



2016

**The Twenty-Second
Annual Report**

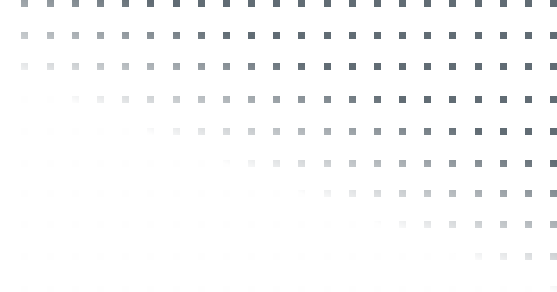


بنك الاستثمار الفلسطيني
PALESTINE INVESTMENT BANK
تنمية وأمان

2016

The Twenty-Second
Annual Report

Results and Achievements During 2016



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Members of the Board of Directors As of December 31, 2016



Mr. Abed Dayeh

Chairman



Mr. Khalil Nasr

Vice-Chairman



Dr. Adnan Steitieh

Non-executive Director



Mr. Yousef Bazian

Non-executive Director



Mr. Sami Ismail Sayid

Non-executive Director



Mr. Jamil al-Muti

Non-executive Director



Mr. Marwan Abdul-Hameed

Non-executive Director



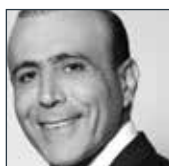
Mr. Walid Al-Najjar

Non-executive Director



Mr. Mohammad Kamal Hassouneh*

Non-executive Director



Mr. Hanna (Johny) Abuaithah

Non-executive Director



Mr. Fadi Hamra

Non-executive Director

Senior Executive Management

Mr. Issa Kassis	General Manager
Mr. Fawzi Al Jawhari	Deputy General Manager
Mr. Mahmoud Odeh	Assistant General Manager – Branches Department
Mr. Salah El Din Fares	Assistant General Manager – IT Department
Mr. Sami Aghbar	Director of Internal Audit Department
Mr. Lutfi Khaseeb	Director of Central Accounting Department
Mr. Burhan Hammad	Director of Risk Department
Mr. Feras Enaya	Director of Credit Department
Mr. Ashraf Hassounh	Director of Treasury Department.

Advisors

- **Advisors**
Mr. Diaa' El Din Abd El Fattah
- **Legal Counsel**
Mr. Hussam El Din Al Atira
Mr. Malik Al Auri
Mr. Sharhabeel Al Zaim
- **External Auditors**
Price Waterhouse Coopers - Palestine

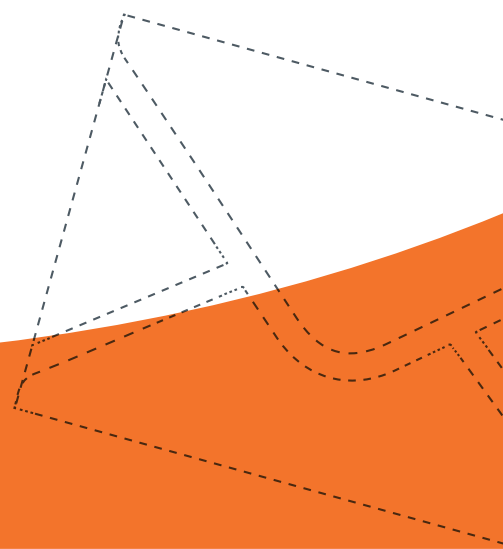


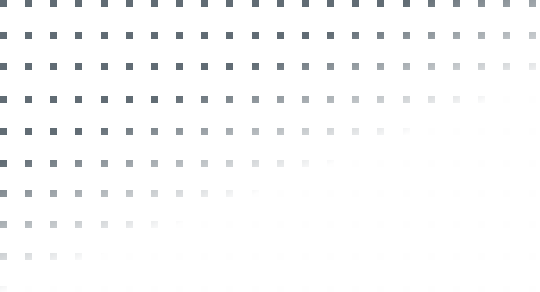
The Bank Message

Visions and Tasks

Basic Values

Future Expectations





Visions and Tasks

* We always strive to be the leading bank and ahead of banks in Palestine, by providing the finest financial services and outstanding and superior banking products to our clients. Those services and products are provided by a highly-qualified staff who do their work in a stimulating environment, supported by modern technology, with products and services which are carefully selected, through the application of the highest professional and ethical standards, by aiming to achieve financial results suitable to our ranking in the Palestinian banking system.

* To contribute to the growth and development of the Palestinian economy, with the utmost responsibility and commitment.

Core Values

* Our basic values are founded on honesty and truthfulness and honest with ourselves and with others and the permanent pursuit of excellence and fulfilling of our promises. In addition to being committed to the foundations of corporate governance in all our business, and the continuing the challenge to find the best ways to satisfy our clients, we are always committed to social responsibilities everywhere.

Future Expectations

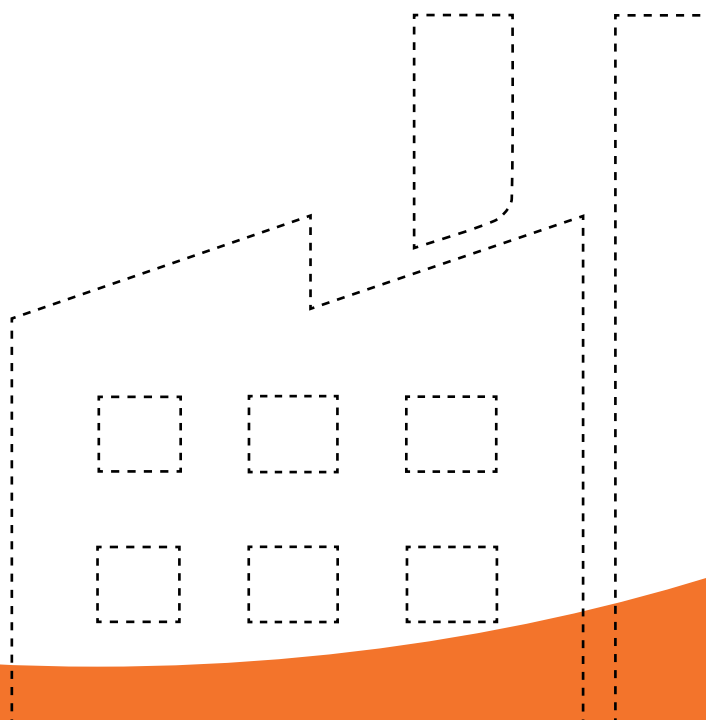
* Our future expectations are to maintain the achievements and sustainability of growth and development, and to continue to meet efficiently and effectively the needs and desires of our clients. In addition to help their assets grow with the utmost care and responsibility by continuing to introduce and develop new products within the Palestinian banking market. We will continue to reinforce our financial position through the application of risk management, human resource development, and effective use of modern technology for the continuity of excellence in performance, and increase in efficiency in dealing with our clients with the utmost transparency.

PIB's Products and Services

Financial Services

Commercial Services

Treasury and Investment Services



PIB's Products and Services

Financial Services

- Provide all types of current and savings accounts.
- Accept all forms of deposits, with different currencies.
- Offer Personal Revolving overdrafts, car, commercial and housing loans.
- Export financing.
- Project financing.
- Financing for contractors.
- Financing for manufacturers.
- Financing for investments in real estate.
- Financing for all types of small and medium enterprises (SMEs).
- Issuing gold and silver visa cards.
- ATM services.
- Payment of phone, electricity and water bills.
- SWIFT services.
- Online banking services (electronic banking services and SMS services).

Commercial Services

- Letters of Credit.
- Issuing all kinds of bank guarantees.
- Execute all kinds of local and external transfers.
- Accept all types of bills of collection.

Treasury and Investment Services

- Investing in securities traded in the global financial markets, including the Palestinian securities exchange.
- Portfolio Management.
- Buying and selling stocks and bonds through Global Securities Co. (GSC), PIB's subsidiary.
- Buying and selling foreign currencies.
- Trading future contracts for foreign currency.

Chairman Message

Dear Shareholders,

On behalf of the Board of Directors and myself, it is my pleasure to present to you the bank's 22nd Annual Report for the year 2016, which includes the consolidated financial statements and the achievements for the financial year ended 31/12/2016.

The Bank's activities during the year were marked "Actions and Procedures" for the Opening of the General Administration Building in the City of Ramallah, Palestine, and the transfer of the headquarters of the general management of the bank from the rented premises at its old headquarters in Al-Bireh to the new building has been built and equipped for public administration as well as a main branch of the bank.

The preliminary estimates of the Palestinian economy during 2016 indicate a increase in GDP from 2015, which has resulted in a 1% increase in GDP per capita from the year 2015 to 2016.

In the same context, the rise in the concentration of relatively major contribution to the highest GDP and economic activities, including construction activity, where preliminary estimates showed a 4% increase. Followed by industrial activity, which increased by 2016 in total value added. The value of the 466 financial and insurance activities amounted to about 423 USD\$ Million, 3% of GDP.

Bank's sector Participation of the total finance and insurance activities was about 391 USD\$ Million equivalent to 84% of the gross added value generated by the total activities of finance and insurance. It has also contributed to engaging 7645 workers out of 10074 in finance and insurance activities.

The Preliminary estimates, at the Palestinian supervised foreign trade level which consists of the total exports and imports, indicates an increase in the value of the supervised exports estimated at 1.9% more than in 2015, as well increasing in the value of the supervised imports by around 2.3% as compared to the year 2015.

With regards to the foreign investments in the resident organizations in Palestine, the balances of these investments reached around 3 USD\$ Million. The direct balances of the foreign investments contributed to around 1.6 USD\$ Million while 59% was contributed to financial organizations.



Dear Shareholders,

On behalf of my fellow Board members, I would like to express my gratitude and thanks to all of Palestine Investment Bank shareholders, and to our loyal customers and partners for their continued trust and support. I would like to express PIB's appreciation and thanks for the efforts of the regularity authorities in Palestine represented by PMA, to promote the services of this sector that achieves ongoing growth in the Palestinian economy, in addition, to implementing the prudential standards to protect shareholders and depositors.

Abed Dayeh

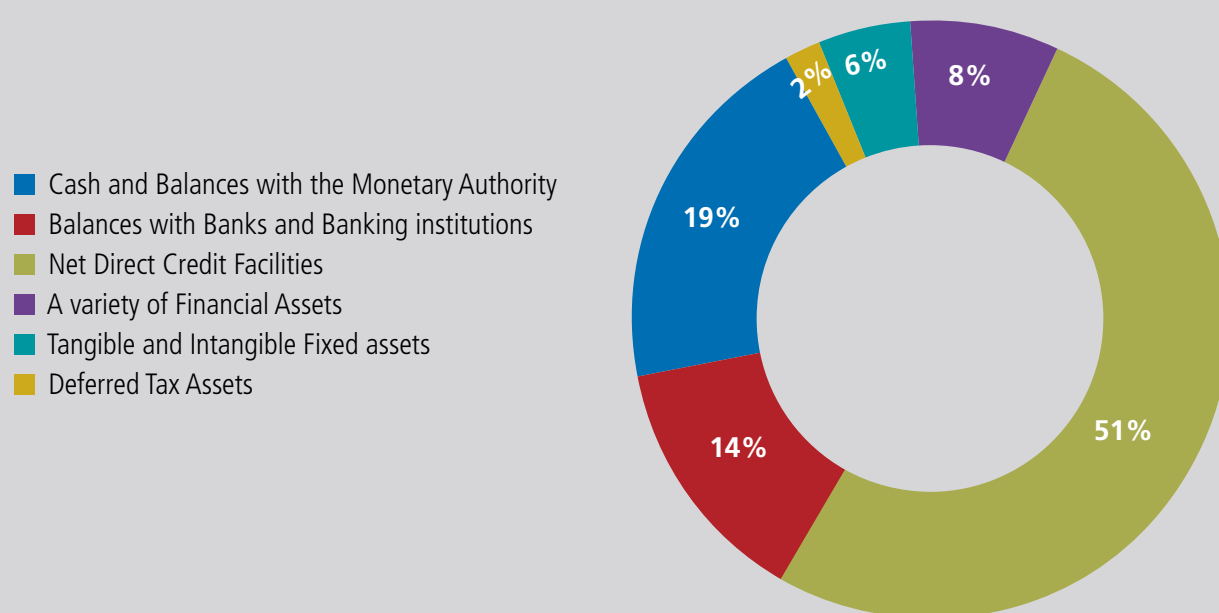
Chairman of the Board

Analysis of the Financial Position and Results of Operations in 2016

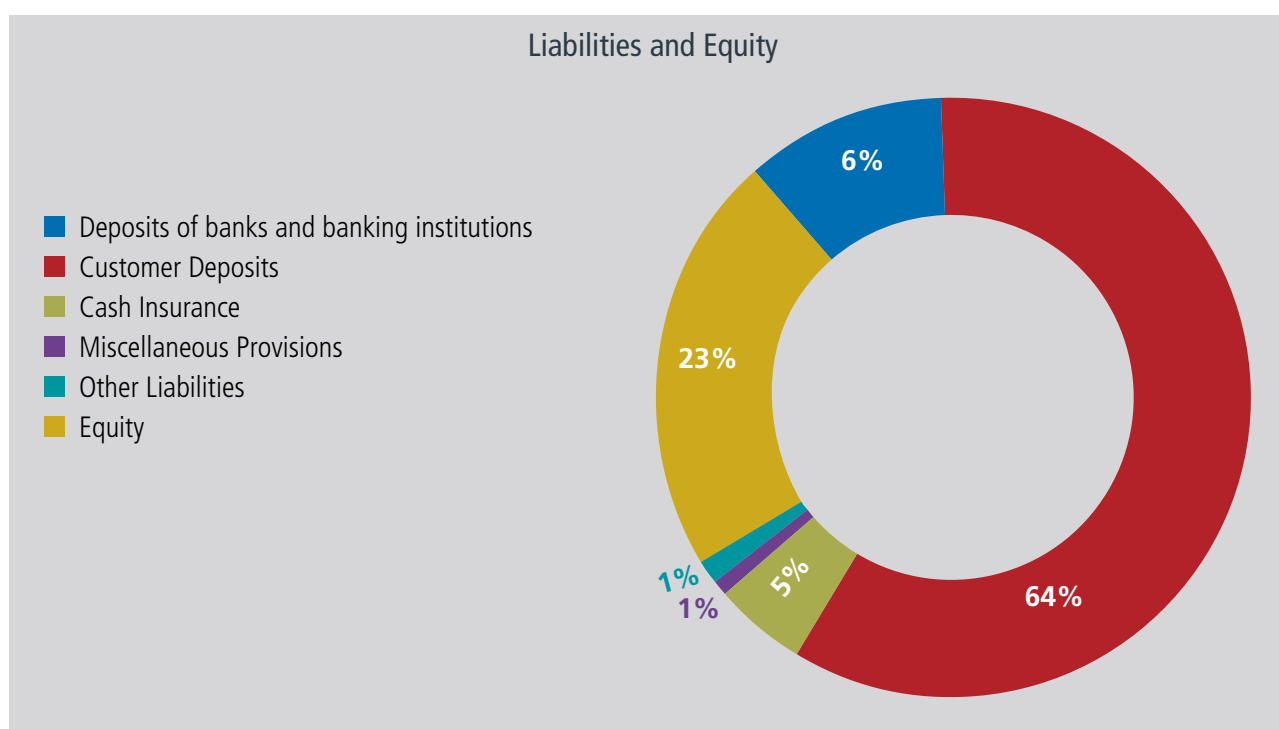
The Bank's management continued the growth in shareholders' equity and to maintain a balance between profitability and safe investment, and to avoid high-risk investments. The management also continued providing the necessary liquidity to meet the financial obligations of different maturities and the optimal use of available funds efficiently and effectively in order to support the financial position, and to maintain the growth of revenue generating resources.

Relative Importance of the Elements of the Financial Position of the Bank				
	USD\$ Million		Relative Importance	
	2016	2015	2016	2015
Assets				
Cash and Balances with the Monetary Authority	65.99	63.77	18.71%	19.46%
Balances with Banks and Banking institutions	50.88	72.67	14.43%	22.17%
Net Direct Credit Facilities	181.48	141.67	51.45%	43.22%
A variety of Financial Assets	26.29	25.96	7.45%	7.92%
Tangible and Intangible Fixed assets	21.46	17.31	6.08%	5.28%
Deferred Tax Assets	6.61	6.39	1.88%	1.95%
Total Assets	352.71	327.77	100%	100%

Relative Importance of the Elements of the Financial Position of the Bank



Liabilities and Equity				
	USD\$ Million		Relative Importance	
	2016	2015	2016	2015
Deposits of banks and banking institutions	20.03	35.94	6.00%	10.97%
Customer Deposits	227.27	193.44	64.00%	59.02%
Cash Insurance	17.52	15.11	5.00%	4.61%
Miscellaneous Provisions	2.79	2.94	1.00%	1.00%
Other Liabilities	5.06	6.87	1.00%	2.00%
Equity	80.04	73.48	23.00%	22.28%
Total Liabilities and Equity	352.71	327.77	100%	100%



Direct Credit Facilities

Over the year of 2016, the Bank's management worked on is working on the development of the credit facilities portfolio by following a balanced and cautious credit policy in light of the situation in Palestine under the supervision of the Executive Committee, in light of changes in interest rates and expected return on credit facilities, and after studying the market risk and credit risk and the quality of credit portfolio, as well as work to collect outstanding loans.

The proportion of non-performing credit facilities to the total also decreased from the same level in the past year and remained within the standard ratio. Work continued on financing the various economic sectors, and consumer finance sector as well as large companies and small and medium enterprises and the public sector. This has been done with a view to the continuity of risk allocation and management of available funds effectively and efficiently.

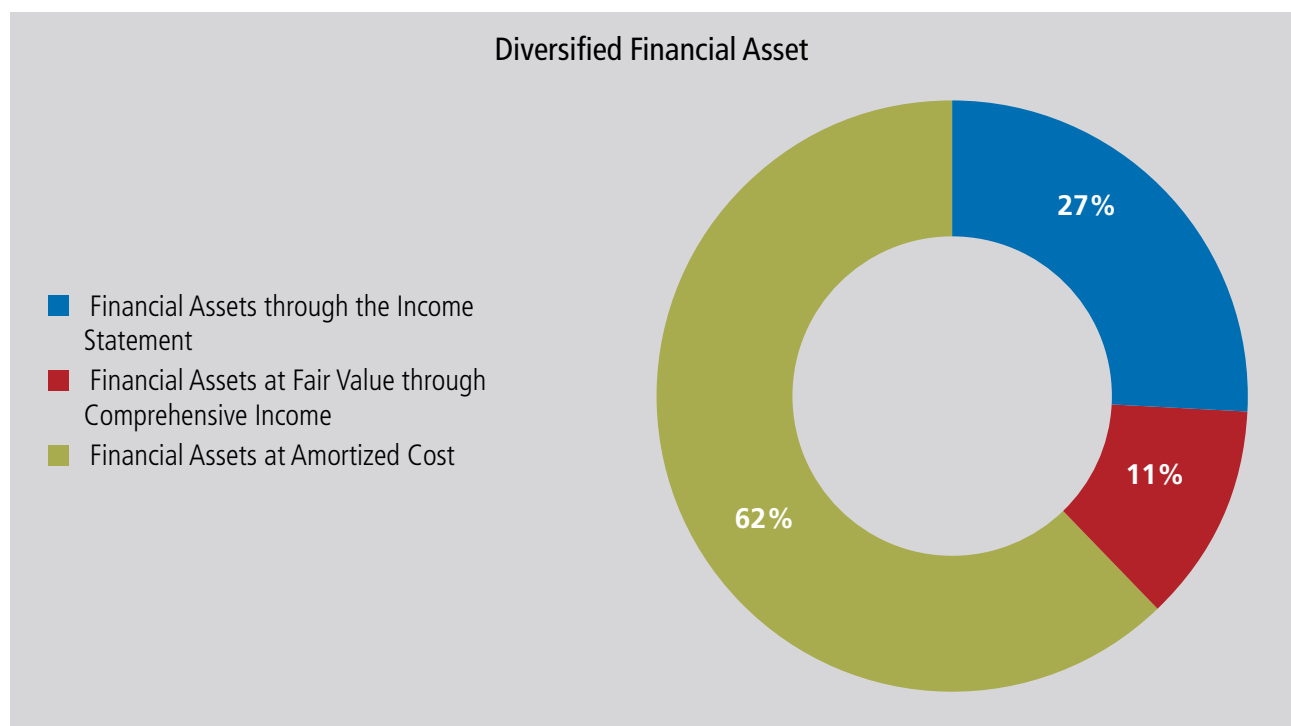
Provision of Loss in Direct Facilities

The Bank's policy is clear in the hedge for any unexpected loss. The provision of doubtful debts is taken individually for each debt and the portfolio in general, according to the International Accounting Standards and Monetary Authority standards and recommendations of the auditors of the Bank's accounts, and to strengthen the Bank's financial position. The ratio of coverage of provision loss for one client on the basis of non-performing portfolio facilities after deducting outstanding interest and before taking the collateral into account is 64.75% for the year 2016 compared to 52.19% for the year 2015. The fair value of the collateral provided in exchange for credit facilities was 130.56 USD\$ Million for the year 2016 compared to 101.49 USD\$ Million in 2015.

