

Bank of Palestine

Recent Developments and Highlights

We reiterate our buy recommendation at a target price of **USD 3.04**. Throughout the years Bank of Palestine has committed to its objectives of constant improvement and maintaining profitability. The bank grew from 30 branches, USD 850 million in assets and USD 20 million in net profit in 2007 to 50 branches, USD 1.6 billion in assets and USD 35 million in Net Income in 2011, while the ROE of the bank never dropped below %17 during the period.

Impressive Q1 2012 growth, Further growth is Expected for Q2 2012

Net credit facilities grew to USD 745 million in Q1 2012 compared to USD 720 million reported in the end of 2011, a 3.5% increase. Net income amounted to USD 13.2 million, almost similar to previous year's profit, although it should be noted that net commissions and interest income increased to USD 21 million in Q12012 compared to USD 19.83 in Q12011. The bank also won three awards in June 2012, including Euromoney's Award for excellence "Best Bank in Palestine" and CPI Financial / Banker ME " Best Bank in Palestine " and "Fastest Growing Bank in Palestine"

Future plans and expansions

The bank's strategy is to continue its growth by increasing the number of branches, sub-branches and ATMS, not only in the current cities that the bank operates in, but also to reach underserved rural areas in Palestine. The bank is also studying the possibility of expanding beyond the borders of Palestine and start oversea branches.

Key Financial Highlights

	2010	2011	Q1 2012	2012 E
# of Shares (million)	100	120	120	134
Stock Price (USD)	3.4	2.6	2.75	3.51
Interest Income (USD m)	50.58	65.48	17.96	73.34
Net income (USD m)	30.12	33.98	13.17	40.36
EPS (USD)	0.30	0.28	0.11	0.30
P/E	11.29	9.29	9.76	11.7
Sh. Equity (USD m)	163.31	194.40	209.50	211
BV per share (USD)	1.63	1.62	1.75	1.57
P/BV	2.08	1.60	1.57	2.24

Source: Bank of Palestine, Bloomberg, Awraq Investments

August 27, 2012

Recommendation: Buy

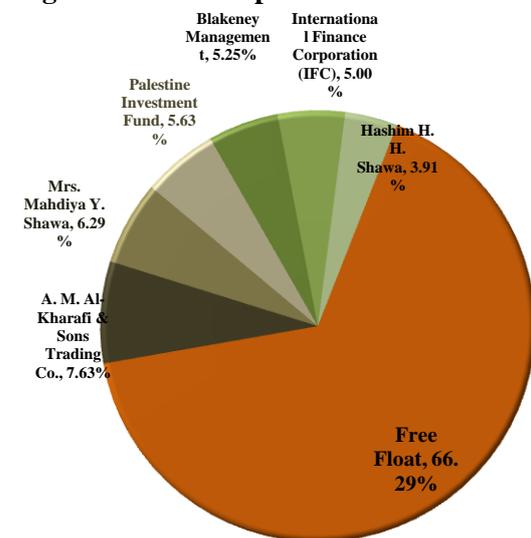
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Stock Data	
Price*	2.60
Fair Value	3.04
Market Cap (Mn)	348.400
52 Week High	3.22
52 Week Low	2.60
Bloomberg	BOP : PS
Free Float	68.61%

* Price as of 26 August 2012

Figure1: Ownership Structure



Source: BOP Annual Report

Economy Brief

The Palestinian economy made a huge break though from witnessing contraction during the beginning of this decade to constant growth during the last five years, where the average annual GDP growth was 7.7% during the period from 2007 to 2011. The economy maintained its growth even during the financial crisis even though the surrounding countries witnessed contraction or sluggish growth during the crisis.

However, this growth has been – to some extent – driven by an increase in donor aid and growth in donor funded sectors; this is evident in the decline of industry, agriculture, tourism and some other services while public administration, education, health care and electricity have grown during the last 15 years, making the sustainability of such growth a bit questionable.

