PALESTINE ISLAMIC BANK

FINANCIAL STATEMENTS

DECEMBER 31, 2015

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## Independent Auditors' Report
## To the Shareholders of Palestine Islamic Bank

We have audited the accompanying financial statements of Palestine Islamic Bank (the Bank), which comprise the statement of financial position as at December 31, 2015, and the income statement, the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of sources and uses of earnings prohibited by Sharia' for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, and in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

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

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2015 and its financial performance, its cash flows and its sources and uses of earnings prohibited by Sharia' for the year then ended in accordance with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, and in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

## Emphasis of Matters

Without qualifying our opinion, as depicted in note (18) to the accompanying financial statements, during the year the Bank reached a tax settlement with the Ministry of Finance which included income and value added taxes on the results of its operations and employees' salaries for the period from 2005 to 2013. Furthermore, 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 income and value added taxes.

**Ernst & Young – Middle East**
License # 206/2012

Ernst + Young

March 14, 2016
Ramallah - Palestine

## STATEMENT OF FINANCIAL POSITION
As at December 31, 2015

| | | 2015 | 2014 |
|---|---|---|---|
| **Assets** | Notes | U.S. $ | U.S. $ |
| Cash and balances at Palestine Monetary Authority | 3 | 133,724,865 | 109,192,783 |
| Balances at banks and financial institutions | 4 | 44,702,979 | 91,906,698 |
| Islamic financing | 5 | 446,357,550 | 352,961,215 |
| Financial assets at fair value through profit or loss | 6 | 1,878,702 | 1,033,570 |
| Financial assets at fair value through equity | 7 | 1,850,423 | 1,849,083 |
| Financial assets at amortized cost | 8 | 3,885,284 | 4,133,766 |
| Investment in associates | 9 | 4,781,958 | 2,862,370 |
| Investment properties | 10 | 776,893 | 795,794 |
| Property and equipment | 11 | 17,379,295 | 14,400,143 |
| Intangible assets | 12 | 868,803 | 752,446 |
| Other assets | 13 | 19,004,586 | 15,372,045 |
| **Total assets** | | 675,211,338 | 595,259,913 |
| **Liabilities, unrestricted investment accounts and equity** | | | |
| **Liabilities** | | | |
| Banks and financial institutions' deposits | 14 | 47,297,789 | 55,193,318 |
| Customers' deposits | 15 | 154,905,231 | 134,437,988 |
| Cash margins | 16 | 17,369,548 | 11,833,503 |
| Sundry provisions | 17 | 6,259,507 | 4,186,228 |
| Tax provisions | 18 | 2,310,360 | 6,195,180 |
| Other liabilities | 19 | 9,251,279 | 6,219,024 |
| **Total liabilities** | | 237,393,714 | 218,065,241 |
| **Unrestricted investment accounts** | 20 | 364,511,720 | 309,655,000 |
| **Equity** | | | |
| Paid-in share capital | 1 | 50,000,000 | 50,000,000 |
| Statutory reserve | 22 | 3,925,802 | 2,922,420 |
| General banking risk reserve | 22 | 6,939,252 | 5,524,196 |
| Pro-cyclicality reserve | 22 | 5,332,931 | 3,827,858 |
| Cumulative change in fair value | 7 | (269,569) | (251,984) |
| Retained earnings | | 7,377,488 | 5,517,182 |
| **Total equity** | | 73,305,904 | 67,539,672 |
| **Total liabilities, unrestricted investment accounts and equity** | | 675,211,338 | 595,259,913 |

The accompanying notes from 1 to 46 form part of these financial statements

## INCOME STATEMENT
For the year ended December 31, 2015

| | Notes | 2015 U.S. $ | 2014 U.S. $ |
|---|---|---|---|
| **Revenues** | | | |
| Investment and financing revenues | 23 | 29,331,586 | 24,037,761 |
| Less: Return on unrestricted investment accounts | 24 | (2,539,280) | (2,401,924) |
| Bank's share of income from financing and investments | | 26,792,306 | 21,635,837 |
| Net commissions | 25 | 4,484,729 | 3,351,067 |
| Foreign currency exchange gains | | 1,794,379 | 1,842,087 |
| Bank's share of the associates' results of operations | 9 | 161,254 | 137,991 |
| Income from financial assets at amortized cost | 8 | 259,845 | 312,431 |
| Gains on financial assets at fair value through profit or loss | | 33,856 | 9,559 |
| Financial assets (losses) gains | 26 | (231,812) | 435,721 |
| Recovery from provision for doubtful Islamic financing | 5 | 427,304 | 648,468 |
| Recovery of provisions | 18 | 1,727,731 | - |
| Other revenues | 27 | 238,168 | 399,011 |
| **Total revenues** | | 35,687,760 | 28,772,172 |
| **Expenses** | | | |
| Personnel expenses | 28 | (12,353,306) | (10,034,193) |
| Other operating expenses | 29 | (7,650,752) | (7,378,076) |
| Depreciation and amortization | 30 | (1,456,824) | (1,271,769) |
| Losses on impairment of investment properties | 10 | (19,427) | (232,000) |
| Provision for doubtful Islamic financing | 5 | (893,254) | (399,379) |
| Palestine Monetary Authority fines | 31 | (10,000) | - |
| Provision for legal cases | 17 | (839,993) | (30,091) |
| **Total expenses** | | (23,223,556) | (19,345,508) |
| **Profit before taxes** | | 12,464,204 | 9,426,664 |
| Taxes expense | 18 | (2,430,387) | (1,889,057) |
| **Profit for the year** | | 10,033,817 | 7,537,607 |
| **Basic and diluted earnings per share** | 35 | 0.20 | 0.15 |

The accompanying notes from 1 to 46 form part of these financial statements

**STATEMENT OF COMPREHENSIVE INCOME**
For the year ended December 31, 2015

| | Notes | 2015 | 2014 |
|---|---|---|---|
| | | U.S. $ | U.S. $ |
| **Profit for the year** | | 10,033,817 | 7,537,607 |
| **Other comprehensive income:** | | | |
| Income recognized in the income statement | | - | (329,938) |
| Items to be reclassified to income statement in subsequent periods: | | | |
| Change in fair value of financial assets | 7 | (48,660) | 138,091 |
| Bank's share of the associates' other comprehensive income | 7 | 31,075 | (269,739) |
| **Total other comprehensive income** | | (17,585) | (461,586) |
| **Total comprehensive income for the year** | | 10,016,232 | 7,076,021 |

## STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2015

| | Paid-in share capital | Reserves: Statutory | Reserves: General banking risk | Reserves: Pro-cyclicality | Cumulative change in fair value | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| December 31, 2015 | | | | | | | |
| **Balance, beginning of the year** | 50,000,000 | 2,922,420 | 5,524,196 | 3,827,858 | (251,984) | 5,517,182 | 67,539,672 |
| Profit for the year | - | - | - | - | - | 10,033,817 | 10,033,817 |
| Other comprehensive income | - | - | - | - | (17,585) | - | (17,585) |
| Total comprehensive income for the year | - | - | - | - | (17,585) | 10,033,817 | 10,016,232 |
| Transfers to reserves | - | 1,003,382 | 1,415,056 | 1,505,073 | - | (3,923,511) | - |
| Cash dividends (note 21) | - | - | - | - | - | (4,250,000) | (4,250,000) |
| **Balance, end of the year** | 50,000,000 | 3,925,802 | 6,939,252 | 5,332,931 | (269,569) | 7,377,488 | 73,305,904 |

| | Paid-in share capital | Reserves: Statutory | Reserves: General banking risk | Reserves: Pro-cyclicality | Cumulative change in fair value | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| December 31, 2014 | | | | | | | |
| **Balance, beginning of the year** | 50,000,000 | 2,168,659 | 5,479,082 | 2,697,217 | 209,602 | 2,909,091 | 63,463,651 |
| Profit for the year | - | - | - | - | - | 7,537,607 | 7,537,607 |
| Other comprehensive income | - | - | - | - | (461,586) | - | (461,586) |
| Total comprehensive income for the year | - | - | - | - | (461,586) | 7,537,607 | 7,076,021 |
| Transfers to reserves | - | 753,761 | 45,114 | 1,130,641 | - | (1,929,516) | - |
| Cash dividends (note 21) | - | - | - | - | - | (3,000,000) | (3,000,000) |
| **Balance, end of the year** | 50,000,000 | 2,922,420 | 5,524,196 | 3,827,858 | (251,984) | 5,517,182 | 67,539,672 |

The accompanying notes from 1 to 46 form part of these financial statements

## STATEMENT OF CASH FLOWS
For the year ended December 31, 2015

| | Notes | 2015 U.S. $ | 2014 U.S. $ |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxes | | 12,464,204 | 9,426,664 |
| **Adjustments for:** | | | |
| Gain on financial assets at fair value through profit or loss | | (33,856) | (9,559) |
| Sundry provisions | | 2,134,799 | 866,099 |
| Depreciation and amortization | | 1,456,824 | 1,271,769 |
| Bank's share of the associates' results of operations | | (161,254) | (137,991) |
| Net Islamic financing impairment | | 465,950 | (249,089) |
| Losses from sale of investment properties | | - | 10,700 |
| Losses on impairment of investment properties | | 19,427 | 232,000 |
| Losses (gains) on financial assets | | 231,812 | (435,721) |
| Losses on disposal of property and equipment | | 83,525 | 28,527 |
| Recovery of provisions | | (1,727,731) | - |
| | | 14,933,700 | 11,003,399 |
| **Changes in assets and liabilities:** | | | |
| Statutory cash reserve | | (5,220,459) | (3,320,842) |
| Investments with PMA maturing after three months | | - | 17,440,129 |
| Balances at banks and financial institutions maturing after three months | | 8,646,075 | 8,888,247 |
| Islamic financing | | (93,862,285) | (82,780,342) |
| Other assets | | (3,632,541) | (2,633,881) |
| Customers' deposits | | 20,467,243 | 23,196,114 |
| Cash margins | | 5,536,045 | 2,064,903 |
| Other liabilities | | 3,032,255 | 205,854 |
| **Net cash flows used in operating activities before provisions and taxes** | | (50,099,967) | (25,936,419) |
| Sundry provisions paid | | (61,520) | (142,285) |
| Taxes paid | | (4,587,476) | (2,300,000) |
| **Net cash flows used in operating activities** | | (54,748,963) | (28,378,704) |
| **Investing activities** | | | |
| Sales of investment properties | | 70,000 | 66,000 |
| Purchase of investment properties | | (70,526) | - |
| Investment in associates | | (2,000,000) | (58,616) |
| Purchase of property and equipment | | (4,342,224) | (4,775,821) |
| Purchase of intangible assets | | (377,028) | (111,113) |
| Sale of property and equipment | | 83,394 | 29,093 |
| Purchase of financial assets at amortized cost | | (696,600) | - |
| Maturity of financial assets at amortized cost | | 945,082 | 866,234 |
| Purchase of financial assets at fair value through equity | | (50,000) | (1,958,392) |
| Sale of financial assets at fair value through equity | | - | 2,274,537 |
| Purchase of financial assets at fair value through profit or loss | | (1,844,846) | - |
| Sale of financial assets at fair value through profit or loss | | 655,778 | - |
| Cash dividends received | | 418,721 | 233,062 |
| **Net cash flows used in investing activities** | | (7,208,249) | (3,435,016) |
| **Financing activities** | | | |
| Cash dividends distributed | | (4,250,000) | (2,697,011) |
| Unrestricted investment accounts | | 54,856,720 | 29,104,013 |
| **Net cash flows from financing activities** | | 50,606,720 | 26,407,002 |
| **Decrease in cash and cash equivalents** | | (11,350,492) | (5,406,718) |
| Cash and cash equivalents, beginning of the year | | 88,741,535 | 94,148,253 |
| **Cash and cash equivalents, end of the year** | 34 | 77,391,043 | 88,741,535 |

