PALESTINE ISLAMIC BANK

FINANCIAL STATEMENTS

DECEMBER 31, 2014

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Independent Auditors' Report
To the Shareholders of Palestine Islamic Bank

We have audited the accompanying financial statements of Palestine Islamic Bank (the Bank), which comprise the statement of financial position as at December 31, 2014, and the income statement, the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of sources and uses of earnings prohibited by Sharia' for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2014 and its financial performance, its cash flows and its sources and uses of earnings prohibited by Sharia' for the year then ended in accordance with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, and in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

Emphasis of Matters

Without qualifying our opinion, as depicted in note (18) to the accompanying financial statements, subsequent to the date of the financial statements the Bank reached a tax settlement with the Ministry of Finance for the years from 2005 to 2013. Further, the Bank provides for taxes based on prevailing tax laws and the Presidential Decree no. (18) of the year 2007, which exempts taxpayers in Gaza from taxes. Accordingly, tax provisions do not include taxes on the Bank's results of operations from branches operating in Gaza.

Ernst & Young – Middle East
License # 206/2012

Ernst + Young

March 25, 2015
Ramallah - Palestine

STATEMENT OF FINANCIAL POSITION
As at December 31, 2014

		2014	2013
Assets	Notes	U.S. $	U.S. $
Cash and balances at Palestine Monetary Authority	3	109,192,783	110,564,826
Balances at banks and financial institutions	4	91,906,698	85,203,589
Islamic financing	5	352,961,215	268,801,784
Financial assets at fair value through profit or loss	6	1,033,570	1,024,011
Financial assets at fair value through equity	7	1,849,083	3,157,137
Financial assets at amortized cost	8	4,133,766	5,000,000
Investment in associates	9	2,862,370	3,062,781
Investment properties	10	795,794	1,104,494
Property and equipment	11	14,400,143	10,718,997
Intangible assets	12	752,446	876,047
Other assets	13	15,372,045	12,738,164
Total assets		595,259,913	502,251,830
Liabilities, unrestricted investment accounts and equity			
Liabilities			
Banks and financial institutions' deposits	14	55,193,318	21,448,000
Customers' deposits	15	134,437,988	111,241,874
Cash margins	16	11,833,503	9,768,600
Sundry provisions	17	4,186,228	3,462,414
Tax provisions	18	6,195,180	6,606,123
Other liabilities	19	6,219,024	5,710,181
Total liabilities		218,065,241	158,237,192
Unrestricted investment accounts	20	309,655,000	280,550,987
Equity			
Paid-in share capital	21	50,000,000	50,000,000
Statutory reserve	23	2,922,420	2,168,659
General banking risk reserve	23	5,524,196	5,479,082
Pro-cyclicality reserve	23	3,827,858	2,697,217
Cumulative change in fair value	7	(251,984)	209,602
Retained earnings		5,517,182	2,909,091
Total equity		67,539,672	63,463,651
Total liabilities, unrestricted investment accounts and equity		595,259,913	502,251,830

INCOME STATEMENT
For the year ended December 31, 2014

	Notes	2014 U.S. $	2013 U.S. $
Revenues			
Investment and financing revenues	24	24,037,761	20,844,907
Less: Return on unrestricted investment accounts	25	(2,401,924)	(2,474,452)
Bank's share of income from financing and investments		21,635,837	18,370,455
Net commissions	26	3,351,067	2,787,504
Foreign currency exchange gains		1,842,087	1,634,005
Bank's share of the associates' results of operations	9	137,991	104,809
Income from financial assets at amortized cost	8	312,431	87,500
Gains (losses) on financial assets at fair value through profit or loss		9,559	(187,913)
Financial assets gains	27	435,721	260,706
Recovery from provision for doubtful Islamic financing	5	648,468	578,071
Other revenues	28	399,011	132,768
Total revenues		28,772,172	23,767,905
Expenses			
Personnel expenses	29	(10,034,193)	(8,236,547)
Other operating expenses	30	(7,378,076)	(5,091,853)
Depreciation and amortization	31	(1,271,769)	(1,126,627)
Losses on impairment of investment properties	10	(232,000)	-
Provision for doubtful Islamic financing	5	(399,379)	(315,714)
Provision for legal cases	17	(30,091)	(35,523)
Total expenses		(19,345,508)	(14,806,264)
Profit before taxes		9,426,664	8,961,641
Taxes expense	18	(1,889,057)	(2,434,779)
Profit for the year		7,537,607	6,526,862
Basic and diluted earnings per share	35	0.150	0.131

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

STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2014

	2014	2013
	U.S. $	U.S. $
Profit for the year	7,537,607	6,526,862
Other comprehensive income:		
Income recognized in the income statement	(329,938)	-
Items to be reclassified to income statement in subsequent periods:		
Change in fair value of financial assets	138,091	82,537
Bank's share of the associates' other comprehensive income	(269,739)	127,065
Total other comprehensive income	(461,586)	209,602
Total comprehensive income for the year	7,076,021	6,736,464

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

STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2014

	Paid-in share capital	Reserves: Statutory	Reserves: General banking risk	Reserves: Pro-cyclicality	Cumulative change in fair value	Retained earnings	Total equity
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2014							
Balance, beginning of the year	50,000,000	2,168,659	5,479,082	2,697,217	209,602	2,909,091	63,463,651
Profit for the year	-	-	-	-	-	7,537,607	7,537,607
Other comprehensive income	-	-	-	-	(461,586)	-	(461,586)
Total comprehensive income for the year	-	-	-	-	(461,586)	7,537,607	7,076,021
Transfers to reserves	-	753,761	45,114	1,130,641	-	(1,929,516)	-
Cash dividends (note 22)	-	-	-	-	-	(3,000,000)	(3,000,000)
Balance, end of the year	50,000,000	2,922,420	5,524,196	3,827,858	(251,984)	5,517,182	67,539,672

	Paid-in share capital	Reserves: Statutory	Reserves: General banking risk	Reserves: Pro-cyclicality	Cumulative change in fair value	Retained earnings	Total equity
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2013							
Balance, beginning of the year	47,172,207	1,515,973	3,207,485	1,718,188	-	4,292,639	57,906,492
Profit for the year	-	-	-	-	-	6,526,862	6,526,862
Other comprehensive income	-	-	-	-	209,602	-	209,602
Total comprehensive income for the year	-	-	-	-	209,602	6,526,862	6,736,464
Transfers to reserves	-	652,686	2,271,597	979,029	-	(3,903,312)	-
Cash dividends (note 22)	-	-	-	-	-	(1,179,305)	(1,179,305)
Stock dividends (note 22)	2,827,793	-	-	-	-	(2,827,793)	-
Balance, end of the year	50,000,000	2,168,659	5,479,082	2,697,217	209,602	2,909,091	63,463,651