Portfolio of Financial Assets

Balance of the portfolio increased by the amount of 0.32 USD\$ Million in 2016, or the percentage of 1.23% for the year 2015, due to the administration's future vision of the existed elements of financial assets used in investments.

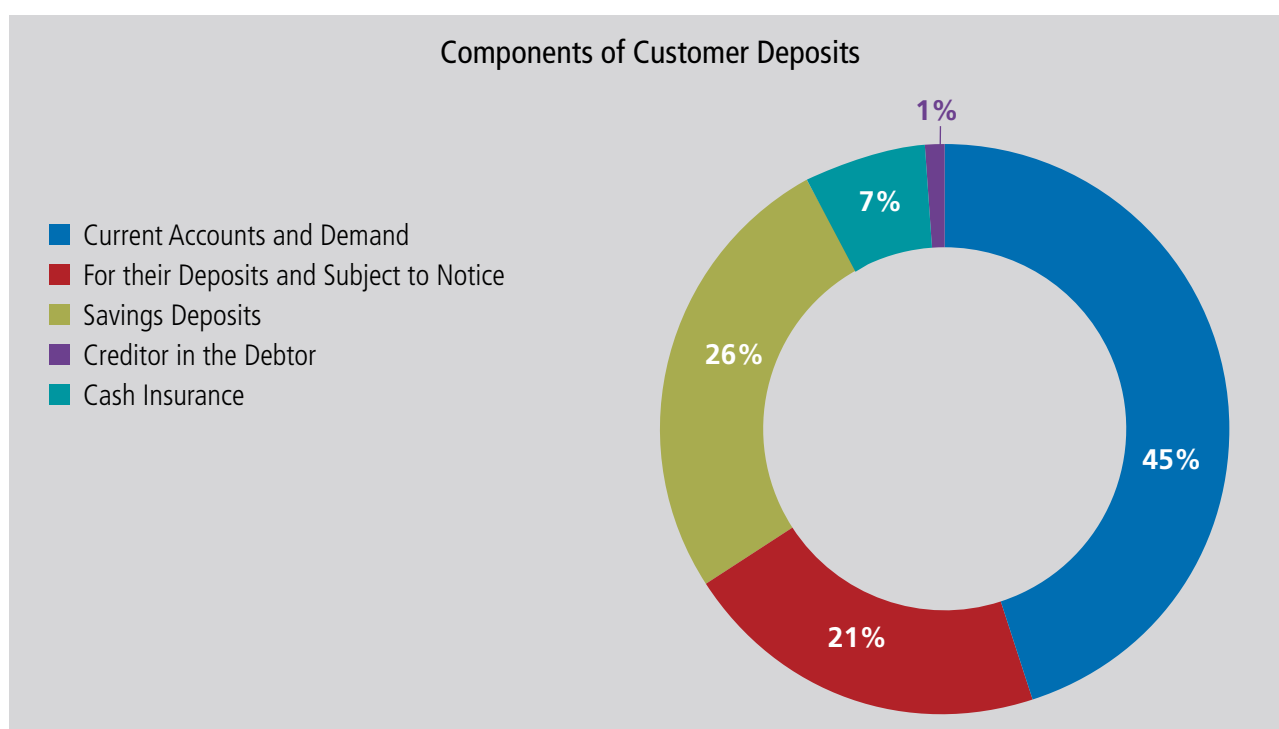
Diversified Financial Asset				
	USD\$ Million		Relative Importance	
	2016	2015	2016	2015
Financial Assets through the Income Statement	6.99	6.78	26.59%	26.11%
Financial Assets at Fair Value through Comprehensive Income	2.89	3.05	10.99%	11.74%
Financial Assets at Amortized Cost	16.41	16.14	62.42%	62.15%
Total	26.92	25.97	100%	100%



Customer's Deposits

During the year 2016, the Bank's management worked toward attracting fixed time deposits and call deposits. The management also worked on the development of a campaign to increase the depositors' base for savings accounts. Deposits of all its components grew during 2016 by 17.37% compared to the previous year.

Components of Customer Deposits				
	USD\$ Million		Relative Importance	
	2016	2015	2016	2015
Current Accounts and Demand	111	82.67	45.35%	39.64%
Savings Deposits	62.22	54.42	25.42%	26.09%
For their Deposits and Subject to Notice	51.94	53.8	21.22%	25.81%
Creditor in the Debtor	2.11	2.55	0.86%	1.22%
Cash Insurance	17.52	15.11	7.15%	7.24%
Total Deposits	244.79	208.55	100%	100%





Shareholder's Equity - The Company's Shareholders

During the year of 2016 and in accordance with Article 7 of Bank's Bylaws, the Board of Directors decided to increase the paid up capital. The declared capital is 100 USD\$ Million and the board has decided to cover part of that through writes issue to the shareholders and the paid up capital as 31/12/2016 stands at 59.6 USD\$ Million.

Capital Adequacy:

The capital adequacy ratio equated to 29.07% in 2016 versus 32.27% in 2015. It is one of the highest ratios achieved in the banking sector in Palestine, and higher than the ratios assessed by the Supervisory Monetary Authority of 12%. It also higher than the Basel Committee on rates (Bank for International Settlements) of 8%. The total core capital ratio to risk weighted assets was 28.69% in 2016, compared with 32.05% in 2015.

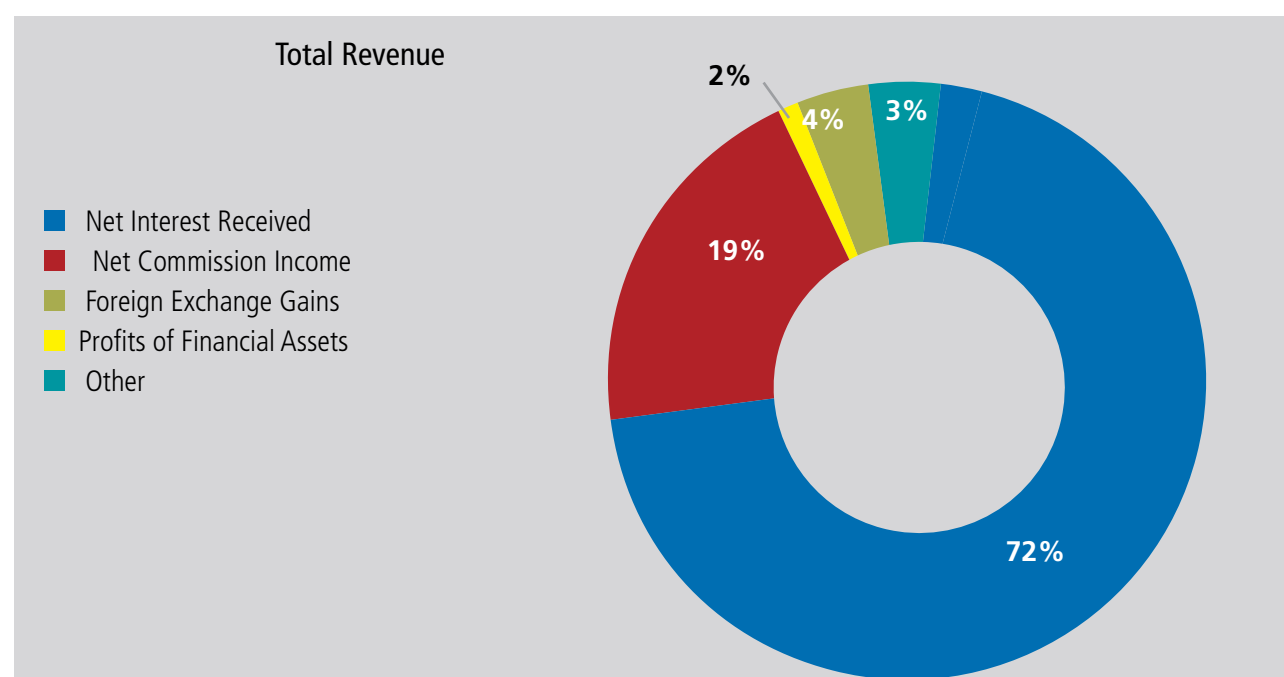


Bank's Operations Results

Net profit before tax reached 4.769 USD\$ Million in 2016 compared with 2.986 USD\$ Million in 2015, a total increase of 59.71%, and after the deduction of tax, the net profit reached 3.388 USD\$ Million in 2016 compared with 1.721 USD\$ Million in 2015 with an increase of 96.86%.

Net Profit Before Tax and After			
	Thousands of Dollars		
	2016	2015	Change
Net Profit Before Tax	4.769	2.986	59.71%
Tax Expenses	(1.382)	(1.265)	9.24%
Net Profit After /tax	3.388	1.721	96.86%

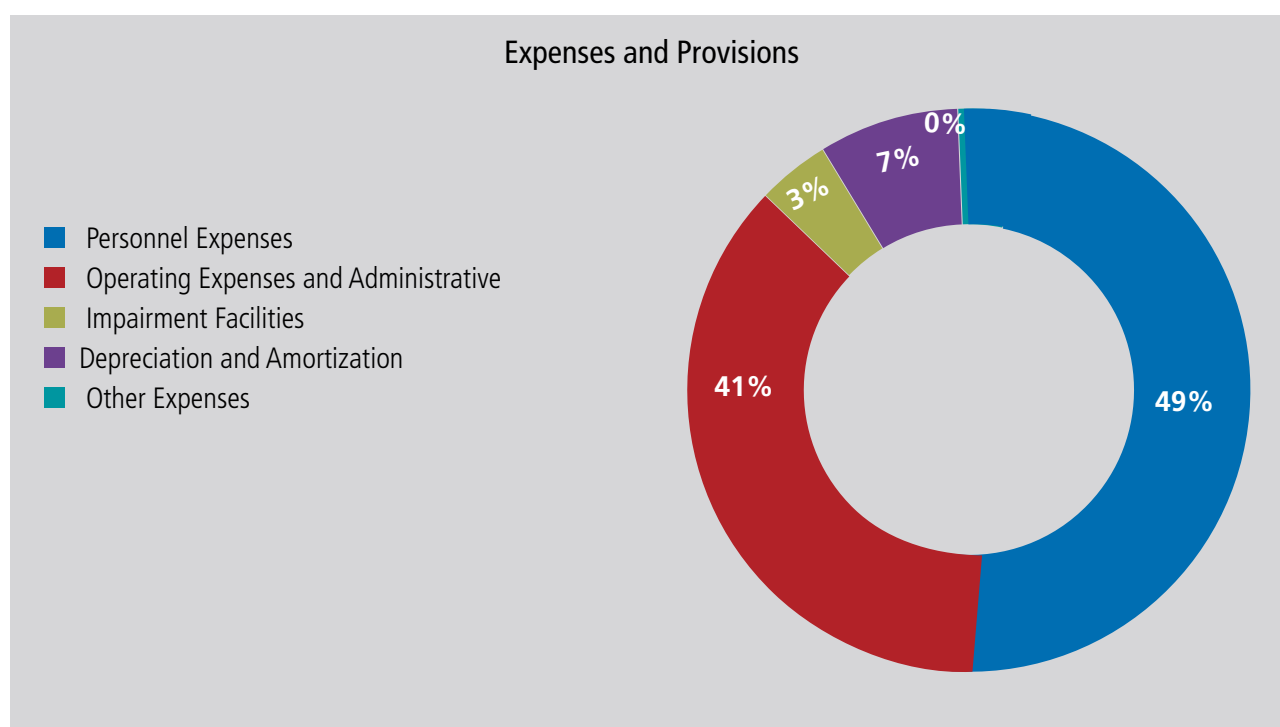
Total Revenue				
	Thousands of Dollars		Relative Importance	
	2016	2015	2016	2015
Net Interest Received	11.837	9.851	71.53 %	68.89 %
Net Commission Income	3.161	2.822	19.10 %	19.75 %
Profits of Financial Assets	328	135	1.98 %	0.94 %
Foreign Exchange Gains	716	611	4.33 %	4.27 %
Other	506	880	3.06 %	6.15 %
Total	16.549	14.299	100%	100%



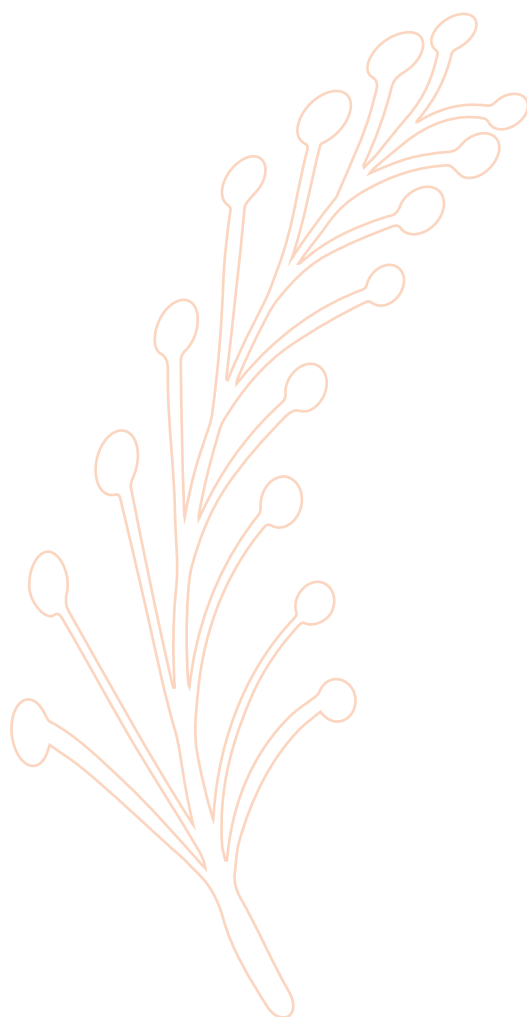
Expenses and Provisions

Total expenses and provisions reached 11.779 USD\$ Million in 2016 compared with 11.313 USD\$ Million in 2015, with an increase of 466,000 USD\$, representing about 4.1% which was due to the increase in recruitment in the executive board and the new branches, as well as other expenses.

Expenses, Provisions, and Their Relative Importance				
	Thousands of Dollars		Relative Importance	
	2016	2015	2016	2015
Personnel Expenses	5.724	5.400	48.59%	47.73%
Operating Expenses and Administrative	4.827	4.140	40.98%	36.60%
Impairment Facilities	402	474	3.41%	4.19%
Depreciation and Amortization	826	891	7.02%	7.88%
Other Expenses	-	408	-	3.60%
Total	11.779	11.313	100%	100%



The Most Important Financial Ratios for 2015 Compared with 2016		
	2016	2015
Return on Equity	4.23%	2.36%
Return on Capital	5.69%	3.06%
Return on Assets	0.96%	0.53%
Facilities to Deposits	74.13%	67.93%
Facilities to Assets	51.45%	43.22%
Total Equity to Assets	22.69%	22.28%
Basic Quota Share of Profit for the Year	5.69%	3.06%



Internal Supervision and Internal Control and Risk Management and Compliance Systems (Compliance with Regulations)

The Bank intensified its efforts to strengthen the supervisor and internal control systems through the career staff of the Department of Internal Audit and the department of other services. This was done in order to measure the commitment of the various operational units with regulations governing banking operations, in order to ensure adherence to all applicable laws, regulations, and administrative instructions. In this context, audit operations and periodic inventory are conducted by the independent Internal Audit Department that is under the Audit and Review Committee that reports to the Board of the Accounts and Assets of the bank.

This procedure is done in order to determine the accuracy of the financial data and operational efficiency and compliance with laws and regulations applicable to preserve the assets and property of the Bank. In addition, to make sure that they are consistent with the legislation that governs it. This is done through the daily follow-ups by the Department of Compliance and Control. The Department reports Audit and Review Committee with the aim leading the Institution to a high degree of compliance with laws, legislation and regulations. Those regulations are issued by the local regulatory authorities, state agencies, and international institutions especially the Basel Committee.

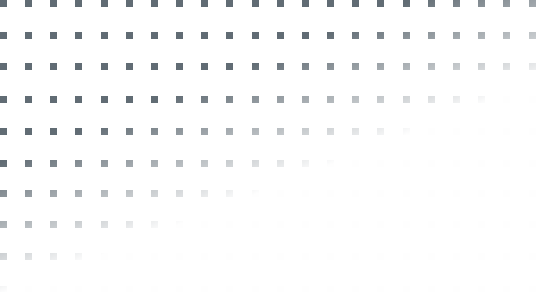
Reports are produced through the Department of Risk Management in accordance with the requirements of the Monetary Authority and is based on the work of the Basel Committee and the Monetary Authority and the requirements of the reports and memos on a regular basis the results of the audit of the management and pursue operations.

Being under its responsibility, the Board of Directors accredited the general framework of internal control, and to ensure effective measures to send sufficient information to decision-makers at various levels, including information on the measurement of different risks, as well as ensure the independence of the control departments working in the bank.

Internal Audit

The Board of Directors fosters the role of the Internal Audit Department being the controlling authority that helps determine the efficiency of controlling systems, and adds value to them through:

- Fostering the independence of the role of the Internal Audit Department through subsidizing them to the Audit and Review Committee that emerged from the Board of Directors, and it periodically evaluates performance of the department and its staff.
- Adopting of the Internal Audit Charter which defines the functions and responsibilities of the Internal Audit Department and a plan of the department.
- Submitting periodical reports on the performance of the department as well as its findings and recommendations.
- The Audit and Review Committee adopts the plan of the Internal Audit Department that Risk Based Audit.



• • • • • Risk Management

The Bank follows approved policies to manage the various risks within a clear and defined strategy in accordance with the requirements of (the Monetary Authority and standards of Basel). The Risk Management Department monitors and controls various risks and analyzes them for early recognition of the nature of the potential risks and dealing with those risks and submitting reports regarding those risks to the Board of Directors through the Risk Management Committee of the Board of Directors.

• • • • • Methodologies and the Process of Risk Management

The methodologies of risk management are set according to the requirements of the Monetary Authority and the instructions of the Basel requirements. In this regard, the adoption of risk management policy goes through the application of software to manage and measure risk (LOXON).

