598,582	144,249,543	421,189,223	738,897,356	949,316,842	2,785,203,240
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	-	-

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:

	2016		2015	
Currency	Increase in currency rate (%)	Effect on consolidated income statement U.S. $	Increase in currency rate (%)	Effect on consolidated income statement U.S. $
New Israeli Shekels	10	1,123,049	10	316,490
Other currencies	10	(55,597)	10	528,264

Following is the foreign currencies position of the Bank:

	JOD	ILS	Others	Total
December 31, 2016	U.S. $	U.S. $	U.S. $	U.S. $
Assets				
Cash and balances with PMA	115,532,776	506,713,611	12,601,363	634,847,750
Balances at banks and financial institutions	226,400,189	108,884,705	151,991,591	487,276,485
Financial assets at fair value through profit and loss	8,792,460	-	-	8,792,460
Direct credit facilities and Islamic financing	311,802,436	729,743,659	29,100,053	1,070,646,148
Financial assets at fair value through other comprehensive Income	23,556,378	-	267,755	23,824,133
Financial assets at amortized cost	76,340,328	5,548,585	8,093,564	89,982,477
Investment properties	959,712	-	-	959,712
Other assets	5,446,723	33,717,619	1,592,103	40,756,445
Total Assets	768,831,002	1,384,608,179	203,646,429	2,357,085,610
Liabilities				
PMA deposits	-	180,884,644	60,102,891	240,987,535
Banks and financial institutions' deposits	14,104,374	40,133,475	-	54,237,849
Customers' deposits	721,606,032	1,039,734,584	135,799,092	1,897,139,708
Cash margins	13,177,642	59,296,160	7,584,844	80,058,646
Other liabilities	8,489,464	53,328,831	715,574	62,533,869
Total Liabilities	757,377,512	1,373,377,694	204,202,401	2,334,957,607
Statement of financial position concentration	11,453,490	11,230,485	(555,972)	22,128,003
Commitments and contingencies	18,805,080	132,467,454	33,723,148	184,995,682

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:

		2016		2015	
Market	Increase in Indicator (%)	Effect on consolidated income statement U.S. $	Effect on equity U.S. $	Effect on consolidated income statement U.S. $	Effect on equity U.S. $
Palestine Securities Exchange	10	1,011,726	1,095,263	715,970	521,284
Foreign markets	10	-	1,979,793	-	1,780,485

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, 2016 and 2015, respectively:

December 31, 2016	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	517,616,838	-	-	-	-	-	283,543,802	801,160,640
Balances at banks and financial institutions	523,960,839	37,748,316	19,870,200	38,347,042	-	-	1,132,110	621,058,507
Financial assets at fair value through profit and loss	-	-		-	-	-	10,117,262	10,117,262
Direct credit facilities and Islamic financing	128,689,586	177,145,916	163,876,399	621,635,670	565,230,607	556,885,587	-	2,213,463,765
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	37,186,147	37,186,147
Financial assets at amortized cost	6,476,307	6,222,159	7,470,344	12,889,967	95,603,617	128,120,274	-	256,782,668
Investment in associates	-	-	-	-	-	-	5,006,039	5,006,039
Investment properties	-	-	-	-	-	-	15,904,566	15,904,566
Property, plant and equipment	-	-	-	-	-	-	69,320,409	69,320,409
Projects in progress	-	-	-	-	-	-	8,522,483	8,522,483
Intangible assets	-	-	-	-	-	-	10,421,612	10,421,612
Other assets	52,588,202	-	-	-	-	-	17,096,930	69,685,132
Total assets	1,229,331,772	221,116,391	191,216,943	672,872,679	660,834,224	685,005,861	458,251,360	4,118,629,230
Liabilities								
PMA deposits	308,987,536	-	-	-	-	-	-	308,987,536
Banks and financial institutions' deposits	74,225,299	15,000,000	-	-	-	-	-	89,225,299
Customers' deposits	863,487,828	216,726,832	428,524,603	405,493,988	663,213,768	404,307,645	-	2,981,754,664
Cash margins	-	-	3,488,537	32,409,676	105,016,034	20,482,680	-	161,396,927
Subordinated loan	-	-	-	-	-	50,000,000	-	50,000,000
Sundry provisions	-	-	-	-	-	-	28,867,116	28,867,116
Tax provisions	-	-	-	-	-	-	6,519,249	6,519,249
Other liabilities	77,606,180	-	-	-	-	-	10,697,462	88,303,642
Total liabilities	1,324,306,843	231,726,832	432,013,140	437,903,664	768,229,802	474,790,325	46,083,827	3,715,054,433
Equity								
Paid-in share capital	-	-	-	-	-	-	195,008,685	195,008,685
Additional paid-in capital	-	-	-	-	-	-	24,848,415	24,848,415
Statutory reserve	-	-	-	-	-	-	41,431,505	41,431,505
Voluntarily reserve	-	-	-	-	-	-	246,052	246,052
General banking risks reserve	-	-	-	-	-	-	30,553,490	30,553,490
Pro-cyclicality reserve	-	-	-	-	-	-	39,001,737	39,001,737
Fair value reserve	-	-	-	-	-	-	(297,057)	(297,057)
Retained earnings	-	-	-	-	-	-	36,171,383	36,171,383
Total equity holders of the Bank	-	-	-	-	-	-	366,964,210	366,964,210
Non-controlling interests	-	-	-	-	-	-	36,610,587	36,610,587
Total equity	-	-	-	-	-	-	403,574,797	403,574,797
Total liabilities and equity	1,324,306,843	231,726,832	432,013,140	437,903,664	768,229,802	474,790,325	449,658,624	4,118,629,230
Maturity gap	(94,975,071)	(10,610,441)	(240,796,197)	234,969,015	(107,395,578)	210,215,536	8,592,736	-
Cumulative gap	(94,975,071)	(105,585,512)	(346,381,709)	(111,412,694)	(218,808,272)	(8,592,736)	-	-

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	-	-

44. Maturities of Assets and Liabilities

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

	December 31, 2016			
	Up to 1 year U.S. $	More than 1 year U.S. $	Without maturity U.S. $	Total U.S. $
Assets				
Cash and balances with PMA	517,616,838	-	283,543,802	801,160,640
Balances at banks and financial institutions	619,926,397	-	1,132,110	621,058,507
Financial assets at fair value profit and loss	-	-	10,117,262	10,117,262
Direct credit facilities and Islamic financing	1,091,347,571	1,122,116,194	-	2,213,463,765
Financial assets at fair value through other comprehensive income	-	-	37,186,147	37,186,147
Financial assets at amortized cost	33,058,777	223,723,891	-	256,782,668
Investment in associates	-	-	5,006,039	5,006,039
Investment properties	-	-	15,904,566	15,904,566
Property, plant and equipment	-	-	69,320,409	69,320,409
Projects in progress	-	-	8,522,483	8,522,483
Intangible assets	-	-	10,421,612	10,421,612
Other assets	52,588,202	-	17,096,930	69,685,132
Total Assets	2,314,537,785	1,345,840,085	458,251,360	4,118,629,230
Liabilities				
PMA deposits	308,987,536	-	-	308,987,536
Banks and financial institutions' deposits	89,225,299	-	-	89,225,299
Customers' deposits	1,914,233,251	1,067,521,413	-	2,981,754,664
Cash margins	35,898,213	125,498,714	-	161,396,927
Subordinated loan	-	50,000,000	-	50,000,000
Sundry Provisions	-	-	28,867,116	28,867,116
Tax provisions	-	-	6,519,249	6,519,249
Other liabilities	77,606,180	-	10,697,462	88,303,642
Total Liabilities	2,425,950,479	1,243,020,127	46,083,827	3,715,054,433
Equity				
Paid-in share capital	-	-	195,008,685	195,008,685
Additional paid-in capital	-	-	24,848,415	24,848,415
Statutory reserve	-	-	41,431,505	41,431,505
Voluntarily reserve	-	-	246,052	246,052
General banking risks reserve	-	-	30,553,490	30,553,490
Pro-cyclicality reserve	-	-	39,001,737	39,001,737
Fair value reserve	-	-	(297,057)	(297,057)
Retained earnings	-	-	36,171,383	36,171,383
Total equity holders of the Bank	-	-	366,964,210	366,964,210
Non-controlling interests	-	-	36,610,587	36,610,587
Total equity	-	-	403,574,797	403,574,797
Total Liabilities and Equity	2,425,950,479	1,243,020,127	449,658,624	4,118,629,230
Maturity gap	(111,412,694)	102,819,958	8,592,736	-
Cumulative maturity gap	(111,412,694)	(8,592,736)	-	-

