المؤسسة الفلسطينية لضمان الودائع

PALESTINE DEPOSIT INSURANCE CORPORATION

التقرير السنوي
2014

المؤسسة الفلسطينية لضمان الودائع

PALESTINE DEPOSIT INSURANCE CORPORATION

ANNUAL REPORT
2014

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Message from the Chairman
H.E. Dr. Jihad Al-Wazir

It gives me great pleasure to present to you the First Annual Report of the Palestine Deposit Insurance Corporation (PDIC), which sheds light on its establishment by the initiative of the Palestine Monetary Authority (PMA), pursuant to the Presidential Law by Decree No. (7) of 2013, which regulates the operation of PDIC as a financially and administratively independent institution

The continued pressures and the sluggishness of the global economy, together with the repercussions of the latest war on the Gaza Strip have taken their toll on the Palestinian economy during the year 2014. The Gazan economy contracted by about one third, whereas growth in the West Bank also slowed down. Unemployment rates soared to levels that aroused concern, reaching 47.4 percent in Gaza Strip, and 19 percent in the West Bank. The war also drove prices to new heights in the Strip, food prices in particular, mean while in the West Bank, the rate of growth in prices decelerated owing to economic slowdown. The net result was a drop in real growth by end 2014Q3 by about 7.4 percent (on yearly basis), and an overall increase in the inflation rate in Palestine to 2.3 percent.

With these conditions, PDIC's reassuring of small depositors proved instrumental in the promotion of financial stability; this is a key PMA goal. Through implementation of sound policies and appropriate measures needed to strengthen risk management and good governance in line with international best practices and with the design and implementation of financial and banking policies to secure the soundness of the banking sector and balanced and sustainable economic growth, the PMA maintained financial stability, promoted economic growth and bolstered a sound and robust banking system. This is evident from the results attained by the banking sector. By end 2014, customer deposits with licensed banks increased by USD 630.8 million, a 7.6 percent increase over end 2013, to a total of USD 8.9 billion. Simultaneously, total outstanding credit facilities granted by licensed banks increased by USD 414.3 million to reach USD 4,818.5 million, a 9.41 percent rise over end of previous-year. Total assets of licensed banks increased by USD 610.4 million to a total of USD 11,535.5 million, equivalent to a 5.6 percent growth rate over the previous-year level. Banks continued to enjoy levels of capital adequacy that are higher than the minimum limits set by the PMA and by international standards. Also, the ratio of non-performing loans to total direct loans fell to 2.5 percent by end 2014, from 2.9 percent recorded for end of 2013.

Finally, I am hopeful that the year 2015 will lead the way forward to the development of a strong national economy, and a sound and robust Palestinian financial system.

Dr Jihad Al-Wazir

Chairman of the Board of Directors

Message from the General Manager
Mr. Zaher Hammouz

It gives me great pleasure and honor to present to you the First Annual Report of the Palestine Deposit Insurance Corporation (PDIC) for the year 2014. Consistent with our belief in the principles of transparency and disclosure and our endeavors to sustain positive, effective and continuous communication with the different related parties in order to fulfil the PDIC's mission to be a cornerstone of an effective banking safety net in Palestine, I value greatly this opportunity to introduce PDIC's most important achievements during 2014.

The year 2014 witnessed the launch of PDIC's operations and saw several achievements realized in line with the PDIC's goals to protect depositors' funds, harness public confidence in the banking system and encourage saving. It is anticipated that these achievements will contribute to the promotion of the stability and soundness of the national economy, in a manner which is consistent with best international practices. Under the campaign logo "Your cash in the bank is safe, we are the guarantee", the PDIC launched its media campaign, which employed various forms of audio-visual and digital advertising. Moreover, several instructions were released concerning the annual membership fees to be paid by member banks, setting the fee at 0.3 percent of the total value of deposits subject to insurance to be collected on a quarterly basis, as well as instructions on uninsured deposits. Instructions were also issued concerning the maximum coverage limits to be reimbursed to depositors in the event of liquidation of a member bank. The instructions set the maximum coverage limit at USD 10,000 (ten thousand US Dollar), or its equivalent in other currencies.

From a financial perspective, PDIC's revenues from bank membership fees and returns amounted to USD 22.2 million by end of 2014, of which Islamic banks contribution was USD 2.29 million.

In examining depositor-related indicators, PDIC offers full insurance to about 91.7 percent of total depositors whose deposits are subject to the provisions of the PDIC Law. The sum of deposits subject to full insurance amounted to about USD 8,119.8 million by end of 2014, compared to USD 7,582.8 million by end of 2013, marking an increase by 7.1 percent. These deposits belonged to about 1,463 thousand depositors and had an average deposit value of USD 5,550 by the end of 2014 compared to 1,432 thousand depositor and average deposit value of USD 5,297 by the end of 2013.

Internally, two memoranda of understanding were signed with the Palestine Monetary Authority (PMA): one with respect to the PDIC's accounts administration, and the second concerning the strengthening of cooperation and the interchange of data and information on member banks.

Externally, PDIC obtained full membership of the International Association of Deposit Insurers (IADI) in November 2013. It has also obtained the membership of the IADI MENA Regional Committee. Since its foundation, PDIC participated in several regional and international conferences and seminars in the area of deposit insurance. In addition, PDIC completed a comprehensive self-assessment of the compliance with to the 18 core principles for effective deposit insurance system issued by IADI and Basel Committee on Banking Supervision (BCBS)

Finally, I would like to thank the Chairman and Members of the Board of Directors, for their unwavering support and valuable guidance, and all colleagues, for their efforts and diligence.

General Manager
Zaher Hammouz

Board Of Directors

Dr. Jihad Al-Wazir
Governor of Palestine Monetary Authority

Dr. Jihad Khalil Al Wazir was appointed Governor and Chairman of the Board of Directors of the Palestine Monetary Authority (PMA) in 2008 and was re-appointed for another four-year term in 2012

Governor Alwazir is the founder and Chairman of the Palestine Deposit Insurance Corporation (PDIC) established in 2013. He also chairs the National Palestinian Anti-Money Laundering Committee, serves as the Vice Chairman of the Board of Trustees of the Arab American University-Jenin and is a member of the board of directors of the Palestine Investment Fund.

Dr. Al Wazir served in several senior positions in the private and public sectors. He was at various stages in his career: a member of the board of directors of the Palestine Monetary Authority and later Deputy Governor, Acting Minister and Deputy Minister of Finance, Assistant Deputy Minister and Permanent Secretary General of the Ministry of Planning and International Cooperation.

He was also a member of numerous boards of directors in the public and private sectors, including the Palestinian Industrial and Free Trade Zones Agency (PIFZA), Chairman of the National Road Accident Insurance Fund, and member of the board of directors of the Capital Market Authority.

He is the founder of the Palestinian Domain (.ps) and was also the Chairman of the first board of directors of the Palestinian National Internet Naming Authority (PNINA). In 1995, he founded the Palestine Trade Centre (a member of World Trade Association) and was elected as a member of Board of Directors for the Businessmen Association. He was the Middle East coordinator for the World Economic Forum-Davos, Switzerland “Transition to Peace” Initiative during 1998-2000.

Mr. Ali Safarini.
Board Member

Mr. Safarini is a practicing lawyer since 1962. He works as a legal counsel for several municipalities, companies and institutions. During the years 1993 and 1994, he was legal counsel for the Palestinian delegation to the peace negotiations headed by the late Dr Haidar Abd Al-Shafi in Washington.

In 1995, he was appointed head of the legal committee, established by the late President Yasser Arafat, in charge of formulating the Palestinian Elections Law,

Mr.Safarini was member of the Centralized Elections Committee which supervised the general elections in 1996, and member of the Presidential Elections Committee in 2005.

Mr.Safarini holds a Bachelor of Laws from Damascus University (1957), and is a recognized expert in land law, economic laws and companies law, as well as civil law, among other laws.

Mr. Mohammed H.El-Aydi.
Board Member

Mr. Aydi is an ex-banker who has both central and commercial banking experience. He started his career with the Central Bank of Jordan, working in the Banking Supervision and Economic Research departments

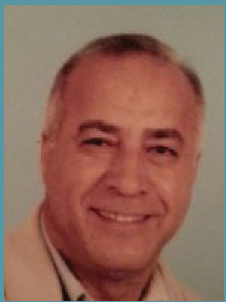
In Palestine, he worked as an expert in the Banking Supervision Department and participated in preparation of the first Banks Law with the IMF experts. He also joined the Arab Palestine Investment Bank as a manager of credit operations.

In the Gulf, Mr. Aydi worked as an operation manager of the main branch of the Commercial Bank of Kuwait. Later he worked as a senior credit manager of the Construction Contracts finance units at both Al Ahli Bank of Kuwait and the National Bank of Qatar. He also held two senior positions as manager of inspection and a financial manager for two of the leading companies in money change and construction contracting companies in Kuwait, respectively.

In Jordan, he worked for Bank of Jordan as a manager of the bank's computer & automation company founded specifically to automate the bank's operations. He also joined the Industrial Modernization Programme"EJADA", funded by the European Union, as a senior financial advisor and ran a loan guarantee fund for industrialists. He also worked for Al Mouasher Group as a Financial Advisor.

In Syria, he worked for the Credit Facility II to Syrian SMEs, financed by the European Investment Bank, and run by Frankfurt School of Finance & Management- Consultancy Arm.

Mr. Aydi holds a bachelor degree in business administration from Beirut Arab University and a Diploma in statistics from London Polytechnic, UK.



Dr. Said Haifa
Board Member

Dr. Said Haifa was born in Al-Mazraá Al-Sharqiyya in Palestine in 1951.

Dr. Haifa attained BSc in economics and statistics from the University of Jordan in 1974. In 1979 he received his MA in economics and international economics from McGill University, Montreal, Canada and a PhD in economics with a concentration in critical theory from the same university in 1984.

Dr. Haifa joined Birzeit University in 1980. He was appointed Head of the Economics Department (1984 -1986), Dean of the Faculty of Business and Economics (1986 – 1989), then Head of the Economics Department (2006 -2011), and again for the period from (2012 -) as Coordinator for MA in Economics Program (2007-2011) and again (2012-).

Dr. Haifa was member of the Palestinian delegation - Regional Economic Development Working Group- and additionally coordinator for the World Bank Macroeconomics Team, (1991 – 1994).

Dr. Haifa has served as board member in several local and international institutions and conducted several studies aimed at promoting and developing the agriculture and industry sectors in Palestine. He was member of the PMA Board of Directors (2009 – 2012).

Dr. Haifa currently occupies the position of Head of Economics Department and Director of the MA in economics program in Birzeit University.

Dr. Bassem Khoury
Board Member

Dr. Khoury's biography is rife with achievements in various areas. He established Pharmacare plc., a pharmaceutical manufacturing company, and has chaired its Board of Directors ever since.