Risk Management Works within the Following Framework:

- Adopting of risk management methodology based on identifying the best ways and means to deal with the potential internal and external risks according to clearly defined goals.
- Adopting of risk management policy by the Risk Management Committee emanating from the Board of Directors, including analysis to all risks at the bank, such as credit risk, market risk, liquidity risk, operational risk and any others.
- Reviewing the policy periodically and assess the extent of compliance in its application.
- Viewing the results of the Risk Management Committee emanating from the Board of Directors to the Board, besides its recommendations regarding the various activities.
- Using auto-program to measure the impact of the credit and operational risks, and providing appropriate elements of analysis to the effects of risks and their impact on the bank's capital and rate of its adequacy.
- Updating risks record to document the risks faced by the bank in order to refer to them and identify any potential losses, preparing plans to hedge their occurrence in addition to plans to limit their impact on outcomes of the bank's business.
- Executive Committees, Facilities Committee, Liability Committee and Human Resources Committee provide assistance to the Department of Risk Management to identify the risks faced the bank, and ways to ban their impact on all bank operations.



Anti-Money Laundering

The Bank is pursuing a policy to combat money laundering by following the policies and procedures approved by the Board of Directors and based on the law against Money Laundering, and to the requirements of the Basel Committee. Training has been provided to qualify concerned employees in the various departments, branches and offices of the bank on ways of early detection of money laundering and procedures for compliance with the laws in force and instructions.



External Audit

An external auditor authorized by the regulatory authority audits the Bank's activities of financial and banking operations. The external auditor is chosen annually by the General Assembly of Shareholders and reports to the Board of Directors and to the regulatory authorities. The auditor sends reports and recommendations to the Board of Directors and to the General Assembly that have to be addressed.

Branches

At the end of 2016, the bank has opened the first foreign branch beyond the Palestinian borders and that was an ambitious and quantum leap in the banking takeoff. Our branch has started its banking and financial business and activates in Manama, the capital of Bahrain, and this ramification was a result of continues effort as well banking and financial experts that the bank's Board of directors are possessed. The biggest event that took place in the bank was opening the headquarter of the bank public administration, as well opening the main branch which has been constructed in Al-Erssal St in Ramallah city in order to match developments in the banking and financial industry as well providing the best banking and financial services to the clients in a highly efficient.

As well as the regular maintenance of the headquarters of the bank's branches and offices in order to preserve it and its internal and external appearance to the level required by the customers, providing all services and comfort to the clients in their places of residence and response to their wishes by providing comprehensive and distinctive banking services covering all the main Palestinian areas.

During the year, several manuals and systems for internal work and supervision were developed and modified to cover the activities of various branches, offices and public administration departments to meet their requirements in order to increase efficiency and performance of service, improve labor productivity in the Bank's branches and exploit the potential of the available technologies. At the bank, the savings in operating cost in general are business and efficiency.

Technological Development and Information Systems

Banking and financial operations are carried out through the automated system (BANKS). The Department of Information Systems continues to develop the automation of many of its banking and investment services. This is done through the expansion in the field of telecommunications in order to increase the ways to keep in contact with customers to offer additional services. Those services will lend speed and accuracy to banking operations in order to ensure their assistance and facilitate dealing with them to meet their needs.

In addition to contribute to their success and to achieve their highest satisfaction, the executive management is keen on keeping up with the latest technology and automated systems in all areas of the banking services, by implementing the comprehensive plan for the development of systems for services and banking procedures. In addition to the introduction of modern technologies of hardware and software to increase productivity and make it easier for clients to utilize the online service (Investment Online) and SMS messages as well as other electronic services offered by the bank and its subsidiary company Global Financial Market Securities.

Human Resources

Human resources is one the key elements and the essential one for success and excellence achieved by the Bank. In order to maintain this essential element, which is considered the human capital element, the Board of Directors is constantly working on developing the skills and capabilities of the Bank's staff capabilities. This is accomplished through sending the employees to attend seminars and the necessary specialized training courses inside Palestine and abroad.

Those courses are related to banking activities and investment in general, and the risks in banking and financial and credit analysis in particular. In addition, keeping the employees informed on the legal aspects that control banking operations. This is according to a plan put in place to help achieve excellence and provide the best service to Bank's customers and to keep up on developments and changes in the banking industry.

Executive management has been keen during the year 2016 on taking care of Bank's staff in response to the effort of each employee. Executive management organizes many activities and programs for staff in order to strengthen loyalty and affiliation because executive management is convinced the Bank's human resource is one of the most important of the links needed to achieve Bank's progress and the success. The Bank has sent 119 employees to attend training courses inside and outside Palestine in all of the disciplines necessary for the Bank.



Foreign Banking Services and Various Treasury Activities

The Bank's Executive Management is adamant about developing the Bank's services in the fields of treasury, investment, financial brokerage and foreign exchange. This includes investing and employing the Bank's financial resources denominated indifferent currencies in several money and capital markets, domestically and internationally.

This is done through deliberate and cautious policy in order to achieve an appropriate and reasonable return on those resources. The Bank has maintained its advanced ranking in the fields of treasury and banking services and trading in foreign currencies as the Bank continues to issue money orders, cashier's checks and the sale and purchase of foreign currencies through a correspondent bank network with banks financial institutions spread all over the world. Activities by the treasury has achieved during the year 2016 a good performance very close to what has been achieved in 2015 in the field of foreign currency trading which contributed to the development of total revenues for the bank by (0.72) USD\$ Million.

Executive management continued to offer the Premier Savings Account through 2015. This Account has the advantage of offering prizes, and it has improved the widening of depositors' base of depositors and maintained their assets in savings accounts.



Subsidiaries

* Global Securities Co. (GSC)

Global Securities is a financial company engaged in financial intermediation for its own account and for the account of others. It is based in the city of Nablus, registered with the Companies Controller in Palestine in December, 1996 under registration No.563119148. The company commenced its operations in January 1998.

The company's capital is 3,526,093 USD\$ fully paid.

The company is wholly owned subsidiary of Palestine Investment Bank, PLC, which owns 99.64% of its capital. The Bank's Board of Directors is keen on providing new investment services in the field of financial intermediation through the "Global Securities", its subsidiary. The services, which are provided by the company, include the sale and purchase of shares. It also acts as an intermediary on commission basis in Palestine Stock Exchange. In addition to acting as a financial consultant for investment in financial securities, it also acts as a mediator buying or selling for the Bank's own portfolio.

The Company provides periodic reports on the shares of companies they are traded on Palestine Stock Exchange. It also provides traders who work with it with these reports. The Company also provides customers with access to their accounts through the Company's website.

The Competitive Situation of the Bank

The Bank's Executive Management has worked all through 2016 to improve the quality of the Bank's share of deposits in the banking market of deposits as it reached 2.32%, and so is the case with the credit facilities extended to various sectors of the economy to reach 2.7%. The Bank also launches advertising and awareness campaigns on a regular basis and with good planning to introduce the Bank and its services to the public.

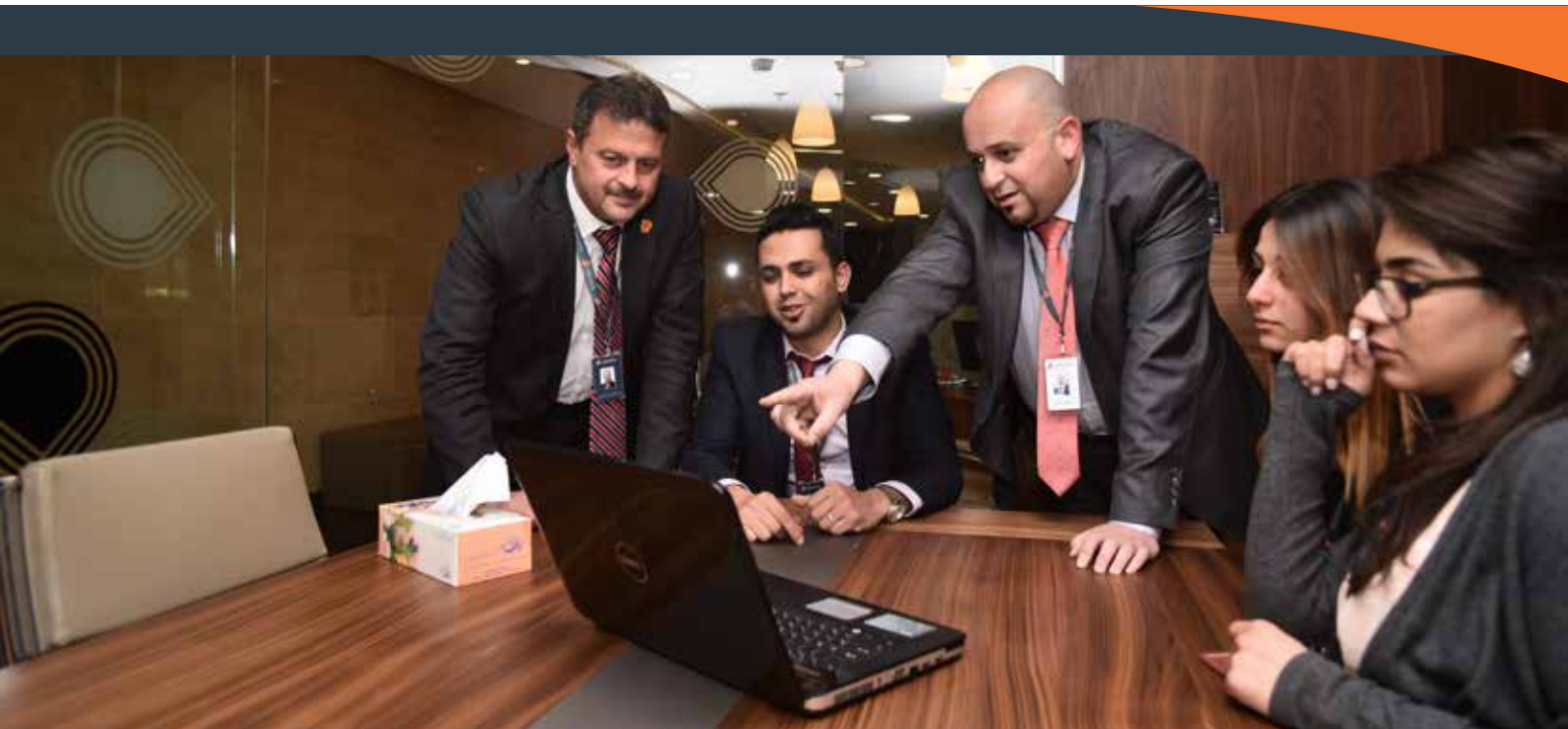
The Bank's Development Policies

Since its inception to the present day, the Bank is permanently, constantly evolving, which is evidenced by the volume of operating assets, and the size of the profits realized since the beginning of the bank working till 31/12/2016.

In order for the Bank to occupy a leading position in the Palestinian banking industry, the vision of the Bank's Board is clear. It aims at keeping up with the continuing global developments in the field of banking services, in order to provide quality services to existing customers, and attract new customers.

The strategic vision for development policies that is pursued by Bank's Executive Management, will be put in several stages are as follows:

- Continue to follow-up and analyze the Bank's results and compare them with other local banks.
- Assessment of banking competition in the Palestinian market from time to time.
- Develop goals constantly in the light of the results achieved and the services provided to the Bank's customers.
- Improve products and follow up with the development of strategic plans and organizational structures and technology used in the Bank to achieve the desired results.
- Constantly work with the available means for the progress and prosperity of the Bank.



The Objectives of the Plan for 2017

- Continue to achieve a lasting and rising growth in profitability, assets and shareholders' equity and manage them efficiently to strengthen the competitive and financial position of the Bank in the Palestinian market and maintaining the financial ratios of the Bank within the regulatory requirements in Palestine.
- Increase the level of productive efficiency and the rationalization of non-productive expenditure in order to maximize revenue.
- Continue to develop products, services and programs offered by the Bank for its clients based on their needs and in line with the Palestinian economic situation. In addition, to focus on the retail sector through the creation and development of special products for individuals and to provide the financing needs of the small and medium-size institutions and manufacturers.
- Doing a follow-up of the network of branching of the Bank and making sure of its constant readiness to provide the best services to customers and in line with business requirements. In addition, to increase the Bank's presence in Palestinian population centers by pursuing deliberate strategies for branching enhanced by the competitive capabilities regarding other the banks.
- Consolidating the marketing effort in various branches and offices of the Bank through organization and development of a distinctive and stimulating marketing campaign. In addition, organizing advertisement and media campaigns regarding the programs and services the Bank in order to maintain the existing customer base by satisfying their needs and desires and to attract new customers in order to increase the Bank's market share in the banking market for the various banking activities. Expansion of depositors' base and attract deposits in various currencies and at reasonable interest rates and incentive awards and the optimum exploitation of these deposits in various areas of investment permitted.
- Promote positive image of the name of the Bank and its brand among all segments of society and its excellence in the banking market. This is done through continued interaction with the local community and through continuing to provide support for social projects, services whether educational or environmental.
- Provide private and personal investment services to the investment portfolios of clients that keep pace with global developments in the capital markets and investment to achieve attractive returns.
- Taking care of the Bank's employees by working towards raising their competence and abilities through training and rewarding the outstanding ones, in addition to encouraging them to work as a team, and to develop policies and business systems to keep pace with developments in the global banking sector.
- Maintaining liquidity at high rates to meet the needs of the Bank's at all times.
- Work to increase the size of indirect credit facilities provided such as letters of credit, guarantees and banking services such as money transfers because of their importance maximizing the Bank's revenues from commissions.
- Develop and diversify the performance of service in order to maintain the Bank's competitive advantage regarding other banks in Palestine by employing banking technology to strengthen the Bank's capacity.
- Reduce all types of risk through the supervision system and self-assessment of the risks.
- Continue to work to achieve customers' satisfaction, since it is one of the Bank's core values, to increase the size of shareholders' equity, and to achieve a good return to shareholders.

Corporate Governance

Governance:

The Bank's Board of Directors continued to work on the promotion and development of corporate governance based on the principles of transparency, accountability and responsibility.

This is done in order to increase depositors, shareholders, and other related authorities in their confidence in the Bank. In addition to ensure continuous monitoring that the Bank is complying with policies and limits approved and that they are compatible with the Bank's objectives set out in general. This comes from the commitment to the highest professional standards of performance, on all the Bank's activities that are in line with the regulatory authority instructions in Palestine, and with the best international practices.

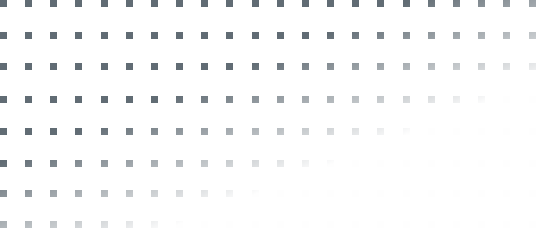
Management is working to apply the principles of corporate governance issued by regulatory bodies in line with the guidance issued in order to avoid any discrepancies or deviations between these principles and the application. Based on the Bank's keenness on corporate governance, several specialized committees formed from the Board of Directors each with its own private and specific objectives and powers in working in an integrated manner with the Board to achieve the Bank's objectives. Those committees are the same as of Dec. 31, 2016:

1	The Investment and Facilities Committee	Abed Dayeh	Chairman	- Adopt the credit and investment policy and follow-up the extent of compliance with it. - Follow-up the performance of the credit and investment portfolios and their compatibility with the adopted policies. - Ensure obtaining a good return within acceptable risk and compatibility with legislation and in accordance with the designated policies.
		Hanna Abuaitah	Member	
		Sami Al-Sayid	Member	
2	Audit and Review Committee	Yousef Bazian	Chairman	- The nomination of the external auditor and determination of his fees. - Evaluation of the independence of the external auditor and the scope of his work. - Review of the accounting and financial practices. - A review of interim and annual financial statements. - To make recommendations regarding the selection and appointment and removal of the internal audit manager and the work of monitoring compliance and the extent of the administration's response to the recommendations and results of the Committee. - Assess the efficiency of employees in the Internal Audit Department. - Review the reports prepared by the Internal Audit Department and monitor compliance and the comprehensiveness of its work.
		Mohamed Kamal Hassouna	Member	
		Walid Al-Najja	Member	

3	Risk Management Committee	Khalil Nasr	Chairman	- Identify the risks associated with the Bank's business and develop a comprehensive strategy on the extent of the degree of tolerance for risk. - Exchange of liaison with the Department of Risk Management. - Provide the Governing Council with periodic reports on the risks faced by or exposed to the bank, as well as to ensure the presence of an appropriate risk management environment.
		Marwan Abdul Hamid	Member	
		Jamil Muti	Member	
4	Governance and Compensation Committee	Dr. Adnan Steitieh	Chairman	- Supervising the implementation of the framework of governance policy. - The preparation of rewards and incentives policy and the periodical evaluation of its adequacy and effectiveness. - The preparation of standards to be adopted by the Board to the conditions and qualifications that the members of the Board of Directors should have. - Overseeing the human resources policy in general.
		Yousef Bazian	Member	
		Khalil Nasr	Member	

The Board of Directors also formed several executive committees within the Executive Management of Bank. Those committees were composed of senior bank executives and employees according to the requirements and necessities of the work, and these committees are:

- Credit Facilities Committee.
- Human Resources Committee.
- Supplies and Purchases Committee.
- Assets and Liabilities Management Committee.



Transparency and Disclosure

In accordance with international standards in the field of disclosure, which is one of the third pillars of the Basel Convention requirements Part II, as the basis of the conviction of the Board of Directors to the principle of transparency and disclosure. It is the basic rule in the banking business and the way to earn the public's trust, regulators and investors. For that reason, the Board of Directors has adopted the disclosure policy to meet these requirements.

Rewards and Incentives

In order for the Board of Directors to apply the principles of corporate governance, a system of rewards and incentives has been provided by the bank for this purpose. The Governance and Compensation Committee was formed from the Board of Directors to achieve those goals.

The role and responsibilities of the Chairman of the Board

Chairman of the Board is the Company's president and he represents to the others and in front of all the authorities. His signature is considered the signature of the entire Board of Directors in dealing with third parties unless the Board decides otherwise. The Chairman cooperates with the Executive Management in the implementation of decisions of the Board and adheres to them.

The Practices of the Board of Directors& the Conflicts of Interest

The Board of Directors shall exercise its responsibilities in the planning and approval regulations that is followed by the Bank in its internal and external relations. The Board also oversees the safety of the Bank's business, and the work of the Executive Management represented by the General Manager. There is no conflict of interest in the practice of the Bank's activities with members of the Board, where all governance instructions applied in the exercise of its functions.

The Mechanism of Delivery of Information to Shareholders

The Board of Directors follows different ways to deliver data to the Bank's shareholders. This is done through publication on the Bank's website, Palestine Stock Exchange and the Palestine Capital Market. In addition to the distribution of the annual reports to shareholders by mail and the publication in local newspapers and advertising in the Bank's Head Office, branches and offices and through its subsidiaries in cities and Palestinian communities.