STATEMENT OF CASH FLOWS
For the year ended December 31, 2014

	Notes	2014 U.S. $	2013 U.S. $
Operating activities			
Profit before taxes		9,426,664	8,961,641
Adjustments for:			
Loss on financial assets at fair value through profit or loss		(9,559)	187,913
Sundry provisions		866,099	568,267
Depreciation and amortization		1,271,769	1,126,627
Bank's share of the associates' results of operations		(137,991)	(104,809)
Recovery from provision for doubtful Islamic financing		(249,089)	(262,357)
Losses from sale of investment properties		10,700	42,031
Losses on impairment of investment properties		232,000	-
Gains on financial assets through equity		(435,721)	-
Losses on disposal of property and equipment		28,527	6,489
		11,003,399	10,525,802
Changes in assets and liabilities:			
Statutory cash reserve		(3,320,842)	(5,835,750)
Investments with PMA maturing after three months		17,440,129	45,074,503
Balances at banks and financial institutions maturing after three months		8,888,247	(33,925,246)
Islamic financing		(82,780,342)	(59,110,973)
Other assets		(2,633,881)	(2,769,498)
Customers' deposits		23,196,114	18,126,919
Cash margins		2,064,903	600,516
Other liabilities		205,854	2,613,568
Net cash flows used in operating activities before provisions		(25,936,419)	(24,700,159)
Sundry provisions paid		(2,442,285)	(95,454)
Net cash flows used in operating activities		(28,378,704)	(24,795,613)
Investing activities			
Investment properties		66,000	1,290,408
Investment in associates		(58,616)	(1,580,907)
Purchase of property and equipment		(4,775,821)	(2,288,138)
Purchase of intangible assets		(111,113)	(450,248)
Sale of property and equipment		29,093	(2,480)
Financial assets at amortized cost		866,234	(5,000,000)
Purchase of financial assets at fair value through equity		(1,958,392)	(1,944,600)
Sale of financial assets at fair value through equity		2,274,537	-
Cash dividends received		233,062	62,500
Net cash flows used in investing activities		(3,435,016)	(9,913,465)
Financing activities			
Cash dividends distributed		(2,697,011)	(1,064,785)
Unrestricted investment accounts		29,104,013	44,570,845
Net cash flows from financing activities		26,407,002	43,506,060
(Decrease) increase in cash and cash equivalents		(5,406,718)	8,796,982
Cash and cash equivalents, beginning of the year		94,148,253	85,351,271
Cash and cash equivalents, end of the year	34	88,741,535	94,148,253

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

STATEMENT OF SOURCES AND USES OF EARNINGS PROHIBITED BY SHARIA'
For the year ended December 31, 2014

	2014	2013
	U.S. $	U.S. $
Earnings prohibited by Sharia'		
Balance, beginning of the year	14,213	736
Excess in cash	11,988	17,163
Profit from direct Islamic financing	2,470	2,965
Total earnings prohibited by Sharia' at the end of year	28,671	20,864
Disbursements of earnings prohibited by Sharia'		
Donations	26,608	6,651
Total disbursements	26,608	6,651
Balance of earnings prohibited by Sharia' at the end of year (note 19)	2,063	14,213

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

1. General

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

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

The Bank's authorized share capital is U.S. $ 100,000,000 at U.S. $ 1 par value each. The Bank's paid-in capital amounted to U.S. $ 50,000,000 as at December 31, 2014.

The total number of the Bank's staff is (461) and (397) as at December 31, 2014 and 2013, respectively.

The financial statements were authorized for issuance by the Bank's Board of Directors in their meeting number (1/2015) held on March 4, 2015.

2. Summary of significant accounting policies

2.1 Basis of preparation

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

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss and financial assets at fair value through equity, which have been measured at fair value at the date of the financial statements.

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

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

2.2 Changes in accounting polices

The accounting policies adopted are consistent with those used in the previous year, except that the Bank has adopted the following new and amended IFRSs during the year. Adoption of these standards did not have any effect on the financial performance or position of the Bank:

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

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

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

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36
These amendments remove the unintended consequences of IFRS 13 fair value measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash – generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

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

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Bank.

Standards issued but not yet effective

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

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

2.3 Segments information

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

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

2.4 Significant accounting policies

Revenues and expenses recognition

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

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

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

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

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

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

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

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

Dividends from these investments are recognized in income statement.

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

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

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

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

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

At the end of each reporting period, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) for assets and liablities which are recognized in the finacial statements on a regular basis.

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

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

Impairment of financial assets

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

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

Investment in associates

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

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

Return on unrestricted investment accounts

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

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

	Deposits' share in profits %		Bank's share %		Unrestricted investment accounts' share %	
	2014	2013	2014	2013	2014	2013
Saving and cash margins sharing profits	30	40	40	35	60	65
Deposits maturing within 1 month	30	40	40	35	60	65
Deposits maturing within 3 months	30	40	40	35	60	65
Deposits maturing within 6 months	55	60	35	35	65	65
Deposits maturing within 1 year	75	80	35	35	65	65
Annual Islamic deposit certificates	75	85	35	35	65	65

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

Murabaha receivables

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

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

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

Murabaha

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

Ijara receivables

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

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

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

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

Istisna'a financing

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

Musharaka

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

Mudaraba

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

Investment properties

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments properties. Investments properties are measured initially at cost including transaction costs, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investment properties are stated at fair value and changes in fair value are recognized in the statement of comprehensive income. In case of decline in the carrying value of these properties a provision should be taken and recognized in the income statement during the period in which the decline occurs.

Property and equipment

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

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

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

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

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

Intangible assets

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

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

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

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

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

Earnings prohibited by Sharia'

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

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Provisions

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

Provision for employees' indemnity

Provision for employees' indemnity (end of service benefit) is calculated in accordance with the Labor Law prevailing in Palestine and the Bank's human resource policies based on one-month salary for each year of employment.

Tax provisions

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

The Bank provides for income taxes in accordance with the rates enforced by law and regulations of Palestine as well as International Accounting Standards (12). Deferred income tax is provided for using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are calculated according to tax rates that are expected to be applicable on the date of the tax settlement or the realization of deferred tax assets; however management decided not to record deferred taxes.

Basic and diluted earnings per share

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

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

Cash and cash equivalents

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

Foreign currencies

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

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

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

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

Use of estimates

The preparation of the financial statements requires Bank's management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These estimates and assumptions also affect the revenues, expenses and the resultant provisions. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes in such provisions.

Management believes that estimates are reasonable and are as follows:

- Provision for doubtful Islamic financing: the Bank reviews its provision according to PMA regulations.
- Management reviews periodically the useful lives of the tangible and intangible assets in order to assess the depreciation and amortization for the year based on the assets' condition, useful lives and future economic benefits. Any impairment is recognized in the income statement.
- Tax provisions are calculated annually based on prevailing tax laws in the territories in which the Bank operates and the accounting standards that the Bank follows.
- Management reviews, on a regular basis, the financial assets that are stated at cost to estimate impairments, if any. Impairment losses are recognized in the income statement.
- Appraisal of the fair value of investment properties is made by two real estate appraisers, registered at Palestine Capital Market Authority.
- Provision for legal cases is established to provide for any legal obligations, if any, based on the opinion of the Bank's lawyer.

3. Cash and balances at PMA

This item represents the following:

	2014	2013
	U.S. $	U.S. $
Cash on hand	51,962,144	57,866,947
Balances at PMA:		
Investments maturing within three months	14,341,624	-
Investments maturing after three months	-	17,440,129
Current and demand accounts	10,761,386	6,450,963
Statutory cash reserve	31,964,229	28,643,387
Restricted balances	163,400	163,400
	109,192,783	110,564,826

- According to PMA circular number (67/2010), the Bank shall maintain statutory cash reserves with PMA at 9% of total customers' deposits. The statutory reserve is calculated at the end of each month. No profit is earned on these reserves and current accounts.
- Investments deposits with PMA are profit-bearing investments with profit rates based on current market profit rates less PMA's commission of 0.025.
- Restricted balances as at December 31, 2014 and 2013 amounted to U.S. $ 163,400.