He also established Premium Pharmacare in Malta in 2009 and the National Company for Agro Industries in 2007, in addition to being co-founder of the Palestine Insurance Company in 1996.

In 2009, Dr. Khoury was appointed Minister of National Economy. He held several other positions, including Chairman of the Palestinian Federation of Industries (2006-2009), Chairman of Union of Palestinian Pharmaceutical Manufacturers (2001-2004) and Head of the Scientific Committee in the Palestinian Pharmaceutical Association (1992-1994). Dr. Khoury also served as member of the Technical Committee for Trade and Industry which advised the Palestinian peace negotiators (1990-1992), and member of the Board of the Palestine Trade Promotion Organization and the Palestine Trade Center (Paltrade) (1993-2002).

Dr. Khoury is member of several organizations. He is member of the Birzeit University Board of Trustees, member of the Board of Directors of the Edward Said National Conservatory of Music, member of the Board of Directors of the Palestine Capital Market Authority and member of the Board of the Society of Saint Yves for Human Rights.

Dr. Khoury holds a degree in Industrial Pharmacy from the University of Oklahoma, USA (1983).

Dr. Hatem Sarhan
Board Member

Dr. Sarhan is currently Companies Controller in the Ministry of National Economy. He held several positions in MOE, where during the periods (2006-2010) he was Director General for Policies, Analysis and Statistics; during the period (2005-2006) he was Companies Controller; and during (1995- 2005), he was Head of Companies Registration Department

Dr. Sarhan participated in several seminars and courses, held both locally and abroad. He participated in the Administrative Development of Administrative Skills seminar (Arab Experts) in 1996, and in Industrial Property Rights course held in Geneva in 2000, in Arbitration and Mediation seminar in 2002 and in a several seminars and conferences on commercial agencies, and in the draft Income Tax Law and Companies Law in the West Bank and the Gaza Strip. In 2006, he attained a Commercial Accreditation from the Palestinian Ministry of Justice.

Dr Sarhan holds a PhD in Law from Moscow University (1994).

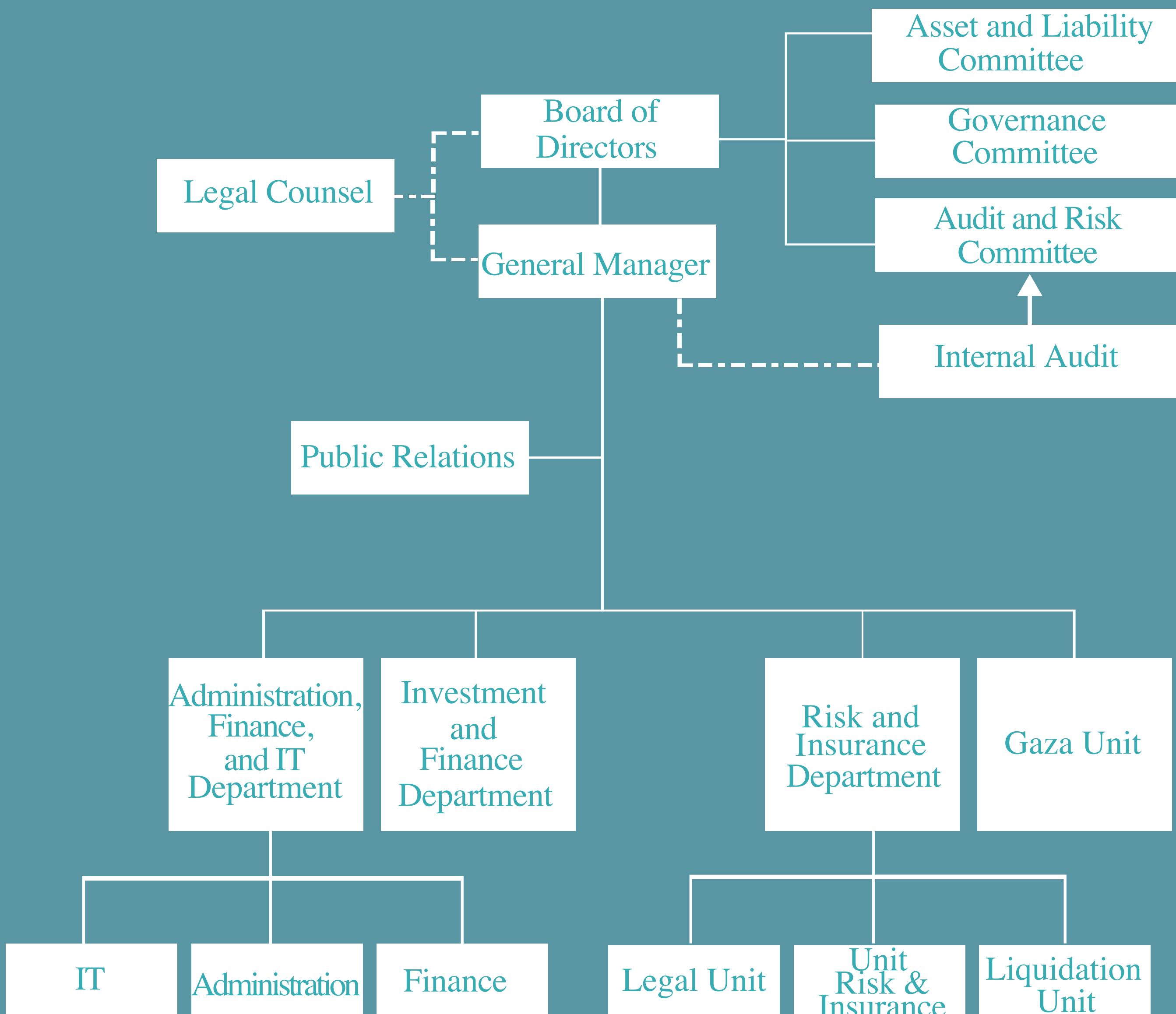
Mr. Ahmad Al-Sabah
Board Member

Mr. Al-Sabah held several positions with the Ministry of Finance. Since 2013, he has held the position of Accountant General with the Ministry of Finance, and Director of Governmental Property Accounts. Over the period 2007-2008, he served as Director of General Accounts during 2003- 2007, he was Director General of the Treasury, and prior to that, he was Director General of Payments.

Mr. Al-Sabah is a member of the Board of numerous national institutions, including the Establishment for the Management and Development of Orphans Fund, the Supreme Council for Civil Defense and the Palestinian Electricity Transmission Ltd.

He holds a graduate degree in Business Administration from Birzeit University, (2007).

Organizational Structure



Glossary

Member Banks

All Islamic and conventional Palestinian banks and branches of foreign banks operating in Palestine licensed by the Palestine Monetary Authority (PMA)

Deposits Subject to the Provisions of the Law

All kinds of deposits held by member banks in all currencies except:

1. Government and governmental entity deposits, PMA deposits
2. Inter-member deposits, whether with banks or other financial institutions
3. Cash collaterals within the limits of the value of extended facilities guaranteed by the said collaterals
4. Deposits of persons related to a member in accordance with the provisions of the Banking Law in force
5. Deposits of a member-bank auditor and/or deposits of a member of the sharia supervisory board of a member bank
6. Restricted investment funds as specified by the Board
7. Deposits of insurance companies and financial brokerage companies

Deposits subject to prompt reimbursement

Total deposits subject to the provisions of the Law per depositor per bank, not exceeding the coverage limit of USD 10,000 (ten thousand US Dollar) or its equivalent in other currencies subject to prompt reimbursement upon liquidation of a member bank

Fully insured deposits

Deposits subject to full reimbursement according to the provisions of the Law equal or less than the coverage limit of USD 10,000 (ten thousand US Dollar) or its equivalent in other currencies

Partially insured deposits

Deposits subject to the provisions of the Law that are in excess of the coverage limit of USD 10,000 (ten thousand US Dollar) or its equivalent in other currencies

Coverage limit

The maximum level of insurance sum per depositor per member bank when a member bank is liquidated equal to USD 10,000 (ten thousand US Dollar) or its equivalent in other currencies

International Association of Deposit Insurers (IADI)

A non-profit organization, incorporating a separate legal entity, domiciled at the Bank for International Settlements in Basel, Switzerland. The Association's objectives are to contribute to the stability of financial systems by promoting international cooperation and exchange of expertise in the field of deposit insurance. IADI currently represents 79 deposit insurers, 7 associates and 13 partners

The Core Principles for Effective Deposit Insurance Systems

A set of 18 basic principles for the operation of effective deposit insurance systems issued by the International Association of Deposit Insurers (IADI) and Basel Committee on Banking Supervision (BCBS)

General Overview

Our vision

To be a leading professional deposit insurance corporation at the regional and international levels

Our mission

To protect depositors with member banks, encourage saving, and contribute to building confidence in the Palestinian banking system

Our Core Values

Credibility and transparency: Adhering to the highest ethical and professional standards when carrying out duties effectively and efficiently.

Loyalty: Promoting the values of responsibility, loyalty and dedication towards the PDIC, staff and stakeholders

Professionalism and excellence: Applying the best international standards, practices, skills, knowledge and expertise

Teamwork: Working collaboratively in good spirits and maintaining effective communication lines with parties involved

Continuous training: offer staff continuous training so as to advance technically and professionally, and keep abreast with international best practices

Our objectives

- To build up an appropriate level of reserves in order to ensure the provision of protection to depositors with member banks
- To manage the compensation and liquidation processes efficiently and effectively
- To foster a risk-informed culture in the banking sector
- To foster public confidence in the Palestinian banking system and contribute to maintaining its stability
- To build greater awareness of the deposit insurance system in Palestine

Foundation

The Palestine Deposit Insurance Corporation (PDIC) was founded pursuant to the provisions of the Presidential Law by Decree No. (7) of 2013, having legal personality and enjoying legal capacity as a financially and administratively independent corporation to fulfil its mandated function to protect depositors with member banks, encourage saving and promote confidence in the Palestinian banking system.

According to the provisions of its Law, PDIC enjoys vast authority as may be necessary to exercise its function as an insurer of deposits and bank liquidator. The Law grants it also supervisory authority realized through the regular interchange of data and information on member banks with the PMA as per certain protocols that guarantee all information necessary is provided to the PDIC to achieve its objectives.

Financing Sources

The PDIC is funded through annual membership fees collected from member banks as well as by the returns of its investments. Moreover, the PDIC may secure financial grants from any entity approved by its Board and may resort to borrowing to compensate depositors in the event its own financial resources fall short. PDIC makes steady efforts to develop its infrastructure and build the capacity of its human resources in order to be able to meet its responsibilities effectively and efficiently and achieve its institutional goals of protecting small depositors, preserving the rights of large depositors and raising public awareness of the significance of its role in insuring customer deposits held with member banks.