The accompanying notes from 1 to 46 form part of these financial statements

## STATEMENT OF SOURCES AND USES OF EARNINGS PROHIBITED BY SHARIA'
For the year ended December 31, 2015

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Earnings prohibited by Sharia' | | |
| Balance, beginning of the year | 2,063 | 14,213 |
| Excess in cash | 4,690 | 11,988 |
| Profit from direct Islamic financing | 4,262 | 2,470 |
| Commissions | 20,629 | - |
| **Total earnings prohibited by Sharia' at the end of year** | 31,644 | 28,671 |
| | | |
| Disbursements of earnings prohibited by Sharia' | | |
| Donations | (13,343) | (26,608) |
| **Balance of earnings prohibited by Sharia' at the end of year (note 19)** | 18,301 | 2,063 |

**NOTES TO THE FINANCIAL STATEMENTS**
December 31, 2015

## 1. General

Palestine Islamic Bank P.L.C. (the Bank) was incorporated in Gaza City on December 16, 1995 in accordance with the Companies Law of 1929, and was registered under registration number (563200922). During 2009, the Bank moved its headquarter from Gaza City to Ramallah City.

The Bank commenced operations in early 1997. The Bank is licensed to provide banking services, financing, trading and investing activities in accordance with the directives of the Islamic Shari'a Rules through its headquarters in Ramallah and its seventeen branches and two offices.

The Bank's authorized share capital is U.S. $ 100,000,000 at U.S. $ 1 par value each. The Bank's paid-in capital amounted to U.S. $ 50,000,000 as at December 31, 2015.

The total number of the Bank's staff is (508) and (461) as at December 31, 2015 and 2014, respectively.

The financial statements were authorized for issuance by the Bank's Board of Directors in their meeting number (1/2016) held on February 15, 2016.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with the Financial Accounting and Auditing Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Shari'a Rules and Principles as determined by the Bank's Shari'a Supervisory Board, prevailing laws in Palestine and Palestine Monetary Authority (PMA) regulations.

The 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 equity, which have been measured at fair value at the date of the financial statements.

The financial statements have been presented in U.S. Dollars, which is the functional currency of the Bank.

The standards issued by the International Accounting Standard Board and the interpretations issued by International Financial Reporting Interpretations Committee of the International Accounting Standards Board are applied in case of the absence of accounting standards issued by the Accounting and Auditing Organizations for Islamic Financial Institutions, until AAOIFI issues new relevant standards.

### 2.2 Changes in accounting polices

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

**Amendment to FAS 23 – Consolidation**

The amendment introduced to FAS 23 is to give clarification on the way an Islamic financial institution (IFI) should determine if financial statements of an investee company, or a subsidiary, should be consolidated with its own. The amendment provides clarification that, in addition to the existing stipulations in the standard, control may also exist through rights arising from other contractual arrangement, voting rights of the Islamic financial institutions that give de facto power over an entity, potential voting rights, or a combination of these factors.

In terms of voting rights, the amendment also clarifies that an Islamic financial institution shall consider only substantive voting rights in its assessment of whether the institution has power over an entity. In order to be substantive, the voting rights need to be exercisable when relevant decisions are required to be made and the holder of such rights must have the practical ability to exercise those rights. Determination of voting rights shall include current substantive voting rights and currently-exercisable voting rights.

The amendments and clarifications are effective for the annual financial periods ending on or after 31 December 2015. The transition provision requires retrospective application including restatement of previous period comparatives. The amendment had no impact on the financial statements of the Bank.

**Standards issued but not yet effective**

The International Financial Reporting Standards are applied in case of the absence of accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions. The International Accounting Standards Board (IASB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued standards, amendments and interpretations but are not yet effective, and have not been adopted by the Bank. These amendments and interpretations will not have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt these amendments and interpretations when they become effective.

**FAS 27 – Investment Accounts**

FAS 27 will replace FAS 5 - 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 - 'Equity of Investment Account Holders and their Equivalent'. Upon adoption of this standard certain disclosures with respect to investment account holders and bases of profit allocation will be enhanced without having any significant impact on the financial statements of the Bank. FAS 27 is effective for annual periods beginning 1 January 2016.

**Revenues from contracts with customers (IFRS 15)**

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

IFRS 15 supersedes the following:

- 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
- SIC-31 Revenue—Barter Transactions Involving Advertising Services.

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

## IFRS 9 Financial Instruments

During July 2014, the IASB issued IFRS 9 " Financial Instruments" with all the three phases. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". The Bank will implement IFRS 9 at the mandatory date on 1 January 2018, which will have an impact on the recognition and measurement of financial assets in the case that this standard was not covered by the the accounting standards issued by The Auditing and Accounting Organization for Islamic Financial Institutions.

## IAS 1 Disclosure Initiative - Amendment

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

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

These amendments are not expected to have any impact on the Bank's financial position, financial performance or the financial statements disclosures.

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

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

## 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 1 January 2019. Early application is permitted.

### 2.3 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 a specific economic environment that are exposed to risks and returns different from those of other segments working in other economic environments.

### 2.4 Significant accounting policies

**Revenues and expenses recognition**

Revenues and expenses are recognized using the accrual basis of accounting, except for profits from non-performing Islamic financing which are recognized as suspended profits and not recorded as revenues. Commission revenues are recognized when services are rendered.

**Recognition of financial assets**

Purchases and sales of financial assets are recognized on the trade date, (the date on which the Bank commits to purchasing or selling the financial asset).

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are those that the Bank purchased for the purpose of selling in the near future, recognizing gains from the fluctuations in short-term market rates or the trading margin.

Financial assets at fair value through profit or loss are initially recognized at fair value (acquisition costs are recognized in the income statement) and subsequently recorded in the statement of financial position at fair value. All related realized and unrealized gains and losses resulting from the changes in fair value, including any gains or losses resulting from the translation of non-monetary assets in foreign currencies, are recognized in the income statement. Gains or losses on sale of these assets or part of them are recognized in the income statement. Distributed or realized dividends are recognized in the income statement.

**Financial assets at fair value through equity**

Financial assets at fair value through equity are measured at fair value plus cost of acquisition.

Purchases and sales of financial assets are recognized on the trade date, the date on which the Bank commits to purchasing or selling the financial assets. Purchases and sales of financial assets occur when the financial assets are transferred during the period according to the laws or to the market rules.

Equity investments classified as financial assets at fair value through equity are those, which are not classified as financial assets at fair value through profit or loss. After initial measurement, unrealized gains or losses are reported as part of other comprehensive income until:

- The investment or part of it is disposed of, then cumulative unrealized gain or losses are recognized in the income statement.
- The impairment loss is recognized, and then cumulative unrealized losses are recognized in the income statement.

Dividends from these investments are recognized in income statement.

Financial assets at fair value through equity are stated at cost when their fair value cannot be reliably determined.

**Financial assets at amortized cost**

Financial assets at amortized cost are initially recognized at cost plus costs of acquisition. The losses arising from impairment is recognized in the income statement.

**Fair value measurement**

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

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

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

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

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

At the end of each reporting period, 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) for assets and liablities which are recognized in the finacial statements on a regular basis.

External appraisers are involved for valuation of significant assets. The Bank decides, after discussions with the external appraisers, which valuation techniques and inputs to use for each case.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**Impairment of financial assets**

The Bank assesses at each financial statements date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If such evidence exists, any impairment loss is recognized in the income statement.

- Equity classified as financial assets at fair value through equity: if there is a significant or prolonged decline in the fair value below cost, the decline is measured to the original cost, and the period of the prolonged decline is measured by period of decline of fair value below cost. Impairment is the difference between cost and fair value, less any impairment loss previously recognized in the income statement.
- For debt instruments classified as financial assets and carried at cost: impairment is the difference between cost and fair value less any impairment loss previously recognized in the income statement.

**Investment in associates**

An associate is an entity in which the Bank has significant influence and it is not a subsidiary or a joint venture.

The investment in the associates is carried in the statement of financial position at cost. Any dividends distributions are recognized in the income statement. The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement

**Return on unrestricted investment accounts**

Returns are distributed to unrestricted investment accounts according to the Bank's policy, after deducting the Bank's share as a Mudarib according to predetermined rates.

Profits from jointly financed Islamic financing and investments are distributed from unrestricted investment accounts and the Bank's own sources according to the average monthly balances of such investments. The distribution for all currencies is as follows:

| | Deposits' share in profits % | | Bank's share % | | Unrestricted investment accounts' share % | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Saving and cash margins sharing profits | 30 | 30 | 40 | 40 | 60 | 60 |
| Deposits maturing within 1 month | 30 | 30 | 40 | 40 | 60 | 60 |
| Deposits maturing within 3 months | 30 | 30 | 40 | 40 | 60 | 60 |
| Deposits maturing within 6 months | 55 | 55 | 35 | 35 | 65 | 65 |
| Deposits maturing within 1 year | 75 | 75 | 35 | 35 | 65 | 65 |
| Annual Islamic deposit certificates | 75 | 75 | 35 | 35 | 65 | 65 |

The Bank bears all the operational and administrative expenses in full.

**Finance Contracts**

Finance contracts are recorded at cost after deducting suspended profits and the provision for doubtful Islamic financing (net amount).

A provision for doubtful Islamic financing is made when it is not possible to collect the amounts owed to the bank, when there is objective evidence that an event had an adverse impact on the future cash flows of finance contracts and when the impairment can be reasonably estimated. The impairment is recorded in the income statement.

According to PMA instructions, profits on non-performing finance contracts are suspended.

Finance contracts are written off when measures taken to collect these amounts are deemed impractical. Any excess in the provision is transferred to the income statement. Collected amounts already written off are recorded as revenues.

**Murabaha receivables**

Murabaha receivables are recorded at cost net of provision for doubtful Murabaha and suspended profits. Specific provision is established when there is objective evidence that may affect future cash flows. When the impairment is measurable, provision is recorded in the income statement.

Non performing Murabaha profits are suspended in accordance with PMA instructions.

Murabaha receivables accounts are written off from the provision when the collection procedures become ineffective. The excess in the provision and cash recoveries of Murabaha receivables that were previously written off are recorded in the income statement.