Strategic Investors with Shares More Than 10%

Name	Number of Shares as of 31/12/2016	Percent of Shares
Al-Yazan Co. for Real Estate & Financial Investments	11.510.012	19.31%
Al-Shorooq Co. for Real Estate & Financial Investments	11.422.587	19.16%

Shares Owned by Board Members

Name	Position	Number of Shares as of 31/12/2016	Percent of Shares
Mr. Abed Dayeh	Chairman of Board of Directors	4.062.332	6.82%
Mr. Khalil Nasr	Vice Chairman of Board of Directors	11.259	0.02%
Dr. Adnan Steitieh	Member	20.353	0.03%
Al-Yazan Co. for Real Estate & Financial Investments	Member	11.510.012	19.31%
Mr. Yousef Bazian	Member	10.236	0.02%
Mr. Sami Sayed	Member	14.074	0.02%
Mr. Jameel Al-Muti	Member	590.349	0.99%
Mr. Waleed Al-Najar	Member	10.236	0.02%
Mr. Marwan Abdul Hameed	Member	10.895	0.02%
A.Y. consultant	Member	1.453.633	2.44%
Uni Brothers LMTD	Member	3.072.704	5.16%

The company's share trading in the Palestine Exchange in 2016

Item	2015	2016
Highest Price	1.03	1.05
Lowest price	0.94	0.94
Opening price	1.00	1.03
Closing price	1.03	1.05

Number of traded shares	Number of transactions	Value in dollars
2.919.515	41	2.920.312

Transactions with related parties

- The total direct facilities granted to relevant parties as of Dec. 31st, 2016 was 2,934,742 USD\$.
- Indirect facilities provided to related parties as of Dec. 31st, 2016 amounted to 1,000,000 USD\$.
- No cases of abstention related to a conflict of interests in the board meetings.

Duties of the Board of Directors to the shareholders and Corporate Governance

The generally accepted principles of corporate governance applied to the Bank's various work and activities have been implemented during the year 2016.

Board Meetings:

The Board of Directors held six (6) meetings during the year 2016.

#	Name	Number of the Meetings of the Board of Directors	
		Actual	Percent of Attendance
1	Mr. Abed Dayeh	6	100%
2	Mr. Khalil Nasr	6	100%
3	Mr. Marwan Abdul Hameed	6	100%
4	Mr. Mohammed Hassouneh	5	83.3%
5	Mr. Yousef Bazian	6	100%
6	Mr. Waleed Al-Najar	6	100%
7	Mr. Sami Al-Sayid	6	100%
8	Dr. Adnan Steitieh	6	100%
9	Mr. Jameel Al-Mu'ti	5	83.3%
10	Dr. Fadi Hamra	5	83.3%
11	Mr. Hanna Abulaitah	4	66.7%

The Company's Policy of Social Responsibility

According to its policy of social responsibility and donations approved by the Board of Directors. In order to achieve the goals set out in the policy, the Bank has continued its activities during the year 2016 to turn toward social responsibility anxious to interact with the various activities of the Palestinian society. In addition, the Bank extended its role in the social service of the environment in Palestine through sponsoring and care of many of the social, charitable, and cultural and sports activities. Financial support is being provided for many of the students, associations, charities, volunteer and support national programs that aims at the best interest of our Nation's young people. The Higher Committee, formed for this paper, has agreed to allocate the amount of 57.242 USD\$ for various activities, which is more than what was spend in 2015 (10.418).

Academic Degrees held by the Members of the Board of Directors:

- Two members hold Doctorate Degree.
- Five members hold Master Degrees.
- Four members hold Bachelor Degrees.

Board of Directors' Remuneration:

During the year 2015, remunerations were dispersed to the member of the Board of Directors for the year 2016. These include membership allowance, allowance for attending board meetings and additional allowance detailed in the following table. None of the members of the Board of Directors has any salary for the year 2016.

Name	2015 (In USD\$)	2016 (In USD\$)
Mr. Abed Dayeh	26.866	12.000
Mr. Khalil Nasr	16.000	12.000
Mr. Marwan Abdul Hameed	7.000	10.000
Mr. Mohammed Hassouneh	8.000	12.000
Mr. Yousef Bazian	12.000	12.000
Mr. Waleed Al-Najar	5.000	10.000
Mr. Sami Al-Sayid	5.000	12.000
Dr. Adnan Steitieh	7.000	12.000
Mr. Jameel Al-Muti	8.000	12.000
Dr. Fadi Hamra*	-	10.000
Mr. Hanna Abuaitah*	-	8.000
Total	94.866	122.000



Academic Degrees Held by Bank Employees

- 12 employees hold Master's Degrees
- 201 employees hold Bachelor Degrees
- 25 employees hold Diploma qualifications
- 2 employees hold High School Degrees
- 9 employees hold qualifications below a High School Degree.

Global Securities Co. (GSC)
**Financial intermediaries for buying
and selling stocks**

Headquarters and Central Administration
Nablus
Hamdi Kanaan St. (Branches out of Palestine St.)

Nablus, PO Box 1776
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Fax: +970 (9) 2385060



PALESTINE INVESTMENT BANK
(PUBLIC SHAREHOLDING COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016





Independent Auditor's Report to the Shareholders of Palestine Investment Bank - Public Shareholding Company

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Palestine Investment Bank, Public Shareholding Company and its subsidiary (hereinafter referred to as the "Bank") as at December 31, 2016, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2016;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "*Auditor's responsibilities for the audit of the consolidated financial statements*" section of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with IESBA Code.

PricewaterhouseCoopers, Amaar Tower, Level 7, Al-Irsal, Ramallah, Palestine
T: +972 (0) 2 242 0230, F: +972 (0) 2 242 0231, P.O. Box: 1317 (Ramallah)
www.pwc.com/middle-east



Independent Auditor's Report to the Shareholders of Palestine Investment Bank - Public Shareholding Company (continued)

Our audit approach

Overview

Key Audit Matters	Provision for impairment of direct credit facilities
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Independent Auditor's Report to the Shareholders of Palestine Investment Bank - Public Shareholding Company (continued)

Key Audit Matters	How our audit addressed the Key audit matters
Provision for impairment of direct credit facilities As stated in the accounting policies No. (2.6) and (2.10) and note (4) "Basis and estimates", the management determines the value of the provision for impairment of direct credit facilities by following the accounting policies No. (2.6) and (2.10), and according to the relevant instructions of Palestine Monetary Authority. Management reviews the contracts either individually or as a group to determine whether there are indications of impaired facilities such as the debtor's inability to pay for a certain period. In the event of such indicators, management estimates the impairment provision based on the estimated recoverable amount from collaterals in favour of the Bank, and in line with the International Financial Reporting Standard and the relevant instructions of Palestine Monetary Authority. Given the significance of such estimates and assumptions, they are considered as one of the key risks that might lead to a material misstatement in the consolidated financial statements, which may arise from improper use of the available information and estimates to determine the provision amount. As shown in note (7) in the consolidated financial statements, management estimated the provision for impairment of direct credit facilities at USD 3,007,748 on a net direct credit facilities of USD 181,475,269 representing 52% of the total assets of the Bank as at December 31, 2016.	Below are the procedures we followed to evaluate the appropriateness of management's estimation of the provision for impairment of direct credit facilities: Evaluation of the management's approach for the determination of debtor's classification and the evaluation method of the present recoverable amount of collaterals in favour of the Bank when sold, expected cash flows and the management's approach for the determination of provision value as at December 31, 2016. Examining a sample of customers classified by management as defaulters to evaluate the reasonableness of their classification. Evaluating management's approach for the determination of provision value as at December 31, 2016. Evaluating the key assumptions used, based on our understanding of the Bank and its industry. Examining a sample of management's estimates of the recoverable amount upon disposal of assets to evaluate the reasonableness of estimates made. Examining relevant internal control procedures adopted by management. Recalculating the impairment provision for a sample of customers in accordance with the relevant instructions of the Palestine Monetary Authority and International Financial Reporting Standards. Evaluating the adequacy of the provision for impairment of direct credit facilities' disclosure made.



Independent Auditor's Report to the Shareholders of Palestine Investment Bank - Public Shareholding Company (continued)

Other matters

The consolidated financial statements of the Bank for the year ended December 31, 2015 were audited by other auditors who expressed an unqualified opinion to the consolidated financial statements on March 30, 2016.

Other information

Management is responsible for the other information. The other information comprises the Banks annual report for 2016, but does not include the consolidated financial statements and our auditor's report. We were not provided with the other information up to date of our report, which is expect to be available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information that have not been provided yet, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and with the applicable laws in Palestine and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.



Independent Auditor's Report to the Shareholders of Palestine Investment Bank - Public Shareholding Company (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



Independent Auditor's Report to the Shareholders of Palestine Investment Bank - Public Shareholding Company (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

For PricewaterhouseCoopers Palestine

A handwritten signature in blue ink, appearing to read "Hazem Sababa", written over a horizontal line.

Hazem Sababa
License number 115/2003
Ramallah, Palestine
March 29, 2017

Consolidated Statement of Financial Position As at December 31, 2016

		2016	2015
	Notes	U.S. \$	U.S. \$
ASSETS			
Cash and balances at Palestine Monetary Authority	5	65.993.808	63.772.991
Cash at banks and financial institutions	6	50.877.914	72.672.609
Direct credit facilities	7	181.475.269	141.670.501
Financial assets at fair value through statement of income	8	6.987.275	6.776.914
Financial assets at fair value through other comprehensive income	9	2.892.859	3.048.817
Financial assets at amortized cost	10	16.409.024	16.135.589
Property, plant and equipment	11	20.512.879	16.313.406
Deferred tax assets	12	878.199	959.699
Intangible assets	13	944.029	994.639
Other assets	14	5.741.436	5.425.076
Total Assets		352.712.692	327.770.241
Liabilities and Equity			
Liabilities			
Banks and financial institutions' deposits	15	20.030.435	35.940.226
Customers' deposits	16	227.274.188	193.444.107
Cash margins	17	17.518.599	15.107.528
Sundry provisions	18	2.651.499	2.369.678
Tax provision	19	138.913	-
Other liabilities	20	5.060.059	7.433.231
Total Liabilities		272.673.693	254.294.770
Equity			
Paid in capital	23	59.600.000	56.300.000
Statutory reserve	21	8.152.663	7.825.093
General banking risks reserve	21	2.861.000	2.291.000
Pro-cyclicality reserve	21	2.336.393	1.847.142
Fair value reserve	9	(304.074)	(180.362)
Excess from assets revaluation	11	3.212.555	3.212.555
Retained earnings		4.180.462	2.180.043
Total equity		80.038.999	73.475.471
Total Liabilities and Equity		352.712.692	327.770.241

- The accompanying notes from note 1 to note 41 form an integral part of these consolidated financial statements.
- The consolidated financial statements on pages 7 to 63 were approved and authorised for issuance by the Board of Directors on February 28, 2017 and were signed on its behalf.

Consolidated statement of income

As at December 31, 2016

		2016	2015
	Notes	U.S. \$	U.S. \$
Interest income	24	13.486.577	11.573.807
Interest expense	25	(1.649.378)	(1.723.116)
Net interest income		11.837.199	9.850.691
Net commissions income	26	3.160.876	2.822.426
Net interest and commissions income		14.998.075	12.673.117
Foreign currency exchange gains		721.321	611.489
Dividends income		124.877	135.072
Direct credit facilities impairment recovery	7	290.051	646.821
Gains on financial assets	27	203.248	43.192
Other revenues	28	216.091	189.786
Total income		16.553.663	14.299.477
Expenses			
Personnel expenses	29	5.723.694	5.400.194
Other operating expenses	30	4.827.404	4.140.465
Direct credit facilities impairment charges	7	401.645	474.249
Depreciation and amortization	11,13	826.325	891.105
Loss on sales of financial assets at fair value through statement of income		-	397.760
Foreign currency exchange losses		4.893	9.554
Total expenses		11.783.961	11.313.327
Profit before tax for the year		4.769.702	2.986.150
Income tax expense	19	(1.381.500)	(1.265.000)
Profit for the year		3.388.202	1.721.150
Basic and diluted earnings per share	32	0.059	0.031

- The accompanying notes from note 1 to note 41 form an integral part of this consolidated financial statements.

Consolidated statement of comprehensive income

As at December 31, 2016

	2016	2015
	U.S. \$	U.S. \$
Profit for the year	3.388.202	1.721.150
Other comprehensive income items:		
Items may not be reclassified to the consolidated statement of income:		
Change in fair value of financial assets at fair value through comprehensive income	(124.674)	(68.622)
excess from assets revaluation	-	3.212.555
Other comprehensive income for the year	(124.674)	3.143.933
Total comprehensive income for the year	3.263.528	4.865.083

- The accompanying notes from note 1 to note 41 form an integral part of this consolidated financial statements.

Consolidated statement of changes in equity As at December 31, 2016

Reserves									
	Paid-in capital U.S. \$	Statutory U.S. \$	General Banking risks U.S. \$	Pro- cyclicalilty U.S. \$	Fair value reserve U.S. \$	excess from assets revaluation U.S. \$	Retained earnings U.S. \$	Total equity U.S. \$	
2016									
Balance at the beginning of the year	56,300,000	7,825,093	2,291,000	1,847,142	(180,362)	3,212,555	2,180,043	73,475,471	
Profit for the year	-	-	-	-	-	-	3,388,202	3,388,202	
Other comprehensive income for the year	-	-	-	-	(124,674)	-	-	(124,674)	
Total comprehensive income for the year	-	-	-	-	(124,674)	-	3,388,202	3,263,528	
Losses on sale of financial assets recognized directly in retained earnings (Note 9)	-	-	-	-	962	-	(962)	-	
Capital increase (Note 22)	3,300,000	-	-	-	-	-	-	3,300,000	
Transferred to reserves	-	327,570	570,000	489,251	-	-	(1,386,821)	-	
Balance at end of the year	59,600,000	8,152,663	2,861,000	2,336,393	(304,074)	3,212,555	4,180,462	80,038,999	
Reserves									
2015									
Balance at the beginning of the year	55,000,000	7,625,485	2,291,000	1,549,392	(120,455)	-	2,264,966	68,610,388	
Profit for the year	-	-	-	-	-	-	1,721,150	1,721,150	
Other comprehensive income for the year	-	-	-	-	(68,622)	3,212,555	-	3,143,933	
Total comprehensive income for the year	-	-	-	-	(68,622)	3,212,555	1,721,150	4,865,083	
Losses on sale of financial assets recognized directly in retained earnings (Note 9)	-	-	-	-	8,715	-	(8,715)	-	
Stock dividends (Note 22)	1,300,000	-	-	-	-	-	(1,300,000)	-	
Transferred to reserves	-	199,608	-	297,750	-	-	(497,358)	-	
Balance at the end of the year	56,300,000	7,825,093	2,291,000	1,847,142	(180,362)	3,212,555	2,180,043	73,475,471	

- The accompanying notes from note 1 to note 41 form an integral part of this consolidated financial statements.

Consolidated Statement of Cash Flows As at December 31, 2016

		2016	2015
	Notes	U.S. \$	U.S. \$
Operating activities			
Profit before tax for the year		4.769.702	2.986.150
Adjustments:			
Direct credit facilities impairment charges	(7)	401.645	474.249
Depreciation and amortization	(11,13)	826.325	891.105
Gains on sale of financial assets at fair value through the statement of income	(27)	(1.207)	(13.781)
Net (gains) losses on revaluation of financial assets at fair value through the statement of income	(27)	(202.041)	358.003
Recovery of impairment allowance on direct credit facilities	(7)	(290.051)	(646.821)
Profit on sale of property, plant, and equipment		(16.999)	-
Sundry provisions	(18)	510.054	404.252
Dividends income		(124.877)	(135.072)
Bonds interests	(24)	(1.193.848)	(1.053.772)
Other non-cash items		(13.020)	30.576
		4.665.683	3.294.889
Changes in assets and liabilities			
Direct credit facilities	(7)	(39.916.362)	(39.348.670)
Statutory reserve	(5)	10.949.453	(2.005.111)
Other assets	(14)	(518.467)	(2.639.584)
Customers' deposits	(16)	33.830.081	9.162.203
Cash margins	(17)	2.411.071	247.440
Other liabilities	(20)	(2.373.172)	(589.053)
Net cash provided by (used in) operating activities before provisions and tax payments		9.048.287	(31.877.886)
Sundry provisions paid	(18)	(228.674)	(391.987)
Taxes paid	(19)	(945.519)	(1.274.382)
Net cash provided by (used in) operating activities		7.874.094	(33.544.255)
Investing activities			
Deposits maturing in over 3 months	(6)	2.820.874	1.410.438
Sale of financial assets at fair value through comprehensive statement of income		31.284	89.663
Purchase of financial assets at fair value through comprehensive statement of income		-	(1.988.496)

- The accompanying notes from note 1 to note 41 form an integral part of this consolidated financial statements.

Sale of financial assets at fair value through the statement of income		39.257	73.736
Purchase of financial assets at fair value through the statement of income		(46.370)	(1.266.711)
Purchase of financial assets at amortized cost		(286.768)	(10.072.905)
Financial assets at amortised cost		-	9.231.312
Purchase of property, plant and equipment	(11)	(4.857.708)	(2.771.699)
Sale of property, plant and equipment		16.999	-
Purchase of intangible assets	(13)	(117.480)	(212.543)
Dividends income received		124.877	135.072
Bonds' interests received		1.207.181	1.035.187
Net cash used in investing activities		(1.067.854)	(4.336.946)
Financing activities			
Capital increase	(22)	3.300.000	-
Increase (decrease) in cash and cash equivalents		10.106.240	(37.881.201)
Cash and cash equivalents, beginning of the year		66.034.972	103.916.173
Cash and cash equivalents, end of the year	31	76.141.212	66.034.972

- The accompanying notes from note 1 to note 41 form an integral part of this consolidated financial statements.

Notes to the consolidated financial statements As at December 31, 2016

NOTE (1) GENERAL

Palestine Investment Bank (the Bank) was founded on August 10, 1994 as a public shareholding company in Palestine in accordance with the effective companies' law of 1929 under registration No. (563200864). Starting capital was 20 USD\$ Million which was increased during the years from 2006 to 2011 to 53 USD\$ Million with a par value of 1 USD\$ per share. During 2014 and 2015, the Bank distributed stock dividends to the shareholders in the amount of 2 USD\$ Million and 1.3 USD\$ Million respectively, and the capital reached 56.3 USD\$. Based on the resolution of the Extraordinary General Assembly in its meeting held on May 13, 2010 to increase the authorized share capital to 100 million shares with a par value of 1 USD\$ per share. During 2016, the Bank's paid share capital was increased through a secondary subscription in the amount of 3.3 USD\$ Million to be 59.6 USD\$.

The Bank started its activities in March 1995. The Bank carries out all of its Banking and financial activities through its headquarter in Al-Bireh, its six operating offices in Palestine, in addition to Al Bahrain's branch.

The Bank is subject to the Banks Laws and the regulations of Palestine Monetary Authority.

Palestine Investment Bank is a public shareholding company listed in Palestine Securities Exchange.

The Bank aims to offer all banking services which include opening current accounts and credits and accepting deposits and trusteeships and lending money. The total number of employees of the Bank and its subsidiary as at December 31, 2016 and 2015 was (248) and (247) respectively.

The accompanying consolidated financial statements were approved by the Bank's board of directors on February 28, 2017.

NOTE (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Bank in the preparation of these consolidated financial statements are set out below.

2.1 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Bank and subsidiary as of December 31, 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as issued by the International Accounting Standards Board (IASB) and in accordance with the regulations of Palestine Monetary Authority.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through the statement of income, financial assets at fair value through the statement of comprehensive income, and land at fair value at the consolidated financial statements date. The consolidated financial statements are presented in United States Dollar, which is the functional and presentation currency of the Bank.

2.2 Changes in Accounting Policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the previous year, except for the adoption of new standards and amendments to existing standards as mentioned below.

(a) New and amended standards and interpretations adopted by the Bank for the first time and effective for the financial year starting on or after January 1, 2016, and have no significant impact on the Bank's consolidated financial statements.