> PDIC is the sole liquidator of a bank to be liquidated following the issuance of a liquidation decision by the Palestine Monetary Authority

PDIC's Most Important Achievements in 2014

In the course of the year 2014, PDIC launched its operations as per the Presidential Decree-Law No. (7) of 2013. The year made several achievements consistent with the PDIC's general policy objectives to protect depositors' funds, harness public confidence in the banking system and encourage saving. The realization of such objectives contributes to the promotion of a stable and healthy national economy, in line with best international practice. Accordingly, instructions were issued setting the maximum coverage limit reimbursed to depositors in the event of liquidation of a member bank to USD 10,000 (ten thousand US dollar) or its equivalent in other currencies. Moreover, instructions stipulated an annual membership fee to be paid by member banks at 0.3 percent of the total value of deposits subject to insurance, to be collected on a quarterly basis. Also instructions defined uninsured deposits. PDIC also conducted, an a wareness media campaign in the West Bank and the Gaza Strip using different forms of audio-visual and digital advertising.

PDIC has set up two funds to manage membership: one for Islamic banks and the other for conventional banks. The funds will be invested by the PDIC in accordance with a pre-approved investment policy, which adheres to the provisions of Sharia Law for an Islamic bank fund.

Functions and Authorities

• Liquidation

Pursuant to the Presidential Decree-Law No (7) of 2013, the PDIC is the sole liquidator of a bank that the PMA decides to liquidate. The PDIC has full legal capacity to perform its responsibilities as a liquidator. It is authorized to offset the deposits against all obligations and liabilities owed by depositors when determining the value of deposits subject to reimbursement.

The responsibilities of the PDIC exceed the prompt reimbursement of the insured depositors within the deposit insurance coverage limit stipulated by Law; it is also responsible for managing claims of the remaining depositors, following settlement of bank debts and obligations of the bank subject to liquidation, disposing of its assets as well as recovering the bank's rights, based on the value of remaining sale proceeds.

• Compensation of depositors

Upon publication of the PMA decision to liquidate a member bank, the PDIC is legally responsible for reimbursing insured depositors with that bank. The PDIC is obliged to compensate depositors in accordance with the specified coverage ceiling. The coverage ceiling for each depositor is calculated on the basis of all his/her deposits combined, including interest accrued and benefits earned, on the date of publication of the liquidation decision of the member bank in the Palestinian Official Gazette

• Reserves Management

The PDIC concentrates its efforts to extend its financial reserves so as to meet its legal responsibilities as a deposit insurer efficiently and effectively and provide protection to depositors with member banks in Palestine. As such, it has to create reserves amounting to 3% of total deposits subject to the provisions of its Law. The sources of reserves are membership fees that are collected from member banks on quarterly basis and investment income, in addition to any other surplus net of expenses. The PDIC has also adopted a comprehensive plan to attain the targeted reserve level within a specified time frame.

• Monitoring banks operating in Palestine

In order to operate properly as deposit insurer and liquidator as per the provisions of the Law, and manage the processes of reimbursement and liquidation in a highly efficient and effective manner, the PDIC, in collaboration with the PMA, monitors and evaluates the financial position and business results of member banks. Accordingly, an agreement was signed with the PMA for periodic interchange of information and data by making use of specific exchange mechanisms that ensure PDIC is provided with all data necessary for it to attain its objectives. Additionally, the PDIC uses stress testing as a tool to strengthen risk management practices. Moreover, in order to mitigate operational risk, the PDIC, in collaboration with the PMA and the Association of Banks in Palestine (ABP), is authorized to apply a risk-based fee collection system and put in place appropriate measures to reduce levels of potential risks to banks; thus it emplos a fair approach to the collection of fees while encouraging banks to improve their risk-monitoring tools.

The main features of the deposit insurance system in Palestine

- ### Membership

Membership is mandatory for all banks licensed by the PMA, whether conventional or Islamic.

> All 17 banks are subject to provisions of PDIC's law at end 2014, of which 7 are local banks.

- ### Coverage limit

Maximum limit of immediate reimbursement is USD 10, 000 or the equivalent in other currencies.

Scope of coverage

- ### Insured Deposits:

    - PDIC insures all types of deposits denominated in all currencies for all account holders of member banks including:
    - Current and demand deposits
    - Saving deposits
    - Term and subject to notice deposits
    - Joint deposit accounts (owned by two or more people)

- ### Uninsured Deposits

    - Government's and governmental entities' deposits, PMA deposits
    - Interbank deposits (banks and other financial institutions)
    - Cash collaterals within the limits of the value of extended facilities guaranteed by the said collaterals
    - Deposits of a member-bank auditor and/or deposits of a member of the sharia supervisory board of a member bank
    - Restricted investment funds as specified by the Board
    - Deposits of persons related to a member in accordance with the provisions of the Banking Law in force
    - Deposits of insurance companies and financial brokerage companies

- ### Membership fees

A member bank is required to pay a membership fee on quarterly basis. The membership fee is equal to 0.3 percent of the total value of deposits subject to PDIC Law. Pursuant to instructions that are issued in that respect, the Board of Directors may adjust the percentage upon which the fee is calculated based on the risk ranking of individual banks according to previously agreed criteria with the PMA and the ABP. The Board may also revise, amend and set a new calculation method for the annual fee percentage.

PDIC Management

Board of Directors

The PDIC is managed and supervised by a Board of Directors comprised of 7 members. The Board is chaired by the Governor of the Palestine Monetary Authority with members being a representative of the Ministry of Finance, the Companies Controller in the Ministry of National Economy, and four independent members appointed by Presidential decree on the advice of the Chairman of the Board. The Directors serve for a three-year term, which is renewable once. The Law stipulated the Board's functions and authorities as: formulating the PDIC's general policy, setting strategies, agreeing on the organizational structure and job descriptions, endorsing the internal regulations and operating procedures, approving the estimated annual budget, adopting plans and policy of investment of the PDIC's funds, passing and endorsing instructions to implement legislation, specifying and approving membership annual fees, and determining coverage limits and other duties as required.

Corporation's executive and administrative apparatus

1. Director General

The Director General of PDIC carries out duties and authorities needed to manage the PDIC's affairs including the implementation of the policies and the decisions made by the Board of Directors, and the supervision of the PDIC's administrative system.

2. Financial and Administrative Affairs and IT Department

The department is responsible for bookkeeping and accounting functions, maintaining assets and adequate financial resources and the timely provision of accurate information for decision makers. The department also secures PDIC's needs with respect to human resources recruitment and the supply and maintenance of equipment and machinery and software necessary in order for PDIC to properly operate and achieve its goals.

3. Risk Analysis and Insurance Department

This department is assigned several important tasks and responsibilities that contribute to the implementation and development of PDIC's policies, reinforce risk-management principles and promote confidence in the Palestinian financial system.

3.1. Risks and Insurance Division

This division is mainly responsible for the follow-up of fee collection from member banks. It is also tasked with preparing for the application of the risk-based fee collection system, in collaboration with the PMA and the ABP, for the purpose of mitigating operational risks, and ensuring fair contribution by banks to membership fees, encouraging banks to improve on risk-monitoring tools. The division also sets in place appropriate measures to mitigate potential risks banks face, and conduct stress tests, as a way of strengthening and promoting risk control.

3.2. Liquidation Division

This division is responsible for undertaking the tasks and responsibilities entrusted to PDIC as the liquidator of any bank pursuant to the PDIC Law and regulations, instructions and decisions issued for that purpose.The division is also in charge of putting in place and developing appropriate policies for the implementation of the liquidation process in a manner that guarantees appropriate procedures are effectively and efficiently followed. Moreover, the division formulates and develops depositor reimbursement procedures pursuant to the PDIC Law and the regulations, instructions and decisions issued for that purpose.

3.3. The Legal Division

This division is responsible for handling all legal matters of PDIC, following-up on implementation with the competent authorities, drafting PDIC's contract and agreements and reporting periodically on the division's work.

4. Internal Audit department Unit

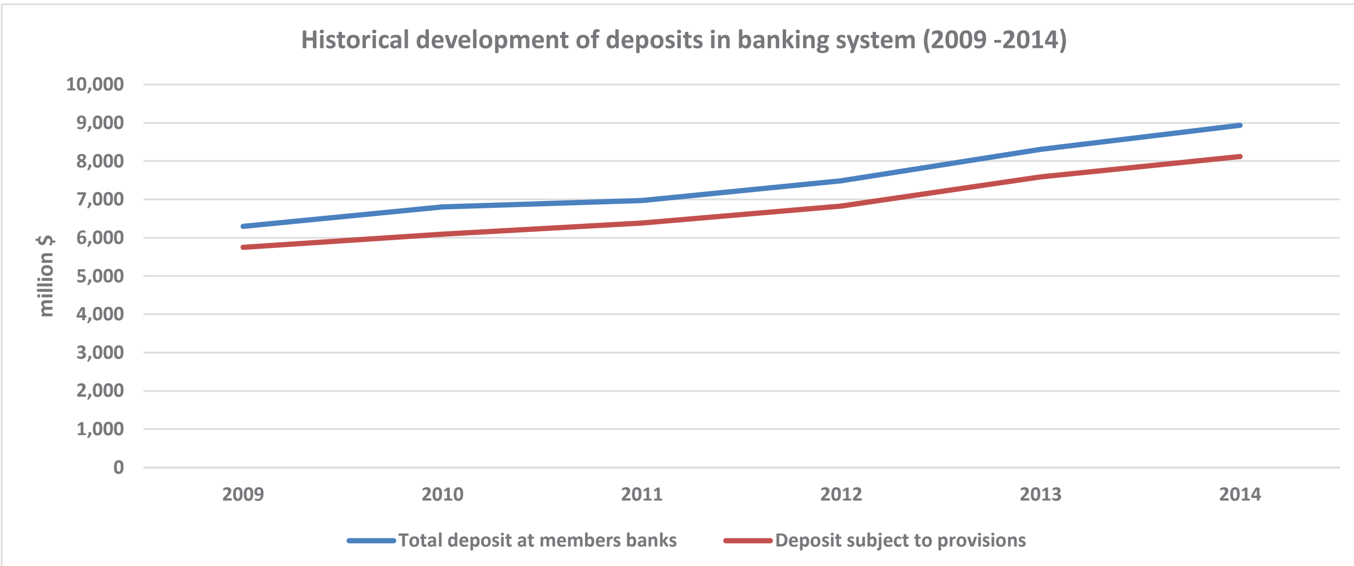
The activity of the Internal Audit Unit is closely linked with the Audit and Risks Committee of the Board of Directors. The Unit is in charge of assessing the validity and soundness of the PDIC's various activities and providing recommendations in view of the audit, the assessment and the analysis results of various departments in order to enable them to fulfil their responsibilities effectively and efficiently.