**Murabaha**

Murabaha is a sale contract between the Bank and the customer where the Bank sells the customer a product at a price above its cost after the difference is determined (Murabaha Rebeh). The Bank applies a binding promise in accordance with standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

**Musawama**

Musawama is a contract to sell a commodity to the Bank's customer (the buyer) at a specified increase over cost after specifying this increase (Murabaha rebeh) where the Bank's capital does not appear to the buyer. The Bank applies the principal of binding promises in Musawama contracts in accordance with the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

**Ijara receivables**

Ijara is the benefit of ownership against compensation and is divided into two types:

Operating ijara: are lease contracts that do not end with the lessee owning the leased asset.

Ijara muntahia bittamleek: are lease contracts that end with the lessee owning the leased asset and take several forms in accordance with the Financial Accounting and Auditing Standards for Islamic Financial Institutions.

Ijara assets net of provision for doubtful Islamic financing and suspended profits are recorded at cost including direct cost to make ready for intended use. Income is distributed in proportion to the financial periods covered by the lease contract. Maintenance expenses are recorded in the financial period in which they occur.

### Istisna'a financing

Istisna'a is a contract of sale between the Bank as maker or contractor and the owner of the contract (the buyer), where the Bank undertakes to build or manufacture the subject of the contract, upon request of the owner of the contract and according to buyer's specifications, for the right price and in a manner agreed upon payment, whether paid in advance or by installments or deferring payment to a specific date in the future. Istisna'a is recoded at fair value after deducting the suspended profits and provision for doubtful Islamic financing.

### Musharaka

Musharaka is when the Bank and the customer contribute capital in equal or different amounts for the purpose of constructing a new project or participating in an existing one. Each of the Bank and the owner become owners of shares in a fixed or declining manner earning the right to a share in profits. Loss is divided according to each partner's share of capital. Musharaka is recorded at fair value of the consideration paid net of suspended profits and provision for doubtful Islamic financing.

### Mudaraba

Mudaraba is a partnership in which the Bank contributes capital whereas the other party (mudarib) invests it in a project or certain activity in exchange for a specified share in profits under the condition that the mudarib bears the loss in the case of neglect or violation of the terms of Mudaraba. Gains and losses are recorded on the accrual basis if they can be reliably measured. Otherwise, gain is recorded when the mudarib distributes it while losses are recognized in the income statement when announced by the mudarib. Mudaraba is recorded at fair value net suspended profits and provision for doubtful Islamic financing.

### Investment 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, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investment properties are stated at fair value and changes in fair value are recognized in the statement of comprehensive income. In case of decline in the carrying value of these properties a provision should be taken and recognized in the income statement during the period in which the decline occurs.

### Property and equipment

Property and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the income statement as incurred. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful lives as following:

| | Useful life (Years) |
|---|---|
| Real estate | 33 |
| Furniture, equipment and leasehold improvements | 6-16 |
| Motor vehicles | 6 |
| Computers | 5 |

An item of property 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 income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

**Intangible assets**

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

The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization expense on intangible assets with finite lives is recognized in the income statement. Intangible assets with indefinite useful lives are tested for impairment annually and the impairment expenses are recognized in the income statement.

Intangible assets resulting from the Bank's operations are not capitalized and should be recognized in the income statement during the period in which the expenditure incurred.

Intangible assets are reviewed for impairment at each reporting date. Also the economic useful lives for definite life intangible assets are reassessed and any adjustments are made in the subsequent periods.

Intangible assets comprise computer software. Bank's management estimates the useful lives of the intangibles. Intangibles are amortized using the straight line method based on the expected useful life of 5 years.

**Earnings prohibited by Sharia'**

The Bank records earnings prohibited by Sharia' in a special account that is shown in the statement of financial position within other liabilities. This amount is disbursed on charitable activities as determined by the Bank's Sharia' Supervisory Board.

**Offsetting**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable 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.

**Provisions**

Provisions are recognized when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

**Tax provisions**

The Bank provides for income taxes in accordance with the rates enforced by law, regulations of Palestine, International Accounting Standards (12) and the Presidential Decree of the year 2007, which exempts taxpayers in Gaza from taxes. Accordingly, tax provisions do not include taxes on the Bank's results of operations from branches operating in Gaza.

Deferred income tax is provided for using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are calculated according to tax rates that are expected to be applicable on the date of the tax settlement or the realization of deferred tax assets; however management decided not to record deferred taxes.

Income tax expense is calculated based on taxable income that may differ from accounting income as the later includes non-taxable income or non-deductible expenses. Such income/expenses might be taxable/deductible in the following years.

**Basic and diluted earnings per share**

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Bank (after deducting income and any related expenses on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and cash balances at PMA, balances at banks and financial institutions maturing within three months after subtracting banks and financial institutions' deposits maturing within three months, restricted balances and balances at PMA maturing after three months.

**Foreign currencies**

Foreign currency transactions during the year are recorded using exchange rates that were in effect at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the financial statements date as issued by PMA.

Non-monetary items measured at fair value denominated in foreign currencies are translated using the exchange rates prevailing at the date of determining their fair value.

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

**Use of estimates**

The preparation of the financial statements requires Bank's management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These estimates and assumptions also affect the revenues, expenses and the resultant provisions. 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 and actual results may differ resulting in future changes in such provisions.

Management believes that estimates are reasonable and are as follows:

- Provision for doubtful Islamic financing: the Bank reviews its provision according to PMA regulations.
- Management reviews periodically the useful lives of the tangible and intangible assets in order to assess the depreciation and amortization for the year based on the assets' condition, useful lives and future economic benefits. Any impairment is recognized in the income statement.
- Tax provisions are calculated annually based on prevailing tax laws in the territories in which the Bank operates and the accounting standards that the Bank follows.
- Management reviews, on a regular basis, the financial assets that are stated at cost to estimate impairments, if any. Impairment losses are recognized in the income statement.

- Appraisal of the fair value of investment properties is made by two real estate appraisers, registered at Palestine Capital Market Authority.
- Provision for legal cases is established to provide for any legal obligations, if any, based on the opinion of the Bank's lawyer.

## 3. Cash and balances at PMA

This item represents the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Cash on hand | 83,001,793 | 51,962,144 |
| Balances at PMA: | | |
| Investments maturing within three months | - | 14,341,624 |
| Current and demand accounts | 13,374,984 | 10,761,386 |
| Statutory cash reserve | 37,184,688 | 31,964,229 |
| Restricted balances | 163,400 | 163,400 |
| | 133,724,865 | 109,192,783 |

- According to PMA circular number (67/2010), the Bank shall maintain statutory cash reserves with PMA at 9% of total customers' deposits. The statutory reserve is calculated at the end of each month. No profit is earned on these reserves and current accounts.
- Investments deposits with PMA are profit-bearing investments with profit rates based on current market profit rates less PMA's commission of 0.025.
- Restricted balances as at December 31, 2015 and 2014 amounted to U.S. $ 163,400.

## 4. Balances at banks and financial institutions

This item represents the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| **Local banks and financial institutions:** | | |
| Current and demand accounts | 27,342,191 | 59,276,593 |
| | 27,342,191 | 59,276,593 |
| **Foreign banks and financial institutions:** | | |
| Current and demand accounts | 969,864 | 5,593,106 |
| Investment deposits maturing within three months | - | 2,000,000 |
| Investment deposits maturing after three months | 16,390,924 | 25,036,999 |
| | 17,360,788 | 32,630,105 |
| | 44,702,979 | 91,906,698 |

- Non-profit bearing balances at banks and financial institutions amounted to U.S. $ 28,312,055 and U.S. $ 64,869,699 as at December 31, 2015 and 2014, respectively.
- There are no restricted balances as at December 31, 2015 and 2014.

## 5. Islamic financing

This item represents the following:

| | 2015<br>U.S. $ | 2014<br>U.S. $ |
|---|---|---|
| Murabaha receivables | 412,301,408 | 333,729,505 |
| Islamic credit cards | 9,039,423 | 22,135 |
| Ijara muntahia bittamleek | 4,946,272 | 5,298,717 |
| Mudarabah financing | 7,249,993 | 5,647,380 |
| Istisna'a financing | 5,798,857 | 4,022,029 |
| Musawama financing | 4,461,413 | 2,271,042 |
| Musharaka financing | 2,376,399 | 1,676,399 |
| Qard Hasan (Note 7) | 1,997,475 | 2,181,473 |
| Current overdraft accounts | 1,297,281 | 867,020 |
| | 449,468,521 | 355,715,700 |
| Suspended profits | (218,529) | (203,987) |
| Provision for doubtful Islamic financing | (2,892,442) | (2,550,498) |
| | 446,357,550 | 352,961,215 |

- Islamic financing net of unearned profits amounted to U.S. $ 57,280,506 and U.S. $ 39,540,532 as at December 31, 2015 and 2014, respectively.
- Downgraded Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 16,793,563 and representing 3.74% and U.S. $ 11,108,944 representing 3.12% of gross Islamic financing as at December 31, 2015 and 2014, respectively.
- Defaulted Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 5,436,143 representing 1.21% of gross Islamic financing and U.S. $ 4,105,288 representing 1.15% of gross Islamic financing as at December 31, 2015 and 2014, respectively.
- Direct Islamic financing granted to Palestine National Authority and by its guarantee amounted to U.S. $ 47,261,758 representing 10.52% of gross Islamic financing and U.S. $ 87,333,220 representing 24.55% of gross Islamic financing as at December 31, 2015 and 2014, respectively.
- Islamic financing granted to non-residents amounted to U.S. $ 468,772 and U.S. $ 464,708 as at December 31, 2015 and 2014, respectively.
- Fair value of customers' collaterals against direct Islamic financing according to PMA regulations amounted to U.S. $ 304,572,482 and U.S. $ 221,710,472 as at December 31, 2015 and 2014, respectively.
- According to PMA circular number (1/2008), defaulted Islamic financing for more than 6 years were written off from financial statements. These defaulted Islamic financing amounted to U.S. $ 2,055,102 as at December 31, 2015. The balance of provision and suspended profits for defaulted accounts amounted to U.S. $ 1,932,446 and U.S. $ 122,656 as at December 31, 2015, respectively.