4. Balances at banks and financial institutions

This item represents the following:

	2014	2013
	U.S. $	U.S. $
Local banks and financial institutions:		
Current and demand accounts	59,276,593	40,169,432
	59,276,593	40,169,432
Foreign banks and financial institutions:		
Current and demand accounts	5,593,106	4,082,818
Investment deposits maturing within three months	2,000,000	7,026,093
Investment deposits maturing after three months	25,036,999	33,925,246
	32,630,105	60,517,518
	91,906,698	85,203,589

- Non-profit bearing balances at banks and financial institutions amounted to U.S. $ 64,869,699 and U.S. $ 28,768,889 as at December 31, 2014 and 2013, respectively.
- There are no restricted balances as at December 31, 2014 and 2013.

5. Islamic financing

This item represents the following:

	2014	2013
	U.S. $	U.S. $
Murabaha receivables	333,729,505	263,682,292
Ijara muntahia bittamleek	5,298,717	5,984,860
Current overdraft accounts	867,020	664,212
Istisna'a financing	4,022,029	408,114
Musawama financing	2,271,042	-
Mudaraba financing	5,647,380	-
Musharaka financing	1,676,399	-
Islamic credit cards	22,135	-
Qard Hasan (Note 7)	2,181,473	28,200
	355,715,700	270,767,678
Suspended profits	(203,987)	(257,589)
Provision for doubtful Islamic financing	(2,550,498)	(1,708,305)
	352,961,215	268,801,784

- Islamic financing net of unearned profits amounted to U.S. $ 39,540,532 and U.S. $ 27,208,040 as at December 31, 2014 and 2013, respectively.
- Downgraded Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 11,108,944 and representing 3.12% and U.S. $ 8,092,805 representing 2.99% of gross Islamic financing as at December 31, 2014 and 2013, respectively.
- Defaulted Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 4,105,288 representing 1.15% of gross Islamic financing and U.S. $ 4,444,298 representing 1.64% of gross Islamic financing as at December 31, 2014 and 2013, respectively.
- Direct Islamic financing granted to Palestine National Authority and by its guarantee amounted to U.S. $ 87,333,220 representing 24.55% of gross Islamic financing and U.S. $ 92,078,540 representing 34.01% of gross Islamic financing as at December 31, 2014 and 2013, respectively.
- Islamic financing granted to non-residents amounted to U.S. $ 464,708 and U.S. $ 1,130,643 as at December 31, 2014 and 2013, respectively.

- Fair value of customers' collaterals against direct Islamic financing according to PMA regulations amounted to U.S. $ 221,710,472 and U.S. $ 175,920,921 as at December 31, 2014 and 2013, respectively.
- According to PMA circular number (1/2008), defaulted Islamic financing for more than 6 years were written off from financial statements. These defaulted Islamic financing amounted to U.S. $ 1,968,741 as at December 31, 2014. The balance of provision and suspended profits for defaulted accounts amounted to U.S. $ 1,847,322 and U.S. $ 121,419 as at December 31, 2014, respectively.
- The movement on the suspended profits is as follows:

	2014	2013
	U.S. $	U.S. $
Balance, beginning of the year	257,589	161,354
Suspended profits during the year	159,952	144,008
Suspended profits transferred to revenues	(156,322)	(31,558)
Suspended profits written off for Islamic financing in default for more than 6 years	(57,232)	(16,215)
Balance, end of the year	203,987	257,589

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

	2014	2013
	U.S. $	U.S. $
Balance, beginning of the year	1,708,305	2,063,687
Provision during the year	399,379	315,714
Transfer from provision of impairment in financial assets through equity (note 7)	1,870,000	-
Recovery during the year	(648,468)	(578,071)
Provision written off for Islamic financing in default for more than 6 years	(778,718)	(93,025)
Balance, end of the year	2,550,498	1,708,305

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

	2014	2013
	U.S. $	U.S. $
Balance, beginning of the year	1,092,074	1,016,201
Provision during the year	778,718	93,025
Recovery during the year	(23,470)	(17,152)
Balance, end of the year	1,847,322	1,092,074

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

	2014	2013
	U.S. $	U.S. $
Public		
Palestine National Authority	87,333,220	92,078,540
	87,333,220	92,078,540
Industrial and Trade		
Manufacturing	1,154,802	756,333
Agricultural	6,819,788	3,961,690
	7,974,590	4,718,023
Services		
Others	43,065	15,719
	43,065	15,719
Wholesale and Retail		
Internal trade	77,055,145	28,182,984
External trade	434,334	3,349,097
	77,489,479	31,532,081
Real Estate and Construction		
Constructions	72,586,161	59,067,159
Permanent residence and Homes Improvement	12,322,608	10,328,149
	84,908,769	69,395,308
Lands	16,008,315	16,761,182
Personal	16,008,315	16,761,182
Consumers' Financing		
Cars	46,800,107	25,821,359
Consumable Goods	18,484,988	12,556,557
	65,285,095	38,377,916
Private		
Others	16,469,180	17,631,320
	16,469,180	17,631,320
	355,511,713	270,510,089

6. Financial assets at fair value through profit or loss

This item represents the following:

	2014	2013
	U.S. $	U.S. $
Quoted shares at foreign markets	1,033,570	1,024,011
	1,033,570	1,024,011

7. Financial assets at fair value through equity

This item represents the following:

	2014	2013
	U.S. $	U.S. $
Quoted shares	1,849,083	2,027,137
Unquoted shares*	-	3,000,000
Impairment loss on financial assets through equity*	-	(1,870,000)
	1,849,083	3,157,137

* This item represents the Bank's investment in the University of Palestine (the University) which is presented at cost less accumulated impairment losses. During the year, the Bank signed an agreement with one of the investors in the University, selling investment at cost under the condition that the investor made an advance payment of U.S. $ 600,000 with the remaining selling price of U.S. $ 2,400,000 to be settled through Qard Hasan granted by the Bank which should be paid in monthly installments over seven years from the date of the agreement. The provision for the impairment in financial assets related to this investment amounted to U.S. $ 1,870,000 has been transferred to the provision for doubtful Islamic financing. During the year an amount of U.S. $ 280,000 has been recovered from provision for doubtful Islamic financing.

8. Financial assets at amortized cost

	2014	2013
	U.S. $	U.S. $
Financial securities quoted at foreign financial markets		
Sukuk	4,133,766	5,000,000
	4,133,766	5,000,000

This item represents the Bank's investment in Islamic Sukuk through Rasmalh Bank in Dubai. These Sukuk earn 7% profit over a period of five years starting on October 4, 2013. The investment income is divided quarterly in addition to part of the principal amount. Total gain recorded in the income statement on this investment for the year ended December 31, 2014 is U.S. $ 312,431.

9. Investment in associates

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

	Country of Incorporation	Ownership %	Book value U.S. $
Al-Takaful Palestinian Insurance Company*	Palestine	21.39	2,159,034
Palestine Ijara Company**	Palestine	33.33	703,336
			2,862,370

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

** Palestine Ijara Company (PIC), which mainly provides Islamic leases for small and medium institutions according to Islamic Sharia' rules, has been established in Ramallah, with an authorized capital of U.S. $ 12,000,000. During 2013, the Bank paid 25% of its investment share in the amount of U.S. $ 1,000,000. As at December 31, 2014, PIC paid-in capital amounted to U.S $ 3,000,000.