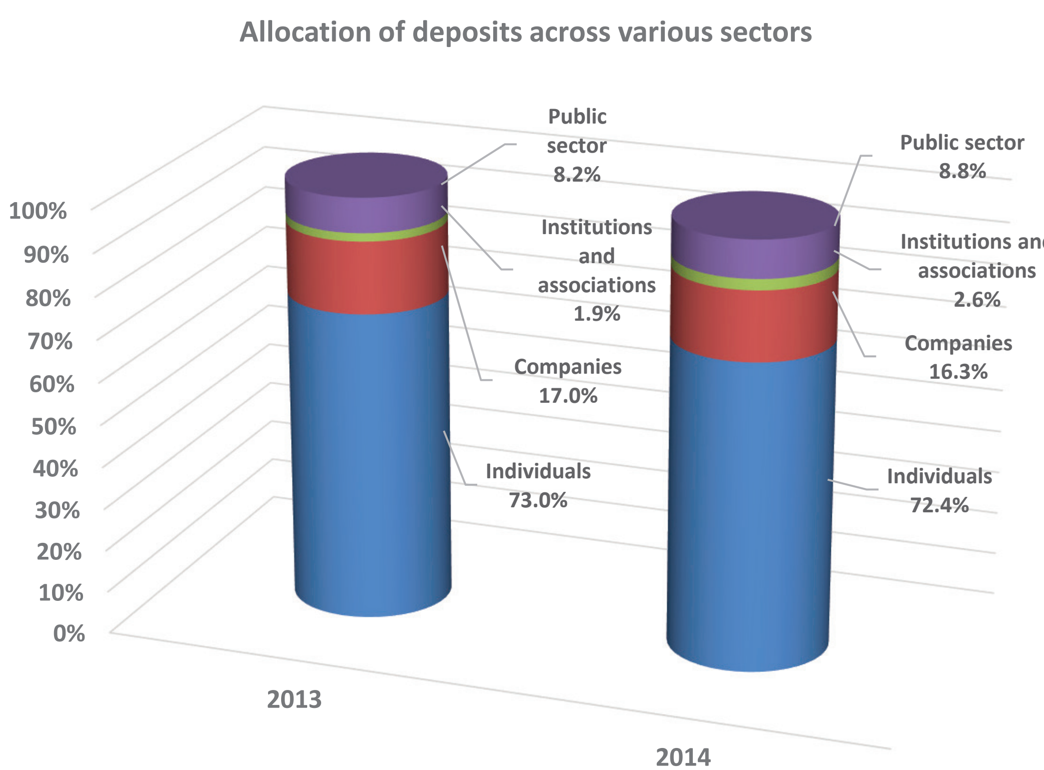
5. Investment and Financing Unit

The department is assigned the responsibility of providing data and information needed to support the planning and development processes in PDIC. It is also entrusted with the management of the PDIC's investments in line with the investment policy approved by the BOD and compliant with the provisions of the PDIC Law.

Development of Deposits in the Palestinian Banking System

Total customer deposits with the Palestinian banking system reached USD 8,934.5 million by the end of 2014, compared to USD 8,303.7 million by end of the previous year, marking an increase of 7.6 percent equivalent to USD 630.8 million. The average annual growth rate in customer deposits for the last six years was 8.38 percent.



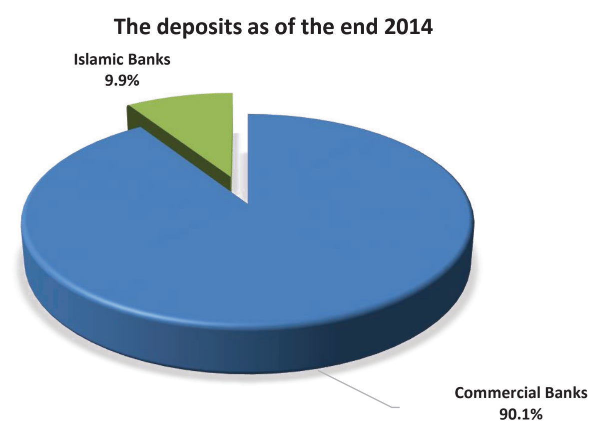


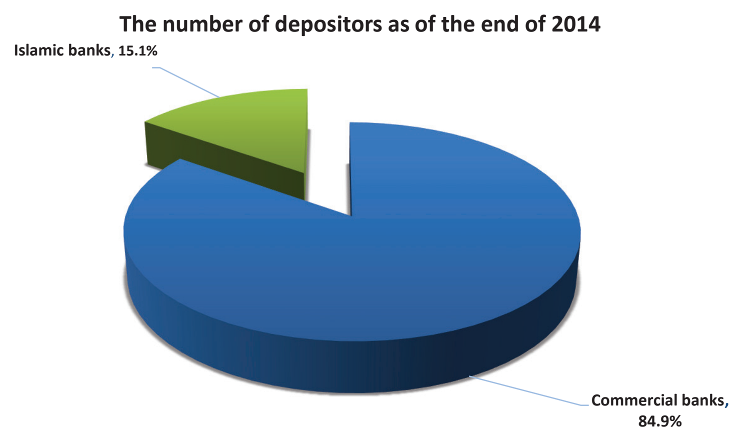
Distribution of deposits with banks on the different sectors (in $ million) and growth rates				
(in $ million)	**Individuals**	**Companies**	**Institutions and associations**	**Public sector**
2013	6,058.0	1,407.7	160.3	677.8
2014	6,468.0	1,453.3	227.9	785.2
Growth rates	6.8%	3.2%	42.2%	15.9%

The individuals deposits represented 72.4 percent of total deposits in the banking system as of end 2014

Distribution of customer deposits by currencies ($ millions)				
	NIS deposits	**JD deposits**	**$ deposits**	**Other fx deposits**
2013	2,409.9	2,106.0	3,460.6	327.2
2014	2,750.5	2,299.4	3,550.4	334.2
Growth rates	14.1%	9.2%	2.6%	2.1%

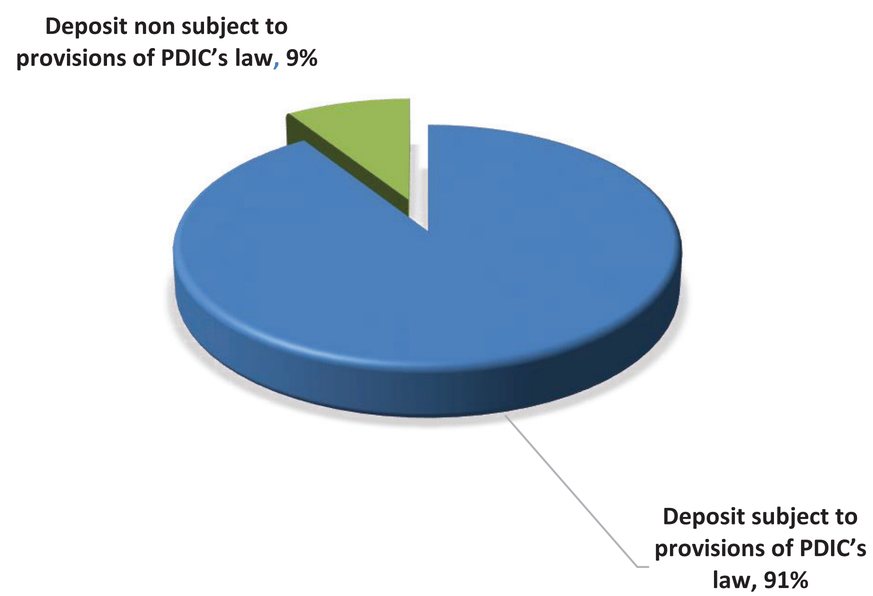
The allocation of deposits across various bank groups (2009-2014)						
Year	Deposits (in $ million)		The number of depositors (in thousands)		Total	
	Commercial banks	Islamic banks	Commercial banks	Islamic banks	Deposits (million $)	Depositors (in thousands)
2009	5,763.2	533.6	1,007	210	6,296.8	1,216.4
2010	6,283.0	519.5	1,225	190	6,802.4	1,414.2
2011	6,435.4	537.2	1,223	193	6,972.7	1,416.5
2012	6,858.3	626.0	1,256	208	7,484.2	1,464.0
2013	7,553.1	750.6	1,233	203	8,303.7	1,435.3
2014	8,053.4	881.7	1,245	222	8,935.1	1,466.9





Deposits subject to the provisions of the PDIC law

Deposits subject to the provisions of the Law reached about USD 8,119.8 million by end of 2014, compared to USD 7,582.8 million by end of 2013, marking a 7.1 percent increase. Deposits belonged to about 1,483 thousand depositors with an average deposit value of USD 5,550 in 2014, compared to 1,431 thousand depositors with an average deposit value of USD 5,297 at the end of 2013.



Deposits subject to the provisions of the PDIC's Law represented 91 percent of total deposits in the banking system as the end of 2014

Fully insured deposits

Fully insured deposits in accordance with the Law – deposits with balance less or equal to USD 10,000 or its equivalent in any other currency- constituted 14.8 percent of total deposits subject to the provisions of the Law by end of 2014, amounting to USD 1,198 million and belonging to 1,342 thousand depositors with an average deposit value of USD 893, compared to USD 1,093 million total deposits as of end of 2013 belonging to 1,319 thousand depositors with an average deposit value of USD 829. The percentage of fully insured depositors was 91.7 percent of total depositors whose deposits were subject to the provisions of the Law by the end of 2014.

Fully insured depositors represented 91.7 percent of total depositors whose deposits were subject to the provisions of the PDIC's Law as at end of 2014.

Fully insured deposits represented 14.8 percent of total deposits subject to the provisions of the PDIC's Law as at end of 2014.

Partially insured deposits

Deposits subject to the provisions of the Law in excess of a value of USD 10,000 or its equivalent in other currencies –that is partially insured deposits- amounted to about USD 6,922 million by end of 2014, compared to USD 6,490 million by end of 2013, constituting 85.2 percent of total deposits subject to the provisions of the Law.

These deposits belonged to about 121 thousand depositors, constituting 8.3 percent of total depositors whose deposits were subject to the provisions of Law, with an average deposit value of USD 57,138 by the end of 2014, compared to 113 thousand depositors with an average deposit value of USD 57,631 by as end of 2013.