- The movement on the suspended profits is as follows:

| | 2015<br>U.S. $ | 2014<br>U.S. $ |
|---|---|---|
| Balance, beginning of the year | 203,987 | 257,589 |
| Suspended profits during the year | 134,342 | 159,952 |
| Suspended profits transferred to revenues | (113,886) | (156,322) |
| Suspended profits written off for Islamic financing in default for more than 6 years | (5,914) | (57,232) |
| Balance, end of the year | 218,529 | 203,987 |

- The movement on the provision for doubtful Islamic financing is as follows:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 2,550,498 | 1,708,305 |
| Provision during the year | 893,254 | 399,379 |
| Transfer from provision of impairment in financial assets through equity | - | 1,870,000 |
| Recovery during the year | (427,304) | (648,468) |
| Provision written off for Islamic financing in default for more than 6 years | (124,006) | (778,718) |
| Balance, end of the year | 2,892,442 | 2,550,498 |

- The movement on the provision for doubtful Islamic financing default for more than 6 years was as follows:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 1,847,322 | 1,092,074 |
| Provision during the year | 124,006 | 778,718 |
| Recovery during the year | (38,882) | (23,470) |
| Balance, end of the year | 1,932,446 | 1,847,322 |

- Following is the distribution of Islamic financing net of suspended profits by economic sector:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| **Public** | | |
| Palestine National Authority | 47,261,758 | 87,333,220 |
| | 47,261,758 | 87,333,220 |
| **Industrial and Trade** | | |
| Manufacturing | 1,962,398 | 1,154,802 |
| Agricultural | 4,828,717 | 6,819,788 |
| | 6,791,115 | 7,974,590 |
| **Services** | | |
| Others | 41,263 | 43,065 |
| | 41,263 | 43,065 |
| **Wholesale and Retail** | | |
| Internal trade | 84,676,196 | 77,055,145 |
| External trade | 15,325,655 | 434,334 |
| | 100,001,851 | 77,489,479 |
| **Real Estate and Construction** | | |
| Constructions | 120,283,167 | 72,586,161 |
| Permanent residence and houses improvement | 17,725,728 | 12,322,608 |
| | 138,008,895 | 84,908,769 |
| **Lands** | | |
| Personal | 60,969,767 | 16,008,315 |
| | 60,969,767 | 16,008,315 |
| **Consumers' Financing** | | |
| Cars | 64,087,002 | 46,800,107 |
| Consumable goods | 20,900,037 | 18,484,988 |
| | 84,987,039 | 65,285,095 |
| **Private** | | |
| Others | 11,188,304 | 16,469,180 |
| | 11,188,304 | 16,469,180 |
| | 449,249,992 | 355,511,713 |

## 6. Financial assets at fair value through profit or loss

This item represents the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Quoted shares at local markets | 1,878,702 | - |
| Quoted shares at foreign markets | - | 1,033,570 |
| | 1,878,702 | 1,033,570 |

## 7. Financial assets at fair value through equity

This item represents the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Quoted shares | 1,800,423 | 1,849,083 |
| Unquoted shares | 50,000 | - |
| | 1,850,423 | 1,849,083 |

Following is the movement on the cumulative change in fair value during the year:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | (251,984) | 209,602 |
| Change in fair value for financial assets | (48,660) | 138,091 |
| The bank's share of the associate's other comprehensive items | 31,075 | (269,739) |
| Income recognized in the income statement | - | (329,938) |
| Balance, end of the year | (269,569) | (251,984) |

## 8. Financial assets at amortized cost

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Financial securities quoted at foreign financial markets* | 3,205,284 | 4,133,766 |
| Unquoted foreign financial securities** | 680,000 | - |
| | 3,885,284 | 4,133,766 |

* This item represents the Bank's investment in Islamic Sukuk through Rasmalah Bank in Dubai. These Sukuk earn 7% profit over a period of five years starting on October 4, 2013. The investment income is divided quarterly in addition to part of the principal amount.

* This item represents the Bank's investment in Islamic Sukuk of the Saudi Electricity Company and the Government of Qatar. These Sukuk earn profit of 5.06% and 3.241% respectively.

Total gain recorded in the income statement on this investment for the year ended December 31, 2015 and 2014 is U.S. $ 259,845 and U.S. $ 312,431, respectively.

## 9. Investment in associates

The following table shows the Bank's investment in associates as at December 31, 2014:

| | Country of Incorporation | Ownership % | 2015 U.S. $ | 2014 U.S. $ |
|---|---|---|---|---|
| Al-Takaful Palestinian Insurance Company* | Palestine | 21.39 | 2,253,996 | 2,159,034 |
| Palestine Ijara Company** | Palestine | 33.33 | 2,527,962 | 703,336 |
| | | | 4,781,958 | 2,862,370 |

* Al-Takaful Palestinian Insurance Company (Al-Takaful) has been established at the end of 2006 in Ramallah. It provides in all insurance and reinsurance services according to Islamic Sharia' rules. Al-Takaful operates through its headquarter and branches in Palestine.

** Palestine Ijara Company (PIC), which mainly provides Islamic leases for small and medium institutions according to Islamic Sharia' rules, has been established in Ramallah, with an authorized capital of U.S. $ 12,000,000. During 2013, the Bank paid 25% of its investment share in the amount of U.S. $ 1,000,000. During 2015, the Bank paid 50% of its investment share in the amount of U.S. $ 2,000,000. As at December 31, 2015, PIC's paid-in capital amounted to U.S. $ 9,000,000.

The movement on the value of the investment in associates was as follows:

| | 2015 U.S. $ | 2014 U.S. $ |
|---|---|---|
| Balance, beginning of the year | 2,862,370 | 3,062,781 |
| Additions | 2,000,000 | 58,616 |
| Bank's share of the associate's results of operations | 161,254 | 137,991 |
| Bank's share of the associate's other comprehensive income | 31,075 | (269,739) |
| Cash dividends | (272,741) | (127,279) |
| Balance, end of the year | 4,781,958 | 2,862,370 |

The following table summarized the financial information related to the Bank's investment in its associates as at December 31, 2015:

| | Al-Takaful 2015 U.S. $ | Al-Ijara 2015 U.S. $ | Total 2015 U.S. $ |
|---|---|---|---|
| **Financial Position of Associates:** | | | |
| Noncurrent assets | 14,956,279 | 4,518,136 | 19,474,415 |
| Current assets | 19,142,865 | 3,329,747 | 22,472,612 |
| Noncurrent liabilities | 937,348 | 49,213 | 986,561 |
| Current liabilities | 22,209,528 | 214,787 | 22,424,315 |
| Owner's equity | 10,952,268 | 7,583,883 | 18,536,151 |
| **Revenues and Results of Operations:** | | | |
| Revenues | 6,352,662 | 108,389 | 6,461,051 |
| The Bank's share of the year's results of Operations | 336,628 | (175,374) | 161,254 |
| The Bank's share of other comprehensive income | 31,075 | - | 31,075 |

## 10. Investment properties

Following is the movement on Investment properties:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 795,794 | 1,104,494 |
| Additions* | 70,526 | - |
| Investment properties sold | (70,000) | (76,700) |
| Losses on impairment of investment properties | (19,427) | (232,000) |
| Balance, end of the year | 776,893 | 795,794 |

* This item represents an apartment acquired by the bank for defaulted financing during the year.

## 11. Property and equipment

| December 31, 2015 | Real estate | Furniture, equipment and leasehold improvements | Motor vehicles | Computers | Total |
|---|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **Cost:** | | | | | |
| Balance, beginning of the year | 10,485,212 | 6,803,008 | 320,012 | 3,574,114 | 21,182,346 |
| Additions | 1,276,202 | 2,439,668 | 327,034 | 350,622 | 4,393,526 |
| Disposals | - | (225,699) | (102,458) | (448,287) | (776,444) |
| Balance, end of the year | 11,761,414 | 9,016,977 | 544,588 | 3,476,449 | 24,799,428 |
| **Accumulated depreciation:** | | | | | |
| Balance, beginning of the year | 1,062,500 | 3,313,325 | 229,984 | 2,504,064 | 7,109,873 |
| Depreciation for the year | 304,676 | 497,326 | 41,372 | 352,779 | 1,196,153 |
| Disposals | - | (140,442) | (27,959) | (441,124) | (609,525) |
| Balance, end of the year | 1,367,176 | 3,670,209 | 243,397 | 2,415,719 | 7,696,501 |
| **Property and equipment net book value** | 10,394,238 | 5,346,768 | 301,191 | 1,060,730 | 17,102,927 |
| **Projects in progress*** | - | 276,368 | - | - | 276,368 |
| **Net book value as at December 31, 2015** | 10,394,238 | 5,623,136 | 301,191 | 1,060,730 | 17,379,295 |

| December 31, 2014 | Real estate | Furniture, equipment and leasehold improvements | Motor vehicles | Computers | Total |
|---|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **Cost:** | | | | | |
| Balance, beginning of the year | 7,602,530 | 4,903,109 | 320,012 | 3,210,326 | 16,035,977 |
| Additions | 2,887,162 | 1,966,051 | - | 475,922 | 5,329,135 |
| Disposals | (4,480) | (66,152) | - | (112,134) | (182,766) |
| Balance, end of the year | 10,485,212 | 6,803,008 | 320,012 | 3,574,114 | 21,182,346 |
| **Accumulated depreciation:** | | | | | |
| Balance, beginning of the year | 821,227 | 2,948,618 | 202,637 | 2,225,482 | 6,197,964 |
| Depreciation for the year | 241,407 | 377,798 | 27,347 | 390,503 | 1,037,055 |
| Disposals | (134) | (13,091) | - | (111,921) | (125,146) |
| Balance, end of the year | 1,062,500 | 3,313,325 | 229,984 | 2,504,064 | 7,109,873 |
| **Property and equipment net book value** | 9,422,712 | 3,489,683 | 90,028 | 1,070,050 | 14,072,473 |
| **Projects in progress*** | - | 327,670 | - | - | 327,670 |
| **Net book value as at December 31, 2014** | 9,422,712 | 3,817,353 | 90,028 | 1,070,050 | 14,400,143 |

* Projects in progress as at December 31, 2015 and 2014 represent expansions and leasehold improvements for the Bank's new branches. The expected cost to complete those projects as at December 31, 2015 amounted to U.S. $ 285,031.

## 12. Intangible assets

Intangible assets comprise computer software and programs. Following are details of the movement on intangible assets:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 752,446 | 876,047 |
| Additions | 377,028 | 111,113 |
| Amortization | (260,671) | (234,714) |
| Balance, end of the year | 868,803 | 752,446 |

## 13. Other assets

This item represents the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Clearing checks | 16,729,790 | 11,871,379 |
| Receivables, advances and temporary accounts | 1,075,051 | 1,627,802 |
| Prepaid expenses | 491,708 | 386,773 |
| Accrued revenues | 359,115 | 1,042,967 |
| Stationery and printings | 241,685 | 146,485 |
| Others | 107,237 | 296,639 |
| | 19,004,586 | 15,372,045 |

## 14. Banks and financial institutions' deposits

This item represents the deposits of banks and financial institutions maturing within three months, which amounted to U.S. $ 47,297,789 and U.S. $ 55,193,318 as of December 31, 2015 and 2014, respectively.

## 15. Customers' deposits

This item represents customers' deposits which amounted to U.S. $ 154,905,231 and U.S. $ 134,437,988 as of December 31, 2015 and 2014 respectively.

- Total deposits comprise customers' deposits (note 15), cash margins (note 16) and unrestricted investment accounts (note 20), amounting to U.S. $ 536,786,499 and U.S. $ 455,926,491 as at December 31, 2015 and 2014, respectively.
- Governmental deposits amounted to U.S. $ 14,599,386 and U.S. $ 16,107,974 representing %2.72 and %3.53 of the total deposits as at December 31, 2015 and 2014, respectively.
- Quasi-governmental deposits amounted to U.S. $ 1,403,317 and U.S. $ 1,550,999 representing %0.26 and %0.34 of the total deposits as at December 31, 2015 and 2014, respectively.
- Dormant deposits amounted to U.S. $ 7,451,882 and U.S. $ 7,229,207 representing %1.39 and %1.59 of the total deposits as at December 31, 2015 and 2014, respectively.
- Non-profit bearing deposits amounted to U.S. $ 154,905,231 and U.S. $134,437,988 representing %28.86 and %29.49 of the total deposits as at December 31, 2015 and December 31, 2014, respectively.

