Palestine Deposit Insurance Corporation
Ramallah–Palestine

Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2015

Palestine Deposit Insurance Corporation
Ramallah–Palestine
December 31, 2015

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Independent Auditor's Report

To 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, 2015, the statement of income and other comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, 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 Corporation'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 Corporation'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, 2015, its financial performance and its cash flows for the year then ended, 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 2015, except for non-compliance with the provisions of Article No (14) of law No. (7), in which the Palestinian Ministry of Finance failed to pay an amount of 18 million USD out of USD 20 million which represent the Government contribution in the share capital of the corporation that should be paid within 30 days from the effective date of the law as per article No 14 of the law.

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

Deloitte & Touche M.E
Munther Al Bandak
Licence Number (114/2015)

Ramallah:
March 17, 2016

Palestine Deposit Insurance Corporation
Ramallah - Palestine

Statement of Financial Position
As of December 31, 2015

	Note	2015 USD	2014 USD
ASSETS			
Cash With Banks and Palestine Monetary Authority	5	42,761,751	19,029,622
Membership Fees Receivable	6	6,269,579	6,107,451
Other Current Assets		15,431	15,702
Property and Equipment , Net	7	234,732	217,592
Total Assets		**49,281,493**	**25,370,367**
LIABILITIES AND EQUITY			
Liabilities			
Other Current Liabilities		19,834	16,815
Provision for Employees' Benefits	8	61,257	12,752
Total Liabilities		**81,091**	**29,567**
Equity			
Paid in Capital	9	3,700,000	3,700,000
Reserves:			
Commercial Banks Reserves	10	40,660,424	19,407,437
Islamic Banks Reseves	10	4,839,978	2,233,363
Total Reserves		45,500,402	21,640,800
Total Equity		**49,200,402**	**25,340,800**
Total Liabilities and Equity		**49,281,493**	**25,370,367**

Zaher Hammouz
General Manager

Oadri Amarneh
Financial Manager

The Accompanying Notes from "1" to "16" Form an Integral Part of These Financial Statements

Palestine Deposit Insurance Corporation
Ramallah - Palestine

Statement of Income and Other Comprehensive Income
For the Year Ended December 31, 2015

	Note	2015 USD	For the Period from November 07, 2013 to December 31, 2014 USD
Membership Fees	11	24,129,791	22,210,700
Other Revenue		118,558	37,528
Total Revenue		**24,248,349**	**22,248,228**
Employees Expenses	12	(265,946)	(91,054)
Depreciation	7	(52,665)	(6,663)
Foreign Exchange Gain (Loss)		123,135	(271,765)
General and Administrative Expenses	13	(193,271)	(237,946)
Total Expenses		**(388,747)**	**(607,428)**
Surplus for the Year / Period		23,859,602	21,640,800
Other Comprehensive Income		-	-
Total Comprehensive Income for the Year / Period		**23,859,602**	**21,640,800**
Distribution of Surplus for the Year / Period			
Commercial Banks Reserves	10	21,252,987	19,407,437
Islamic Banks Reserves	10	2,606,615	2,233,363
		23,859,602	**21,640,800**

The Accompanying Notes from "1" to "16" Form an Integral Part of These Financial Statements

Palestine Deposit Insurance Corporation
Ramallah - Palestine

Statement of Changes in Equity
For the Year Ended December 31, 2015

	Paid in Capital USD	Commercial Banks Reserves USD	Islamic Banks Reserves USD	Total Equity USD
Balance as of 1 January 2015	3,700,000	19,407,437	2,233,363	25,340,800
Paid in Capital	-	-	-	-
Total Comprehensive Income for the Year	-	21,252,987	2,606,615	23,859,602
Balance as of 31 December 2015	**3,700,000**	**40,660,424**	**4,839,978**	**49,200,402**
Balance as of 7 November 2013	-	-	-	-
Paid in Capital	3,700,000	-	-	3,700,000
Total Comprehensive Income for the Period	-	19,407,437	2,233,363	21,640,800
Balance as of 31 December 2014	**3,700,000**	**19,407,437**	**2,233,363**	**25,340,800**

The Accompanying Notes from "1" to "16" Form an Integral Part of These Financial Statements