Partially insured depositors represented 8.3 percent of total depositors whose deposits were subject to the provisions of the PDIC's Law at end of 2014

Partially insured deposits represented 85.2 percent of total deposits subject to the provisions of the PDIC's Law as at end of 2014

Deposits in the Palestinian Banking System
Prompt reimbursement

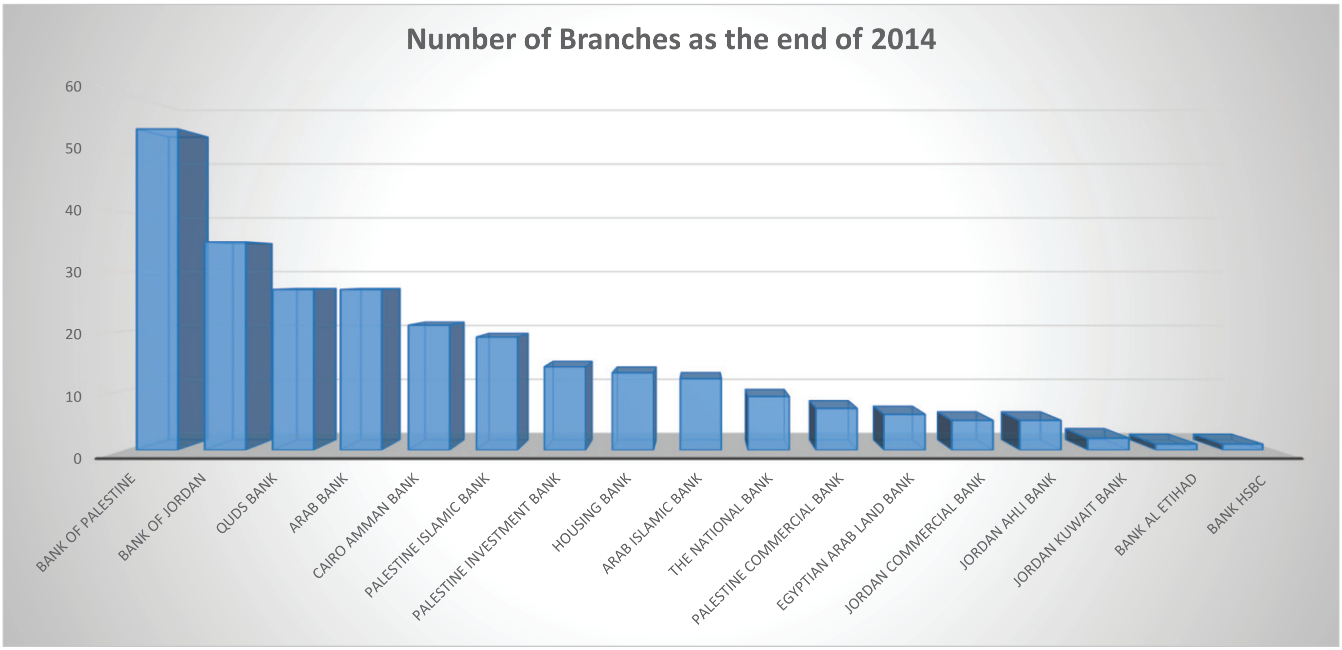
The concentration of prompt reimbursement value with the largest bank stood at 27 percent as of end 2014, 52 percent for the two largest banks and 70 percent for the three largest banks.

The main indicators of customer deposits and depositors at members banks, (2009-2014)							
	9-Dec	**10-Dec**	**11-Dec**	**12-Dec**	**13-Dec**	**14-Dec**	**Growth rate**
Total deposits of the banking system (USD million)	6,296.8	6,802.4	6,972.5	7,484.2	8,303.7	8,934.5	7.6%
Total depositors in the banking sector (in thousand)	1,216	1,414	1,416	1,464	1,435	1,467	2.2%
Average deposit value for total depositors in the banking sector (USD)	5,177	4,810	4,922	5,112	5,786	6,091	5.3%
Deposit subject to provisions of PDIC's law (USD million)	5,748	6,092	6,381	6,828	7,583	8,120	7.1%
Number of depositors supject to provisions of PDIC's (in thousand)	1,212	1,410	1,412	1,460	1,431	1,463	2.2%
Average deposit value for depositors whose deposits are subject to the provisions of PDIC's law (USD)	4,743	4,319	4,519	4,678	5,297	5,550	4.8%
Deposits subject to the provisions of PDIC's law to total deposits of the banking sector (%)	91.3%	89.6%	91.5%	91.2%	91.3%	90.9%	-0.5%
Immediate compensation value (USD million)	1,940	2,183	1,997	2,093	2,219	2,409	8.6%
Fully insured deposits (All deposits that are less than or equal to the coverage limit) (USD million)	990	1,079	1,040	1,048	1,093	1,198	9.6%
Numbers of fully insured depositors (in thousand)	1,117	1,300	1,316	1,355	1,319	1,342	1.7%
Average deposit value for partially insured (USD)	886	830	790	773	829	893	7.7%
Partially insured deposits (all deposit that are exceeded the coverage limit) (USD million)	4,759	5,013	5,341	5,781	6,490	6,922	6.7%
Number of partially insured depositors (in thousand)	95	110	96	105	113	121	7.6%
Average deposit value for partially insured depositors (USD million)	50,055	45,423	55,814	55,306	57,631	57,138	-0.9%
Fully insured deposits to total deposit subject to the provisions of the law (%)	17.2%	17.7%	16.3%	15.3%	14.4%	14.8%	2.4%
The ratio of partially insured deposits to total deposit subject to the provisions of the law of deposits (%)	82.8%	82.3%	83.7%	84.7%	85.6%	85.2%	-0.4%
Fully insured depositors to the total number of depositors, who are subject to provisions of the law (%)	92.2%	92.2%	93.2%	92.8%	92.1%	91.7%	-0.4%
Partially insured depositors to the total number of depositors, who are subject to provisions of the law (%)	7.8%	7.8%	6.8%	7.2%	7.9%	8.3%	5.3%
The concentration of deposit subject to provisions of the law held by member bank (the largest two share) (%)						52%	
The concentration of deposits subject to provisions of the law held by member bank (the largest three share) (%)						70%	

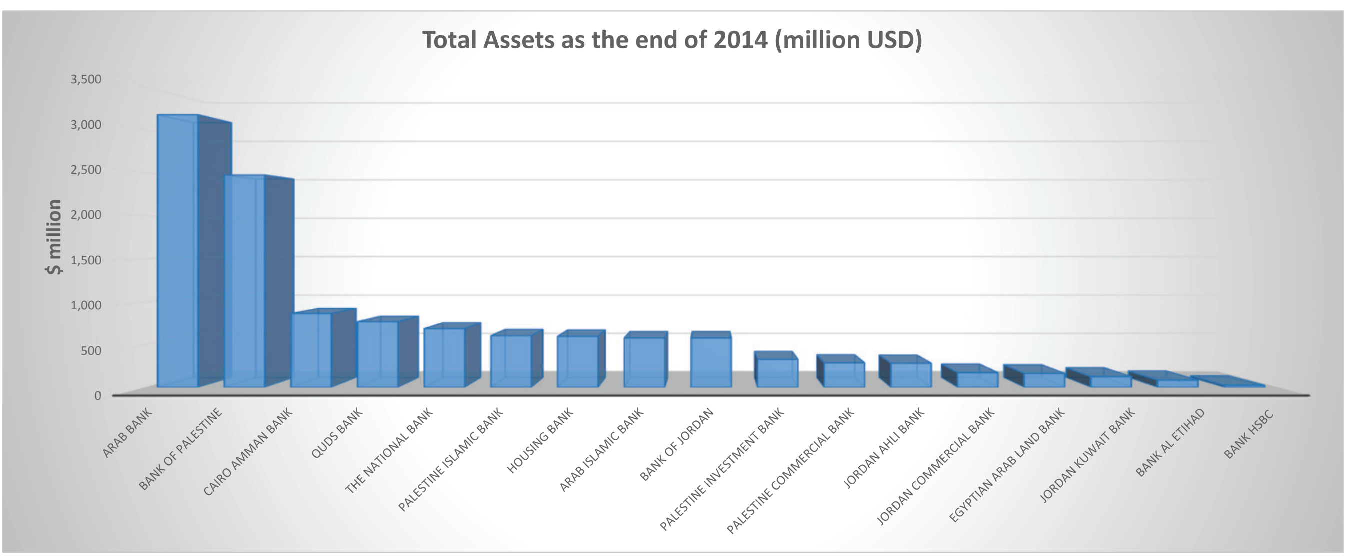
Performance of Member Banks

Despite the hard financial and economic conditions facing the Palestinian economy, during the past years and the repercussions of the latest war on the Gaza Strip, key financial indicators for the 17 banks operating in Palestine for the year 2014 showed an improved performance compared with the 2013 results, owing to the measures and decisions made by the PMA in 2014. The PMA's measures and decisions, alongside the supervisory instructions and stringent measures it advocates in line with best international practices, ensured maintaining financial stability in Palestine. This enabled banks to improve on their financial position in particular, and contribute to a stable banking system in general. Following is a summary of the most significant developments in the member banks' financial performance indicators:

The member banks			
Operating Banks in Palestine as the end of 2014	**year of establishment**	**Branch & offices at the end of 2014**	**Total assets at end of 2014 (USD million)**
Bank of Palestine	1960	54	2,475.2
Palestine Commercial Bank	1994	7	287.8
Palestine Investment Bank	1995	14	329.1
Arab Islamic Bank	1996	12	580.3
Palestine Islamic Bank	1997	19	607.2
Quds Bank	1995	27	772.1
The National Bank	2006	9	690.6
foreign bank			
Cairo Amman Bank	1986	21	867.5
Arab Bank	1994	27	3,174.6
Bank Of Jordan	1994	35	580.7
Egyptian Arab Land Bank	1994	6	162.9
Jordan Commercial Bank	1994	5	171.7
Jordan Ahli Bank	1995	5	283.5
Housing Bank	1995	13	599.4
Jordan Kuwait Bank	1995	2	125.4
Bank AL Etihad	1995	1	84.1
Bank HSBC	1998	1	23.4



Number of Branches as the end of 2014
60
50
40
30
20
10
0
BANK OF PALESTINE
BANK OF JORDAN
QUDS BANK
ARAB BANK
CAIRO AMMAN BANK
PALESTINE ISLAMIC BANK
PALESTINE INVESTMENT BANK
HOUSING BANK
ARAB ISLAMIC BANK
THE NATIONAL BANK
PALESTINE COMMERCIAL BANK
EGYPTIAN ARAB LAND BANK
JORDAN COMMERCIAL BANK
JORDAN AHLI BANK
JORDAN KUWAIT BANK
BANK AL ETIHAD
BANK HSBC

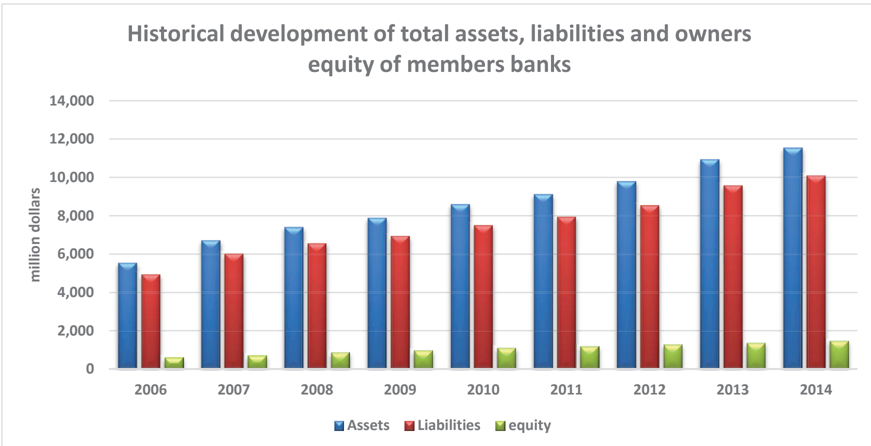


Total Assets as the end of 2014 (million USD)
$ million
3,500
3,000
2,500
2,000
1,500
1,000
500
0
ARAB BANK
BANK OF PALESTINE
CAIRO AMMAN BANK
QUDS BANK
THE NATIONAL BANK
PALESTINE ISLAMIC BANK
HOUSING BANK
ARAB ISLAMIC BANK
BANK OF JORDAN
PALESTINE INVESTMENT BANK
PALESTINE COMMERCIAL BANK
JORDAN AHLI BANK
JORDAN COMMERCIAL BANK
EGYPTIAN ARAB LAND BANK
JORDAN KUWAIT BANK
BANK AL ETIHAD
BANK HSBC

1. Total assets of banks operating in Palestine amounted to around USD 11,535.5 million by the end of 2014 compared to USD 10,925.1 million by the end of the previous year, increasing by USD 610.4 million, the equivalent of a 5.6 percent increase, compared to an increase of USD 1,133.9 million or an 11.6 percent increase by the end of the year 2013.