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

	2014	2013
	U.S. $	U.S. $
Balance, beginning of the year	3,062,781	-
Additions	58,616	1,580,907
Transfers from financial assets at fair value through profit or loss	-	1,250,000
Bank's share of the associate's results of operations	137,991	104,809
Bank's share of the associate's other comprehensive income	(269,739)	127,065
Cash dividends received	(127,279)	-
Balance, end of the year	2,862,370	3,062,781

The Bank's share of the associates' assets and liabilities as at December 31, 2014 is as follows:

	Al-Takaful	Al-Ijara	Total
	2014	2014	2014
	U.S. $	U.S. $	U.S. $
Noncurrent assets	13,962,607	592,058	14,554,665
Current assets	13,191,998	1,622,118	14,814,116
Noncurrent liabilities	706,114	-	706,114
Current liabilities	15,828,852	104,170	15,933,022
Owner's equity	10,619,639	2,110,006	12,729,645

The Bank's share of the associate's results of operations is as following:

Revenues	7,205,178	23,875	7,229,053
Current year results of operations	434,657	(296,666)	137,991
Other comprehensive income	(269,739)	-	(269,739)

10. Investment properties

Following is the movement on Investment properties:

	2014	2013
	U.S. $	U.S. $
Balance, beginning of the year	1,104,494	2,436,933
Additions	-	80,000
Investment properties sold	(76,700)	(1,412,439)
Losses on impairment of investment properties	(232,000)	-
Balance, end of the year	795,794	1,104,494

11. Property and equipment

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

December 31, 2013	Real estate	Furniture, equipment and leasehold improvements	Motor vehicles	Computers	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:					
Balance, beginning of the year	6,153,317	4,596,208	320,012	3,202,203	14,271,740
Additions	1,449,213	514,143	-	324,782	2,288,138
Disposals	-	(207,242)	-	(316,659)	(523,901)
Balance, end of the year	7,602,530	4,903,109	320,012	3,210,326	16,035,977
Accumulated depreciation:					
Balance, beginning of the year	642,544	2,895,785	167,306	2,069,337	5,774,972
Depreciation for the year	181,497	256,417	35,331	469,639	942,884
Disposals	(2,814)	(203,584)	-	(313,494)	(519,892)
Balance, end of the year	821,227	2,948,618	202,637	2,225,482	6,197,964
Property and equipment net book value	6,781,303	1,954,491	117,375	984,844	9,838,013
Projects in progress*	-	880,984	-	-	880,984
Net book value as at December 31, 2013	6,781,303	2,835,475	117,375	984,844	10,718,997

* Projects in progress as at December 31, 2014 and 2013 represent expansions and leasehold improvements for the Bank's new branches. The expected cost to complete those projects as at December 31, 2014 amounted to U.S. $ 326,180.

12. Intangible assets

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

	2014	2013
	U.S. $	U.S. $
Balance, beginning of the year	876,047	609,542
Additions	111,113	450,248
Amortization	(234,714)	(183,743)
Balance, end of the year	752,446	876,047

13. Other assets

This item represents the following:

	2014	2013
	U.S. $	U.S. $
Clearing checks	11,871,379	10,896,130
Accrued revenues	1,042,967	1,272,003
Receivables, advances and temporary accounts	1,627,802	43,798
Prepaid expenses	386,773	270,502
Stationery and printings	146,485	111,147
Others	296,639	144,584
	15,372,045	12,738,164

14. Banks and financial institutions' deposits

This item represents the following:

	2014	2013
	U.S. $	U.S. $
Local banks and financial institutions' deposits maturing within three months	55,193,318	21,448,000

15. Customers' deposits

This item represents the following:

	2014	2013
	U.S. $	U.S. $
Current and demand accounts	134,437,988	111,241,874

- Total deposits comprise customers' deposits (note 15), cash margins (note 16) and unrestricted investment accounts (note 20), amounting to U.S. $ 455,926,491 and U.S. $ 401,561,461 as at December 31, 2014 and 2013, respectively.
- Governmental deposits amounted to U.S. $ 16,107,974 and U.S. $ 19,615,773 representing %3.35 and %4.88 of the total deposits as at December 31, 2014 and 2013, respectively.
- Quasi-governmental deposits amounted to U.S. $ 1,550,999 and U.S. $ 1,332,226 representing %0.34 and %0.33 of the total deposits as at December 31, 2014 and 2013, respectively.
- Dormant deposits amounted to U.S. $ 7,229,207 and U.S. $ 4,917,383 representing %1.59 and %1.22 of the total deposits as at December 31, 2014 and 2013, respectively.
- Non-profit bearing deposits amounted to U.S. $ 134,437,988 and U.S. $111,241,874 representing %29 and %27.7 of the total deposits as at December 31, 2014 and December 31, 2013, respectively.

16. Cash margins

This item represents cash margins against the following:

	2014	2013
	U.S. $	U.S. $
Islamic financing	6,787,712	5,502,088
Indirect financing	2,221,004	1,834,414
Others	2,824,787	2,432,098
	11,833,503	9,768,600

17. Sundry provisions

This item represents the following provisions:

	Balance, beginning of the year	Additions for the year	Payments during the year	Transferred from provision for employees' indemnity to provision for legal cases	Transferred from provident fund to provision for legal cases	Balance, end the of the year
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2014						
Provision for employees' indemnity	2,961,639	836,008	(80,384)	-	-	3,717,263
Provision for legal cases	500,775	30, 091	(61,901)	-	-	468,965
	3,462,414	866,099	(142,285)	-	-	4,186,228
December 31, 2013						
Provision for employees' indemnity	2,535,265	525,517	(90,863)	(8,280)	-	2,961,639
Provision for legal cases	454,336	35,523	(4,591)	8,280	7,227	500,775
	2,989,601	561,040	(95,454)	-	7,227	3,462,414

18. Tax provisions

The movement on tax provisions during the years ended December 31, 2014 and 2013 was as follows:

	2014	2013
	U.S. $	U.S. $
Balance, beginning of the year	6,606,123	4,171,344
Provision for the year	1,889,057	2,434,779
Paid during the year	(2,300,000)	-
Balance, end of the year	6,195,180	6,606,123

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

	2014	2013
	U.S. $	U.S. $
Bank's accounting profit before taxes	9,426,664	8,961,641
Profit subject to Value Added Tax (VAT)	4,517,213	5,061,168
VAT on income	(623,733)	(682,237)
VAT on salaries	(695,721)	-
Profit subject to income tax	3,197,759	4,378,931
Income tax	638,082	873,985
Total taxes (VAT and income tax)	1,261,815	1,556,222
Provision for the year	1,889,057	2,434,779
Effective tax rate	20%	27%

Subsequent to the date of the financial statements, the Bank reached a tax settlement with the Ministry of Finance which included income taxes and value added tax for the years from 2005 to 2013. The settlement was based on the Presidential Decree no. (18) of the year 2007 which exempted the Bank from income tax and value added tax on income generated by Gaza branches.

19. Other liabilities

This item represents the following:

	2014	2013
	U.S. $	U.S. $
Bank's transfers and certified checks	2,392,621	2,167,839
Temporary accounts	1,298,693	1,338,349
Return on unrestricted investment accounts	904,260	1,270,055
Accrued expenses	681,664	385,779
Income tax deductions on employees' salaries	115,069	32,555
Earnings prohibited by Sharia'	2,063	14,213
Board of Directors' bonuses	285,000	390,000
Other credit balances	539,654	111,391
	6,219,024	5,710,181

20. Unrestricted investment accounts

This item represents the following:

	2014	2013
	U.S. $	U.S. $
Saving deposits	221,010,605	198,075,284
Time deposits	88,644,395	82,475,703
	309,655,000	280,550,987

21. Paid-in share capital

Following is the movement on paid-in share capital:

	2014	2013
	U.S. $	U.S. $
Paid-in share capital, beginning of the year	50,000,000	47,172,207
Stock dividends (note 22)	-	2,827,793
Paid-in share capital, end of the year	50,000,000	50,000,000

22. Stock and cash dividends

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

The Bank's General Assembly, during its meeting held on March 31, 2013, approved 6% stock dividends distribution of the Bank's capital in total of 2,827,793 shares at U.S. $ 1 each for the results of the Bank's operation for the year 2012. Morover, the General Assembly approved %2.5 cash dividands distribution for each share which amounted to U.S. $ 1,179,305.