Palestine Deposit Insurance Corporation
Ramallah - Palestine

Statement of Cash Flows
For the Year Ended December 31, 2015

	Note	2015 USD	For the Period from November 07, 2013 to December 31, 2014 USD
Operating Activities			
Surplus for the Year / Period		**23,859,602**	**21,640,800**
Adjustments :			
Depreciation	7	52,665	6,663
Provision for Employees' Benefits		48,505	12,752
Cash Flow from Operating Actirites before Changes in Operating Assets and Liabilities		**23,960,772**	**21,660,215**
(Increase) in Membership Fees Receivable		(162,128)	(6,107,451)
Decrease (Increase) in Other Current Assets		271	(15,702)
Increase in Other Current Liabilities		3,019	16,815
Cash Flow from Operating Activities		**23,801,934**	**15,553,877**
Investing Activities			
Purchase of Property and Equipment		(69,805)	(224,255)
Cash (Used in) Investing Activities		**(69,805)**	**(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		**23,732,129**	**19,029,622**
Cash and Cash Equivalent at Beginning of the Year / Period		**19,029,622**	**-**
Cash and Cash Equivalent at End of the Year / Period	5	**42,761,751**	**19,029,622**

The Accompanying Notes from "1" to "16" Form an Integral Part of These Financial Statements

Notes to the Financial Statements
For the Year Ended December 31, 2015

1. General

The Palestinian Deposit Insurance Corporation ("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 within certain limits in order to encourage savings and strengthen confidence in the Palestinian banking system in addition to increase public awareness about Palestine Deposit Insurance Corporation system.

Number of staff of the Corporation as of 31 December 2015 was (11) employees, and (3) as of December 31 2014.

The financial statements have been approved by the Board of Directors and authorized for issuance according to their meeting number 2 on March 17, 2016.

2. Application of New and Revised International Financial Reporting Standards (IFRS)

2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2015, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting treatment for future transactions or arrangements.

- Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.
- Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.
- Amendments to IAS 19 *Employee Benefits* to 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.

2.2 New and revised IFRS in issue but not yet effective

The Corporation has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and Revised IFRSs	Effective for annual periods beginning on or after
IFRS 14 Regulatory Deferral Accounts	1 January 2016
Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative	1 January 2016
Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets relating to clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* relating to bearer plants	1 January 2016
Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements	1 January 2016

Notes to the Financial Statements
For the Year Ended December 31, 2015

2. Application of New and Revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (Continued)

New and Revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities	1 January 2016
Annual Improvements to IFRSs 2012 - 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016
IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- **Classification and measurement**: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

2. Application of New and Revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

- **Impairment**: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised

- **Hedge accounting**: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9	When IFRS 9 is first applied
IFRS 7 Financial Instruments: Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	When IFRS 9 is first applied
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

2. Application of New and Revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Corporation's financial statements when they are applicable and the adoption of the new standards, interpretations and amendment, will not have a material impact on the financial statements of the Corporation.

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 another 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 financial statement is determined on such a basis, except for measurement that have some similarities to fair value but are not fair value, such as value used in IAS 36.

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

3. Significant Accounting Policies (Continued)

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's 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:

	Depreciation Rate
Office equipment	33%
Furniture and fixture	20%
Leasehold improvements	14%

When the expected recoverable amount is less than the net book value, the property and equipment amount is reduced to the lower of cost or net realizable value, and any difference is charged to the statement of income and other comprehensive income.

The estimated useful lives, residual values and depreciation method are reviewed at each period 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.

3. Significant Accounting Policies (Continued)

3.5 Impairment of tangible assets (Continued)

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 indemnity

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.

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, 2015 and 2014 are as follows:

	USD 2015	USD 2014
NIS	0.25608	0.25647
JOD	1.410	1.410
EURO	1.22	1.21

Notes to the Financial Statements
For the Year Ended December 31, 2015

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). These financial assets are classified as "Loans & Accounts Receivable". The classification of financial assets 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 fees receivable

Accounts receivable that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and 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 intangible 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.

Notes to the Financial Statements
For the Year Ended December 31, 2015

3. Significant Accounting Policies (Continued)
3.10 Financial assets (Continued)

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.

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 accounts payable (except for prepaid contributions from banks, and accrued expenses) 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 are reasonable and detailed as follows:

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

Notes to the Financial Statements
For the Year Ended December 31, 2015

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

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.

5. Cash with Banks and Palestine Monetary Authority

	Banks and Financial Institutions 2015 USD	Palestine Monetary Authority 2015 USD	Cash on Hand 2015 USD	Total 2015 USD
Cash on hand	-	-	481	**481**
Current accounts (Commercial)	15,543	28,794,167	-	**28,809,710**
Current accounts (Islamic)	-	4,109,045	-	**4,109,045**
Deposits maturing with 3 months or less (Commercial)	1,030,015	8,812,500	-	**9,842,515**
	1,045,558	**41,715,712**	**481**	**42,761,751**

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

Interest rates on banks and financial institutions and Palestine Monetary Authority range from 1%-2.7%.

6. Membership Fees Receivable

Contributions and membership fees receivable amounting to USD 6,269,579 as of 31 December 2015 (USD 6,107,451 as of 31 December 2014) represent the accrued membership fees for the fourth quarter of 2015.