## 16. Cash margins

This item represents cash margins against the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Direct Islamic financing | 5,314,237 | 56,313 |
| Indirect Islamic financing | 3,916,828 | 2,221,004 |
| Profit sharing | 3,385,571 | 6,731,399 |
| Others | 4,752,912 | 2,824,787 |
| | 17,369,548 | 11,833,503 |

## 17. Sundry provisions

This item represents the following provisions:

| | Balance, beginning of the year | Additions for the year | Payments during the year | Balance, end the of the year |
|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **December 31, 2015** | | | | |
| Provision for employees' indemnity | 3,717,263 | 1,294,806 | (56,918) | 4,955,151 |
| Provision for legal cases | 468,965 | 839,993 | (4,602) | 1,304,356 |
| | 4,186,228 | 2,134,799 | (61,520) | 6,259,507 |
| **December 31, 2014** | | | | |
| Provision for employees' indemnity | 2,961,639 | 836,008 | (80,384) | 3,717,263 |
| Provision for legal cases | 500,775 | 30,091 | (61,901) | 468,965 |
| | 3,462,414 | 866,099 | (142,285) | 4,186,228 |

## 18. Tax provisions

The movement on tax provisions during the years ended December 31, 2015 and 2014 was as follows:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 6,195,180 | 6,606,123 |
| Provision for the year | 2,430,387 | 1,889,057 |
| Recovery of provisions | (1,727,731) | - |
| Payments | (4,587,476) | (2,300,000) |
| Balance, end of the year | 2,310,360 | 6,195,180 |

- The reconciliation between accounting income and taxable income is as follows:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Bank's accounting profit before taxes | 12,464,204 | 9,426,664 |
| Profit subject to Value Added Tax (VAT) | 6,209,133 | 4,517,213 |
| VAT on income | (856,432) | (623,733) |
| VAT on salaries | (801,550) | (695,721) |
| Profit subject to income tax | 4,551,151 | 3,197,759 |
| Income tax | 642,737 | 638,082 |
| Total taxes (VAT and income tax) | 1,499,169 | 1,261,815 |
| Provision for the year | 2,430,387 | 1,889,057 |
| Effective tax rate | %19 | 20% |

During the year, the Bank reached a tax settlement with the Ministry of Finance which included income tax and value added tax on the results of its operations and its employees' salaries for the years from 2005 to 2013. The settlement was based on the Presidential Decree no. (18) of the year 2007 which exempted the Bank from income tax and value added tax on income generated by Gaza branches. The actual amounts that could be paid depend on the final results of settlements with the tax authorities.

As of December 31, 2015, income tax rates 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.

## 19. Other liabilities

This item represents the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Bank's transfers and certified checks | 3,241,571 | 2,392,621 |
| Temporary accounts | 1,986,468 | 1,298,693 |
| Accrued expenses | 1,583,968 | 681,664 |
| Return on unrestricted investment accounts | 1,227,960 | 904,260 |
| Palestinian Deposit Insurance Corporation insurance | 356,606 | 305,440 |
| Board of Directors' bonuses | 380,000 | 285,000 |
| Income tax deductions on employees' salaries | 21,968 | 115,069 |
| Earnings prohibited by Sharia' | 18,301 | 2,063 |
| Other credit balances | 434,437 | 234,214 |
| | 9,251,279 | 6,219,024 |

## 20. Unrestricted investment accounts

This item represents the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Saving deposits | 271,971,608 | 221,010,605 |
| Time deposits | 92,540,112 | 88,644,395 |
| | 364,511,720 | 309,655,000 |

## 21. Cash dividends

The Bank's General Assembly, during its meeting held on April 21, 2015, approved %8.5 cash dividends distribution for each share which amounted to U.S. $ 4,250,000.

The Bank's General Assembly, during its meeting held on April 16, 2014, approved %6 cash dividends distribution for each sharewhich amounted to U.S. $ 3,000,000.

## 22. Reserves

### Statutory reserve dividends

As required by the Companies' Law and Banking Law, 10% of the net profit is transferred to the statutory reserve. This transfer will continue until the total reserve balance equals the Bank's paid-in share capital. This reserve is not available for distribution to shareholders, and cannot be utilized without the prior approval of PMA.

**General banking risk reserve**

This item represents the amount of general banking risk reserve deducted in accordance with PMA's regulations number (8/2014) based on 1.5% of direct Islamic financing after deducting impairment allowance for Islamic financing and suspended profits and 0.5% of indirect Islamic financing. According to PMA's instruction number (53/2013), no general banking risks reserve is required against the direct Islamic financing granted to small and medium size entities if these entities meet the conditions in this instruction. 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 instruction (1/2011) to support the Bank's capital against banking risks. The reserve is not to be utilized or reduced without PMA's prior approval. Transfers to this reserve shall not cease until the total balance of this reserve reaches 20% of the Bank's share capital.

## 23. Investment and financing revenues

This item represents revenues from the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Murabaha financing | 27,915,906 | 22,356,588 |
| Ijara muntahia bittamleek | 388,127 | 352,516 |
| Istisna'a financing | 333,105 | 126,044 |
| Musawama financing | 239,833 | 48,136 |
| Investment in Islamic institutions | 443,461 | 699,967 |
| Investments at PMA | 11,154 | 454,510 |
| | 29,331,586 | 24,037,761 |

## 24. Return on unrestricted investment accounts

This item represents revenues as following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Saving deposits | 1,493,461 | 1,484,185 |
| Time deposits | 1,018,058 | 880,917 |
| Profits sharing cash margins | 27,761 | 36,822 |
| | 2,539,280 | 2,401,924 |

## 25. Net Commissions

This item represents the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Commissions received on: | | |
| Accounts' management | 2,234,786 | 1,839,208 |
| Returned and post-dated checks | 972,415 | 764,772 |
| ATMs' cards | 732,874 | 150,543 |
| Indirect financing | 437,509 | 388,331 |
| Cash deposits | 183,203 | 215,584 |
| Transfers | 172,598 | 140,914 |
| Other banking services | 229,306 | 150,443 |
| | 4,962,691 | 3,649,795 |
| Commissions paid | (477,962) | (298,728) |
| | 4,484,729 | 3,351,067 |

## 26. Financial assets (losses) gains

This item includes the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| (Loss) gain on sale of investments | (377,792) | 329,938 |
| Cash dividends income | 145,980 | 105,783 |
| | (231,812) | 435,721 |

## 27. Other revenues

This item represents revenues from the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Recovery of suspended profits | 113,886 | 156,322 |
| Safety deposit box rental income | 52,117 | 38,871 |
| Investment properties rental income | 2,280 | 4,560 |
| Other revenues | 69,885 | 199,258 |
| | 238,168 | 399,011 |

## 28. Personnel expenses

This item represents the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Salaries and related benefits | 8,196,473 | 7,197,491 |
| Provision for employees' indemnity | 1,294,806 | 836,008 |
| VAT on salaries | 801,550 | 695,721 |
| Bank's contribution to the provident fund* | 508,880 | 437,899 |
| Medical insurance | 340,386 | 298,533 |
| Training expenses | 273,365 | 131,831 |
| Travel and accommodation | 185,894 | 136,400 |
| Clothing allowances | 126,734 | 138,320 |
| Other expenses | 625,218 | 161,990 |
| | 12,353,306 | 10,034,193 |

* This item represents the Bank's contribution to the employees' provident fund (the Fund). According to the Fund policies, the Bank deducts %5 of each employee's basic salary and contributes %10 of the employee's basic salary. The Fund's balance is kept in a separate bank account within customers' deposits.

## 29. Other operating expenses

This item represents the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Subscription fees for Palestine Insurance Deposit Corporation* | 1,352,038 | 1,193,347 |
| Fees, license and subscriptions | 879,939 | 739,432 |
| Social responsibility** | 744,690 | 1,213,195 |
| Maintenance and cleaning | 632,786 | 532,494 |
| Rent | 601,771 | 524,168 |
| Board of Directors' bonuses and expenses | 575,604 | 529,696 |
| Telephone and postage | 572,049 | 528,526 |
| Advertisements and marketing | 539,403 | 394,788 |
| Utilities | 512,114 | 558,354 |
| Professional and consultancy fees | 386,274 | 307,204 |
| Stationery and printings | 303,124 | 405,083 |
| Insurance | 203,638 | 237,199 |
| Hospitality | 83,545 | 83,127 |
| Guarding | 64,435 | 19,000 |
| Sundry | 199,342 | 112,463 |
| | 7,650,752 | 7,378,076 |

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

** The Bank provides donations in areas of social, religious and others as part of social responsibility policy. The percentage of donations reached %7.42 and %16.10 of net income as at December 31, 2015 and 2014, respectively.

## 30. Depreciation and amortization

This item represents depreciation and amortization of the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Property and equipment | 1,196,153 | 1,037,055 |
| Intangible assets | 260,671 | 234,714 |
| | 1,456,824 | 1,271,769 |

## 31. Palestine Monetary Authority fines

PMA imposed fines during 2015 amounted to U.S $ 10,000 resulting from the Bank's noncompliance with PMA instructions with regard to customers' current overdraft accounts and the collection of checks.

## 32. Zakat

Each shareholder bears the responsibility for Zakat payment. The Bank, with the consent of Shari'a Supervisory Board, annually informs the shareholders of the amount of Zakat due on each share. The Zakat per share for 2015 and 2014 amounted to %3.10 and %2.79, respectively.