23. Reserves

Statutory reserve dividends

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

General banking risk reserve

For 2013, the item represents the amount of general banking risk reserve deducted in accordance with PMA's regulations number (3/2013) based on 2% of direct Islamic financing net of provisions for doubtful Islamic financing and suspended profits, and 0.5% of indirect Islamic financing. According to PMA's regulations number (8/2014), the percentage of general banking risks reserve on direct Islamic financing has been amended to become 1.5% for the year 2014. The percentage of the reserve on indirect Islamic financing remained unchanged. The reserve is not to be utilized or reduced without PMA's prior approval.

Pro-cyclicality reserve

This reserve represents 15% of net profit in accordance with PMA instruction (1/2011) to support the Bank's capital against banking risks. The reserve is not to be utilized or reduced without PMA's prior approval. Transfers to this reserve shall not cease until the total balance of this reserve reaches 20% of the Bank's share capital.

24. Investment and financing revenues

This item represents revenues from the following:

	2014	2013
	U.S. $	U.S. $
Murabaha financing	22,356,588	18,254,424
Ijara muntahia bittamleek	352,516	449,280
Istisna'a financing	126,044	22,452
Musawama financing	48,136	-
Investment in Islamic institutions	699,967	1,305,654
Investments at PMA	454,510	813,097
	24,037,761	20,844,907

25. Return on unrestricted investment accounts

This item represents revenues as following:

	2014	2013
	U.S. $	U.S. $
Saving deposits	1,484,185	1,461,708
Time deposits	880,917	974,312
Profits sharing cash margins	36,822	38,432
	2,401,924	2,474,452

26. Net Commissions

This item represents the following:

	2014	2013
	U.S. $	U.S. $
Commissions received on:		
Accounts' management	1,839,208	1,525,026
Returned and post-dated checks	764,772	713,238
Indirect financing	388,331	299,440
Islamic financing	62,360	25,159
Cash deposits	215,584	40,241
Transfers	140,914	105,150
Other banking services	88,083	64,414
ATMs' cards	150,543	147,925
	3,649,795	2,920,593
Commissions paid	(298,728)	(133,089)
	3,351,067	2,787,504

27. Financial assets gains

This item includes the following:

	2014	2013
	U.S. $	U.S. $
Gain on sale of investments	329,938	198,206
Cash dividends income	105,783	62,500
	435,721	260,706

28. Other revenues

This item represents revenues from the following:

	2014	2013
	U.S. $	U.S. $
Recovery of suspended profits	156,322	31,558
Safety deposit box rental income	38,871	25,414
Investment properties rental income	4,560	5,290
Other revenues	199,258	70,506
	399,011	132,768

29. Personnel expenses

This item represents the following:

	2014	2013
	U.S. $	U.S. $
Salaries and related benefits	7,197,491	6,244,270
VAT on salaries	695,721	559,418
Provision for employees' indemnity	836,008	525,517
Bank's contribution to the provident fund*	437,899	294,078
Medical insurance	298,533	238,985
Travel and accommodation	136,400	111,531
Clothing allowances	138,320	111,232
Training expenses	131,831	44,590
Other expenses	161,990	106,926
	10,034,193	8,236,547

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

30. Other operating expenses

This item represents the following:

	2014	2013
	U.S. $	U.S. $
Subscription fees for Palestine Insurance Deposit Corporation*	1,193,347	100,000
Board of Directors' bonuses and expenses	529,696	703,275
Fees, license and subscriptions	739,432	585,893
Advertisements and marketing	394,788	566,452
Rent	524,168	483,724
Telephone and postage	528,526	478,908
Maintenance and cleaning	532,494	430,434
Social responsibility**	1,213,195	399,809
Utilities	558,354	394,499
Professional and consultancy fees	307,204	351,491
Stationery and printings	405,083	283,540
Insurance	237,199	99,349
Hospitality	83,127	52,423
Guarding	19,000	23,200
Sundry	112,463	138,856
	7,378,076	5,091,853

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

** The Bank provides donations in areas of social, religious and others as part of social responsibilitypolicy. The percentage of donations reached %16.10 and %6.13 of net income as at December 31, 2014 and 2013, respectively.

31. Depreciation and amortization

This item represents depreciation and amortization of the following:

	2014	2013
	U.S. $	U.S. $
Property and equipment	1,037,055	942,884
Intangible assets	234,714	183,743
	1,271,769	1,126,627

32. Zakat

Each shareholder bears the responsibility for Zakat payment. The Bank, with the consent of Shari'a Supervisory Board, annually informs the shareholders of the amount of Zakat due on each share. The Zakat per share for 2014 and 2013 amounted to %2.99 and %2.68, respectively.

33. Commitments and contingencies

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

	2014	2013
	U.S. $	U.S. $
Letters of credits	1,172,609	1,010,005
Letters of guarantee	15,157,671	11,777,149
Unutilized limits of Islamic financing	15,654,337	7,822,196
	31,984,617	20,609,350

34. Cash and cash equivalents

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

		2014	2013
		U.S. $	U.S. $
Cash and balances at PMA		109,192,783	110,564,826
Add:	Balances at banks and financial institutions	91,906,698	85,203,589
Less:	Banks and financial institutions' deposits maturing within three months	(55,193,318)	(21,448,000)
	Balances at banks and financial institutions maturing after three months	(25,036,999)	(33,925,246)
	Investments at PMA maturing after three months	-	(17,440,129)
	Restricted balances at PMA	(163,400)	(163,400)
	Statutory cash reserve	(31,964,229)	(28,643,387)
		88,741,535	94,148,253

35. Basic and diluted earnings per share

This item represents the following:

	2014	2013
	U.S. $	
Profit for the year	7,537,607	6,526,862
	Shares	
Weighted average number of subscribed shares	50,000,000	50,000,000
	U.S. $	
Basic and diluted earnings per share	0.150	0.131

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

This item represents the following:

	2014			2013		
	Joint financing	Self-financing	Total	Joint financing	Self-financing	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances at PMA	109,192,783	-	109,192,783	110,564,826	-	110,564,826
Balances at banks and financial institutions	91,906,698	-	91,906,698	85,203,589	-	85,203,589
Islamic financing	352,961,215	-	352,961,215	268,801,784	-	268,801,784
Financial assets at fair value through profit and loss	-	1,033,570	1,033,570	-	1,024,011	1,024,011
Financial assets at fair value through equity	-	1,849,083	1,849,083	-	3,157,137	3,157,137
Financial assets at amortized cost	-	4,133,766	4,133,766	-	5,000,000	5,000,000
Investment in associates	-	2,862,370	2,862,370	-	3,062,781	3,062,781
Investment properties	-	795,794	795,794	-	1,104,494	1,104,494
Property and equipment	-	14,400,143	14,400,143	-	10,718,997	10,718,997
Intangible assets	-	752,446	752,446	-	876,047	876,047
Other assets	-	15,372,045	15,372,045	-	12,738,164	12,738,164
	554,060,696	41,199,217	595,259,913	464,570,199	37,681,631	502,251,830