- Amendments to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', showing the acceptable methods for calculating the depreciation and amortisation.
- Amendments to IAS 34, "interim financial reports" on the disclosures in the interim financial statements.
- Amendments to IAS 19 'Employee benefits' that require using the currency discount price, by which the liabilities of the specified interest's plans are paid.
- Amendments to IAS 1, 'Presentation of financial statements', which stating some requirements of presenting the financial statements and disclosing of the accounting policies.
- Amendments to IFRS 7 - 'Financial instruments: Disclosures' which required disclosing the ongoing servicing contracts after sale of the financial assets and disclosure of the offsetting between the financial assets and liabilities not mentioned in the IAS no. (34) "Interim financial reports".
- Amendments to IFRS 11, "Joint arrangements" that provide specific guidance on how to account the acquisition of a share in joint operation arrangements.
- Amendments to IFRS 10, 'Consolidated financial statements, and IAS 28, 'Associates and joint ventures' showing the exception in adoption of the consolidation of the financial statements of the investing companies and its subsidiaries.
- The annual improvements to International Financial Reporting Standard 2012-2014 Cycle.

(b) New standards and interpretations are not mandatory for the financial year commencing on January 1, 2016 but have not been early adopted by the Bank:

- IFRS 9 'Financial instruments': effective on January 1, 2018. This standard addresses the classification, measurement and recognition of financial assets and financial liabilities and introduces new rules for hedge accounting and also introduces a new impairment model. The standard must be applied for the financial years beginning on or after January 1, 2018.
- IFRS 15, "Revenue from Contracts with Customers", effective from January 1, 2018. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. According to the new standard, revenue is recognised when control of a good or service is transferred to a customer – thus, the notion of control replaces the existing notion of return and risks.
- IFRS 16, 'Leases' effective January 1, 2019. This standard will replace IAS 17 "Leases". This standard requires the lessor to record the future lease liabilities of all leases including "the right to use the asset".
- Amendments to IAS 12 "Income Taxes", effective from January 1, 2017. The amendments show the measurement and accounting of the deferred tax assets.

- Amendments to IAS 7, 'Statement of cash flows' effective from January 1, 2017. These amendments require additional disclosures about changes in the liabilities resulted from the financing activities.

2.3 Basis of consolidation of financial statements

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiary "Global Securities Company" that is wholly owned and controlled by the Bank as at December 31, 2016. The Bank controls the subsidiary when the Bank is able to manage the main activities of the subsidiaries, and when the Bank is exposed to or has rights to, variable returns from its investment in the subsidiaries, and has the ability to affect those returns through its control over the subsidiaries. Transactions, balances, revenues and expenses between the Bank and its subsidiary shall be eliminated.

Details about the subsidiary:

Company name	Paid-in share capital (USD)	Percentage of Bank's ownership	Company's activity nature	Company's headquarter	Date of acquisition
Global Securities Company	3.526.093	100%	Financial brokerage	Nablus	1996

The financial statements of the subsidiary are prepared for the same reporting year as for the Bank, using the consistent accounting policies. If the accounting policies adopted by the subsidiary are different, the required adjustments are made on the financial statements of the subsidiary to be consistent with the accounting policies used by the Bank.

The Bank reevaluates its ability to control the investee if there is any change in facts or circumstances that indicate any change in the three factors of control. Consolidation of the financial statements of the subsidiary commences when the Bank has the ability to control, and ends when it loses control over its subsidiary.

The acquired or disposed assets, liabilities, income and expenses of the subsidiary are recognised in the consolidated statement of comprehensive income from the date of acquiring control until the date the control is lost. The change's effect in the percentage of ownership of the subsidiary (without losing control thereon) is recognised as transactions between owners.

All balances and transactions, and profits and losses resulting from transactions between the subsidiary and the Bank have been eliminated.

2.4 Segment Information

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

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

2.5 Financial assets at fair value through the statement of income

They are the financial assets purchased by the Bank for selling purposes in the near future and achieving profits from fluctuations in short-term market prices or trading profits margin.

These assets are recognised at fair value upon purchase (acquisition expenses are recognised in the consolidated statement of income upon purchase) and subsequently revalued at fair value. Change in fair value is recognised in the consolidated statement of income. When these assets or parts thereof are disposed, the resulting gains or losses are recognised in the consolidated statement of income.

The distributed dividends or realised interests are recognised in the consolidated statement of income.

Nonfinancial assets may be reclassified from/to this item except in cases as determined by the International Financial Reporting Standards.

Nonfinancial assets with no prices in active market and transactions may be classified in this item.

2.6 Credit Facilities

Credit facilities are presented net of provision for impairment of credit facilities and suspended interests.

Allowance for direct credit facilities is made if collection of amounts due to the Bank was not possible and when there is an objective evidence that a certain event has negatively affected future cash flows for direct credit facilities and when such impairment can be measured. The impairment value is recorded in the consolidated statement of income.

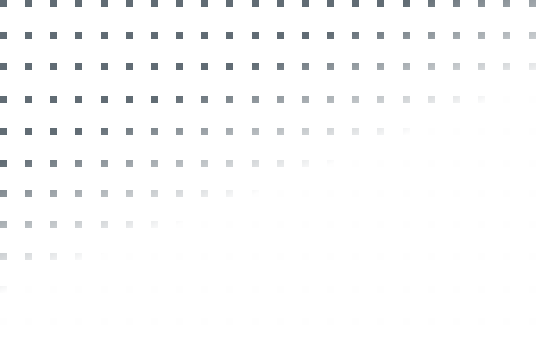
Interest and commission on defaulted, and rated credit facilities, which are granted to customers are suspended according to PMA instructions.

Credit facilities with related allowance are written off when collection procedures become ineffective according to PMA instructions. The excess in the allowance is transferred, if any, to the consolidated statement of income. Collection of previously written off credit facilities are recognised as revenues.

According to PMA instructions, direct credit facilities defaulted for more than 6 years along with the related suspended interest and allowances are excluded from the Bank's consolidated financial statements.

2.7 Financial assets at fair value through comprehensive statement of income

These financial assets represent equity investments for the purpose of keeping them on the long run. These assets are recognised at fair value and the expenses of acquisition are directly added to them and they are subsequently revalued at fair value. The change in fair value is recognised in the consolidated statement of comprehensive income and in the consolidated statement of changes in equity. When these assets or any



part thereof is disposed, the resulting gains or losses are recognised in the consolidated comprehensive statement of income and in the consolidated statement of changes in equity. A reserve balance for valuation of disposed financial assets is directly transferred to the retained earnings or losses and not through the consolidated statement of income.

These assets are not subject to the impairment losses test.

The distributed dividends are recognised in the consolidated statement of income.

2.8 Financial assets at amortised cost

The debt instruments are measured at amortised cost if any of the two criteria are met:

- Maintain the debt instrument in a business model aiming at keeping the asset for obtaining contractual cash flows.
- The contractual terms grants the instruments the usufruct of the cash flows at specific dates, which represent payments and interest on the current balance.

Debt instruments meeting these two criteria are initially measured at fair value plus the acquisition cost (unless the Bank decides to classify these assets through the consolidated statement of income as stated below), and subsequently measured at amortised cost using the effective interest method net of impairment. The interest income is recognised using the effective interest method.

The Bank reclassifies the debt instruments at amortised cost to debt instruments at fair value through the statement of income if the purpose of the business model for initial recognition is changed; hence, the amortised cost method is improper.

The effective interest rate is the rate used to discount the future cash flows through the expected life of the debt instrument or, where appropriate, a shorter period to equal the carrying amount at the initial recognition date.

2.9 Fair value of financial instruments

When the fair value of financial assets and financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow Model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These assumptions include factors relating to inputs that are used to determine fair value, such as liquidity risk, credit risk and other factors. Changes in assumptions about these factors could affect the reported fair value of financial assets in the consolidated financial statements.

2.10 Impairment of financial assets

The Bank reviews the values of financial assets recorded in the records at the date of the statement of financial position in order to determine if there are any objective indications of impairment in their value individually or in group. In case such indications exist, the recoverable value is estimated in order to determine the impairment loss.

Impairment is determined as follows:

Collective valuation of credit facilities

The value of credit facilities is re-estimated individually and when there is no present evidence for loss is determined, then there is a possibility of losses based on risk estimates and possibility of change in loan conditions or in the market conditions.

Impairment provisions cover losses that may result from individual performing loans whose value has declined on the reporting date of statement of financial position, but has not been identified separately as impaired value except during subsequent period. Expected impairment in value is calculated by the Bank's management for each distinctive portfolio in accordance with Palestine Monetary Authority's requirements and based on previous experiences, credit rating and expected change in loan conditions in addition to estimated implied losses that reflect the reality of the economic environment and credit status.

Impairment of financial assets recognised at amortised cost

The difference between the value recognised in the records and the present value of the expected cash flows discounted at the original effective interest rate.

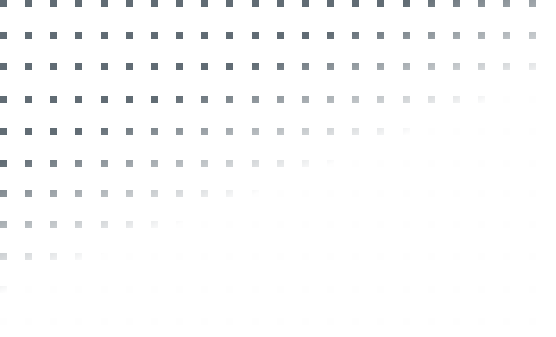
The impairment is recorded in the statement of income, and any surplus in subsequent period resulting from previous impairment for debt instruments is recognised in the statement of income and in the statement of comprehensive income for equity instruments. Long term non-interest bearing financial assets and liabilities are evaluated based on discounted cash flows and effective interest rate, and the discount/ premium is amortised in interest received/paid in the statement of income.

The evaluation methods aim to reach a fair value that reflects the market's expectations taking into consideration market factors and any risks or expected benefits when estimating the financial instruments.

2.11 Property, plant and equipment

Except for the land that is stated at fair value, property, plant and equipment are stated at cost net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and financing costs for long-term construction projects if the recognition criteria are met. All other expenses are recognised in the consolidated statement of income as incurred. Land is not depreciated. Depreciation is calculated on a straight line basis over the estimated useful lives as follows:

	Useful life (years)
Buildings and real estate	50
Furniture and equipment	6-17
Computer hardware	4-10
Leasehold improvements	5
Motor vehicles	7



Carrying values of property, plant, and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. Where any such evidence exists and when the carrying amount exceeds its recoverable amount, the carrying amount of the recoverable amount, being the fair value, is reduced after deducting the higher of costs to sell and "value in use".

Costs incurred to replace property, plant, and equipment that are dealt with separately are calculated and capitalised and the carrying value of any replaced part is written off. Subsequent expenditures are capitalised only when they increase future economic benefits of the related item of property, plant and equipment. All other expenses are recognised in the consolidated statement of income.

Land is stated at fair value. Fair valuation of land is conducted on a periodical basis to make sure that the fair value is not materially different from the carrying value. Increase in fair value of such lands is recorded through the consolidated statement of changes in equity while impairment losses that exceed any previous increase in fair value are recorded in the consolidated statement of income.

2.12 Provisions

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

2.13 End of service indemnity provision

Provision for the Company's employees' indemnity is calculated in accordance with the law of the Palestinian labour. Employee indemnity provision charges are recognized in the statement of income, payment made to resigning employees are recognized in the employee indemnity provision account.

2.14 Tax provision

The Bank deducts tax provisions in accordance with Income Tax Law in force in Palestine, and IAS 12 which requires recognising the temporary differences, at the financial statements date, as deferred taxes.

Income tax expenses are accounted for on the basis of taxable income. Moreover, taxable income differs from income declared in the consolidated financial statements because the latter includes non-taxable revenue or tax expenses not deductible in the current year but deductible in subsequent years, accumulated losses acceptable by the tax authorities, and items not accepted for tax purposes or subject to tax.

Deferred tax is the tax expected to be paid and recovered as a result of temporary timing differences between the value of assets or liabilities in the consolidated financial statements and the value which is the basis for calculating tax profit. Deferred tax is calculated using the liability method in the financial position, and deferred taxes is accounted for in accordance with tax rates expected to be applied to settle the tax liability or realise deferred tax assets.

2.15 Offsetting

Financial assets and liabilities are offset and net amounts are reported in the statement of financial position only when legally enforceable rights are established and when such amounts are settled on a net basis, or when assets and liabilities are settled simultaneously.

2.16 Revenue and expenses recognition

Interest income is recognised using the effective interest method except for interests and commissions of non performing credit facilities.

Commission income is recognized when the service is rendered

Dividend income is recognised when the right to receive the dividends is established.

Expenses are recognised when incurred based on the accrual basis.

2.17 Assets seized by the bank

Assets seized by the Bank are shown under “other assets” at the acquisition value or fair value, whichever is lower. As of the consolidated financial statements date, these assets are revalued individually at fair value. Any decline in their market value is taken to the consolidated statement of income whereas any such increase is not recognized. A subsequent increase is taken to the consolidated statement of income to the extent it does not exceed the previously recorded impairment.

In accordance with PMA instructions, lands and assets seized by the Bank against settlement of due debts should be disposed off during a maximum period of 5 years from the acquisition date. The period where such assets can be kept was extended by PMA according to the banking law and related instructions.

2.18 Intangible assets

Intangible assets acquired in a business combination are stated at their fair value as at the date of acquisition. Intangible assets acquired through any way other than business combination shall be recognised at cost.

The useful lives of intangible assets are classified as either definite or indefinite period. Intangible assets with definite lives are amortised over the useful economic life and the amortisation expense is recorded in the consolidated statement of income. Intangible assets with indefinite useful lives are tested for impairment at the consolidated financial statements date and the impairment is recorded in the consolidated statement of income.

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

Intangible assets include computer software and systems. The Bank’s management estimates the useful lives of intangible assets. Intangible assets are amortised on a straight line method.

2.19 Foreign currencies

- Transactions dominated in foreign currencies occurring during the year are recorded at the prevailing exchange rates at the date of the transactions.
- Balances of monetary assets and liabilities dominated in foreign currencies are translated at the prevailing exchange rate at the consolidated statement of financial position date.
- Non-monetary assets and liabilities measured at fair value and dominated in a foreign currency are translated at the date when the fair value is determined.
- Foreign currency exchange gains or losses are recognised in the consolidated statement of income.

2.20 Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with maturity of 3 months. It includes cash and balances at Palestine Monetary Authority and balances at banks and financial institutions net of banks' and financial institutions' deposits with maturity of 3 months and restricted balances.

2.21 Derecognition of financial assets

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

2.22 Fair value measurement

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

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

The fair value of the assets and liabilities are measured using the assumptions used by the participants at the pricing of assets and liabilities, assuming that market participants aim to achieve economic benefits.

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

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

Level 1: Using quoted prices for similar financial instruments in active markets.
Level 2: Using inputs that are directly or indirectly observable other than quoted prices.
Level 3: Using inputs that are not based on observable market data.

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

Approved external valuers are assigned to evaluate the material value of the assets such as lands.

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 and the level of the fair value of the assets and liabilities. The Bank did not make any transfers between the above mentioned levels during 2016 and 2015.

NOTE (3) – RISK MANAGEMENT

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

Risk Management framework

Risks related to the Bank's activities are measured and monitored continuously to keep within acceptable limits. Due to sensitivity of risk management on the Bank results of operations, risk management roles and controls activities are distributed among the Bank's personnel.

Risk Management process

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

Risk measurement and reporting systems

Monitoring and controlling risks are primarily performed based on limits established by the Bank for each risk type. These limits reflect the business strategy and market environment of the bank as well as the level of risk the Bank is willing to accept. Information is collected from different departments and analysed for early identification of potential risk. This information is presented to the Bank's board of directors and the executive departments responsible for risk management.

Risks

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

First: Credit risks:

Credit risks are those risks resulting from the default of counterparties to the financial instruments to meet their obligations to the Bank resulting in a loss. The Bank manages credit risk by preparing a financing study which includes the concentration on cash flows and payments, and setting limits to the financing amounts (individual or corporate) to each sector and geographical area. The Bank also monitors credit risks and continuously evaluates the credit standing of customers. The Bank also obtains appropriate collaterals from customers.

Exposures to credit risk

	2016	2015
Consolidated statement of financial position items		
Balances at Palestine Monetary Authority	25.951.390	32.725.263
Balances at banks and financial institutions	50.877.914	72.672.609
Direct credit facilities:		
Individuals	81.856.448	55.424.925
Corporate	77.617.194	63.481.086
Public sector facilities	22.001.627	22.764.490
Financial assets at fair value through statement of income	5.688.300	5.539.116
Financial assets at amortised cost	16.409.024	16.135.589
Other assets	2.362.217	3.226.617
	282.764.114	271.969.695
Off the consolidated statement of financial position items		
Guarantees	16.161.809	17.028.903
Letters of credits	3.284.213	4.037.336
Acceptances	3.975.431	2.577.482
Unutilised direct credit facilities limits	6.461.359	5.754.911
	29.882.812	29.398.632

Credit risk exposure for each risk rating

Direct credit facilities based on the risk rating are distributed as follows:

	Individuals	Corporate	Government and public sector	Total
December 31, 2016				
Low risk	52.079.106	48.208.524	22.001.627	122.289.257
Acceptable risk	29.549.861	27.998.374	-	57.548.235
Watch list	200.896	170.441	-	371.337
Non-performing:				
Substandard	340.700	287.441	-	628.141
Doubtful	1.947.368	2.501.414	-	4.448.782
Total	84.117.931	79.166.194	22.001.627	185.285.752
Suspended interests and commissions	(501.277)	(301.458)	-	(802.735)
Provision for impairment of direct credit facilities	(1.760.206)	(1.247.542)	-	(3.007.748)
	81.856.448	77.617.194	22.001.627	181.475.269

	Individuals	Corporate	Government and public sector	Total
December 31, 2015				
Low risk	34.527.118	40.799.277	22.764.490	98.090.885
Acceptable risk	19.010.685	21.877.321	-	40.888.006
Watch list	169.342	7.576	-	176.918
Non-performing:				
Substandard	902.952	438.029	-	1.340.981
Doubtful	3.317.565	1.610.507	-	4.928.072
Total	57.927.662	64.732.710	22.764.490	145.424.862
Suspended interests and commissions	(483.716)	(332.354)	-	(816.070)
Provision for impairment of direct credit facilities	(2.019.021)	(919.270)	-	(2.938.291)
	55.424.925	63.481.086	22.764.490	141.670.501

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

	Individuals	Corporate	Total
December 31, 2016			
Collateral against:			
Low risk	37.045.144	42.685.471	79.730.615
Acceptable risk	23.245.477	26.103.850	49.349.327
Watch list	101.441	105.327	206.768
Non-performing:			
Substandard	280.100	112.414	392.514
Doubtful	481.503	398.445	879.948
Total	61.153.665	69.405.507	130.559.172
Comprising of:			
Cash margins	9.526.379	7.992.220	17.518.599
Quoted instruments	7.320.546	7.201.441	14.521.987
Vehicles and equipment	4.759.310	9.201.445	13.960.755
Real estate	39.547.430	45.010.401	84.557.831
	61.153.665	69.405.507	130.559.172

	Individuals	Corporate	Total
December 31, 2015			
Collateral against:			
Low risk	39.298.209	17.342.885	56.641.094
Acceptable risk	13.767.875	26.466.947	40.234.822
Watch list	121.234	30.000	151.234
Non-performing:			
Substandard	1.333.584	580.000	1.913.584
Doubtful	2.107.294	442.558	2.549.852
Total	56.628.196	44.862.390	101.490.586
Comprising of:			
Cash margins	8.206.082	6.901.446	15.107.528
Quoted instruments	144.983	5.350.686	5.495.669
Vehicles and equipment	7.518.520	4.208.711	11.727.231
Real estate	40.758.611	28.401.547	69.160.158
	56.628.196	44.862.390	101.490.586

Credit exposures are distributed based on the geographical areas as follows:

	Domestic	Jordan	Israel	Europe	USA	Others	Total
2016							
Balances at Palestine Monetary Authority	25.951.390	-	-	-	-	-	25.951.390
Cash at banks and financial institutions	13.667.449	11.510.507	7.605.980	8.400.029	6.298.457	3.395.492	50.877.914
Direct credit facilities	181.369.439	105.830	-	-	-	-	181.475.269
Financial assets at fair value through statement of income	-	-	-	-	-	5.688.300	5.688.300
Financial assets at amortised cost	-	5.006.342	-	4.095.335	-	7.307.347	16.409.024
Other assets	2.362.217	-	-	-	-	-	2.362.217
Total as at December 31, 2016	223.350.495	16.622.679	7.605.980	12.495.364	6.298.457	16.391.139	282.764.114
Total as at December 31, 2015	220.219.106	11.677.862	2.986.187	9.970.608	2.178.828	26.174.902	273.207.493
Off the statement of financial position items:							
Guarantees	16.161.809	-	-	-	-	-	16.161.809
Letters of credits	-	1.502.155	1.782.058	-	-	-	3.284.213
Acceptances	3.975.431	-	-	-	-	-	3.975.431
Unutilised direct credit facilities limits	6.461.359	-	-	-	-	-	6.461.359
Total as at December 31, 2016	26.598.599	1.502.155	1.782.058	-	-	-	29.882.812
Total at December 31, 2015	29.398.632	-	-	-	-	-	29.398.632

Credit exposures are distributed based on the geographical areas as follows:

	Financial	Industrial and tourism	Trade	Real estate	Securities	Government and public sector	Others	Total
2016								
Balances at Palestine Monetary Authority	25.951.390	-	-	-	-	-	-	25.951.390
Cash at banks and financial institutions	50.877.914	-	-	-	-	-	-	50.877.914
Direct Credit Facilities	5.468.146	27.252.910	44.158.091	42.237.767	2.098.084	22.001.627	38.258.644	181.475.269
Financial assets at fair value through statement of income	-	-	-	-	-	5.688.300	-	5.688.300
Financial assets at amortised cost	-	-	-	-	-	6.003.842	10.405.182	16.409.024
Other assets	-	-	-	-	-	-	2.362.217	2.362.217
Total as at December 31, 2016	82.297.450	27.252.910	44.158.091	42.237.767	2.098.084	33.693.769	51.026.043	282.764.114
Total as at December 31, 2015	140.279.898	20.733.520	31.602.532	24.321.065	1.533.921	28.771.522	25.965.035	273.207.493

Second: Market risk

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

Interest rate risk

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

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

The expected effect of the decrease in exchange rate is equal and opposite of the increase shown below:

Currency	2016		2015	
	Increase in the exchange rate	Interest income sensitivity	Increase in the exchange rate	Interest income sensitivity
	Basis point		Basis point	
USD	+ 10	11.162	+ 10	55.722
Jordanian Dinar	+ 10	(254)	+ 10	(1.267)
Israeli Shekel	+ 10	892	+ 10	4.453
Euro	+ 10	(181)	+ 10	(904)
Other currencies	+ 10	12	+ 10	61

Interest re-pricing gap

Interest re-pricing gap									
	Less than 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than 1 year	Non-interest bearing items	Total		
December 31, 2016									
Assets									
Cash and balances at Palestine Monetary Authority	25,951,390	-	-	-	-	40,042,418	65,993,808		
Cash at banks and financial institutions	18,715,822	32,162,092	-	-	-	-	50,877,914		
Direct Credit Facilities	9,961,388	3,506,842	8,139,825	25,630,684	134,236,530	-	181,475,269		
Financial assets at fair value through statement of income	-	-	-	-	-	186,397	6,987,275		
Financial assets at fair value through comprehensive statement of income	-	-	-	-	-	2,892,859	2,892,859		
Financial assets at amortised cost	-	-	-	-	16,409,024	-	16,409,024		
Property, plant and equipment	-	-	-	-	-	20,512,879	20,512,879		
Deferred tax assets	-	-	-	-	-	878,199	878,199		
Intangible assets	-	-	-	-	-	944,029	944,029		
Other assets	-	-	-	-	-	5,741,436	5,741,436		
Total assets	54,628,600	35,668,934	8,139,825	25,630,684	157,446,432	71,198,217	352,712,692		
Liabilities									
Banks and financial institutions deposits	19,768,985	261,450	-	-	-	-	20,030,435		
Customers' deposits	169,852,552	9,103,680	10,106,577	12,142,053	26,069,326	-	227,274,188		
Cash margins	17,518,599	-	-	-	-	-	17,518,599		
Sundry provisions	-	-	-	-	-	2,651,499	2,651,499		
Tax provision	-	-	-	-	-	138,913	138,913		
Other Liabilities	5,060,059	-	-	-	-	-	5,060,059		
Total liabilities	212,200,195	9,365,130	10,106,577	12,142,053	26,069,326	2,790,412	272,673,693		
Equity									
Paid-in capital	-	-	-	-	-	59,600,000	59,600,000		
Statutory reserve	-	-	-	-	-	8,152,663	8,152,663		
General banking risks reserve	-	-	-	-	-	2,861,000	2,861,000		
Pro-cyclicality reserve	-	-	-	-	-	2,336,393	2,336,393		
Fair value reserve	-	-	-	-	-	(304,074)	(304,074)		
Excess from assets revaluation	-	-	-	-	-	3,212,555	3,212,555		
Retained earnings	-	-	-	-	-	4,180,462	4,180,462		
Total equity	-	-	-	-	-	80,038,999	80,038,999		
Total liabilities and equity	212,200,195	9,365,130	10,106,577	12,142,053	26,069,326	82,829,411	352,712,692		
Interest rate re-pricing gap	(157,571,595)	26,303,804	(1,966,752)	13,488,631	131,377,106	(11,631,194)	-		
Cumulative Gap	(157,571,595)	(131,267,791)	(133,234,543)	(119,745,912)	11,631,194	-	-		

Interest re-pricing gap

Interest re-pricing gap								
	Less than 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than 1 year	Non-interest bearing items	Total	
December 31, 2015								
Assets								
Cash and balances at Palestine Monetary Authority	-	-	-	-	-	63,772,991	63,772,991	
Cash at banks and financial institutions	-	12,545,441	43,979,112	-	-	16,148,056	72,672,609	
Direct Credit Facilities	7,519,443	2,752,465	6,180,259	18,998,104	106,220,230	-	141,670,501	
Financial assets at fair value through statement of income	-	-	-	-	5,539,116	1,237,798	6,776,914	
Financial assets at fair value through comprehensive statement of income	-	-	-	-	-	3,048,817	3,048,817	
Financial assets at amortised cost	-	-	-	-	16,135,589	-	16,135,589	
Property, plant and equipment	-	-	-	-	-	16,313,406	16,313,406	
Deferred tax assets	-	-	-	-	-	959,699	959,699	
Intangible assets	-	-	-	-	-	994,639	994,639	
Other assets	-	-	-	-	-	5,425,076	5,425,076	
Total assets	7,519,443	15,297,906	50,159,371	18,998,104	127,894,935	107,900,482	327,770,241	
Liabilities								
Banks and financial institutions deposits	28,475,530	7,446,167	-	-	-	18,529	35,940,226	
Customers' deposits	49,092,789	7,989,508	6,270,062	29,310,742	18,112,171	82,668,835	193,444,107	
Cash margins	9,405,235	2,153,734	1,355,340	980,869	1,212,350	-	15,107,528	
Sundry provisions	-	-	-	-	-	2,369,678	2,369,678	
Other Liabilities	-	-	-	-	-	7,433,231	7,433,231	
Total liabilities	86,973,554	17,589,409	7,625,402	30,291,611	19,324,521	92,490,273	254,294,770	
Equity								
Paid-in capital	-	-	-	-	-	56,300,000	56,300,000	
Statutory reserve	-	-	-	-	-	7,825,093	7,825,093	
General banking risks reserve	-	-	-	-	-	2,291,000	2,291,000	
Pro-cyclicality reserve	-	-	-	-	-	1,847,142	1,847,142	
Fair value reserve	-	-	-	-	-	(180,362)	(180,362)	
Excess from assets revaluation	-	-	-	-	-	3,212,555	3,212,555	
Retained earnings	-	-	-	-	-	2,180,043	2,180,043	
Net equity	-	-	-	-	-	73,475,471	73,475,471	
Total liabilities and equity	86,973,554	17,589,409	7,625,402	30,291,611	19,324,521	165,965,744	327,770,241	
Interest rate re-pricing gap	(79,454,111)	(2,291,503)	42,533,969	(11,293,507)	108,570,414	(58,065,262)	-	
Cumulative Gap	(79,454,111)	(81,745,614)	(39,211,645)	(50,505,152)	58,065,262	-	-	

Foreign currency risk

Foreign Currency risk represent the risks of change in value of financial instruments resulting from the fluctuations in foreign exchange rate. The US Dollar (USD) is the functional currency of the Bank. The board of directors sets the limit of the financial position for each currency at the Bank annually, and such position is monitored on a daily basis and hedging strategies are used to ensure maintaining the foreign currency position within the approved limits.

The Jordanian Dinar (JOD) exchange rate is pegged to the USD, thus the risk of changes in the JOD exchange rate is not material to the financial statements of the Bank.

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

Currency	2016		2015	
	Increase in the exchange rate	Effect on the consolidated statement of income	Increase in the exchange rate	Effect on the consolidated statement of income
	%		%	
Euro	+ 10	(21.785)	+ 10	(6.693)
Israeli Shekel	+ 10	154.106	+ 10	(22.277)
Other currencies	+ 10	7.463	+ 10	(4)

Following is the foreign currencies position of the Bank:

	Dinar	Euro	Israeli Shekel	Others	Total
December 31, 2016					
Assets					
Cash and balances at Palestine Monetary Authority	7.740.506	42.740.723	1.133.226	-	51.614.455
Cash at banks and financial institutions	11.161.709	10.737.098	4.673.428	542.173	27.114.408
Direct Credit Facilities	18.553.743	62.627.670	3.597.642	-	84.779.055
Other assets	162.750	1.261.893	20.923	36.744	1.482.310
Total assets	37.618.708	117.367.384	9.425.219	578.917	164.990.228
Liabilities					
Banks and financial institutions deposits	-	6.114.556	3.241.980	-	9.356.536
Customers' deposits	34.812.914	103.781.655	3.815.109	489.303	142.898.981
Cash margins	1.742.703	6.987.019	741.028	14.361	9.485.111
Other Liabilities	248.980	702.006	86.043	622	1.037.651
Total liabilities	36.804.597	117.585.236	7.884.160	504.286	162.778.279
Net concentration in the statement of financial position	814.111	(217.852)	1.541.059	74.631	2.211.949
Contingent liabilities outside the financial position	127.227	3.932.002	3.529.972	143.607	7.732.808

	Jordanian Dinar	Euro	Israeli Shekel	Others	Total
December 31, 2015					
Total assets	43.673.379	10.602.384	111.818.963	317.478	166.412.204
Total liabilities	42.484.398	10.669.316	112.041.737	317.520	165.512.971
Net concentration in the statement of financial position	1.188.981	(66.932)	(222.774)	(42)	899.233
Contingent liabilities outside the statement of financial position	658.766	1.447.944	3.486.120	-	5.592.830

Equity and bonds price risk

Equity price risk results from changes in fair value of the investments in equities and bonds. The effect of the decrease in the price of equities and bonds prices is equal to and opposite of the increase effect as shown below:

		2016		2015	
	Increase in indicator	Effect on consolidated statement of income	Effect on equity	Effect on consolidated statement of income	Effect on equity
Indicator	(%)				
Palestine Securities Exchange	10	18.640	289.286	19.461	304.882
Foreign markets	10	680.088	-	658.231	-

Third: Liquidity risk

Liquidity risk is the risk that the Bank will not be able to provide the necessary funding to perform its liabilities in due dates. To mitigate this risk, management diversifies sources of finances, manages assets and liabilities and adapts its maturities, and maintains an adequate level of cash and cash equivalents.

The table below summarises the Bank's assets and liabilities on the basis of the remaining contractual maturities as at December 31, 2016 and 2015:

December 31, 2016	Less than 1 month	From 1 month to 3 months	3 to 6 months	from 6 months to 1 year	from 1 year to 3 years	More than 3 years	Without Maturity	Total
Assets:								
Cash and balances at Palestine Monetary Authority	25,951.390	-	-	-	-	-	40,042.418	65,993.808
Cash at banks and financial institutions	18,715.822	32,162.092	-	-	-	-	-	50,877.914
Direct Credit Facilities	9,961.388	3,506.842	8,139.825	25,630.684	100,715.089	33,521.441	-	181,475.269
Financial assets at fair value through statement of income	-	-	-	-	-	6,800.878	186.397	6,987.275
Financial assets at fair value through statement of comprehensive income	-	-	-	-	-	-	2,892.859	2,892.859
Financial assets at amortised cost	-	-	-	-	-	16,409.024	-	16,409.024
Property, plant and equipment	-	-	-	-	-	-	20,512.879	20,512.879
Deferred tax assets	-	-	-	-	-	-	878.199	878.199
Intangible assets	-	-	-	-	-	-	944.029	944.029
Other assets	-	-	-	-	-	-	5,741.436	5,741.436
Total assets	54,628.600	35,668.934	8,139.825	25,630.684	100,715.089	56,731.343	71,198.217	352,712.692
Liabilities:								
Banks and financial institutions deposits	19,768.985	261,450	-	-	-	-	-	20,030.435
Customers' deposits	169,852.552	9,103.680	10,106.577	12,142.053	26,069.326	-	-	227,274.188
Cash margins	17,518.599	-	-	-	-	-	-	17,518.599
Sundry provisions	-	-	-	-	-	-	2,651.499	2,651.499
Tax provision	-	-	-	-	-	-	138.913	138.913
Other Liabilities	-	-	-	-	-	-	5,060.059	5,060.059
Total liabilities	207,140.136	9,365.130	10,106.577	12,142.053	26,069.326	-	7,850.471	272,673.693
Equity:								
Paid-in capital	-	-	-	-	-	-	59,600.000	59,600.000
Statutory reserve	-	-	-	-	-	-	8,152.663	8,152.663
General banking risks reserve	-	-	-	-	-	-	2,861.000	2,861.000
Pro-cyclicality reserve	-	-	-	-	-	-	2,336.393	2,336.393
Fair value reserve	-	-	-	-	-	-	(304.074)	(304.074)
Excess from assets revaluation	-	-	-	-	-	-	3,212.555	3,212.555
Retained earnings	-	-	-	-	-	-	4,180.462	4,180.462
Total equity	-	-	-	-	-	-	80,038.999	80,038.999
Total liabilities and equity	207,140.136	9,365.130	10,106.577	12,142.053	26,069.326	-	87,889.470	352,712.692
Maturity gap	(152,511.536)	26,303.804	(1,966.752)	13,488.631	74,645.763	56,731.343	(16,691.253)	-
Cumulative Gap	(152,511.536)	(126,207.732)	(128,174.484)	(114,685.853)	(40,040.090)	16,691.253	-	-

December 31, 2015	Less than 1 month	From 1 month to 3 months	3 to 6 months	from 6 months to 1 year	from 1 year to 3 years	More than 3 years	Without Maturity	Total
Assets:								
Cash and balances at Palestine Monetary Authority	32,123,463	-	-	-	-	-	31,649,528	63,772,991
Cash at banks and financial institutions	16,148,056	53,703,679	2,820,874	-	-	-	-	72,672,609
Direct Credit Facilities	7,519,443	2,752,465	6,180,259	18,998,104	106,220,230	-	-	141,670,501
Financial assets at fair value through statement of income	-	-	-	-	-	5,539,116	1,237,798	6,776,914
Financial assets at fair value through statement of comprehensive income	-	-	-	-	-	-	3,048,817	3,048,817
Financial assets at amortised cost	-	-	-	-	-	16,135,589	-	16,135,589
Property, plant and equipment	-	-	-	-	-	-	16,313,406	16,313,406
Deferred tax assets	-	-	-	-	-	-	959,699	959,699
Intangible assets	-	-	-	-	-	-	994,639	994,639
Other assets	-	-	-	-	-	-	5,425,076	5,425,076
Total assets	55,790,962	56,456,144	9,001,133	18,998,104	106,220,230	21,674,705	59,628,963	327,770,241
Liabilities:								
Banks and financial institutions deposits	28,494,059	7,446,167	-	-	-	-	-	35,940,226
Customers' deposits	139,745,710	7,989,508	6,270,062	29,310,742	10,128,085	-	-	193,444,107
Cash margins	9,405,235	2,153,734	1,355,340	1,480,869	712,350	-	-	15,107,528
Sundry provisions	-	-	-	-	-	-	2,369,678	2,369,678
Other Liabilities	-	-	-	-	-	-	7,433,231	7,433,231
Total liabilities	177,645,004	17,589,409	7,625,402	30,791,611	10,840,435	-	9,802,909	254,294,770
Equity:								
Paid-in capital	-	-	-	-	-	-	56,300,000	56,300,000
Statutory reserve	-	-	-	-	-	-	7,825,093	7,825,093
General banking risks reserve	-	-	-	-	-	-	2,291,000	2,291,000
Pro-cyclicality reserve	-	-	-	-	-	-	1,847,142	1,847,142
Fair value reserve	-	-	-	-	-	-	(180,362)	(180,362)
Excess from assets revaluation	-	-	-	-	-	-	3,212,555	3,212,555
Retained earnings	-	-	-	-	-	-	2,180,043	2,180,043
Total equity	-	-	-	-	-	-	73,475,471	73,475,471
Total liabilities and equity	177,645,004	17,589,409	7,625,402	30,791,611	10,840,435	-	83,278,380	327,770,241
Maturity gap	(121,854,042)	38,866,735	1,375,731	(11,793,507)	95,379,795	21,674,705	(23,649,417)	-
Cumulative Gap	(121,854,042)	(82,987,307)	(81,611,576)	(93,405,083)	1,974,712	23,649,417	-	-

Fair value measurement

The Bank uses the following hierarchy for determining and disclosing the fair values of its financial instruments:

- Level 1: Using quoted (unadjusted) prices for similar financial instruments in active financial instruments markets.
- Level 2: Using inputs that are directly or indirectly observable other than quoted prices.
- Level 3: Using inputs that are not based on observable market data.