### 33. Commitments and contingencies

Total outstanding commitments and contingencies as at the financial statements date are as follows:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Letters of credits | 1,221,310 | 1,172,609 |
| Letters of guarantee | 24,708,645 | 15,157,671 |
| Unutilized limits of Islamic financing | 19,135,836 | 15,654,337 |
| | 45,065,791 | 31,984,617 |

### 34. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Cash and balances at PMA | 133,724,865 | 109,192,783 |
| Add: Balances at banks and financial institutions | 44,702,979 | 91,906,698 |
| Less: Banks and financial institutions' deposits maturing within three months | (47,297,789) | (55,193,318) |
| Balances at banks and financial institutions maturing after three months | (16,390,924) | (25,036,999) |
| Restricted balances at PMA | (163,400) | (163,400) |
| Statutory cash reserve | (37,184,688) | (31,964,229) |
| | 77,391,043 | 88,741,535 |

### 35. Basic and diluted earnings per share

This item represents the following:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | |
| Profit for the year | 10,033,817 | 7,537,607 |
| | Shares | |
| Weighted average number of subscribed shares | 50,000,000 | 50,000,000 |
| | U.S. $ | |
| Basic and diluted earnings per share | 0.20 | 0.15 |

## 36. Sources of financing the Bank's assets and investments

This item represents the following:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Joint financing | Self-financing | Total | Joint financing | Self-financing | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Cash and balances at PMA | 133,724,865 | - | 133,724,865 | 109,192,783 | - | 109,192,783 |
| Balances at banks and financial institutions | 44,702,979 | - | 44,702,979 | 91,906,698 | - | 91,906,698 |
| Islamic financing | 446,357,550 | - | 446,357,550 | 352,961,215 | - | 352,961,215 |
| Financial assets at fair value through profit and loss | - | 1,878,702 | 1,878,702 | - | 1,033,570 | 1,033,570 |
| Financial assets at fair value through equity | - | 1,850,423 | 1,850,423 | - | 1,849,083 | 1,849,083 |
| Financial assets at amortized cost | - | 3,885,284 | 3,885,284 | - | 4,133,766 | 4,133,766 |
| Investment in associates | - | 4,781,958 | 4,781,958 | - | 2,862,370 | 2,862,370 |
| Investment properties | - | 776,893 | 776,893 | - | 795,794 | 795,794 |
| Property and equipment | - | 17,379,295 | 17,379,295 | - | 14,400,143 | 14,400,143 |
| Intangible assets | - | 868,803 | 868,803 | - | 752,446 | 752,446 |
| Other assets | - | 19,004,586 | 19,004,586 | - | 15,372,045 | 15,372,045 |
| | 624,785,394 | 50,425,944 | 675,211,338 | 554,060,696 | 41,199,217 | 595,259,913 |

## 37. Related party transactions

Related parties represent major shareholders and 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 Islamic financing are as follows:

| 2015 | Associates | Executive Management | Board of Directors | Others |
|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **Statement of financial position items** | | | | |
| Direct Islamic financing | 1,024,328 | 1,706,863 | - | 8,779,844 |
| Deposits | 1,418,564 | 45,120 | 753,257 | 616,702 |
| Cash margins | 20,493 | - | - | - |
| **Commitments and contingencies:** | | | | |
| Indirect Islamic financing | 41,130 | - | - | 630,203 |
| **Income statement items** | | | | |
| Returns received | 1,882 | 199 | - | 1,200 |
| Returns paid | 997 | 394 | 819 | 1,005 |

| 2014 | Associates | Executive Management | Board of Directors | Others |
|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **Statement of financial position items** | | | | |
| Direct Islamic financing | - | 40,739 | 4,020 | 9,483,522 |
| Deposits | 2,169,372 | 24,511 | 108,002 | 426,644 |
| Cash margins | 50,542 | - | - | 121,716 |
| **Commitments and contingencies:** | | | | |
| Indirect Islamic financing | 32,201 | - | - | 631,147 |
| **Income statement items** | | | | |
| Returns received | - | 3,603 | - | 244,185 |
| Returns paid | 11,328 | - | 258 | 900 |

- Direct Islamic financing granted to related parties as at December 31, 2015 and 2014 represent %2.58 and %2.70 of the net Islamic financing, respectively.
- Direct Islamic financing granted to related parties as at December 31, 2015 and 2014 represent %18.5 and %17.44 of the Bank's regulatory capital, respectively.
- Returns on Islamic financing granted to related parties ranges between %1 to %7 during 2015.

Board of Directors and key management remuneration (salaries, bonuses and other benefits) are as follows:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Board of Directors' bonuses for the Bank's results* | 380,000 | 285,000 |
| Board of Directors' meeting allowances | 195,604 | 244,696 |
| Executive management salaries and related benefits** | 680,386 | 671,270 |
| Executive management end of service benefits* | 50,661 | 47,091 |

* The Board of Director's bonuses for 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Palestine Investment Fund represented by Mr. Maher Al-Masri | 37,465 | 26,250 |
| Palestine Investment Fund represented by Mr. Mahmoud Fareed Abu Al-Rob | 37,465 | 30,000 |
| Aswaq Company for Investment Portfolios represented by Mr. Mazen Tawfiq Sunokrot | 37,465 | 30,000 |
| Aswaq Company for Investment Portfolios represented by Mr. Abdulhameed Fayez Al-Obweh | 37,465 | 30,000 |
| Al Quds Bank represented by Mr. Iyad Mohammad Masrouji | 37,465 | 18,750 |
| Institution of Management and Development of Orphans Money represented by Mr. Majid Al-Helu | 37,465 | 11,250 |
| Razan Medical Center for Infertility and I.V.F | 37,465 | 11,250 |
| Salah Al-Daghmeh | 37,465 | 11,250 |
| Anees Al-Hajjeh | 37,465 | 22,500 |
| Institution of Management and Development of Orphans Money represented by Mr. Rafiq Shaker Al-Natsheh | 26,760 | 26,250 |
| Ali Zeidan Abu Zuhri | 10,703 | - |
| Jawdat Al-Khudari | 5,352 | 11,250 |
| Palestine Investment Fund represented by Mr. Jamal Suleiman Fares | - | 3,750 |
| Subhi Suleiman Qadeih | - | 18,750 |
| Mohamad Fayez Zakarneh | - | 15,000 |
| Awni Olian Abu Youssef | - | 18,750 |
| | 380,000 | 285,000 |

** The following schedule represents the details of the General Manager's share of salaries and related benefits for 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| General manager's share of salaries and related benefits | 269,811 | 239,740 |
| General manager's assistants' share of salaries and related benefits | 410,575 | 431,530 |
| General manager's share of end of service benefits | 18,895 | 18,000 |
| General manager's assistants' share of end of service benefits | 31,766 | 29,091 |
| | 731,047 | 718,361 |

### Policy of remuneration and bonuses

According to PMA instructions number (1/2012), the Bank prepared policies governing rules of practice of remuneration and bonuses associated with the level of performance and risk. Members of the Board of Directors are committed to assume full responsibility for the promotion of effective corporate governance principles and best practices for the financial rewards and to ensure transparency and objectivity in the granting of bonuses. The Bank has adopted quantitative criteria which can be measured and ensures that all employees are motivated and appreciated. These incentives have been split to moral incentives that are intended for continuous communication with employees and to appreciate their efforts, and financial incentives based on results and achievements. The policy takes into account all kinds of risks that the Bank can be exposed to, the profit earned, percentage of bonuses to profits and compliance with the Bank's bylaws.

## 38. Concentration of assets and liabilities

Following is breakdown of the Bank's assets and liabilities by geographical area and segment:

| December 31, 2015 | Palestine | Jordan | Others | Total |
|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Cash and balances at Palestine Monetary Authority | 133,724,865 | - | - | 133,724,865 |
| Balances at banks and financial institutions | 27,342,191 | 10,063,432 | 7,297,356 | 44,702,979 |
| Islamic financing | 445,888,778 | - | 468,772 | 446,357,550 |
| Financial assets at fair value through profit or loss | 1,878,702 | - | - | 1,878,702 |
| Financial assets at fair value through equity | 1,850,423 | - | - | 1,850,423 |
| Financial assets at amortized cost | - | - | 3,885,284 | 3,885,284 |
| Investment in associates | 4,781,958 | - | - | 4,781,958 |
| Investment properties | 776,893 | - | - | 776,893 |
| Property and equipment | 17,379,295 | - | - | 17,379,295 |
| Intangible assets | 868,803 | - | - | 868,803 |
| Other assets | 19,004,586 | - | - | 19,004,586 |
| **Total assets** | 653,496,494 | 10,063,432 | 11,651,412 | 675,211,338 |
| | | | | |
| Banks and financial institutions' deposits | 47,297,789 | - | - | 47,297,789 |
| Customers' deposits | 154,905,231 | - | - | 154,905,231 |
| Cash margins | 17,369,548 | - | - | 17,369,548 |
| Sundry provisions | 6,259,507 | - | - | 6,259,507 |
| Tax provisions | 2,310,360 | - | - | 2,310,360 |
| Other liabilities | 9,251,279 | - | - | 9,251,279 |
| **Total liabilities** | 237,393,714 | - | - | 237,393,714 |
| | | | | |
| Commitments and contingencies: | | | | |
| Letters of credit | 1,221,310 | - | - | 1,221,310 |
| Letters of guarantee | 24,708,645 | - | - | 24,708,645 |
| Unutilized limits of Islamic financing | 19,135,836 | - | - | 19,135,836 |
| | 45,065,791 | - | - | 45,065,791 |

| December 31, 2014 | Palestine | Jordan | Others | Total |
|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Cash and balances at Palestine Monetary Authority | 109,192,783 | - | - | 109,192,783 |
| Balances at banks and financial institutions | 59,276,593 | 3,334,479 | 29,295,626 | 91,906,698 |
| Islamic financing | 352,496,507 | - | 464,708 | 352,961,215 |
| Financial assets at fair value through profit or loss | - | 465,444 | 568,126 | 1,033,570 |
| Financial assets at fair value through equity | 1,849,083 | - | - | 1,849,083 |
| Financial assets at amortized cost | - | - | 4,133,766 | 4,133,766 |
| Investment in associates | 2,862,370 | - | - | 2,862,370 |
| Investment properties | 795,794 | - | - | 795,794 |
| Property and equipment | 14,400,143 | - | - | 14,400,143 |
| Intangible assets | 752,446 | - | - | 752,446 |
| Other assets | 15,372,045 | - | - | 15,372,045 |
| **Total assets** | 556,997,764 | 3,799,923 | 34,462,226 | 595,259,913 |
| | | | | |
| Banks and financial institutions' deposits | 55,193,318 | - | - | 55,193,318 |
| Customers' deposits | 134,437,988 | - | - | 134,437,988 |
| Cash margins | 11,833,503 | - | - | 11,833,503 |
| Sundry provisions | 4,186,228 | - | - | 4,186,228 |
| Tax provisions | 6,195,180 | - | - | 6,195,180 |
| Other liabilities | 6,219,024 | - | - | 6,219,024 |
| **Total liabilities** | 218,065,241 | - | - | 218,065,241 |
| | | | | |
| Commitments and contingencies: | | | | |
| Letters of credit | 1,172,609 | - | - | 1,172,609 |
| Letters of guarantee | 15,157,671 | - | - | 15,157,671 |
| Unutilized limits of Islamic financing | 15,654,337 | - | - | 15,654,337 |
| | 31,984,617 | - | - | 31,984,617 |

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities and unrestricted investment accounts and equity | Commitments and contingencies | Assets | Liabilities and unrestricted investment accounts and equity | Commitments and contingencies |
| According to segment | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Corporate accounts | 290,139,025 | 385,725,380 | 14,780,075 | 97,100,342 | 387,040,684 | 16,654,337 |
| Retail accounts | 156,228,706 | 77,753,217 | 30,285,716 | 255,860,873 | 68,885,808 | 15,330,280 |
| Treasury | 191,578,562 | 194,138,592 | - | 226,834,444 | 122,799,592 | - |
| Others | 37,265,045 | 17,594,149 | - | 15,464,254 | 16,533,829 | - |
| Total | 675,211,338 | 675,211,338 | 45,065,791 | 595,259,913 | 595,259,913 | 31,984,617 |

## 39. Risk management

Risks related to the Bank's activities are managed, measured and monitored continuously to remain within the permissible limits. Therefore, the bank determined the assets that could be affected if any risks occur (credit, operations and market risks) in accordance with Islamic accounting standard number (1) on presentation and disclosure, and International Financial Reporting Standards. 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 is 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. The Board of Directors is responsible for the development of risk strategies and determining the allowed limits for the adoption of plans and strategies related to risk management.