37. Related party transactions

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

2014	Associates	Executive Management	Board of Directors	Others
	U.S. $	U.S. $	U.S. $	U.S. $
Statement of financial position items				
Direct Islamic financing	-	40,739	4,020	9,483,522
Deposits	2,169,372	24,511	108,002	426,644
Cash margins	50,542	-	-	121,716
Commitments and contingencies:				
Indirect Islamic financing	32,201	-	630,942	205
Income statement items				
Returns received	-	3,603	-	244,185
Returns paid	11,328	-	258	900

2013	Associates	Executive Management	Board of Directors	Others
	U.S. $	U.S. $	U.S. $	U.S. $
Statement of financial position items				
Direct Islamic financing	-	62,008	318,516	3,835,207
Deposits	1,714,275	-	-	155,101`
Cash margins	4,587	-	-	72,679
Commitments and contingencies:				
Indirect Islamic financing	10,000	-	-	467,476
Income statement items				
Returns received	-	4,207	-	199,094
Returns paid	13,908	-	-	897

- Direct Islamic financing granted to related parties as at December 31, 2014 and 2013 represent %2.70 and %1.57 of the net Islamic financing, respectively.
- Direct Islamic financing granted to related parties as at December 31, 2014 and 2013 represent %17.44 and %8.48 of the Bank's regulatory capital, respectively.
- Returns on Islamic financing granted to related parties ranges between %1 to %8 during 2014.

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

	2014	2013
	U.S. $	U.S. $
Board of Directors' bonuses for the Bank's results*	285,000	390,000
Board of Directors' meeting allowances	244,696	313,275
Executive management salaries and related benefits**	671,270	621,766
Executive management end of service benefits*	47,091	45,134

* The Board of Director's bonuses for 2014 and 2013 are as follows:

	2014	2013
	U.S. $	U.S. $
Subhi Suleiman Qadeih	18,750	44,754
Palestine Investment Fund represented by Mr. Jamal Suleiman Fares	3,750	44,754
Al Quds Bank represented by Mr. Iyad Masrouji	18,750	44,754
Awni Olian Abu Youssef	18,750	44,754
Palestine Investment Fund represented by Mr. Mahmoud Fareed Abu Al-Rob	30,000	44,754
Aswaq Company for Investment Portfolios represented by Mr. Mazen Tawfiq Sunokrot	30,000	44,754
Aswaq Company for Investment Portfolios represented by Mr. Abdulhameed Fayez Al-Obweh	30,000	44,754
Instituton of Management and Development of Orphans Money represented by Mr. Rafiq Shaker Al-Natsheh	26,250	38,361
Mohamad Fayez Zakarneh	15,000	38,361
Palestine Investment Fund represented by Mr. Maher Al-Masri	26,250	-
Razan Medical Center for Infertility and I.V.F	11,250	-
Salah Al-Daghmeh	11,250	-
Anees Al-Hajjeh	22,500	-
Jawdat Al-Khudari	11,250	-
Instituton of Management and Development of Orphans Money represented by Mr. Majid Al-Helu	11,250	-
	285,000	390,000

During 2013, the Bank provided for bonuses for the Board of Director's members in the amount of U.S. $ 390,000. During 2014, an amount of U.S. $ 268,002 was disbursed from provision which represents U.S. $ 29,778 for each member, equally. The Bank reversed the remaining provision amount of U.S. $ 121,998 to other revenues in 2014 as it is no longer required.

** The following schedule represents the details of the General Manager's share of salaries and related benefits for 2014 and 2013:

	2014	2013
	U.S. $	U.S. $
General manager's share of salaries and related benefits	239,740	212,025
General manager's end of service benefits	18,000	13,075
	257,740	225,100

Policy of remuneration and bonuses

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

38. Concentration of assets and liabilities

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

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

December 31, 2013	Palestine	Jordan	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances at Palestine Monetary Authority	110,564,826	-	-	110,564,826
Balances at banks and financial institutions	24,686,071	27,322,928	33,194,590	85,203,589
Islamic financing	267,671,141	-	1,130,643	268,801,784
Financial assets at fair value through profit or loss	-	465,444	558,567	1,024,011
Financial assets at fair value through equity	3,157,137	-	-	3,157,137
Financial assets at amortized cost	-	-	5,000,000	5,000,000
Investment in associates	3,062,781	-	-	3,062,781
Investment properties	1,104,494	-	-	1,104,494
Property and equipment	10,718,997	-	-	10,718,997
Intangible assets	876,047	-	-	876,047
Other assets	12,738,164	-	-	12,738,164
Total assets	434,579,658	27,788,372	39,883,800	502,251,830
Banks and financial institutions' deposits	21,448,000	-	-	21,448,000
Customers' deposits	111,241,874	-	-	111,241,874
Cash margins	9,768,600	-	-	9,768,600
Sundry provisions	3,462,414	-	-	3,462,414
Tax provisions	6,606,123	-	-	6,606,123
Other liabilities	5,710,181	-	-	5,710,181
Total liabilities	158,237,192	-	-	158,237,192
Commitments and contingencies:				
Letters of credit	1,010,005	-	-	1,010,005
Letters of guarantee	11,777,149	-	-	11,777,149
Unutilized limits of Islamic financing	7,822,196	-	-	7,822,196
	20,609,350	-	-	20,609,350

	2014			2013		
	Assets	Liabilities and unrestricted investment accounts and equity	Commitments and contingencies	Assets	Liabilities and unrestricted investment accounts and equity	Commitments and contingencies
According to segment	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Corporate accounts	255,860,873	68,885,808	15,330,280	184,451,427	127,795,941	12,646,410
Retail accounts	97,100,342	387,040,684	16,654,337	84,350,357	273,765,520	7,962,940
Treasury	226,834,444	122,799,592	-	209,411,306	85,113,873	-
Others	15,464,254	16,533,829	-	24,038,740	15,576,496	-
Total	595,259,913	595,259,913	31,984,617	502,251,830	502,251,830	20,609,350

39. Risk management

Risks related to the Bank's activities are managed, measured and monitored continuously to remain within the permissible limits. Therefore, the bank determined the assets that could be affected if any risks occur (credit, operations and market risks) in accordance with Islamic accounting standard number (1) on presentation and disclosure, and International Financial Reporting Standards. Given the importance of the risk management process on the Bank's profits, tasks and monitoring responsibilities associated to these risks are distributed among employees.

Risk management process

The Board of Directors is responsible for identifying and controlling risks; in addition, there are several parties which are responsible for managing and monitoring risks in the area in which the Bank operates. The Board of Directors is responsible for the development of risk strategies and determining the allowed limits for the adoption of plans and strategies related to risk management.

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

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

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

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

4. The Bank implements the pillars of (Basel II) and PMA instructions within the framework of risk that affect the Bank, following are the features of risk management policy.

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

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

I. Credit risks

Credit risks are those risks resulting from the default of counterparties to the financial instrument to repay their commitment to the Bank. The Bank sets ceilings for direct Islamic financing (retail or corporate) and total Islamic financing granted to each sector and each geographical area. The Bank also monitors credit risks and continuously evaluates the credit standing of customers. The Bank also obtains appropriate collaterals from customers.