The Palestinian Authority (PA) is aware to the need of reform, especially the reform of the business environment, which is evident in the actions that are taken by the government like the amendments that were introduced to investment promotion laws, which includes giving additional grants and incentives to sectors that were not included in the previous law, and the new income tax law agreed upon from both the government and the private sector, all which is expected to attract investments and create new job opportunities which will help decrease the high unemployment rate which reached 21.2% in 2011. The reform of the business environment and several other development plans are unfortunately highly dependent on the amounts of donors' assistance, since the PA has become more and more dependant on donors to fund its basic operations and cover the recurring deficit the PA is facing, forcing it to allocate most of the donors' funds to basic operations and covering deficit and leaving low amounts to development projects and sometimes force the PA to borrow from the local banks.

While there are currently lots of willing and committed donors to the Palestinian economy, the variance between the estimated time of receiving endorsements and the actual time of receiving endorsements is creating a problem for the Palestinian Authority (PA), and it is uncertain if this problem will be solved in the near future, which is a major concern for the Palestinian economy.

Tax reform plans

Initially, the government planned to introduce two new income and corporate tax brackets during 2011, the first bracket for taxable income over NIS 125,000 at 22.5% and the second one is 30% for taxable income over NIS 200,000. During 2012 the Palestinian Cabinet and the Coordination Council of the Private Sector have reached an agreement to remove the higher tax bracket of 30% and reduce the 22.5% one to 20%.

This increase in taxes will help the PA increase its revenues to help cover the deficit its facing, in addition to improving tax administration. However, there is a limit on how much this increase in revenues will aid the PA, which will force the PA to put more in efforts in decreasing total expenses, since wages are around 75% of total expenses, reductions in salaries and controlled hiring is expected.

Nominal and Real GDP Growth

The Palestinian economy continues to be a services oriented economy, where services contribute 20.3% of total GDP; while Industrial activities contribute 12.7% and Agricultural activities contribute 5.9%.

The Palestinian economy is one of the smallest economies in the MENA region, where its nominal GDP reached only USD 8.189 billion in 2011. On the other hand, it is also one of the fastest growing economies compared to surrounding countries where its GDP has been growing at the CAGR of 9.58% over the past five years.

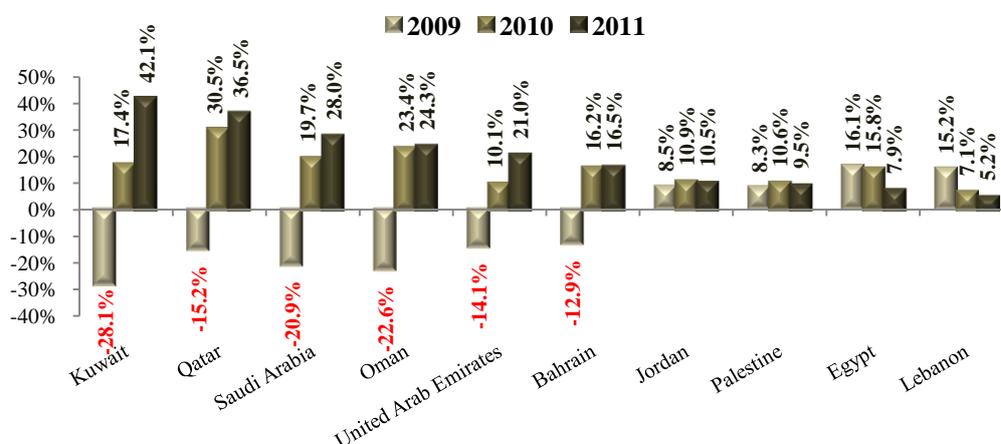
Figure 2: Growth in Real GDP for MENA Countries