7. Property and Equipment, Net

2015	Leasehold Improvements USD	Furniture and Fixture USD	Software and Office Equipment USD	Total USD
Cost				
Beginning Balance	**120,058**	**35,808**	**68,389**	**224,255**
Additions	10,300	19,469	40,036	69,805
Ending Balance	**130,358**	**55,277**	**108,425**	**294,060**
Accumulated Depreciation				
Beginning Balance	**921**	**1,595**	**4,147**	**6,663**
Depreciation	17,946	10,209	24,510	52,665
Ending Balance	**18,867**	**11,804**	**28,657**	**59,328**
Property and Equipment - Net	**111,491**	**43,473**	**79,768**	**234,732**

2014	Leasehold Improvements USD	Furniture and Fixture USD	Software and 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

Notes to the Financial Statements
For the Year Ended December 31, 2015

8. Provision for Employees' Benefits

	2015 USD	2014 USD
Employees End of Service Indemnity	19,468	4,043
Employees Provident Fund	28,874	5,367
Accrued Vacations	12,915	3,342
	61,257	**12,752**

9. Paid in 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:

	2015 USD	2014 USD
Government Contribution	2,000,000	2,000,000
Members Contributions – Incorporation Fees	1,700,000	1,700,000
	3,700,000	**3,700,000**

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.

Notes to the Financial Statements
For the Year Ended December 31, 2015

10. Reserves (Continued)

Expenses were allocated to the Commercial and Islamic Banks' based on the revenue of each sector.

Composition of commercial and Islamic banks' reserves balances as of December 31, 2015 are as follows:

	Year Ended December 31, 2015		
	Commercial Banks USD	**Islamic Banks USD**	**Total USD**
Beginning Balance	19,407,437	2,233,363	**21,640,800**
Membership Fee and Other Revenues	21,599,052	2,649,297	**24,248,349**
Expenses	(346,065)	(42,682)	**(388,747)**
Surplus for the Year	**21,252,987**	**2,606,615**	**23,859,602**
Ending Balance	**40,660,424**	**4,839,978**	**45,500,402**

	Period from November 07, 2013 to December 31, 2014		
	Commercial Banks USD	**Islamic Banks USD**	**Total USD**
Beginning Balance	-	-	-
Membership Fee and Other Revenues	19,952,178	2,296,050	**22,248,228**
Expenses	(544,741)	(62,687)	**(607,428)**
Surplus for the Period	**19,407,437**	**2,233,363**	**21,640,800**
Ending Balance	**19,407,437**	**2,233,363**	**21,640,800**

11. Membership Fees

	2015 USD	For the Period from November 07, 2013 to December 31, 2014 USD
Commercial Banks Membership Fees	21,480,494	19,914,650
Islamic Banks Membership Fees	2,649,297	2,296,050
	24,129,791	22,210,700

Notes to the Financial Statements
For the Year Ended December 31, 2015

11. Membership Fees (Continued)

This item represents banks' annual membership fees paid to the Corporation at the rate of 0.03% of the total deposits that are subject to the provisions of the law as of 31 December 2015.

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

- Government and its institutions deposits.
- Palestine Monetary Authority deposits.
- Deposits between member 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 and/or the Sharia supervisory boards of Islamic banks.
- Restricted investments deposits according to the Board of Directors instructions.

12. Employees Expenses

	2015 USD	For the Period from November 07, 2013 to December 31, 2014 USD
Wages and salaries	202,825	52,713
End of service indemnity	15,425	4,043
Provident fund contribution	15,672	3,578
Travel, transportation and accommodation	22,451	27,378
Accrued vacations	9,573	3,342
	265,946	91,054

13. General and Administrative Expenses

	2015 USD	For the Period from November 07, 2013 to December 31, 2014 USD
Advertising	15,644	95,320
Board of Directors remuneration, travel and accommodation	30,843	38,533
Rent	59,833	51,313
Professional fees	24,640	4,640
Stationary and publication	7,446	1,601
Electricity and water	9,181	393
Subscriptions	15,481	32,778
Cleaning	8,923	3,140
Mail, telephone and internet	9,355	1,485
Others	11,925	8,743
	193,271	237,946

14. 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 as follows:

	For the Year ended December 31, 2015 USD	For the Period from November 07, 2013 to December 31, 2014 USD
Investment returns on time deposits held with PMA	95,683	26,051
Board of Directors remuneration, travel and accommodation	30,843	38,533

15. 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 risks, 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 in addition to other responsible parties.

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's Board of Directors and Audit Committee.

Credit Risk Management
The Corporation is not exposed to credit risk because it's cash is deposited in the Palestinian Monetary Authority and other financial institution with high credit.

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.

15. 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.

16. Comparative Figures

Some comparative figures have been reclassified to conform to the classification adopted in the current year, this did not have any effect on equity or surplus of the previous period.