2. Total liabilities for banks operating in Palestine reached about USD 10,071.5 million by the end of 2014 compared to USD 9,565.2 million by the end of 2013, increasing by USD 506.3 million, the equivalent of 5.3 percent, compared to an increase of USD 1,030.5 million or a 12.1 percent increase by the end of the previous year.

3. Total owners equity for banks operating in Palestine reached around USD 1,464 million by the end of 2014 compared to USD 1,359.9 million by the end of 2013, increasing by USD 104.1 million or the equivalent of a 7.7 percent increase, compared to an increase of USD 103.3 million or the equivalent of an 8.2 percent increase in the previous year.



Structure of Assets and Liabilities

- Total deposits of banking system customers reached around USD 8,934.5 million by the end of 2014, compared to USD 8,303.7 million by end of 2013, increasing by USD 630.8 million or the equivalent of 7.6 percent. These deposits represented 88.7 percent of total liabilities in 2014 compared to 86.8 percent in 2013.

- Granted direct credit facilities (net) reached about USD 4,818.5 million by end of 2014, compared to USD 4,404.1 million by end of 2013, increasing by USD 414.3 million or the equivalent of 9.41 percent,. Direct credit facilities represented 40.6 percent of total assets by the end of 2014, compared to 39.4 percent by end of the previous year.

- Member banks' investments in financial assets (stocks and bonds) inside Palestine and abroad reached about USD 1,127 million by end of 2014, compared to USD 1,006.9 million by end of 2013, increasing by USD 120.1 million or the equivalent of 11.9 percent. Investments represented 9.8 percent of total assets in the year 2014, compared to 9.2 percent in the previous year.

- Off- balance sheet items (indirect credit facilities) reached about USD 1,200.2 million by the end of 2014 compared to USD 1,001.1 million end of 2013, increasing by USD 199.1 million or the equivalent of 19.9 percent. These off-balance sheet items represented 10.4 percent of the total assets of banks operating in Palestine by the end of 2014, compared to 9.2 percent at end of 2013.

Credit facilities portfolio

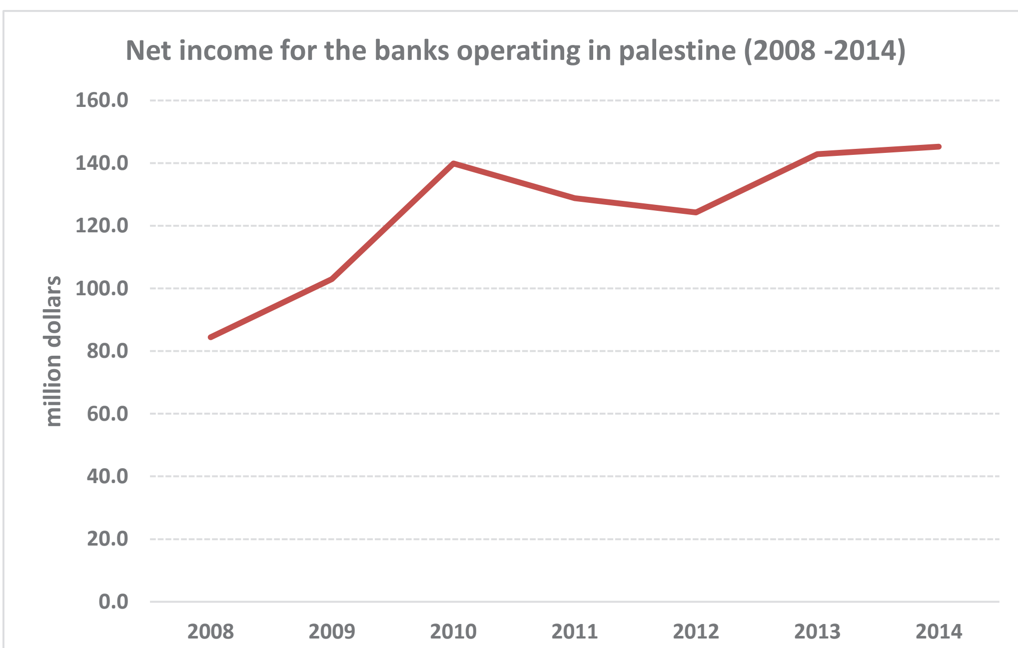
- The ratio of non - performing loans to direct credit facilities was 2.5 percent for banks operating in Palestine by end of 2014, compared to 2.9 percent end of 2013.
- The percentage of loan loss provisions to non-performing facilities was about 61.4 percent for the banking system in Palestine at end of 2014, compared to 58.8 percent at end of 2013.
- Loan loss provisions to interest revenues (net) was about 5.5 percent by end of 2014, compared to 8.3 percent by end of 2013.
- Credit facilities granted to related parties to total credit facilities was about 4.62 percent for the year 2014, compared to 3.51 percent for the year 2013.

Capital Adequacy Ratio

The capital adequacy ratio for the overall banking system was about 18.94 percent for the year 2014 compared to 19.99 percent for the year 2013. PMA instructions set the minimum requirement for capital adequacy ratio at 12 percent, while Basel II requires a minimum ratio of 8 percent.

Profitability

- As for the income statement, net profits before taxes for the banking system by end of 2014 totalled USD 196.1 million, compared to USD 201.2 million, at end of 2013, marking a drop of USD 5.1 million or the equivalent of 2.6 percent.
- Income before taxes to average total assets of the banking system reached 1.72 percent for the year 2014 compared to 1.94 percent for the previous year.
- Income before taxes to average total equity of the banking system reached about 17.11 percent for the year 2014, compared to 18.73 percent for the previous year.



(The main Financial Performance Indicators for Member Banks) (2010-2014)					
Ratio	**2010**	**2011**	**2012**	**2013**	**2014**
Direct credit facilities (net) to total assets	32.1%	37.4%	41.0%	39.4%	40.8%
Investments in financial assets to total assets	10.6%	10.4%	8.8%	9.0%	9.5%
Non-performing loans to total direct loans	3.1%	2.8%	3.1%	2.9%	2.5%
Loan loss provisions to net interest income	9.2%	9.2%	13.9%	8.3%	5.5%
Capital adequacy ratio	21.4%	21.1%	20.3%	20.0%	18.9%
Return on average assets (before tax)	2.1%	1.9%	1.8%	1.9%	1.7%

The PDIC's Strategic Plan

PDIC performs its formal duties and responsibilities within the frame of a strategic plan in order to fulfill strategic and national goals to protect depositors' funds, promote public confidence in the banking system and encourage saving; this would contribute to the promotion of the stability and soundness of the national economy, and realize the targeted level of reserves, equal to 3 percent of total deposits subject to the provisions of the Law.

To bolster its strategic plan, PDIC will be preparing a medium-run financial program that is based on two sets of measurement indicators. **The first set** includes guiding indicators for variables that do not fall within the scope of the PDIC's control but basically and effectively impact the fulfillment of its duties such as the growth rate for deposits subject to the provisions of the Law. **The second set** includeds institutional performance indicators which reflect the real performance of PDIC and represent variables that fall within the scope of the PDIC's and impact the fulfillment of its duties such as the return on the PDIC's investments and its expenditures and expenses.

PDIC would perform a comprehensive yearly revision of these indicators and update the assumptions in light of the developments in the economy in general and PDIC's operations in specific. Most importantly, these assumptions relate to the yearly growth of deposits and the membership fees collected from member banks annually.

It is worth noting that medium-term indicators that have been also adopted rely on data for deposits and depositors on past years, and will help establish an average basis for these variables growth rates.

Initial results of the strategic plan indicate the possibility to achieve the targeted level of reserve, equal to 3% of total deposits subject to the provisions of the PDIC's Law by year 2023

Medium-term Performance Key Indicators

Item	Actual	Expected					
	2014	2015	2016	2017	2018	2019	2020
Deposit subject to the provisions of PDIC's Law (million dollars)	8,119.8	8,789.8	9,515.1	10,300.3	11,150.2	12,070.2	13,066.2
Immediate compensation value (US $ million)	2,409.5	2,526.0	2,648.1	2,776.1	2,910.4	3,051.1	3,198.6
The PDIC's reserves (US $ million)	21.64	48.70	78.86	112.00	148.40	188.31	232.05
The PDIC's reserves to deposits subject to the provisions of the law (%)	0.267%	0.554%	0.829%	1.087%	1.331%	1.560%	1.776%
The PDIC's reserves to immediate compensation value (%)	0.9%	1.9%	3.0%	4.0%	5.1%	6.2%	7.3%
Target reserve to immediate compensation value (%)	10.1%	10.4%	10.8%	11.1%	11.5%	11.9%	12.3%
Immediate compensation value to deposits subject to provisions of the law (%)	29.7%	28.7%	27.8%	27.0%	26.1%	25.3%	24.5%

Public awareness

During 2014, PDIC concentrated its efforts on raising public awareness of the deposit insurance system in the West Bank (WB) and the Gaza Strip through a wide-ranging campaign which employed various audio-visual and electronic tools under the logo "Your cash in the bank is safe, we are the guarantee". Additionally, PDIC made efforts to reinforce relations with member banks, being the main channel of communication with the public. In collaboration with the banks, instructive signs were installed at banks informing the public that the bank was a PDIC member bank. Moreover, informative brochures were distributed through bank branches and offices across different governorates.

PDIC is keen on acquainting the public with latest news and updates through its electronic website and timely press releases. It also emphasized direct awareness-raising activities, most importantly the organization of awareness lectures in Palestinian universities.

PDIC's future plans include other advertisement and media campaign aimed at encouraging saving and promoting the corporate identity of PDIC.