	2007	2008	2009	2010	2011
<i>KSA</i>	2.0%	4.2%	0.1%	4.6%	6.8%
<i>United Arab Emirates</i>	6.5%	5.3%	-3.3%	0.9%	4.9%
<i>Egypt</i>	7.1%	7.2%	4.7%	5.1%	1.8%
<i>Qatar</i>	18%	17.7%	12%	16.6%	18.8%
<i>Kuwait</i>	4.5%	5%	-5.2%	3.4%	8.2%
<i>Oman</i>	5.3%	12.9%	1.1%	4.0%	5.5%
<i>Lebanon</i>	7.5%	9.3%	8.5%	7.0%	1.5%
<i>Jordan</i>	8.2%	7.2%	5.5%	2.3%	2.5%
<i>Bahrain</i>	8.4%	6.3%	3.1%	4.5%	1.8%
<i>Palestine</i>	5.4%	7.12%	7.44%	9.29%	5.70%

Source: IMF

The Real GDP of Palestine has also been growing rapidly throughout the same period, where it grew from USD 4.32 billion in 2007 to 6.05 billion by the end of 2011, at the CAGR of 5.86%. The highest growth was witnessed in 2010 where real GDP grew by 9.29% in that year; growth dropped to 5.7% in 2011, which is still a respectable growth rate compared to the surrounding countries, where the growth rate of Palestinian real GDP has been much higher than its neighboring countries. Also taking the major changes in the region and the global economic conditions during year 2011 into consideration, in addition to the fact that the year was challenging due to delays in receiving grants which eventually were much lower than the estimates, the growth rate can be considered impressive.

Figure 3: Growth Nominal GDP for MENA Countries



Source: IMF

The economy of Palestine retained its growth even during the crisis where most surrounding countries' economies dropped or progress was affected.

Figure 4: Nominal & Real GDP for Palestine

	2007	2008	2009	2010	2011	CAGR
<i>Nominal GDP</i>	5,182.40	6,247.30	6,763.60	7,478.21	8,188.64	
<i>Growth Nominal GDP</i>	12.20%	20.55%	8.26%	10.57%	9.50%	9.58%
<i>Real GDP</i>	4,554.10	4,878.30	5,241.30	5,728.00	6,054.50	
<i>Growth Real GDP</i>	5.36%	7.12%	7.44%	9.29%	5.70%	5.86%

Source: PMA

Unemployment Rates

The Palestinian economy continues to suffer from persistently high unemployment rates even though the unemployment rate decreased to 21.2% in 2011 compared to 2010 and 2009, where unemployment rates were 23.7% and 24.5% respectively. The average unemployment rate was 24% during the period 2008 to 2011.

Looking at the west bank alone, the unemployment rate was 17% in 2011; the rate increased compared with the previous year which was 16.6% in 2010, while in 2009 the rate was 17.8%, the average for the West Bank during 2008 to 2011 was 17.6%.

In Gaza Strip the unemployment rate was higher than the West Bank where the average unemployment rate during the period (2008 to 2011) was 36.4%. Gaza Strip had reported a 30% unemployment rate for 2011, which was lower than the previous years 2010 and 2009 that recorded unemployment rates of 36.2% and 38.6% respectively. The political situation in Gaza can be considered to be the main cause behind the high unemployment rates there, which has been improving slightly in the last couple of years but still way far from being stable.

Figure 5: Unemployment Rates for Palestine

	2008	2009	2010	2011
<i>Total</i>	26.6%	24.5%	23.7%	21.2%
<i>West Bank</i>	19.0%	17.8%	16.6%	17.0%
<i>Gaza Strip</i>	40.6%	38.6%	36.2%	30.0%