	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 through 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	-	-

45. 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 2016	Total 2015
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	81,141,143	88,935,214	25,801,710	12,061,701	207,939,768	155,627,156
Impairment allowance for direct credit facilities and Islamic financing	(4,701,382)	(1,473,850)	-	-	(6,175,232)	(3,782,218)
Recovery of impairment allowance for direct credit facilities	2,869,793	314,863	-	-	3,184,656	1,259,978
Segment results	69,067,403	83,418,612	17,983,092	7,015,508	177,484,615	136,787,234
Unallocated expenses					(109,485,525)	(82,216,779)
Profit before taxes					67,999,090	54,570,455
Taxes expense					(14,943,110)	(11,403,022)
Profit for the year					53,055,980	43,167,433
Other segment information:						
Depreciation and amortization					8,157,934	6,065,634
Capital expenditures					23,491,294	10,187,906
Total segment assets	820,087,196	1,393,376,569	1,791,730,324	113,435,141	4,118,629,230	2,785,203,240
Total segment liabilities	1,377,309,721	1,816,901,527	467,513,633	53,329,552	3,715,054,433	2,479,446,936

Geographical distribution information

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

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

	Domestic		Foreign		Total	
	2016	2015	2016	2015	2016	2015
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	197,986,834	144,841,722	9,952,934	10,785,434	207,939,768	155,627,156
Total assets	3,287,974,279	2,222,165,011	830,654,951	563,038,229	4,118,629,230	2,785,203,240
Capital expenditures	23,491,294	10,187,906	-	-	23,491,294	10,187,906

46. Capital Management

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

The Bank manages its capital structure and makes adjustments to it in light of changes in business conditions. The Bank did not make any adjustments on goals, policies, and actions concerning capital management for current and prior year, except for increasing capital in the amount of U.S. $ 20,008,685 through stock dividends in the amount of U.S. $ 10,000,000 and the acquisition of PCB's banking portfolio which increased share capital in the amount of U.S. $ 10,008,685 to reach U.S. $ 195,008,685 at December 31, 2016. In 2015, the Bank distributed stock dividends in the amount of U.S. $ 15,000,000 and the paid-in share capital reached U.S. $ 175,000,000 at December 31, 2015.

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 2016 compared to 2015:

	2016			2015		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S. $	%	%	U.S. $	%	%
Regulatory capital	381,971,604	9.27	14.71	235,135,097	8.44	14.46
Basic capital	324,109,252	7.87	12.48	250,337,732	8.99	15.40

47. Commitments and Contingent Liabilities

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

	2016	2015
	U.S. $	U.S. $
Letters of guarantees	193,531,051	180,079,687
Letters of credit	21,743,186	19,981,010
Acceptances	13,709,692	25,594,303
Unutilized credit facilities limits	221,557,412	136,781,114
	450,541,341	362,436,114

Outstanding forward contracts as at December 31, 2016 amounted to U.S. $ 3,888,670, 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.

48. Lawsuits Against the Bank

The number of lawsuits filed against the Bank as at December 31, 2016 and 2015 was (73) and (51) in the normal course of business with a total amount of U.S. $ 12,515,965 and U.S. $ 12,111,145, respectively. The Bank's management and lawyer believe that no additional provision is required other than what was provided for (Note 22).

49. Concentration of Risk in Geographical Area

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

50. 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.