The Bank has established policies and procedures to control the risks, and to mitigate its effects as much as possible. The risk management department monitors the effectiveness of risk management on a monthly basis. Following are the basic features of the risk management policy:

1. The Board of Directors and risk committee adopt policies, systems, programs and procedures that are comprehensive and effective for risk management. They also provide guidance and insights for managing risks that face the Bank.

2. The Board of Directors and risk committee review and approve scenarios that are used in risk analysis. They also review assumptions and measurement mechanisms.

3. Risk management is an essential procedure in the Bank and every employee is responsible for risk management.

4. The Bank implements PMA instructions within the framework of risk that affects the Bank, following are the features of risk management policy.

    - The application of minimum capital requirements according to PMA instructions. This provides new rules to calculate minimum capital requirements and maintain minimum capital required to cover credit and market risks (standardized approach) and operating risks (basic indicator approach).
    - The Bank applies stress testing in accordance with PMA instructions. These tests are designed to enhance the process of identifying and controlling risks and to provide risk management tools that are complementary to the process of managing other risks and improving the Bank's capital and liquidity.
    - The Bank develops written policies and procedures that include the basis that will be followed in its Internal Capital Adequacy Assessment Process (ICAAP), which aims to develop and use better methods for risk management as well as to measure and evaluate the adequacy of capital that is required to absorb all the risks that face the Bank.

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

## I. Credit risks

Credit risks are those risks resulting from the default of counterparties to the financial instrument to repay their commitment to the Bank. The Bank sets ceilings for direct Islamic financing (retail or corporate) and total Islamic financing 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 risks**

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| **Statement of financial position items:** | | |
| Balances with PMA | 50,723,072 | 57,230,639 |
| Balances at banks and financial institutions | 44,702,979 | 91,906,698 |
| Direct Islamic financing | 446,357,550 | 352,961,215 |
| Financial assets at amortized cost | 3,885,284 | 4,133,766 |
| Other assets | 1,541,403 | 2,967,408 |
| | 547,210,288 | 509,199,726 |
| **Commitments and contingencies:** | | |
| Letters of credit | 1,221,310 | 1,172,609 |
| Letters of guarantee | 24,708,645 | 15,157,671 |
| Unutilized limits of Islamic financing | 19,135,836 | 15,654,337 |
| | 45,065,791 | 31,984,617 |

## II. Equity Price Risk

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Increase in index | Effect on income statement | Effect on equity | Increase in index | Effect on income statement | Effect on equity |
| Market | % | U.S. $ | U.S. $ | % | U.S. $ | U.S. $ |
| Palestine Securities Exchange | 10 | 187,870 | 185,042 | 10 | 103,357 | 184,908 |

## III. Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The U.S. Dollars is the functional currency for the Bank. The Board of Directors sets limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The Jordanian Dinar (JOD) exchange rate is pegged to the U.S. Dollars, so foreign currency risk of JOD is not material on the Bank's financial statements.

The effect of decrease in foreign currency exchange rate is expected to be equal and opposite to effect of increase shown below:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Increase in currency | Effect on income statement | Increase in currency | Effect on income statement |
| Currency | (%) | U.S. $ | (%) | U.S. $ |
| ILS | 10 | (22,562) | 10 | - |
| Other currencies | 10 | (11,483) | 10 | 56,812 |

Foreign currencies position of the Bank is as follows:

| | Equivalent to U.S. $ | | | |
|---|---|---|---|---|
| **December 31, 2015** | JOD | ILS | Other currencies | Total |
| **Assets** | | | | |
| Cash and balances at PMA | 22,978,201 | 75,974,539 | 1,529,498 | 100,482,238 |
| Balances at banks and financial institutions | 15,517,807 | 9,930,501 | 7,022,978 | 32,471,286 |
| Islamic financing | 108,191,955 | 114,393,969 | 1,630 | 222,587,554 |
| financial assets at fair value through profit or loss | 1,878,702 | - | - | 1,878,702 |
| financial assets at fair value through equity | 1,800,423 | - | - | 1,800,423 |
| Other assets | 282,684 | 14,946,245 | - | 15,228,929 |
| **Total assets** | 150,649,772 | 215,245,254 | 8,554,106 | 374,449,132 |
| **Liabilities** | | | | |
| Banks' and financial institutions' deposits | 2,349,788 | 4,379,000 | - | 6,728,788 |
| Customers' deposits | 33,808,533 | 85,701,252 | 2,465,646 | 121,975,431 |
| Cash margin accounts | 1,576,896 | 6,170,676 | 287,593 | 8,035,165 |
| Other liabilities | 913,309 | 2,518,868 | 146,590 | 3,578,767 |
| **Total liabilities** | 38,648,526 | 98,769,796 | 2,899,829 | 140,318,151 |
| Unrestricted investment accounts | 112,477,819 | 116,701,082 | 5,769,104 | 234,948,005 |
| **Total liabilities and unrestricted investment account** | 151,126,345 | 215,470,878 | 8,668,933 | 375,266,156 |
| **Statement of financial position concentration** | (476,573) | (225,624) | (114,827) | (817,024) |
| **Commitments and contingencies** | 4,799,555 | 16,095,361 | 739,624 | 21,634,540 |

| | Equivalent to U.S. $ | | | |
|---|---|---|---|---|
| **December 31, 2014** | JOD | ILS | Other | Total |
| Total assets | 140,888,604 | 168,046,416 | 8,132,134 | 317,067,154 |
| Total liabilities | 36,387,920 | 85,344,230 | 2,399,118 | 124,131,268 |
| Unrestricted investment accounts | 104,857,981 | 82,702,186 | 5,164,893 | 192,725,060 |
| Statement of financial position concentration | (357,297) | - | 568,123 | 210,826 |
| Commitments and Contingencies | 3,066,458 | 9,932,768 | 918,390 | 13,917,616 |

## IV. 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 arranges diversified funding sources, manages assets and liability with liquidity in mind, and monitors future cash flows and liquidity.

The table below summarizes the allocation of assets and liabilities on the basis of the remaining contractual entitlement as at December 31, 2015 and 2014:

| December 31, 2015 | Less than 1 month U.S. $ | More than 1 month up to 3 months U.S. $ | More than 3 months up to 6 months U.S. $ | More than 6 months up to 1 year U.S. $ | More than 1 year up to 3 years U.S. $ | More than 3 years U.S. $ | Without maturity U.S. $ | Total U.S. $ |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and balances at PMA | 96,376,777 | - | 163,400 | - | - | - | 37,184,688 | 133,724,865 |
| Balances at banks and financial institutions | 28,312,055 | - | - | 16,390,924 | - | - | - | 44,702,979 |
| Islamic financing | 47,532,045 | 83,570,378 | 47,334,829 | 56,208,824 | 115,632,570 | 96,078,904 | - | 446,357,550 |
| Financial assets at fair value through profit or loss | - | - | - | - | - | - | 1,878,702 | 1,878,702 |
| Financial assets at fair value through equity | - | - | - | - | - | - | 1,850,423 | 1,850,423 |
| Financial assets at amortized cost | - | - | - | - | - | 3,885,284 | - | 3,885,284 |
| Investment in associates | - | - | - | - | - | - | 4,781,958 | 4,781,958 |
| Investment properties | - | - | - | - | - | - | 776,893 | 776,893 |
| Property and equipment | - | - | - | - | - | - | 17,379,295 | 17,379,295 |
| Intangible assets | - | - | - | - | - | - | 868,803 | 868,803 |
| Other assets | 16,718,767 | - | 658,729 | 491,709 | - | - | 1,135,381 | 19,004,586 |
| **Total assets** | 188,939,644 | 83,570,378 | 48,156,958 | 73,091,457 | 115,632,570 | 99,964,188 | 65,856,143 | 675,211,338 |
| **Liabilities, Unrestricted Investment Accounts and Equity** | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Banks and financial institutions' deposits | 47,297,789 | - | - | - | - | - | - | 47,297,789 |
| Customers' deposits | 154,905,231 | - | - | - | - | - | - | 154,905,231 |
| Cash margin | 8,813,397 | 1,792,820 | 1,015,466 | 1,205,838 | 2,480,645 | 2,061,382 | - | 17,369,548 |
| Sundry provisions | - | - | - | - | - | - | 6,259,507 | 6,259,507 |
| Tax provisions | - | - | 2,310,360 | - | - | - | - | 2,310,360 |
| Other liabilities | 6,030,797 | 1,686,468 | 22,702 | - | - | - | 1,511,312 | 9,251,279 |
| **Total liabilities** | 217,047,214 | 3,479,288 | 3,348,528 | 1,205,838 | 2,480,645 | 2,061,382 | 7,770,819 | 237,393,714 |
| **Unrestricted investment accounts** | 286,928,634 | 24,740,514 | 35,161,794 | 17,400,859 | 279,919 | - | - | 364,511,720 |
| **Equity** | | | | | | | | |
| Paid-in share capital | - | - | - | - | - | - | 50,000,000 | 50,000,000 |
| Statutory reserve | - | - | - | - | - | - | 3,925,802 | 3,925,802 |
| General banking risk reserve | - | - | - | - | - | - | 6,939,252 | 6,939,252 |
| Pro-cyclicality reserve | - | - | - | - | - | - | 5,332,931 | 5,332,931 |
| Cumulative change in fair value | - | - | - | - | - | - | (269,569) | (269,569) |
| Retained earnings | - | - | - | - | - | - | 7,377,488 | 7,377,488 |
| **Total equity** | - | - | - | - | - | - | 73,305,904 | 73,305,904 |
| **Total Liabilities, Unrestricted Investment Accounts and Equity** | 503,975,848 | 28,219,802 | 38,510,322 | 18,606,697 | 2,760,564 | 2,061,382 | 81,076,723 | 675,211,338 |
| Maturity gap | (315,036,204) | 55,350,576 | 9,646,636 | 54,484,760 | 112,872,006 | 97,902,806 | (15,220,580) | - |
| Cumulative maturity gap | (315,036,204) | (259,685,628) | (250,038,992) | (195,554,232) | (82,682,226) | 15,220,580 | - | - |