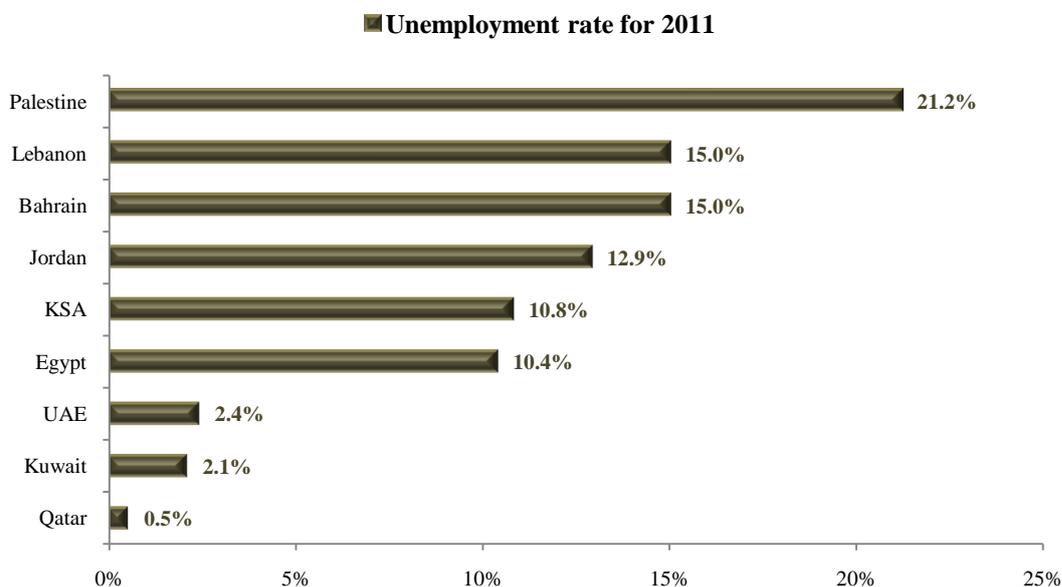
Source: Palestinian Central Bureau of Statistics

Currently the unemployment rate in Palestine is considered one of the highest in the region, mostly to the very high unemployment rates in Gaza, as the following graph shows, unemployment in Palestine was the highest compared to surrounding countries. On the other hand there are several new businesses being launched, coupled with supportive legislation from the PA in order to boost the investment climate which might help in reducing the unemployment rates in the years to come.

In addition, a study by The Global Entrepreneurship Monitor (GEM) found that 10% of the Palestinian population between the ages of 18-64 had started a business in the last 3.5 years, an increase from 9% in 2009. The report found that that financing was the major issue for the entrepreneurs.

According to the World Bank, the increase in entrepreneurship will help reducing the recurring unemployment problems, coupled with enhancing the quality of education and increasing the awareness of job seekers for better methods of job finding.

Figure 6: Unemployment Rate for MENA Countries



Source: IMF

Inflation

Inflation has been volatile during the period from 2007 to 2011, where inflation was as low as 1.9% in 2007, then it peaked to reach 9.9% in 2008, inflation during 2011 has dropped to 2.9%, which is considered to be much lower than inflation in surrounding countries.

Figure 7: Inflation Rate for MENA Counters

	2007	2008	2009	2010	2011
<i>Egypt</i>	10.95%	11.70%	16.24%	11.70%	11.07%
<i>Lebanon</i>	4.06%	10.76%	1.21%	4.48%	4.99%
<i>Saudi Arabia</i>	4.12%	9.87%	5.06%	5.35%	4.98%
<i>Kuwait</i>	5.47%	10.62%	3.95%	4.01%	4.75%
<i>Jordan</i>	4.66%	13.94%	-0.67%	5.00%	4.41%
<i>Oman</i>	5.89%	12.56%	3.54%	3.26%	4.03%
<i>Palestine</i>	1.90%	9.90%	2.75%	3.70%	2.90%
<i>Qatar</i>	13.76%	15.05%	-4.87%	-2.43%	2.00%
<i>Bahrain</i>	3.25%	3.53%	2.79%	1.97%	1.00%
<i>United Arab Emirates</i>	11.13%	12.25%	1.56%	0.88%	0.88%

Source: IMF

Warning signs

The IMF has confirmed that it will be extremely hard for the Palestinian economy to cover the financing gap in year 2012 through financial austerity only, indicating that more grants are needed or timelier payments of announced grants.