International and regional communication

PDIC obtained full membership of the International Association of Deposit Insurers (IADI) in November 2013. It has also obtained the membership of the IADI MENA Regional Committee. Since its foundation, PDIC participated in several regional and international conferences and specialized seminars in the area of deposit insurance. Several visits were conducted to gain knowledge of the experiences of other deposit insurance institutions. Within this framework, PDIC participated in a seminar on deposit systems and a technical seminar on the development of risk-based systems. In addition, PDIC completed a comprehensive self-assessment of the compliance with the 18 core principles for effective deposit insurance system issued by IADI and Basel Committee on Banking Supervision (BCBS)

Palestine Deposit Insurance Corporation
Ramallah-Palestine

Financial Statements and
Independent Auditors Inception
for the period from Inception
(November 07, 2013) to December 31,2014

Deloitte.

Deloitte & Touche (M.E.)
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www.deloitte.com/middleeast

Independent Auditor's Report

Messers Chairman and Members of the Board of Directors
Palestine Deposit Insurance Corporation
Ramallah - Palestine

Report on the financial statements
We have audited the accompanying financial statements of **Palestine Deposit Insurance Corporation - (the "Corporation")**, Which comprise the statement of financial position as of December 31, 2014, and the statement of income, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the period from inception (November 07, 2013) to December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of law No (7) for the year 2013 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.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Deloitte.

Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Palestine Deposit Insurance Corporation** as of December 31, 2014, its financial performance and its cash flows for the period from inception (November 07, 2013) to December 31, 2014 in accordance with International Financial Reporting Standards and in conformity with the provisions of law No. (7) for the year 2013 related to the incorporation of Palestine Deposit Insurance Corporation.

Report on other legal and regulatory requirements

The Corporation maintains proper books of account and the financial statements are in agreement therewith. According to the information available to us, nothing has come to our attention that caused us to believe that there were contraventions during the period, of Law No. (7) for the year 2013, which might have a material effect on its financial performance or its financial position as at 31 December 2014, except for non-compliance with the provisions of Article No (14) of law No. (7), which states that the "Government contribution in the share capital of the corporation amounting to USD 20 million should be paid within 30 days from the effective date of the law". As of 31 December 2014, the Government contributed the amount of USD 2 million.

We have obtained from management all the information and explanations which we considered necessary for the purpose of our audit.

Deloitte & Touche (M.E.)

Deloitte & Touche M.E

Ramallah:
March 30, 2015

Palestine Deposit Insurance Corporation
Ramallah - Palestine

Statement of Financial Position
As of December 31, 2014

	Note	2014 USD
ASSETS		
Balances with Banks and Palestine Monetary Authority	5	19,029,622
Contributions and Membership Fees Receivable	6	6,107,451
Other Current Assets		15,702
Property and Equipment , Net	7	217,592
Total Assets		**25,370,367**
LIABILITIES AND EQUITY		
Liabilities		
Other Current Liabilities		16,815
Provision for Employees' Benefits	8	12,752
Total Liabilities		**29,567**
Equity		
Share Capital	9	3,700,000
Reserves:		
Islamic Banks Reserves	10	2,233,363
Commercial Banks Reserves	10	19,407,437
		21,640,800
Total Equity		**25,340,800**
Total Liabilities and Equity		**25,370,367**

The Accompanying Notes from "1" to "14" Form an Integral Part of These Financial Statements

Palestine Deposit Insurance Corporation
Ramallah - Palestine

Statement of Income
For the Period from Inception (November 07, 2013) to December 31, 2014

	Note	2014 USD
Membership Fees	11	22,210,700
Other Revenue		37,528
Total Revenue		**22,248,228**
Employees Expenses		(60,767)
Depreciation	7	(6,663)
General and Administrative Expenses	12	(268,233)
Foreign Exchange Loss		(271,765)
Total Expenses		**(607,428)**
Net Surplus for the Period		**21,640,800**

The Accompanying Notes from "1" to "14" Form an Integral Part of These Financial Statements

Palestine Deposit Insurance Corporation
Ramallah - Palestine

Statement of Comprehensive Income
For the Period from Inception (November 07, 2013) to December 31, 2014

	2014 USD
Net Surplus for the Period	21,640,800
Other Comprehensive Income	-
Total Comprehensive Income for the Period	**21,640,800**

The Accompanying Notes from "1" to "14" Form an Integral Part of These Financial Statements

Palestine Deposit Insurance Corporation
Ramallah - Palestine

Statement of Changes in Equity
For the Period from Inception (November 07, 2013) to December 31, 2014

	Share Capital USD	Reserves USD	Total Equity USD
Beginning Balance	-	-	-
Paid in Capital	3,700,000	-	3,700,000
Total Comprehensive Income for the Period	-	21,640,800	21,640,800
Balance as of 31 December 2014	**3,700,000**	**21,640,800**	**25,340,800**

The Accompanying Notes from "1" to "14" Form an Integral Part of These Financial Statements

Palestine Deposit Insurance Corporation
Ramallah - Palestine

Statement of Cash Flows
For the Period from Inception (November 07, 2013) to December 31, 2014

	Note	2014 USD
Operating Activities		
Net Surplus for the Period		**21,640,800**
Adjustments :		
Depreciation	7	6,663
Provision for End of Service Benefits		4,043
Provision for Provident Fund Benefits		5,367
Cash Flow before Changes in Operating Assets and Liabilities		**21,656,873**
(Increase) Decrease in Operating Assets		
Contributions and Membership Fees Receivable		(6,107,451)
Other Current Assets		(15,702)
Increase (Decrease) in Operating Liabilities		
Other Current Liabilities		16,815
Accrued Leave Expenses		3,342
Cash Flow from Operating Activities		**15,553,877**
Investing Activities		
Purchase of Property and Equipment		(224,255)
Cash (Used in) Investing Activities		**(224,255)**
Financing Activities		
Paid in Capital		3,700,000
Cash Flow from Financing Activities		**3,700,000**
Net Increase in Cash and Cash Equivalent	5	**19,029,622**
Cash and Cash Equivalent at Beginning of the Period		-
Cash and Cash Equivalent at End of the Period		**19,029,622**

The Accompanying Notes from "1" to "14" Form an Integral Part of These Financial Statements

Palestine Deposit Insurance Corporation
Ramallah - Palestine

Notes to the Financial Statements
For the Period from Inception (November 07, 2013) to December 31, 2014

1. General

The Palestinian Deposit Insurance ("The Corporation") was established by virtue of the Presidential Decree Law No. (7) for the year 2013 (the "Law"), issued on May 29, 2013 by the President of the State of Palestine; and the Chairman of the Executive Committee of the Palestine Liberation Organization, and became effective on November 7, 2013.

Equity of the Corporation:
Equity of the Corporation consists of the following:

- The government's contribution of US $ 20 million or its equivalent, to be paid within thirty days from the effective date of the "law".
- Non-refundable incorporation fees of US $ 100,000 or its equivalent to be paid by each member during a maximum period of fifteen days from the joining date in the Corporation.
- As per Article No. (20) of the "law", the reserves that are accumulated by the corporation should be used to achieve its objectives and should not be less than 3% of the total deposits subject to the provisions of the law.

Sources of funding of the corporation
Sources of funding of the corporation consist of the following:

- Annual membership fees paid by members of the Corporation on a quarterly basis in accordance with directives issued by the Board of Directors.
- Investment returns.
- Loans obtained by the Corporation under the provisions of the "Law".
- Grants received by the Corporation and approved by the Board of Directors.

The objectives of the Corporation is to protect customers' deposits' held with member banks in order to encourage savings and strengthen confidence in the Palestinian banking system.

Number of staff of the Corporation as of 31 December 2014 was (3) employees.

These financial statements are the first audited financial statements issued by the Corporation.

The financial statements were approved by the Board of Directors and authorized for issuance on May 18, 2015.

Notes to the Financial Statements (Continued)
For the Period from Inception (November 07, 2013) to December 31, 2014

2. New and Amended Standards (IFRSs) and Interpretations

2.1 New and revised IFRSs in issue but not yet effective and not early adopted

The Corporation has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
• International Financial Reporting Standard (IFRS) 9 Financial Instruments (2014) issued in July 2014 the final draft of this standard, specifically it introduced the following: 1- The new classification for debt instruments owned for the purpose of collection of cash flows with the possibility of sale, these are classified as financial assets at fair value through other comprehensive income. 2- The application of the anticipated loss model for the calculation of impairment loss of financial assets according to three levels starting from the determination of impairment loss during the twelve months following the preliminary recognition date of credit facilities then to determine impairment loss in case of material increase of credit facilities risks and before these credit facilities to be non performing and the final stage when these credit facilities become actually non performing.	1 January 2018
• IFRS 15 Revenue from Contracts with Customers	1 January 2017
• Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.	1 July 2016
• Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortization.	1 January 2016
• Amendments to IFRS 11 to clarify accounting for acquisitions of Interests in Joint Operations.	1 January 2016
• Amendments to IAS 16 and IAS 41 require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16.	1 January 2016

2. New and Amended Standards (IFRSs) and Interpretations (Continued)

2.1 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

	Effective for annual periods beginning on or after
• Amendments to IFRS 10 and IAS 28 clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business.	1 January 2016
• Amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity's separate financial statements.	1 January 2016
• Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities.	1 January 2016
• Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.	1 January 2016
• Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24.	1 July 2014
• Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.	1 July 2014
• Amendments to IAS 19 Employee Benefits clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.	1 July 2014

Management anticipates that these new standards, interpretations and amendments will be adopted in the Corporation's financial statements for the period beginning 1 January 2015 or as and when they are applicable and adoption of the new standards, interpretations and amendment, will not have material impact on the financial statements of the Corporation in the period of initial application.

Notes to the Financial Statements (Continued)
For the Period from Inception (November 07, 2013) to December 31, 2014

3. Significant Accounting Policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in accordance with the law number (7) for the year 2013 related to the incorporation of Palestine Deposit Insurance Corporation.

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets and services.

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, regardless of whether the price is directly observable or estimated using anther valuation technique. In estimating the fair value of an asset or a liability the entity takes into account the characteristic of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purpose in these consolidated financial statement is determined on such a basis, except to share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurement that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

The financial statements are presented in U. S. Dollars being the functional and presentation currency.

3.3 Revenue recognition

Revenue is recognized to the degree that economic benefits flows to the corporation and the revenue could be measured reliably. Revenues are recognized on an accrual basis. Each member pays the membership fees on a quarterly basis according to the corporation law. Membership fees percentage is set between 0.03% to 0.08% as a maximum, from total deposits that are subject to the provisions of the law. The corporation board of directors has the authority to review these annual membership fees and modify them accordingly.