| December 31, 2014 | Less than 1 month | More than 1 month up to 3 months | More than 3 months up to 6 months | More than 6 months up to 1 year | More than 1 year up to 3 years | More than 3 years | Without maturity | Total |
|---|---|---|---|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **Assets** | | | | | | | | |
| Cash and balances at PMA | 62,723,530 | 14,341,624 | 163,400 | - | - | - | 31,964,229 | 109,192,783 |
| Balances at banks and financial institutions | 64,869,699 | 2,000,000 | - | 25,036,999 | - | - | - | 91,906,698 |
| Islamic financing | 30,623,876 | 100,508,433 | 29,868,056 | 38,116,688 | 90,787,761 | 63,056,401 | - | 352,961,215 |
| Financial assets at fair value through profit or loss | - | - | - | - | - | - | 1,033,570 | 1,033,570 |
| Financial assets at fair value through equity | - | - | - | - | - | - | 1,849,083 | 1,849,083 |
| Financial assets at amortized cost | - | - | - | - | - | 4,133,766 | - | 4,133,766 |
| Investment in associates | - | - | - | - | - | - | 2,862,370 | 2,862,370 |
| Investment properties | - | - | - | - | - | - | 795,794 | 795,794 |
| Property and equipment | - | - | - | - | - | - | 14,400,143 | 14,400,143 |
| Intangible assets | - | - | - | - | - | - | 752,446 | 752,446 |
| Other assets | 13,939,102 | - | 533,258 | 146,485 | - | - | 753,200 | 15,372,045 |
| **Total assets** | 172,156,207 | 116,850,057 | 30,564,714 | 63,300,172 | 90,787,761 | 67,190,167 | 54,410,835 | 595,259,913 |
| **Liabilities, Unrestricted Investment Accounts and Equity** | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Banks and financial institutions' deposits | 55,193,318 | - | - | - | - | - | - | 55,193,318 |
| Customers' deposits | 134,437,988 | - | - | - | - | - | - | 134,437,988 |
| Cash margin | 8,753,173 | 810,207 | 1,368,579 | 890,717 | 10,827 | - | - | 11,833,503 |
| Sundry provisions | - | - | - | - | - | - | 4,186,228 | 4,186,228 |
| Tax provisions | - | - | 6,195,180 | - | - | - | - | 6,195,180 |
| Other liabilities | 5,582,260 | - | - | - | - | - | 636,764 | 6,219,024 |
| **Total liabilities** | 203,966,739 | 810,207 | 7,563,759 | 890,717 | 10,827 | - | 4,822,992 | 218,065,241 |
| **Unrestricted investment accounts** | 232,780,324 | 20,533,337 | 35,413,081 | 20,708,484 | 219,774 | - | - | 309,655,000 |
| **Equity** | | | | | | | | |
| Paid-in share capital | - | - | - | - | - | - | 50,000,000 | 50,000,000 |
| Statutory reserve | - | - | - | - | - | - | 2,922,420 | 2,922,420 |
| General banking risk reserve | - | - | - | - | - | - | 5,524,196 | 5,524,196 |
| Pro-cyclicality reserve | - | - | - | - | - | - | 3,827,858 | 3,827,858 |
| Cumulative change in fair value | - | - | - | - | - | - | (251,984) | (251,984) |
| Retained earnings | - | - | - | - | - | - | 5,517,182 | 5,517,182 |
| **Total equity** | - | - | - | - | - | - | 67,539,672 | 67,539,672 |
| **Total Liabilities, Unrestricted Investment Accounts and Equity** | 436,747,063 | 21,343,544 | 42,976,840 | 21,599,201 | 230,601 | - | 72,362,664 | 595,259,913 |
| Maturity gap | (264,590,856) | 95 ,506,513 | (12,412,126) | 41 ,700,971 | 90,557,160 | 67,190,167 | (17,951,829) | - |
| Cumulative maturity gap | (264,590,856) | (169,084,343) | (181,496,469) | (139,795,498) | (49,238,338) | 17,951,829 | - | - |

## 40. Fair value measurement

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2015:

| | Date of Measurement | Total | Fair value Measurement using: Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|---|
| | | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **Assets measured at fair value:** | | | | | |
| Financial assets measured at fair value through profit or loss (note 6): | | | | | |
| Quoted | December 31, 2015 | 1,878,702 | 1,878,702 | - | - |
| Financial assets measured at fair value through equity (note 7): | | | | | |
| Quoted | December 31, 2015 | 1,800,423 | 1,800,423 | - | - |
| Unquoted | December 31, 2015 | 50,000 | - | - | 50,000 |

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2014:

| | Date of Measurement | Total | Fair value Measurement using: Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|---|
| | | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **Assets measured at fair value:** | | | | | |
| Financial assets measured at fair value through profit or loss (note 6): | | | | | |
| Quoted | December 31, 2014 | 1,033,570 | 1,033,570 | - | - |
| Financial assets measured at fair value through equity (note 7): | | | | | |
| Quoted | December 31, 2014 | 1,849,083 | 1,849,083 | - | - |

There have been no transfers between Level 1, Level 2 and level 3 during the year.

## 41. Fair value of financial instruments

The table below represents a comparison by class of the carrying amounts and fair values of the Bank's financial instruments carried in the financial statements as at December 31, 2015 and 2014:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **Financial assets** | | | | |
| Cash and balances at PMA | 133,724,865 | 109,192,783 | 133,724,865 | 109,192,783 |
| Balances at banks and financial institutions | 44,702,979 | 91,906,698 | 44,702,979 | 91,906,698 |
| Islamic financing | 446,357,550 | 352,961,215 | 446,357,550 | 352,961,215 |
| Financial assets at fair value through profit or loss | 1,878,702 | 1,033,570 | 1,878,702 | 1,033,570 |
| Financial assets at fair value through equity | 1,850,423 | 1,849,083 | 1,850,423 | 1,849,083 |
| Financial assets at amortized cost | 3,885,284 | 4,133,766 | 3,885,284 | 4,133,766 |
| Investment in associates | 4,781,958 | 2,862,370 | 4,781,958 | 2,862,370 |
| Other financial assets | 18,163,956 | 14,542,148 | 18,163,956 | 14,542,148 |
| **Total assets** | 655,345,717 | 578,481,633 | 655,345,717 | 578,481,633 |

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **Financial liabilities** | | | | |
| Banks and financial institutions' deposits | 47,297,789 | 55,193,318 | 47,297,789 | 55,193,318 |
| Customers' deposits | 154,905,231 | 134,437,988 | 154,905,231 | 134,437,988 |
| Cash margins | 17,369,548 | 11,833,503 | 17,369,548 | 11,833,503 |
| Other liabilities | 9,251,279 | 6,219,024 | 9,251,279 | 6,219,024 |
| **Total liabilities** | 228,823,847 | 207,683,833 | 228,823,847 | 207,683,833 |
| **Unrestricted investment accounts** | 364,511,720 | 309,655,000 | 364,511,720 | 309,655,000 |

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 cash and balances at PMA, balances at banks and financial institutions, financial assets at fair value through profit or loss, financial assets at fair value through equity, financial assets at amortized cost and other financial assets, banks and financial institutions' deposits, customers' deposits, cash margins, other financial liabilities and unrestricted investment accounts approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Unquoted financial assets at fair value through equity are stated at cost less accumulated impairment as their fair values cannot be reliably determined.
- The fair value of financial assets at amortized cost was estimated using the expected future cash flows using the same discount rate for other banks with similar conditions and risks.

## 42. Segment information

### a. Information on the Bank's business segments

For management purposes, the Bank is organized into three major business segments:

**Retail Banking:** Principally handling individual customers' deposits and providing them with Islamic financing and other services.

**Corporate Banking:** Principally handling Islamic financing, deposits and current accounts for corporate and institutional customers.

**Treasury:** Principally providing trading and treasury services and the management of the Bank's funds.

The Bank's business segments:

| | Retail | Corporate | Treasury | Others | Total 2015 | Total 2014 |
|---|---|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Gross revenues | 22,554,602 | 12,144,786 | 2,043,929 | 1,912,173 | 38,655,490 | 30,824,356 |
| Net provision for doubtful Islamic financing | (306,430) | (159,520) | - | - | (465,950) | 249,089 |
| Segment results | 22,248,172 | 11,985,266 | 2,043,929 | 1,912,173 | 38,189,540 | 31,073,445 |
| Unallocated expenses | | | | | (25,725,336) | (21,646,781) |
| Profit before taxes | | | | | 12,464,204 | 9,426,664 |
| Taxes expense | | | | | (2,430,387) | (1,889,057) |
| Profit for the year | | | | | 10,033,817 | 7,537,607 |
| **Other information** | | | | | | |
| Segment assets | 290,139,025 | 156,228,706 | 191,578,562 | 37,265,045 | 675,211,338 | 595,259,913 |
| Segment liabilities and unrestricted investment accounts | 385,725,380 | 77,753,217 | 120,832,688 | 17,594,149 | 601,905,434 | 527,720,241 |
| Capital expenditures | | | | | 4,770,554 | 5,440,248 |
| Depreciation and amortization | | | | | 1,456,824 | 1,271,769 |

### b. Geographical distribution information

This disclosure represents the geographical distribution of the Bank's operations. The Bank mainly carries out its activities in Palestine which represents the local operations. In addition, the Bank carries out its activities outside Palestine which represents the foreign operations.

Following is the distribution of the Bank's revenues, assets and capital expenditures according to geographical sector:

| | Local | | Foreign | | Total | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Total revenues | 37,952,184 | 29,802,399 | 703,306 | 1,021,957 | 38,655,490 | 30,824,356 |
| Total assets | 653,496,494 | 556,997,764 | 21,714,844 | 38,262,149 | 675,211,338 | 595,259,913 |
| Capital expenditures | 4,770,554 | 5,440,248 | - | - | 4,770,554 | 5,440,248 |

## 43. Development strategy

The Bank's development policy includes the following:

- Diversify Islamic financing by offering Mudaraba and Musharaka products.
- Develop financing programs especially for Mudaraba and Musharaka projects.
- Focus on risk management in order to maintain performance and sustainable growth.
- Expand in different geographical areas such as 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, such as the leaders program which took place in West Bank and Gaza.

## 44. 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 shareholder value.

The Bank manages its capital structure and makes adjustments to it in light of changes in business conditions. During the current year, the Bank did not modify any of the objectives, policies and procedures that are related to capital restructuring.

The capital adequacy ratio is computed in accordance with PMA regulations number (6/2015) derived from Basel Committee regulations as follows compared to the previous year:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Amount | Percentage to assets | Percentage to risk – weighted assets | Amount | Percentage to assets | Percentage to risk – weighted assets |
| | U.S. $ | % | % | U.S. $ | % | % |
| Regulatory capital | 62,225,298 | 9.22 | 13.50 | 54,620,338 | 9.18 | 16.37 |
| Basic capital | 58,389,930 | 8.65 | 12.67 | 55,994,082 | 9.41 | 16.78 |

## 45. Legal cases against the Bank

The number of litigations filed against the Bank were (45) and (41) in the amount of U.S. $ 3,300,814 and U.S. $ 4,912,945 as at December 31, 2015 and 2014, respectively. The Bank's provision for possible legal obligations amounted to U.S. $ 1,304,356 and U.S. $ 468,965 as at December 31, 2015 and 2014, respectively. The Bank's management and lawyer believe that the provision is sufficient against these litigations.

## 46. Concentration of risk in geographical area

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