During 2012, Israel has unsuccessfully tried to obtain a USD 1 billion loan from the International Monetary Fund (IMF) for transfer to the Palestinian Authority to prevent its financial collapse, this clearly shows that the PA is facing a challenging fiscal crisis and it is

said that foreign aid is far less than needed to finance the deficit of around USD 1.3 billion in 2012.

The PA has been accumulating accrued payments for quite a number of years while depending mostly on contributions to be able to pay them, According to the Ministry of Finance in 2011 the PA has added USD 541.4 million in arrears during 2011 alone, where USD 259.7 million of them are due to the private sector. In addition the PA had accrued USD 533.7 million to Palestinian banks.

It has been the regular case that the actual foreign aid disbursed is lower than what has been announced, causing a problem in the ability of the PA to pay its obligations, and adding uncertainty to the timing of payments. This financing problem is most likely to continue in 2012 which means the PA will accumulate more payments during the year which might negatively affect the economy.

Performance of Listed Palestinian Banks

The banking sector of Palestine

There are currently 18 banks operating in Palestine, out of those there are 8 local banks, 7 of them are listed on the Palestine Stock Exchange, while the foreign banks are mainly Jordanian banks (8 banks).

The banking sector is closely monitored by the Palestinian Monetary Authority (PMA) which has ensured the sector's stability in the years. Also, due to the general conservative stance of the banking sector and the relative isolation of the Palestinian economy from other economies, the sector did not suffer from the 2008 financial crisis.

Figure 8: Banks Operating in Palestine

<i>Local Banks</i>	<i>Foreign Commercial Banks</i>
<i>Al Rafah Microfinance Bank, (AMB)</i>	<i>HSBC Bank Middle East Limited</i>
<i>Bank of Palestine, (BOP)</i>	<i>Arab Bank</i>
<i>Palestine Investment Bank, (PIBC)</i>	<i>Jordan Commercial Bank</i>
<i>Palestine Islamic Bank, (ISBK)</i>	<i>Cairo Amman Bank</i>
<i>Arab Islamic Bank, (AIB)</i>	<i>Bank of Jordan</i>
<i>Palestine Commercial Bank, (PCB)</i>	<i>The Housing Bank for Trade & Finance</i>
<i>Al Quds Bank, (QUDS)</i>	<i>Jordan Kuwait Bank</i>
<i>Arab Palestinian Investment Bank</i>	<i>Jordan Ahli Bank</i>
	<i>Union Bank</i>
	<i>Egyptian Arab Land Bank</i>

Source: Palestine Monetary Authority

Overview

Net Credit Facilities in Palestine

Total credit facilities in Palestine have been growing rapidly throughout the last four years, where they grew from USD 1.72 billion in 2008 to USD 3.489 billion in 2011 at a compound annual growth rate (CAGR) of 19.71% which is one of the highest growth rates in credit facilities in the region. Credit facilities growth peaked in 2010 where they grew by 30.9%, followed by an impressive 23.3% growth in year 2011, a growth rate that is substantially higher than most countries in the region, this growth is most probably attributed to the underserved Palestinian market and the improvement in the operations of Palestinian banks, which also shows the strong potential for growth credit facilities have in the future. 31% of credit facilities in Palestine were granted to the public sector, while the remaining 69% were granted to the private sector.

Figure 9: Growth Rates of Credit Facilities in Selected Countries

	2008	2009	2010	2011	CAGR
<i>Qatar</i>	51.1%	11.5%	16.4%	28.3%	13.6%
<i>Palestine</i>	BASE	25.7%	30.9%	23.3%	19.7%
<i>KSA</i>	25.2%	-1.1%	5.2%	10.5%	3.6%
<i>Jordan</i>	15.5%	2.1%	8.5%	9.7%	5.0%
<i>UAE</i>	47.5%	3.7%	1.4%	2.1%	1.8%
<i>Kuwait</i>	35.0%	13.2%	3.9%	0.5%	4.3%

Source: Central Banks of Countries

Listed Palestinian banks' has been growing rapidly during the last five years, where their market share of credit facilities has increased from 31.85% back in 2008 to 43.37% by the end of 2011. The major competitors to Palestinian Banks are Jordanian Banks' branches operating in Palestine, according to the Central bank of Jordan, the credit facilities granted by those banks have reached USD 1.946 billion by the end of 2011.