3.4 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

Depreciation is computed using the straight line method when the asset is ready for use. The useful lives considered in the calculation of depreciation for the assets are as follows:

	Useful Life	Depreciation Rate
Office equipment	3 years	33%
Furniture and fixture	5 years	20%
Leasehold improvements	7 years	14%

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Notes to the Financial Statements (Continued)
For the Period from Inception (November 07, 2013) to December 31, 2014

3. Significant Accounting Policies (Continued)
3.4 Property and equipment (Continued)

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

3.5 Impairment of tangible assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Corporation of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.6 Provision for employees' end of service benefits

End of service indemnity is computed in accordance with the prevailing labor law in Palestine. The provision is charged to the statement of income, while indemnities actually paid to staff are booked against the related provision account.

Notes to the Financial Statements (Continued)
For the Period from Inception (November 07, 2013) to December 31, 2014

3. Significant Accounting Policies (Continued)

3.7 Provident Fund

In addition to the severance pay, the Corporation established a provident fund scheme for its employees. The Corporation and employees contributions to the scheme are 12% and 6% respectively of monthly basic salaries.

3.8 Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3.9 Foreign currencies

The financial statements are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Corporation are expressed in United States Dollar ("US. Dollar"), which is the functional currency of the Corporation and the presentation currency for the financial statements.

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions issued by Palestine Monetary Authority (PMA). Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in the profit or loss in the period in which they arise. The rates of exchange of the major currencies as of December 31, 2014 are as Follows:

	USD 2014
NIS	0.256
JOD	1.410
EURO	1.210

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Notes to the Financial Statements (Continued)
For the Period from Inception (November 07, 2013) to December 31, 2014

3. Significant Accounting Policies (Continued)

3.10 Financial assets

Financial assets of the Corporation consist of banks balances and deposits held with PMA and other receivables (except for prepayments and advances to employees') those assets are classified as cash and cash equivalent and loans and advances. The classification depends on the nature and purpose of these assets and is determined at the time of initial recognition.

Cash and cash equivalents
Cash and cash equivalents, which include cash on hand and deposits held with banks with original maturities of three months or less, and short term investments which are highly liquid and are convertible to cash and are not subject to risk of change in fair value.

Accounts receivable and membership receivables

Accounts receivable that have fixed or determinable payments that are not quoted in an active market are classified as 'receivables'. Accounts receivables are initially measured at fair value plus transaction costs, and subsequently measured at amortized cost using the effective interest method less any impairment.

Impairment of financial assets

At the end of the reporting period, the corporation reviews the carrying amounts of its tangible and intangibles assets to determine whether there is any indication that those assets have suffered an impairment loss if any such indications exist, the recoverable amounts of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.
For financial assets carried at amortized cost. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables. Where the carrying amount is reduced through the use of an allowance account when a trade receivable is considered uncollectible, it is written off against the allowance account Subsequent recoveries of amount previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

3. Significant Accounting Policies (Continued)

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

3.11 Financial liabilities

Other payables except for contribution from banks, and expenses paid in advance) are classified as other financial liabilities.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis except of short term payables when the recognition of interest is immaterial.

Derecognition of financial liabilities

The Corporation derecognizes financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Corporation's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Management believes that judgements and estimates made is reasonable and detailed as follows:

End of service Indemnity is calculated according to the applicable Labor Law in Palestine.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial position date. In the event that the recoverable amount of any fixed asset is less than its net book value, the value of the fixed asset is reduced to its recoverable amount, and the impairment in value is taken to the statement of income.

Management periodically reviews lawsuits raised against the corporation and recognizes the necessary related provisions based on a legal evaluation prepared by the corporation's legal counsel.

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Notes to the Financial Statements (Continued)
For the Period from Inception (November 07, 2013) to December 31, 2014

5. Balances with Banks and Palestine Monetary Authority

	Banks and Financial Institutions 2014 USD	Palestine Monetary Authority 2014 USD	Total 2014 USD
Current Accounts (Commercial Banks)	49,719	11,653,745	11,703,464
Current Accounts (Islamic Banks)	--	1,734,611	1,734,611
Deposits maturing within 3 months (Commercial Banks)	1,009,047	4,582,500	5,591,547
	1,058,766	**17,970,856**	**19,029,622**

6. Contributions and Membership Fees Receivable

Contributions and membership fees receivable amounting to USD 6,107,451 as of 31 December 2014 represent the accrued contributions and membership fees for the fourth quarter of 2014.

7. Property and Equipment, Net

2014	Leasehold improvements USD	Furniture and Fixture USD	Office Equipment USD	Total USD
Cost				
Beginning Balance	--	--	--	--
Additions	120,058	35,808	68,389	224,255
Ending Balance	**120,058**	**35,808**	**68,389**	**224,255**
Accumulated Depreciation				
Beginning Balance	--	--	--	--
Depreciation	921	1,595	4,147	6,663
Ending Balance	**921**	**1,595**	**4,147**	**6,663**
Property and Equipment - Net	**119,137**	**34,213**	**64,242**	**217,592**

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Notes to the Financial Statements (Continued)
For the Period from Inception (November 07, 2013) to December 31, 2014

8. Provision for Employees' Benefits

	2014 USD
Employees End of Service Provision	4,043
Employees Provident Fund	5,367
Accrued Leave	3,342
	12,752

9. Share Capital

The Corporation's legal capital consists of the Palestinian government's contribution of USD 20 million or its equivalent in addition to a non-refundable incorporation fee of USD 100,000 or equivalent from each member in the corporation.

According to Article No. (14) of Law No. (7) for the year 2013, Government's contribution must be paid within thirty days effective from November 7, 2013. The Government contributed USD 2 million out of the required USD 20 million. In addition, members must pay the incorporation fee of USD 100,000 per member starting from the date of joining the corporation.

Details of the paid-in capital are as follows:

	2014 USD
Government Contribution	2,000,000
Members Contributions – Incorporation Fees	1,700,000
	3,700,000

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Notes to the Financial Statements (Continued)
For the Period from Inception (November 07, 2013) to December 31, 2014

10. Reserves

According to the Corporation's Law No. (7) for the year 2013, the Corporation must accumulate reserves of not less than 3% of total deposits that are subject to the provisions of this law. The reserve will be used to achieve the corporation objectives.

The Corporation reserves consist of the annual membership fee paid by the members, the return on the investments and any other returns net of the corporation's expenses.

Expenses were allocated to the Commercial and Islamic Banks' reserves as follows:

Composition of commercial and Islamic banks' reserves balance as at December 31, 2014 as follows:

	Commercial Banks 2014 USD	Islamic Banks 2014 USD	Total 2014 USD
Membership Fee and Other Revenues	19,952,178	2,296,050	22,248,228
Expenses	(544,741)	(62,687)	(607,428)
Net Surplus	**19,407,437**	**2,233,363**	**21,640,800**

Notes to the Financial Statements (Continued)
For the Period from Inception (November 07, 2013) to December 31, 2014

11. Membership Fees

	2014 USD
Commercial Banks Membership Fees	19,914,650
Islamic Banks Membership Fees	2,296,050
	22,210,700

This item represents banks' annual membership fees paid to the Corporation at the rate at 0.03% of the total deposits that are subject to the provisions of the law as of 31 December 2014.

The following deposits are excluded from the deposits that are subject to membership fees according to the provisions of the law:

- Government deposits
- Palestine Monetary Authority deposits
- Deposits between members banks and other financial institutions
- Cash collaterals within the limits of value of the facilities guaranteed by the said collaterals
- Members related parties' deposits according to the provisions of the financial institutions law.
- Deposits of auditors /or the Sharia supervisory boards of Islamic banks.
- Restricted investments deposits according to the board of directors instructions.

During the period ended December 31, 2014, the Board of Directors, and in accordance with the authority given by the law, resolved to fix the membership fees at 0.03% of the total deposits that are subject to the provisions of law.

12. General and Administrative Expenses

	2014 USD
Advertising	95,320
Board of Directors' Remuneration	32,400
Travel, Transportation and Accommodation	29,012
Rent	51,313
Professional Fees	4,640
Electricity and Water	1,922
Stationary and Publications	1,450
Membership Fees	32,778
Cleaning	3,140
End of Service Indemnity	4,043
Provident Fund Contribution	3,578
Mail, Telephone and Internet	1,485
Others	7,152
	268,233

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Notes to the Financial Statements (Continued)
For the Period from Inception (November 07, 2013) to December 31, 2014

13. Related Parties Transactions

Related parties consist of associate institutions and members of the Board of Directors and key management personnel.

The Palestinian Government and public institutions in Palestine are also related parties to the Corporation.

Transactions with related parties are follows:

	2014 USD
Investment returns on time deposits held with PMA	26,051

14. Risk Management

Risk management of operations, measurement and monitoring of risks is done on regular basis with the objective to maintain risks within acceptable level. All tasks and responsibilities related to such risk are distributed among the corporation employees. The corporation is exposed to liquidity and market risk, in addition to operation risk. Risk management related to changing factors and to technological factors, is done through strategic planning and not through regular risk management processes.

Risk Management process

Ultimate responsibility for risk management rests with the Board of Directors.

Risk Committee

The corporation risk committee is responsible for developing a strategic risk framework to set controls, allowable risk borders, and risk management.

Risk management and reporting
Risks are controlled thorough monitoring the allowed limits related to each risk. These limits reflect the corporation strategy and market factors surrounding the level of acceptable risk, with the focus on different financial sectors. Information is gathered from different departments and analyzed to assess expected risks. This information is presented to the corporation Board of Directors and Audit Committee.

Liquidity Risk Management

Liquidity risk arises when the corporation will be unable to meet a financial commitment when due.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the corporation's short-, medium- and long-term funding and liquidity management requirements. The corporation manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

Notes to the Financial Statements (Continued)
For the Period from Inception (November 07, 2013) to December 31, 2014

14. Risk Management (Continued)

Market Risk Management

The corporation's activities are exposed primarily to risks of changes in foreign currency exchange rates and interest rates. The Board of Directors sets limits for acceptable risk levels, which are monitored regularly.

a. Interest Rate Risk

Interest rate risk arises from the possibility that changes in market interest rates may affect the value of interest bearing assets. The management of the Corporation usually monitors the fluctuation in interest rates in every individual currency in order to maximize the benefits from placements through risk management strategy.

b. Foreign Exchange Risk Management

Foreign exchange risks are the risks of potential changes in the value of financial instruments due to change in foreign currencies rates. The US. Dollar is the functional currency of the Corporation. The board of directors monitors on regular basis the financial positions of foreign currencies and sets strategies to hedge such risks. The financial positions of foreign currencies are reviewed on a daily basis according to hedge strategies making sure that it is within an acceptable range.

c. Operation Risk

Operational risk is a risk of losses resulted from a failure of technological, operation or human errors. The Corporation minimize those risks through setting policies and procedures to monitor, evaluate and manage those risks. Monitoring includes the segregation of duties, reconciliations, and increase in staff awareness.

d. Other Risks

Other risks consist of compliance risk, legal risk and reputational risk. Compliance risk is managed by setting a framework of policies and procedures. Reputational risk is managed through continuous check of the corporation reputation.

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PALESTINE DEPOSIT INSURANCE CORPORATION