The following table describes the hierarchy used to measure the fair value of financial assets as at December 31, 2016:

		Fair value measurement using		
	Total	Level 1	Level 2	Level 3
2016				
Assets at fair value				
Financial assets at fair value through statement of income (note 8):				
Quoted	6.987.275	6.987.275	-	-
Financial assets at fair value through statement of comprehensive income (note 9):				
Quoted	1.492.859	1.492.859	-	-
Unquoted	1.400.000	-	-	1.400.000
Property, plant, and equipment at fair value (note 11):	5.769.225	-	-	5.769.225

		Fair value measurement using		
	Total	Level 1	Level 2	Level 3
2015				
Assets at fair value				
Financial assets at fair value through statement of income (note 8):				
Quoted	6.776.914	6.776.914	-	-
Financial assets at fair value through statement of comprehensive income (note 9):				
Quoted	1.648.817	1.648.817	-	-
Unquoted	1.400.000	-	-	1.400.000
Property, plant, and equipment at fair value (note 11):	5.769.225	-	-	5.769.225

The following table presents a comparison between the carrying amounts and fair values of financial instruments as at December 31, 2016 and 2015:

	Carrying amount		Fair value	
	2016	2015	2016	2015
Financial assets				
Balances at Palestine Monetary Authority	25.951.390	32.725.263	25.951.390	32.725.263
Cash at banks and financial institutions	50.877.914	72.672.609	50.877.914	72.672.609
Direct Credit Facilities	181.475.269	141.670.501	181.475.269	141.670.501
Financial assets through statement of income	6.987.275	6.776.914	6.987.275	6.776.914
Financial assets at fair value through statement of comprehensive income:				
Quoted equities	1.492.859	1.648.817	1.492.859	1.648.817
Unquoted equities	1.400.000	1.400.000	1.400.000	1.400.000
Financial assets at amortised cost	16.409.024	16.135.589	16.744.938	15.976.700
Other financial assets	2.362.217	3.226.617	2.362.217	3.226.617
Total assets	286.955.948	276.256.310	287.291.862	276.097.421
Financial liabilities				
Banks and financial institutions deposits	20.030.435	35.940.226	20.030.435	35.940.226
Customers' deposits	227.274.188	193.444.107	227.274.188	193.444.107
Cash margins	17.518.599	15.107.528	17.518.599	15.107.528
Other Financial Liabilities	3.599.715	6.728.881	3.599.715	6.728.881
Total liabilities	268.422.937	251.220.742	268.422.937	251.220.742

- The fair values of financial assets and liabilities are stated in accordance with the values that could be used for the exchange between the concerned parties, except for compulsory sales or liquidation.
- The fair values of balances at Palestine Monetary Authority, balances at banks and financial institutions, other financial assets, banks and financial institutions deposits, customers deposits, cash margins, and other financial liabilities approximate their carrying value as these instruments have short term repayment or collection periods.
- The fair value of financial assets at fair value is determined through the statement of income and the financial assets in fair value through the statement of comprehensive income, which have a quoted market price according to their trading prices on the date of the consolidated financial statements.
- The fair value of financial assets at amortised cost that have a quoted market price is determined according to their trading prices on the date of the consolidated financial statements.
- The fair value of credit facilities was determined through studying the various variables such as interest rates, risk factors, and debtor's solvency. The carrying value of credit facilities are not different from their fair value as at December 31, 2016.

NOTE (4) BASIS AND ESTIMATES

The preparation of the consolidated financial statements and application of accounting policies requires the Bank's management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. Also these estimates and assumptions affect the revenues, expenses and provisions, as well as the other items of the comprehensive income. In particular, it requires the Bank's management to issue significant judgments and assumptions to estimate the amounts and timing of future cash flows. Such estimates are necessarily based on assumptions and multiple factors involving varying degrees of judgment and uncertainty and that actual results may differ from the estimates as a result of changes resulting from the conditions and circumstances of those estimates in the future.

The details of key assumptions made by the bank are as follows:

Legal cases provision

Lawsuit provision is established to provide for legal obligations based on the opinion of the Bank's lawyers.

Provision for impairment of direct credit facilities

The Bank reviews its provision for credit facilities according to Palestine Monetary Authority regulations and IFRS (39).

Impairment of seized assets

Impairment loss is booked after a sufficient and recent evaluation of the assets seized by the Bank has been conducted by approved surveyors. The impairment loss is reviewed periodically.

Useful lives of tangible and intangible assets

The management reassesses the useful lives of tangible and intangible assets on a regular basis for the purpose of calculating the annual depreciations and amortisations depending on the general condition of these assets and estimates of the expected useful lives in the future, related impairment loss (if any) is recognized in the consolidated statement of income.

Taxes provision

The necessary tax provision is calculated and recorded for each financial year in accordance with the accounting standards and the prevailing laws and regulations where the Bank operates.

Provision for employees' indemnity

Provision for the Bank's employees' indemnity is calculated in accordance with the effective labour laws in Palestine.

Impairment of financial assets that are stated at cost

Management frequently reviews the financial assets stated at cost to estimate any decline in their value. Impairment loss (if any) is taken to the consolidated statement of income as an expense for the year.

Impairment of investments

The Bank treats investments classified as financial assets at fair value through the statement of comprehensive income as impaired when there has been a significant or prolonged decline in the fair value below its cost or when other objective evidences of impairment exist.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs used in these models are taken from markets where possible, a degree of estimates is required in establishing fair values. These estimates include the impact of factors on the inputs used, such as liquidity risk, credit risk and other volatilities. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The Bank determines and discloses the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgment and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

The Bank's management believes that its estimates in the consolidated financial statements are reasonable and appropriate.

Note (5) Cash and balances at Palestine Monetary Authority

Item details

	2016	2015
Cash on hand	40.042.418	31.047.728
Balances at Palestine Monetary Authority:		
Current and demand accounts	5.251.315	1.075.735
Statutory cash reserves requirements	20.700.075	31.649.528
	65.993.808	63.772.991

- According to PMA circular No. (67/2010), the Bank shall maintain statutory cash reserves with PMA at a percentage of total customers' deposits. Statutory reserves are calculated by the Bank at the end of each month. According to PMA circular No. (2/2012), the outstanding balance of credit facilities granted in Jerusalem for some sectors are deducted before statutory reserve is calculated. The statutory reserve percentage is 9%.
- PMA doesn't pay interest on these statutory cash reserves and current and demand accounts.
- Time and capital deposits at PMA are interest bearing deposits with interest rates based on current market interest rates less PMA's commission of 0.025%.

NOTE (6) CASH AT BANKS AND FINANCIAL INSTITUTIONS

Item details

	2016	2015
Banks and financial institutions inside Palestine:		
Current accounts	73.663	7.824.773
Deposits maturing with 3 months	13.593.786	34.980.012
	13.667.449	42.804.785
Banks and financial institutions outside Palestine:		
Current accounts	24.015.156	8.323.283
Deposits maturing within 3 months	13.195.309	18.723.667
Deposits maturing in over 3 months	-	2.820.874
	37.210.465	29.867.824
	50.877.914	72.672.609

- Non-interest bearing balances at banks and financial institutions as at December 31, 2016 and December 31, 2015 amounted to 24,088,819 USD\$ and 16,148,056 USD\$ respectively.
- Restricted cash balances amounted to 10,444,147 USD\$ and 8,452,022 USD\$ as at December 31, 2016 and 2015 respectively.

NOTE (7) DIRECT CREDIT FACILITIES

Item details

	2016	2015
Individuals		
Loans and discounted bills	65.681.518	43.494.982
Current accounts	16.898.206	13.344.434
Credit cards	1.538.207	1.088.246
Corporate		
Loans and discounted bills	61.528.072	48.986.407
Current accounts	17.638.122	15.746.303
Government and public sector	22.001.627	22.764.490
	185.285.752	145.424.862
Interests and commissions in suspense	(802.735)	(816.070)
Provision for impairment of direct credit facilities	(3.007.748)	(2.938.291)
	181.475.269	141.670.501

- Downgraded credit facilities, net of suspended interests, according to PMA regulations as at December 31, 2016 amounted to 4,645,525 USD\$ representing 2.51% of the total credit facilities (compared to 5,629,901 USD\$ representing 3.87% of the total credit facilities as at December 31, 2015).
- Non-performing direct credit facilities net of suspended interests according to PMA regulations as at December 31, 2016 amounted to 4,274,188 USD\$ representing 2.31% of the total credit facilities (compared to 5,452,983 USD\$ representing 3.75% of the total credit facilities as at December 31, 2015).
- Credit facilities granted to the Palestinian National Authority amounted to 22,001,627 USD\$ representing 11.87% of total direct credit facilities at December 31, 2016 compared to 22,764,490 USD\$ representing 15.65% as at December 31, 2015.

- Credit facilities granted to non-residents amounted to 105,830 USD\$ as at December 31, 2016 (against 186,689 USD\$ as at December 31, 2015).

Fair value of collaterals obtained in lieu of credit facilities as at December 31, 2016 and 2015 amounted to 130,559,172 USD\$ and 101,490,586 USD\$ respectively.

Interests and commissions in suspense

The following is a summary of movement on the suspended interests and commissions:

	2016	2015
Balance at beginning of the year	816.070	679.841
Suspended interests during the year	230.652	278.737
Suspended interests transferred to revenues	(24.325)	(132.932)
Suspended interests written off	(153.083)	(5.072)
Write off of suspended interest of loans in default for more than 6 years	(66.579)	(4.504)
Balance at the end of the year	802.735	816.070

Provision for impairment of direct credit facilities

Following is a summary of the provision for impairment of direct credit facilities movement during the year:

	2016	2015
Balance at beginning of the year	2.938.291	3.083.016
Additions during the year	401.645	474.249
Direct credit facility impairment recovery	(249.337)	(614.266)
Write off of provision for impairment for loans in default for more than 6 years	(93.075)	(5.223)
Currency differences	10.224	515
Balance at the end of the year	3.007.748	2.938.291

Following is a summary of the Provision for impairment of direct credit facilities and suspended interests for credit facilities defaulting over 6 year's movement during the year:

	Provision for impairment of direct credit facilities		Interest Suspended	
	2016	2015	2016	2015
Balance at beginning of the year	1.723.948	1.752.243	535.193	544.024
Additions	93.075	5.223	66.579	4.504
Direct credit facility impairment recovery	(40.714)	(32.555)	(3.248)	(1.436)
Write off of provision for impairment for loans in default for more than 6 years	(1.666)	-	(14.177)	(11.489)
Currency differences	18.194	(963)	1.827	(410)
Balance at the end of the year	1.792.837	1.723.948	586.174	535.193

In accordance with PMA instruction No. (1/2008), non-performing direct credit facilities in default for more than 6 years were eliminated from the consolidated financial statements of the Bank. Gross direct credit facilities that were eliminated from the consolidated financial statements as at December 31, 2016 and 2015 amounted to 2,379,011 USD\$ and 2,259,141 USD\$ respectively.

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

	2016	2015
Manufacturing and mining		
Manufacturing	23.728.729	17.126.280
	23.728.729	17.126.280
Tourism, Restaurants, Hotels, and Others		
Restaurants	3.524.181	3.607.240
	3.524.181	3.607.240
Financial services	5.468.146	4.859.986
	5.468.146	4.859.986
Public sector		
Communications	1.187.703	316.692
Health	156.171	18.850
Education	142.080	320.120
Public utility	2.894.699	2.709.554
Professionals	2.520.320	2.520.320
Others	7.824.776	7.824.776
	14.725.749	13.710.312
Agriculture and livestock		
Agriculture	1.046.842	999.647
Livestock	2.344.344	2.905.320
	3.391.186	3.904.967
General trade		
Internal trade	26.198.403	24.001.483
Foreign trade	17.959.688	7.601.049
	44.158.091	31.602.532
Real estate and construction		
Construction	20.926.137	9.587.507
Residence	5.400.000	1.826.612
Property	15.911.630	12.906.946
	42.237.767	24.321.065
Transportation		
Trade and shipping	1.799.664	1.111.520
	1.799.664	1.111.520
Others in consumer goods financing		
Others	5.488.600	12.570.716
	5.488.600	12.570.716
Financing of investment in shares and financial instruments		
Financial companies	-	-
Others	2.098.084	1.533.921
	2.098.084	1.533.921
Others in the public sector	15.861.193	7.495.763
Public sector		
Palestinian National Authority	22.001.627	22.764.490
	22.001.627	22.764.490
	184.483.017	144.608.792

NOTE (8) FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF INCOME

Item details

	2016			2015		
	Local	Foreign	Total	Local	Foreign	Total
Quoted securities in financial markets	186.397	1.112.578	1.298.975	194.606	1.043.192	1.237.798
Quoted bonds in international markets	-	5.688.300	5.688.300	-	5.539.116	5.539.116
	186.397	6.800.878	6.987.275	194.606	6.582.308	6.776.914

NOTE (9) FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF COMPREHENSIVE INCOME

Item details

	2016	2015
Quoted securities in the Palestine stock exchange	1.492.859	1.648.817
Unquoted securities	1.400.000	1.400.000
	2.892.859	3.048.817

The movement on the fair value reserve account during the year is as follows:

	2016	2015
Balance at beginning of the year	(180.362)	(120.455)
Change in fair value	(124.674)	(68.622)
Loss on sale of financial assets at fair value through the statement of comprehensive income recognised in retained earnings	962	8.715
Balance at the end of the year	(304.074)	(180.362)

NOTE (10) FINANCIAL ASSETS AT AMORTISED COST

Item details

	2016	2015
Foreign government bonds*	6.003.841	6.007.032
Local government bills**	286.768	-
Quoted financial bonds***	10.118.415	10.128.557
	16.409.024	16.135.589

* This item represents the Bank's investment in bonds and treasury bills issued by the Jordanian government and the Moroccan government. These bonds have a maturity period ranging from 5 to 10 years. Interest rate on these bonds and treasury bills varies between 4.25% and 6.13%.

** This item represents the Bank's investment in government bills issued by the Palestinian Ministry of Finance with a maturity period of 6 months and an interest rate of no more than 8%.

*** This item represents the Bank's investment in bonds listed in international financial markets with a maturity period of 3 to 6 years. Interest on bonds ranges from 4.62% to 6.95%.

NOTE (11) PROPERTY, PLANT AND EQUIPMENT

Item details

	Land	Buildings and real estate	Furniture and equipment	Computer Hardware	Leasehold Improvements	Motor Vehicles	Project under construction*	Total
December 31, 2016								
Cost or valuation price								
Balance at beginning of the year	5,769.225	1,250.990	3,176.735	3,009.430	1,296.917	440.190	5,924.486	20,867.973
Additions	-	-	2,411.450	72.231	70.990	55.000	2,248.037	4,857.708
Disposals	-	-	-	-	-	(39.000)	-	(39.000)
Balance at the end of the year	5,769.225	1,250.990	5,588.185	3,081.661	1,367.907	456.190	8,172.523	25,686.681
Accumulated depreciation:								
Balance at beginning of the year	-	184.137	1,473.843	2,147.024	539.777	209.786	-	4,554.567
Depreciation for the year	-	26.165	210.438	256.451	100.513	64.668	-	658.235
Disposals	-	-	-	-	-	(39.000)	-	(39.000)
Balance at the end of the year	-	210.302	1,684.281	2,403.475	640.290	235.454	-	5,173.802
Net book value	5,769.225	1,040.688	3,903.904	678.186	727.617	220.736	8,172.523	20,512.879

* The Bank is working on the construction of the new general administration building in Ramallah city. The cost of the project amounted to 8,172,523 USD\$ as at December 31, 2016, which is within the limit determined by the board of directors. The project is expected to be finished during 2017.

	Land	Buildings and real estate	Furniture and equipment	Computer Hardware	Leasehold Improvements	Motor Vehicles	Project under construction*	Total
December 31, 2015								
Cost or valuation price								
Balance at beginning of the year	1.989.749	1.250.990	2.761.317	2.740.481	1.097.204	440.190	3.506.341	13.786.272
Excess from revaluation**	3.779.476	-	-	-	-	-	-	3.779.476
Additions	-	-	415.418	268.949	199.713	-	2.418.145	3.302.225
Balance at the end of the year	5.769.225	1.250.990	3.176.735	3.009.430	1.296.917	440.190	5.924.486	20.867.973
Accumulated depreciation:								
Balance at beginning of the year	-	151.861	1.268.144	1.805.441	444.362	135.452	-	3.805.260
Depreciation for the year	-	32.276	205.699	341.583	95.415	74.334	-	749.307
Balance at the end of the year	-	184.137	1.473.843	2.147.024	539.777	209.786	-	4.554.567
Net book value	5.769.225	1.066.853	1.702.892	862.406	757.140	230.404	5.924.486	16.313.406

* This item represents the costs incurred for the construction of the new general administration building in Ramallah. The cost of the project amounted to 5,924,486 USD\$ as at December 31, 2015 which is within the limit determined by the board of directors.

** During 2015, the Bank changed the accounting policies related to processing of the land item in order to record it in the fair value at the date of the consolidated financial statements, as this reflects the fair value of the land in a better way. The excess from revaluation amounted to 3,779,476 USD\$ as at December 31, 2015. This excess was recorded in the consolidated statement of comprehensive income in the amount of 3,212,555 USD\$ net of deferred taxes of 566,921 USD\$.

NOTE (12) DEFERRED TAX ASSETS

Deferred tax assets are calculated on the temporary timing differences between the assets and liabilities and the value based on which tax profit is calculated, such as the provision for end of service indemnity and vacations and the legal provision for which the Bank's management expects to be recovered in the future. Deferred tax is accounted for in accordance with tax rates expected to be applied upon realising the deferred tax assets.

NOTE (13) INTANGIBLE ASSETS

Intangible assets represent computer software. The following are the movement of intangible assets during the year:

	2016	2015
Balance at beginning of the year	994.639	923.894
Additions	117.480	212.543
Amortization	(168.090)	(141.798)
Balance at the end of the year	944.029	994.639

NOTE (14) OTHER ASSETS

Item details

	2016	2015
Assets seized by the bank *	900.000	900.000
Accounts receivable	1.510.472	822.996
Due Interests	938.782	616.917
Checks under collection	668.327	1.786.704
Prepaid expenses	579.465	404.736
Tax advances (note 19)	-	202.107
Advance payments for purchase of software and establishment of branches	960.972	166.500
Refundable deposits	2.279	52.277
Others	181.139	472.839
	5.741.436	5.425.076

*This item represents three commercial shops whose ownership was transferred to the Bank to pay due debts.

NOTE (15) BANKS AND FINANCIAL INSTITUTIONS DEPOSITS

Item details

	2016	2015
Current and on demand account	10.609.261	18.529
Deposits with maturities of three months or less	9.421.174	35.921.697
	20.030.435	35.940.226

NOTE (16) CUSTOMERS' DEPOSITS

Item details

	2016	2015
Current and demand deposits	111.001.342	82.668.835
Time deposits	51.938.640	53.805.484
Saving deposits	62.222.544	54.418.067
Debit balances - temporary credit	2.111.662	2.551.721
	227.274.188	193.444.107

- Public sector deposits as at December 31, 2016 and 2015 amounted to 1,952,101 USD\$ and 8,548,254 USD\$ representing 0.86% and 4.42% of total deposits respectively.
- Non-interest bearing deposits as at December 31, 2016 and 2015 amounted to 111,001,342 USD\$ and 82,668,835 USD\$ representing 48.8% and 42.74% of total deposits respectively.
- Dormant accounts amounted to 5,386,959 USD\$ and 6,463,046 USD\$ as at December 31, 2016 and 2015 representing 2.37% and 3.34% of total deposits respectively.

NOTE (17) CASH MARGINS

This item represents cash margins against the following facilities:

	2016	2015
Direct credit facilities	14.573.958	11.166.826
Indirect credit facilities	2.944.641	3.940.702
	17.518.599	15.107.528

NOTE (18) SUNDRY PROVISIONS

Item details

	Balance Beginning of the year	Provided for during the year	Payments during the year	Variances Currency	Balance End of the year
December 31, 2016					
End of service and vacations provisions	2.339.460	510.054	(228.674)	-	2.620.840
Legal provision	30.218	-	-	441	30.659
	2.369.678	510.054	(228.674)	441	2.651.499

	Balance Beginning of the year	Provided for during the year	Payments during the year	Currency Variances	Balance End of the year
December 31, 2015					
End of service and vacations provisions	2.327.195	404.252	(391.987)	-	2.339.460
Legal provision	30.364	-	-	(146)	30.218
	2.357.559	404.252	(391.987)	(146)	2.369.678

NOTE (19) TAX PROVISION

Following is the movement on the provision for income tax during the years ended December 31, 2016 and December 31, 2015:

	2016	2015
Balance at the beginning of the year	(202.107)	(223.447)
Current year income tax	1.381.500	1.265.000
Payments during the year	(945.519)	(1.274.382)
Deferred tax assets	(81.500)	-
Currency variances	(13.461)	30.722
Balance at the end of the year (note 14)	138.913	(202.107)

The legal income tax percentage is 15%, and the value added tax percentage is 16% as at December 31, 2016. Based on the resolution provisions of law No. (4) of 2014 regarding the amendment of the resolution in law No. (8) of 2011 related to income tax, 10% income tax is applied on profits from financing small and medium sized projects.