Exposures to credit risks

	2014	2013
	U.S. $	U.S. $
Statement of financial position items:		
Balances with PMA	57,230,639	52,697,879
Balances at banks and financial institutions	91,906,698	85,203,589
Direct Islamic financing	352,961,215	268,801,784
Financial assets at amortized cost	4,133,766	5,000,000
Other assets	2,967,408	1,460,385
	509,199,726	413,163,637
Commitments and contingencies:		
Letters of credit	1,172,609	1,010,005
Letters of guarantee	15,157,671	11,777,149
Unutilized limits of Islamic financing	15,654,337	7,822,196
	31,984,617	20,609,350

II. Foreign currency risk

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

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

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

	2014		2013	
	Increase in currency	Effect on income statement	Increase in currency	Effect on income statement
Currency	(%)	U.S. $	(%)	U.S. $
ILS	+10	-	+10	501
Other currencies	+10	56,812	+10	49,854

Foreign currencies position of the Bank is as follows:

	Equivalent to U.S. $			
December 31, 2014	JOD	ILS	Other currencies	Total
Assets				
Cash and balances at PMA	40,513,327	42,078,725	1,526,492	84,118,544
Balances at banks and financial institutions	30,920,513	28,176,108	6,001,957	65,098,578
Islamic financing	66,005,737	85,453,242	-	151,458,979
financial assets at fair value through profit or loss	465,444	-	568,126	1,033,570
financial assets at fair value through equity	1,849,083	-	-	1,849,083
Other assets	1,134,500	12,338,341	35,559	13,508,400
Total assets	140,888,604	168,046,416	8,132,134	317,067,154
Liabilities				
Banks' and financial institutions' deposits	423,131	10,532,187	-	10,955,318
Customers' deposits	31,850,150	67,880,246	2,127,019	101,857,415
Cash margin accounts	1,164,037	4,388,412	218,618	5,771,067
Other liabilities	2,950,602	2,543,385	53,481	5,547,468
Total liabilities	36,387,920	85,344,230	2,399,118	124,131,268
Unrestricted investment accounts	104,857,981	82,702,186	5,164,893	192,725,060
Total liabilities and unrestricted investment account	141,245,901	168,046,416	7,564,011	316,856,328
Statement of financial position concentration	(357,297)	-	568,123	210,826
Commitments and contingencies	3,066,458	9,932,768	918,390	13,917,616

	Equivalent to U.S. $			
December 31, 2013	JOD	ILS	Other	Total
Total assets	131,123,844	133,996,470	6,028,006	271,148,320
Total liabilities	29,788,477	64,732,663	1,875,965	96,397,105
Unrestricted investment accounts	91,727,076	69,258,801	3,653,498	164,639,375
Statement of financial position concentration	9,608,291	5,006	498,543	10,111,840
Commitments and Contingencies	3,197,694	6,430,492	930,344	10,558,530

III. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due. To limit this risk, management arranges diversified funding sources, manages assets and liability with liquidity in mind, and monitors future cash flows and liquidity.

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

December 31, 2014	Less than 1 month U.S. $	More than 1 month up to 3 months U.S. $	More than 3 months up to 6 months U.S. $	More than 6 months up to 1 year U.S. $	More than 1 year up to 3 years U.S. $	More than 3 years U.S. $	Without maturity U.S. $	Total U.S. $
Assets								
Cash and balances at PMA	62,723,530	14,341,624	163,400	-	-	-	31,964,229	109,192,783
Balances at banks and financial institutions	64,869,699	2,000,000	-	25,036,999	-	-	-	91,906,698
Islamic financing	30,623,876	100,508,433	29,868,056	38,116,688	90,787,761	63,056,401	-	352,961,215
Financial assets at fair value through profit or loss	-	-	-	-	-	-	1,033,570	1,033,570
Financial assets at fair value through equity	-	-	-	-	-	-	1,849,083	1,849,083
Financial assets at amortized cost	-	-	-	-	-	4,133,766	-	4,133,766
Investment in associates	-	-	-	-	-	-	2,862,370	2,862,370
Investment properties	-	-	-	-	-	-	795,794	795,794
Property and equipment	-	-	-	-	-	-	14,400,143	14,400,143
Intangible assets	-	-	-	-	-	-	752,446	752,446
Other assets	9,353,578	-	533,258	146,485	-	-	5,338,724	15,372,045
Total assets	167,570,683	116,850,057	30,564,714	63,300,172	90,787,761	67,190,167	58,996,359	595,259,913
Liabilities, Unrestricted Investment Accounts and Equity								
Liabilities								
Banks and financial institutions' deposits	55,193,318	-	-	-	-	-	-	55,193,318
Customers' deposits	134,437,988	-	-	-	-	-	-	134,437,988
Cash margin	8,753,173	810,207	1,368,579	890,717	10,827	-	-	11,833,503
Sundry provisions	-	-	-	-	-	-	4,186,228	4,186,228
Tax provisions	-	-	6,195,180	-	-	-	-	6,195,180
Other liabilities	2,202,953	-	-	-	-	-	4,016,071	6,219,024
Total liabilities	200,587,432	810,207	7,563,759	890,717	10,827	-	8,202,299	218,065,241
Unrestricted investment accounts	232,780,324	20,533,337	35,413,081	20,708,484	219,774	-	-	309,655,000
Equity								
Paid-in share capital	-	-	-	-	-	-	50,000,000	50,000,000
Statutory reserve	-	-	-	-	-	-	2,922,420	2,922,420
General banking risk reserve	-	-	-	-	-	-	5,524,196	5,524,196
Pro-cyclicality reserve	-	-	-	-	-	-	3,827,858	3,827,858
Cumulative change in fair value	-	-	-	-	-	-	(251,984)	(251,984)
Retained earnings	-	-	-	-	-	-	5,517,182	5,517,182
Total equity	-	-	-	-	-	-	67,539,672	67,539,672
Total Liabilities, Unrestricted Investment Accounts and Equity	433,367,756	21,343,544	42,976,840	21,599,201	230,601	-	75,741,971	595,259,913
Maturity gap	(265,797,073)	95,506,513	(12,412,126)	41,700,971	90,557,160	67,190,167	(16,745,612)	-
Cumulative maturity gap	(265,797,073)	(170,290,560)	(182,702,686)	(141,001,715)	(50,444,555)	16,745,612	-	-