Figure 10: Credit Facilities of Palestinian Banks and Jordanian banks operating in Palestine

	2008	2009	2010	2011
<i>Palestinian Banks' Credit Facilities</i>	USD (Mn) 720	USD (Mn) 804	USD (Mn) 1,181	USD (Mn) 1,541
<i>Jordanian Banks' Credit Facilities</i>	1,026	1,354	1,660	1,946

Source: PMA, Central Bank of Jordan

As it can noted from the figure above, Palestinian banks have been growing much faster than their Jordanian counterparts, where total facilities of listed Palestinian banks increased %30.5 during 2011 to USD 1.541 million, this impressive growth has lead to an increase in market shares of Palestinian banks and decrease in the market share of Jordanian banks.

The largest market share of all listed banks belonged to *Bank of Palestine (BOP)* where its market share increased from 18.9% in 2010 to 20.3% by the end of 2011. The second largest market share was *Al Quds Bank (QUDS)*'s market share was also increased from 6.89% to 8.12% during the same period, less than half of BOP's market share which shows the dominance of BOP over the Palestinian banks and its ability to compete with Jordanian banks branches.

Figure 11: Market Shares of Listed Palestinian Banks

	2008	2009	2010	2011
<i>Bank of Palestine, (BOP)</i>	12.60%	15.40%	18.90%	20.30%
<i>Al Quds Bank, (QUDS)</i>	5.70%	5.40%	6.90%	8.10%
<i>Palestine Islamic Bank, (ISBK)</i>	3.90%	4.00%	5.90%	5.30%
<i>Arab Islamic Bank, (AIB)</i>	5.00%	4.10%	2.70%	3.80%
<i>Palestine Investment Bank, (PIBC)</i>	2.30%	3.60%	3.30%	2.20%
<i>Al Rafah Microfinance Bank, (AMB)</i>	1.80%	2.10%	1.50%	2.10%
<i>Palestine Commercial Bank, (PCB)</i>	0.70%	1.40%	1.70%	1.59%

Source: PMA

Growth rates in credit facilities varied across listed Palestinian banks, most probably to the variation in the size of the loan portfolios and the size of the banks themselves. The highest growth rates during 2011 belonged to *Al Rafah Microfinance bank (AMB)* and *Arab Islamic Bank (AIB)* which were 77% and 71% respectively, although it should be noted that this growth was not recorded by those banks before in addition to the fact that both of their credit facilities portfolios shrank during 2010.

The highest compound annual growth rate (CAGR) during the period were *Palestine Commercial Bank (PCB)*'s and *Bank of Palestine (BOP)*'s which were 39.38% and 26.04% respectively.

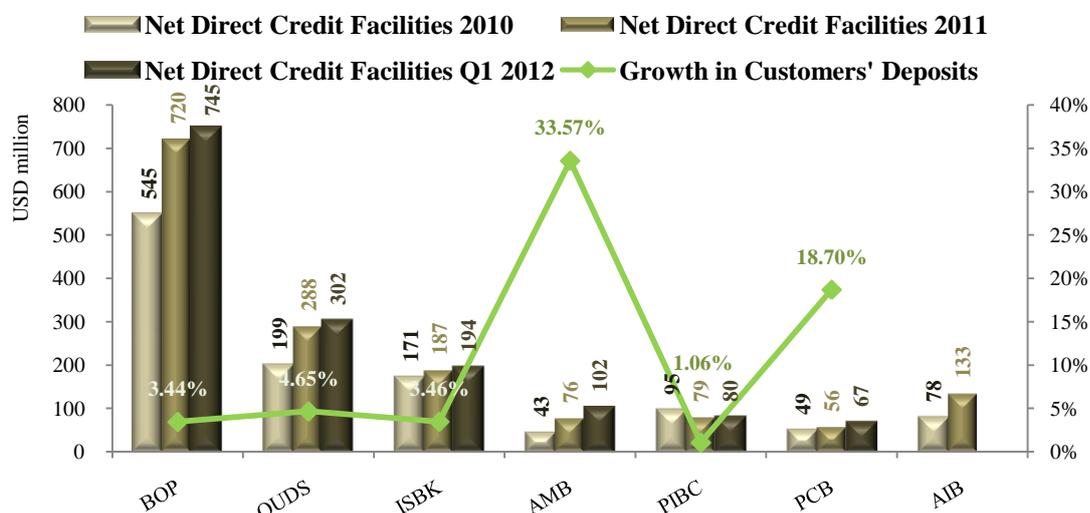
Figure 12: Growth Rates of Credit Facilities for Palestinian Banks