Accounting profit settlement against tax profit is summarised as follows:

	2016	2015
Accounting profit of the Bank	4.769.702	2.986.150
Taxable income for VAT purposes	5.257.227	3.866.423
Taxable income	3.908.961	3.035.492
VAT on profit for the year	725.135	533.300
Income tax on profit	586.344	455.324
Taxes for the year	1.311.479	988.624
Provisions	1.381.500	1.265.000
Effective tax rate	% 28.96	% 42.36

The Bank has not reached a final settlement with the Income Tax and Value Added Tax Departments on the results of its operations for the year 2014, however, a final settlement with the Income Tax and Value Added Tax Departments was reached on the results of the Bank's operations for the year 2015.

NOTE (20) OTHER LIABILITIES

Item details

	2016	2015
Accounts payable and temporary deposits	1.899.456	2.516.018
Accrued construction costs	-	2.130.495
Certified issued checks	600.503	1.419.095
Deferred tax liabilities (note 11)	566.921	566.921
Accrued interest payable	445.796	330.070
Board of Directors remuneration payable	165.088	99.915
Accrued expenses	47.614	15.249
Commissions received in advance	893.423	137.429
Other credit balances	441.258	218.039
	5.060.059	7.433.231

NOTE (21) RESERVES

Statutory reserve

As required by the Companies law and Banking Law, 10% of the net profit after tax is transferred to the statutory reserve and shall continue until the total reserve balance equals the Bank's capital. This reserve is not to be utilized without the PMA's prior approval.

General banking risks reserve

This item represents general banking reserve appropriated in accordance with PMA instructions No. (6/2015) based on 1.5% of direct credit facilities net of impairment provision and suspended interests and 0.5% of indirect credit facilities net of checks under collection, accepted deposits, and accepted and guaranteed withdrawals related to financial derivatives. The reserve is not to be utilised or reduced without the prior approval of the PMA.

Pro-cyclicality reserve

This reserve is appropriate in accordance with PMA instructions (6/2015) based on 15% of the net profit after tax to strengthen the Banks' capital against the risks surrounding the banking business. The reserve is not to be utilized or reduced with the PMA prior approval. The appropriate to the reserve shall continue until the total reserve balance equal to 20% of the paid in capital.

NOTE (22) INCREASE IN CAPITAL AND STOCK DIVIDENDS

The General Assembly decided in its meeting held on May 13, 2010 to increase the authorised capital to 100 million shares with par value of 1 USD\$ per share. During 2016, the paid in capital was increased through a secondary subscription by 3.3 USD\$ Million to be 59.6 USD\$ Million.

The General Assembly decided in its meeting held on May 14, 2015 to distribute stock dividends of 1,300,000 USD\$.

NOTE (23) PAID IN CAPITAL

Item details

	2016	2015
Authorised Capital	100.000.000	100.000.000
Subscribed and paid capital	59.600.000	56.300.000

NOTE (24) INTEREST INCOME

Item details

	2016	2015
Borrowings	6.617.680	4.815.991
Current accounts receivable	3.557.040	2.954.762
Government and public sector	1.545.579	1.531.574
Balances at banks and financial institutions	572.430	1.217.708
Financial assets at amortised cost	834.279	747.925
Financial assets at fair value through statement of income	359.569	305.847
	13.486.577	11.573.807

NOTE (25) INTEREST EXPENSE

Item details

	2016	2015
Interest on customers' deposits		
Time deposits	1.491.720	1.579.939
Saving deposits	28.234	26.620
Current and demand accounts	8.455	12.798
	1.528.409	1.619.357
Bank and financial institutions deposits	73.452	62.001
Interests paid to Palestine Monetary Authority	1.204	-
Cash margins	46.313	41.758
	1.649.378	1.723.116

NOTE (26) NET COMMISSIONS INCOME

Item details

	2016	2015
Direct credit facilities	968.465	1.061.259
Indirect credit facilities	469.951	547.424
Accounts management	430.673	397.927
Returned check	512.913	287.703
Transfers	280.702	277.644
Others	674.606	366.932
	3.337.310	2.938.889
Less: Paid commissions	(176.434)	(116.463)
Net commissions income	3.160.876	2.822.426

NOTE (27) GAINS ON FINANCIAL ASSETS

Item details

	2016	2015
Unrealised gain from revaluation of financial assets at fair value through statement of income.	202.041	43.192
Gain from sale of financial assets at fair value through statement of income	1.207	-
	203.248	43.192

Note (28) Other revenues

Item details

	2016	2015
Check books	158.952	130.092
SWIFT and ATM revenues	1.815	39.899
Mail and fax revenues	13.572	19.795
Others	41.752	-
	216.091	189.786

NOTE (29) PERSONNEL EXPENSES

Item details

	2016	2015
Salaries and related benefits	4.145.413	4.008.456
VAT on payroll	623.131	616.426
End of service indemnity	446.154	334.252
Medical expenses	210.876	195.414
Bank's contribution to the provident fund*	199.748	153.656
Employees' training	34.472	21.990
Employees' vacations	63.900	70.000
	5.723.694	5.400.194

* The Bank deducts 5% of the basic salary on a monthly basis for each employee and contributes 10% of the employee's basic salary.

NOTE (30) OTHER OPERATING EXPENSES

Item details

	2016	2015
Fees, licenses, and subscriptions	735.367	627.156
Postage, fax and telephone	560.493	556.887
Palestine Deposit Insurance Corporation fees	563.967	479.917
Rent	448.427	420.397
Maintenance	494.805	417.570
Professional Fees	276.639	228.947
Travel and seminars	395.201	258.565
Water, electricity and heating	208.074	204.830
Board of Directors' remuneration and fees	287.088	198.726
Advertisement and marketing	113.114	177.063
Stationery and printing	142.145	111.213
Money shipping fees	172.039	110.078
Cleaning expenses	131.017	91.687
Saving accounts promotional prizes	92.427	78.710
Insurance	55.978	53.762
Donations and charity*	57.243	46.824
Hospitality	62.359	41.498
Fuel and vehicle expenses	22.029	21.354
Others	8.992	15.281
	4.827.404	4.140.465

* As per the Bank's policy to build good relationships in the local community, the Bank makes donations to support social and sports activities. Donations made represent 1.68% and 2.72% of the net profit as at December 31, 2016 and 2015.

NOTE (31) CASH AND CASH EQUIVALENTS

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

	2016	2015
Cash and balances at Palestine Monetary Authority	65.993.808	63.772.991
Add:		
Balances at banks and financial institutions with maturity of 3 months	50.877.914	69.851.735
Less:		
Banks and financial institutions deposits	(20.030.435)	(35.940.226)
Statutory reserve requirements	(20.700.075)	(31.649.528)
	76.141.212	66.034.972

NOTE (32) BASIC AND DILUTED EARNINGS PER SHARE

	2016	2015
Profit for the year	3.388.202	1.721.150
	Share	Share
Weighted average number of shares subscribed during the year	57.398.082	56.300.000
Basic and diluted earnings per share	0.059	0.031

NOTE (33) RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors 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 are represented below:

	Nature of relationship	2016	2015
Items on the consolidated statement of financial position:			
Direct credit facilities	Key management personnel and board of directors	2.934.742	2.852.150
Deposits	Key management personnel and shareholders	526.504	5.272.514
Board of directors' remuneration payable	Board of Directors	165.088	99.915
Contingent liabilities:			
Guarantees	Key management	-	53.687

	Nature of relationship	2016	2015
Consolidated statement of income items:			
Interest received	Key management	29.513	24.573
Interest paid	Key management	53.776	57.756
Board of Directors' remuneration and fees	Board of Directors	287.088	198.726
Key management personnel share in salaries and related expenses	Key management	866.118	793.592
Key management personnel share in the end of service benefits	Key management	72.177	67.437

- Direct credit facilities granted to related parties as at December 31, 2016 and December 31, 2015 represent 1.62% and 2.01% respectively of net direct credit facilities.
- Direct credit facilities granted to related parties as at December 31, 2016 and December 31, 2015 represent 4.22% and 4.40% respectively of the Bank's capital base.
- Interest rate on direct credit facilities in USD\$ ranges between 3.5% and 6.5%.
- Interest rate on deposits in USD\$ ranges between 1.75% and 2.25%.
- Interest rate on deposits in Euro ranges between 1.5% and 2%.

NOTE (34) CONCENTRATION OF ASSETS AND LIABILITIES

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

2016							
Assets	Domestic	Jordan	Israel	Europe	USA	Others	Total
Cash and balances with the Palestine Monetary Authority	65.993.808	-	-	-	-	-	65.993.808
Balances at banks and financial institutions	13.667.449	11.510.507	7.605.980	8.400.029	6.298.457	3.395.492	50.877.914
Direct credit facilities	181.369.439	105.830	-	-	-	-	181.475.269
Financial assets at fair value through statement of income	186.397	-	-	1.112.578	-	5.688.300	6.987.275
Financial assets at fair value through comprehensive income:	2.892.859	-	-	-	-	-	2.892.859
Financial assets at amortised cost	-	5.006.342	-	4.095.335	-	7.307.347	16.409.024
Property, plant and equipment	20.512.879	-	-	-	-	-	20.512.879
Deferred tax assets	878.199	-	-	-	-	-	878.199
Intangible assets	944.029	-	-	-	-	-	944.029
Other assets	5.741.436	-	-	-	-	-	5.741.436
	292.186.495	16.622.679	7.605.980	13.607.942	6.298.457	16.391.139	352.712.692
Liabilities							
Banks' and financial institutions' deposits	20.030.435	-	-	-	-	-	20.030.435
Customers' deposits	221.917.255	5.356.933	-	-	-	-	227.274.188
Cash margins	15.015.158	2.503.441	-	-	-	-	17.518.599
Sundry provisions	2.651.499	-	-	-	-	-	2.651.499
Tax provision	138.913	-	-	-	-	-	138.913
Other liabilities	5.060.059	-	-	-	-	-	5.060.059
	264.813.319	7.860.374	-	-	-	-	272.673.693
Items off the consolidated statement of financial position							
Guarantees	16.161.809	-	-	-	-	-	16.161.809
Letters of credits	-	1.502.155	1.782.058	-	-	-	3.284.213
Acceptances	3.975.431	-	-	-	-	-	3.975.431
Unutilized credit facilities limits	6.461.359	-	-	-	-	-	6.461.359
	26.598.599	1.502.155	1.782.058	-	-	-	29.882.812

2015							
Assets	Domestic	Jordan	Israel	Europe	USA	Others	Total
Cash and balances at Palestine Monetary Authority	63.772.991	-	-	-	-	-	63.772.991
Balances at banks and financial institutions	42.804.785	6.274.308	2.986.187	4.800.516	2.178.828	13.627.985	72.672.609
Direct credit facilities	141.483.812	186.689	-	-	-	-	141.670.501
Financial assets through statement of income	194.606	-	-	1.043.192	-	5.539.116	6.776.914
Financial assets through the statement of comprehensive income	3.048.817	-	-	-	-	-	3.048.817
Financial assets at amortised cost	-	5.007.005	-	4.126.900	-	7.001.684	16.135.589
Property, plant and equipment	16.313.406	-	-	-	-	-	16.313.406
Deferred tax assets	959.699	-	-	-	-	-	959.699
Intangible assets	994.639	-	-	-	-	-	994.639
Other assets	5.209.099	209.860	-	-	-	6.117	5.425.076
	274.781.854	11.677.862	2.986.187	9.970.608	2.178.828	26.174.902	327.770.241
Liabilities							
Banks' and financial institutions' deposits	35.940.226	-	-	-	-	-	35.940.226
Customers' deposits	188.526.684	2.504.112	-	-	-	2.413.311	193.444.107
Cash margins	15.107.528	-	-	-	-	-	15.107.528
Sundry provisions	2.369.678	-	-	-	-	-	2.369.678
Other liabilities	7.433.231	-	-	-	-	-	7.433.231
	249.377.347	2.504.112	-	-	-	2.413.311	254.294.770
Items off the consolidated statement of financial position							
Guarantees	17.028.903	-	-	-	-	-	17.028.903
Letters of credits	4.037.336	-	-	-	-	-	4.037.336
Acceptances	2.577.482	-	-	-	-	-	2.577.482
Unutilized credit facilities limits	5.754.911	-	-	-	-	-	5.754.911
	29.398.632	-	-	-	-	-	29.398.632

NOTE (35) SEGMENT INFORMATION

Information on the Bank's business segments

For management purposes, the Banks' activities are organized into 3 major business sectors:

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

Corporate banking: Includes handling deposits, credit facilities, and other banking services related to institutional customers.

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

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

	Retail	Corporate	Treasury	Others	Total	
					2016	2015
Gross revenues	7.721.445	8.446.365	1.291.812	453.368	17.912.990	15.492.235
Direct credit facility impairment provision-net	(257.741)	146.147	-	-	(111.594)	172.572
Segment results					17.801.396	15.664.807
Unallocated expenses					(13.031.694)	(10.839.078)
Profit before tax					4.769.702	2.986.150
Tax expense					(1.381.500)	(1.265.000)
Profit for the year					3.388.202	1.721.150
Other segment information						
Depreciations and amortisations					826.325	891.105
Capital expenditures	5.209.099				4.975.188	3.514.768

					2016	2015
Total segment assets	101.544.554	93.252.441	116.798.059	41.117.638	352.712.692	327.770.241
Total segment liabilities	115.414.555	103.544.380	41.444.187	12.270.571	272.673.693	254.294.770

Geographical distribution information

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

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

	Domestic		Foreign		Total	
	2016	2015	2016	2015	2016	2015
Gross revenues	13.335.858	13.284.538	4.577.132	2.240.252	17.912.990	15.524.790
Total assets	304.698.115	274.781.854	48.014.577	52.988.387	352.712.692	327.770.241
Total capital expenditures	4.975.188	3.514.768	-	-	4.975.188	3.514.768

NOTE (36) ANALYSIS OF MATURITIES OF ASSETS AND LIABILITIES

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

	Up to 1 year	More than 1 year	Without maturity	Total
December 31, 2016				
Assets				
Cash and balances at PMA	25.951.390	-	40.042.418	65.993.808
Balances at banks and financial institutions	50.877.914	-	-	50.877.914
Direct Credit Facilities	47.238.739	134.236.530	-	181.475.269
Financial assets through statement of income	-	6.800.878	186.397	6.987.275
Financial assets at fair value through statement of comprehensive income	-	-	2.892.859	2.892.859
Financial assets at amortised cost	-	16.409.024	-	16.409.024
Property, plant and equipment	-	-	20.512.879	20.512.879
Deferred tax assets	-	-	878.199	878.199
Intangible assets	-	-	944.029	944.029
Other assets	-	-	5.741.436	5.741.436
Total assets	124.068.043	157.446.432	71.198.217	352.712.692
Liabilities				
Banks' and financial institutions' deposits	20.030.435	-	-	20.030.435
Customers' deposits	201.204.862	26.069.326	-	227.274.188
Cash margins	17.518.599	-	-	17.518.599
Sundry provisions	-	-	2.651.499	2.651.499
Tax provision	-	-	138.913	138.913
Other liabilities	-	-	5.060.059	5.060.059
Total liabilities	238.753.896	26.069.326	7.850.471	272.673.693
Equity				
Paid in capital	-	-	59.600.000	59.600.000
Statutory reserve	-	-	8.152.663	8.152.663
General banking risks reserve	-	-	2.861.000	2.861.000
Pro-cyclicality reserve	-	-	2.336.393	2.336.393
Fair value reserve	-	-	(304.074)	(304.074)
Excess from assets revaluation	-	-	3.212.555	3.212.555
Retained earnings	-	-	4.180.462	4.180.462
Net equity	-	-	80.038.999	80.038.999
Total liabilities and equity	238.753.896	26.069.326	87.889.470	352.712.692
Maturity gap	(114.685.853)	131.377.106	(16.691.253)	-
Cumulative Gap	(114.685.853)	16.691.253	-	-

	Up to 1 year	More than 1 year	Without maturity	Total
December 31, 2015				
Assets				
Cash and balances at PMA	32.123.463	-	31.649.528	63.772.991
Balances at banks and financial institutions	72.672.609	-	-	72.672.609
Direct Credit Facilities	35.450.271	106.220.230	-	141.670.501
Financial assets through statement of income	-	5.539.116	1.237.798	6.776.914
Financial assets at fair value through statement of comprehensive income	-	-	3.048.817	3.048.817
Financial assets at amortised cost	-	16.135.589	-	16.135.589
Property, plant and equipment	-	-	16.313.406	16.313.406
Deferred tax assets	-	-	959.699	959.699
Intangible assets	-	-	994.639	994.639
Other assets	-	-	5.425.076	5.425.076
Total assets	140.246.343	127.894.935	59.628.963	327.770.241
Liabilities				
Banks' and financial institutions' deposits	35.940.226	-	-	35.940.226
Customers' deposits	183.316.022	10.128.085	-	193.444.107
Cash margins	14.395.178	712.350	-	15.107.528
Sundry provisions	-	-	2.369.678	2.369.678
Other liabilities	-	-	7.433.231	7.433.231
Total liabilities	233.651.426	10.840.435	9.802.909	254.294.770
Equity				
Paid in capital	-	-	56.300.000	56.300.000
Statutory reserve	-	-	7.825.093	7.825.093
General banking risks reserve	-	-	2.291.000	2.291.000
Pro-cyclicality reserve	-	-	1.847.142	1.847.142
Fair value reserve	-	-	(180.362)	(180.362)
Excess from assets revaluation	-	-	3.212.555	3.212.555
Retained earnings	-	-	2.180.043	2.180.043
Net equity	-	-	73.475.471	73.475.471
Total liabilities and equity	233.651.426	10.840.435	83.278.380	327.770.241
Maturity gap	(93.405.083)	117.054.500	(23.649.417)	-
Cumulative Gap	(93.405.083)	23.649.417	-	-

NOTE (37) DEVELOPMENT POLICIES

The Bank's policy mainly depends on an approach of ongoing research and development of all aspects for improving and diversifying its banking services. The Bank continuously works on developing personnel and providing new services for the customers in addition to improving information technology.

NOTE (38) 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 maximise shareholder value.

The Bank manages its capital structure and makes adjustments in light of changes in economic and business conditions. No changes were made in the objectives, policies or processes regarding capital structure during the current year.

The capital adequacy ratio is calculated in accordance with PMA's instruction No. (6/2015) derived from Basel committee regulations. Following is the capital adequacy ratios compared to the previous year:

	2016			2015		
	Amount	Capital to assets ratio	Capital to risk weighted assets ratio	Amount	Capital to assets ratio	Capital to risk weighted assets ratio
		%	%		%	%
Regulatory capital	69.518.871	19.70	29.07	64.876.817	19.79	32.27
Basic capital	68.610.009	19.45	28.69	64.443.979	19.66	32.05

NOTE (39) COMMITMENTS AND CONTINGENT LIABILITIES

Item details:

	2016	2015
Letter of guarantees	16.161.809	17.028.903
Letters of credits	3.284.213	4.037.336
Acceptances	3.975.431	2.577.482
Unutilised credit facilities limits	6.461.359	5.754.911
	29.882.812	29.398.632

Note (40) Legal Cases against the bank

In the normal course of business, the Bank appears as a defendant in (10) and (9) lawsuits as at December 31, 2016 and 2015 respectively, with a total amount of 5,766,760 USD\$ and 2,106,133 USD\$ as at December 31, 2016 and December 31, 2015 respectively.

The Banks management and its legal advisor believe that the Bank maintains adequate provision against the lawsuits.

Note (41) Concentration of risk in geographical area

The Bank operates in Palestine. The instability of the political and economic situation in the area increases the risk of carrying out its business and could adversely affect its performance.



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