December 31, 2013	Less than 1 month U.S. $	More than 1 month up to 3 months U.S. $	More than 3 months up to 6 months U.S. $	More than 6 months up to 1 year U.S. $	More than 1 year up to 3 years U.S. $	More than 3 years U.S. $	Without maturity U.S. $	Total U.S. $
Assets								
Cash and balances at PMA	64,317,910	-	163,400	17,440,129	-	-	28,643,387	110,564,826
Balances at banks and financial institutions	44,252,250	7,026,093	12,052,186	21,873,060	-	-	-	85,203,589
Islamic financing	57,532,833	67,668,113	21,800,962	26,242,962	55,946,926	39,609,988	-	268,801,784
Financial assets at fair value through profit or loss	-	-	-	-	-	-	1,024,011	1,024,011
Financial assets at fair value through equity	-	-	-	-	-	-	3,157,137	3,157,137
Financial assets at amortized cost	-	-	-	-	-	5,000,000	-	5,000,000
Investment in associates	-	-	-	-	-	-	3,062,781	3,062,781
Investment properties	-	-	-	-	-	-	1,104,494	1,104,494
Property and equipment	-	-	-	-	-	-	10,718,997	10,718,997
Intangible assets	-	-	-	-	-	-	876,047	876,047
Other assets	9,288,410	1,089,171	1,287,090	95,717	564,985	-	412,791	12,738,164
Total assets	175,391,403	75,783,377	35,303,638	65,651,868	56,511,911	44,609,988	48,999,645	502,251,830
Liabilities, Unrestricted Investment Accounts and Equity								
Liabilities								
Banks and financial institutions' deposits	21,448,000	-	-	-	-	-	-	21,448,000
Customers' deposits	111,241,874	-	-	-	-	-	-	111,241,874
Cash margin	7,225,776	668,829	1,129,767	735,290	8,938	-	-	9,768,600
Sundry provisions	-	-	-	-	-	-	3,462,414	3,462,414
Tax provisions	-	-	6,606,123	-	-	-	-	6,606,123
Other liabilities	5,710,181	-	-	-	-	-	-	5,710,181
Total liabilities	145,625,831	668,829	7,735,890	735,290	8,938	-	3,462,414	158,237,192
Unrestricted investment accounts	205,313,323	19,237,105	32,494,784	23,248,677	257,098	-	-	280,550,987
Equity								
Paid-in share capital	-	-	-	-	-	-	50,000,000	50,000,000
Statutory reserve	-	-	-	-	-	-	2,168,659	2,168,659
General banking risk reserve	-	-	-	-	-	-	5,479,082	5,479,082
Pro-cyclicality reserve	-	-	-	-	-	-	2,697,217	2,697,217
Cumulative change in fair value	-	-	-	-	-	-	209,602	209,602
Retained earnings	-	-	-	-	-	-	2,909,091	2,909,091
Total equity	-	-	-	-	-	-	63,463,651	63,463,651
Total Liabilities, Unrestricted Investment Accounts and Equity	350,939,154	19,905,934	40,230,674	23,983,967	266,036	-	66,926,065	502,251,830
Maturity gap	(175,547,751)	55,877,443	(4,927,036)	41,667,901	56,245,875	44,609,988	(17,926,420)	-
Cumulative maturity gap	(175,547,751)	(119,670,308)	(124,597,344)	(82,929,443)	(26,683,568)	17,926,420	-	-

40. Fair value measurement

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

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

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2013:

			Fair value Measurement using		
	Date of Measurement	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		U.S. $	U.S. $	U.S. $	U.S. $
Assets measured at fair value:					
Financial assets measured at fair value through profit or loss (note 6):					
Quoted	December 31, 2013	1,024,011	1,024,011	-	-
Financial assets measured at fair value through equity (note 7):					
Quoted	December 31, 2013	2,027,137	2,027,137	-	-

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

41. Fair value of financial instruments

The table below represents a comparison by class of the carrying amounts and fair values of the Bank's financial instruments carried in the financial statements as at December 31, 2014 and 2013:

	Carrying amount		Fair value	
	2014	2013	2014	2013
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Cash and balances at PMA	109,192,783	110,564,826	109,192,783	110,564,826
Balances at banks and financial institutions	91,906,698	85,203,589	91,906,698	85,203,589
Islamic financing	352,961,215	268,801,784	352,961,215	268,801,784
Financial assets at fair value through profit or loss	1,033,570	1,024,011	1,033,570	1,024,011
Financial assets at fair value through equity	1,849,083	3,157,137	1,849,083	3,157,137
Financial assets at amortized cost	4,133,766	5,000,000	4,133,766	5,000,000
Investment in associates	2,862,370	3,062,781	2,862,370	3,062,781
Other financial assets	14,542,148	12,211,931	14,542,148	12,211,931
Total assets	578,481,633	489,026,059	578,481,633	489,026,059

	Carrying amount		Fair value	
	2014	2013	2014	2013
	U.S. $	U.S. $	U.S. $	U.S. $
Financial liabilities				
Banks and financial institutions' deposits	55,193,318	21,448,000	55,193,318	21,448,000
Customers' deposits	134,437,988	111,241,874	134,437,988	111,241,874
Cash margins	11,833,503	9,768,600	11,833,503	9,768,600
Other liabilities	6,219,024	5,710,181	6,219,024	5,710,181
Total liabilities	207,683,833	148,168,655	207,683,833	148,168,655
Unrestricted investment accounts	309,655,000	280,550,987	309,655,000	280,550,987

The fair value of the financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

- Fair values of cash at PMA, balances at banks and financial institutions, financial assets at fair value through profit or loss, financial assets at fair value through equity and other financial assets, banks and financial institutions' deposits, customers' deposits, cash margin, other financial liabilities and unrestricted investment accounts approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Unquoted financial assets at fair value through equity are stated at cost less accumulated impairment as their fair values cannot be reliably determined.

42. Segment information

a. Information on the Bank's business segments

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

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

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

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

The Bank's business segments:

	Retail	Corporate	Treasury	Others	Total 2014	Total 2013
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	16,839,554	9,551,097	3,895,745	537,960	30,824,356	25,985,288
Net provision for doubtful Islamic financing	158,940	90,149	-	-	249,089	262,357
Segment results	16,998,494	9,641,246	3,895,745	537,960	31,073,445	26,247,645
Unallocated expenses	-	-	-	-	(21,646,781)	(17,286,004)
Profit before taxes	-	-	-	-	9,426,664	8,961,641
Taxes expense	-	-	-	-	(1,889,057)	(2,434,779)
Profit for the year	-	-	-	-	7,537,607	6,526,862
Other information						
Segment assets	97,100,342	255,860,873	226,834,444	15,464,254	595,259,913	502,251,830
Segment liabilities and unrestricted investment accounts	387,040,684	68,885,808	55,274,920	16,518,829	527,720,241	438,788,179
Capital expenditures					5,440,248	2,738,386
Depreciation and amortization					1,271,769	1,126,627

b. Geographical distribution information

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

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

	Local		Foreign		Total	
	2014	2013	2014	2013	2014	2013
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total revenues	29,802,399	24,594,341	1,021,957	1,390,947	30,824,356	25,985,288
Total assets	556,997,762	434,579,658	38,262,151	67,672,172	595,259,913	502,251,830
Capital expenditures	5,440,248	2,738,386	-	-	5,440,248	2,738,386

43. Development strategy

The Bank's development policy includes the following:

- Diversify Islamic financing by offering Mudaraba and Musharaka products.
- Develop financing programs especially for Mudaraba and Musharaka projects.
- Focus on risk management in order to maintain performance and sustainable growth.
- Expand in different geographical cities, villages and remote areas to meet the needs of the Bank's customers regardless of their location.
- Develop the Bank's computer systems and information technology.
- Provide training opportunities for the Bank's employees at different levels, such as the leaders program which took place in the West Bank and Gaza.

44. Capital management

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

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

The capital adequacy ratio is computed in accordance with PMA regulations number (7/2009) derived from Basel Committee regulations computed as follows:

	2014			2013		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S. $	%	%	U.S. $	%	%
Regulatory capital	54,620,338	9.18	16.37	49,691,544	9.89	21.65
Basic capital	55,994,082	9.41	16.78	53,989,829	10.75	23.52

45. Legal cases against the Bank

The number of litigations filed against the Bank were (41) and (31) in the amount of U.S. $ 4,912,945 and U.S. $ 4,814,210 as at December 31, 2014 and 2013, respectively. The Bank's provision for possible legal obligations amounted to U.S. $ 468,965 and U.S. $ 500,755 as at December 31, 2014 and 2013, respectively. Bank's management and lawyer believe that the provision is sufficient against these litigations.

46. Concentration of risk in geographical area

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