	2009	2010	2011	Q1 2012	CAGR
<i>Al Rafah Microfinance Bank, (AMB)</i>	14.70%	-6.20%	77.50%	33.57%	17.50%
<i>Palestine Commercial Bank, (PCB)</i>	113.80%	54.70%	14.10%	18.70%	39.40%
<i>Al Quds Bank, (QUDS)</i>	-5.70%	64.20%	44.95%	4.65%	22.40%
<i>Palestine Islamic Bank, (ISBK)</i>	1.20%	92.40%	9.50%	3.46%	20.90%
<i>Bank of Palestine, (BOP)</i>	20.32%	58.76%	32.14%	3.44%	26.00%
<i>Palestine Investment Bank, (PIBC)</i>	57.70%	17.70%	-17.50%	1.06%	11.20%
<i>Arab Islamic Bank, (AIB)</i>	-17.80%	-15.40%	70.80%	5.56%	4.40%

Source: Banks' Financials

Bank of Palestine maintained the largest loan portfolio, where total credit facilities of BOP increased from USD 545 million to USD 720 million, which constituted about 42% of facilities granted by Palestinian banks, and 20% of all facilities granted in Palestine.

Figure 13: Net Direct Credit Facilities 2010, 2011 & the Growth in Loan Portfolio



Source: Banks' Financials

QUDS bank, which is the second largest listed bank in terms of size of credit facilities, witnessed a growth rate of 45% in its credit facilities, where they reached USD 288 million in 2011. All of the listed banks have reported growth in their credit facilities except for PIBC, where its credit facilities decreased by 17.5% to USD 78.77 million.

Interest Income for Listed Palestinian Banks

Total net interest income increased an impressive 25% from USD 93 million to USD 114 million and net commission income grew by 14% from USD 27 million to USD 31 million during 2011, as a result of the significant rise in new credit facilities, and the increase in the interest spread which is more detailed below.

Figure 14: Net Interest Income

	2010	2011	Q1 2011	Q1 2012
<i>Bank of Palestine, (BOP)</i>	46,492,636	58,221,314	15,316,326	15,976,185
<i>Al Quds Bank, (QUDS)</i>	11,427,586	15,661,651	3,583,825	4,017,298
<i>Palestine Islamic Bank, (ISBK)</i>	10,780,393	14,481,057	3,331,436	3,320,769
<i>Palestine Investment Bank, (PIBC)</i>	7,859,018	7,764,868	1,667,164	1,940,925
<i>Al Rafah Microfinance Bank, (AMB)</i>	4,151,906	4,401,297	921,050	1,425,827
<i>Palestine Commercial Bank, (PCB)</i>	4,539,451	4,927,835	1,171,081	1,313,260
<i>Arab Islamic Bank, (AIB)</i>	7,784,719	8,850,324	1,797,494	2,302,905

Source: Banks' Financials

Figure 15: Net Commission Income

	2010	2011	Q1 2011	Q1 2012
<i>Bank of Palestine, (BOP)</i>	15,350,418	17,760,885	4,514,128	5,056,557
<i>Al Quds Bank, (QUDS)</i>	3,428,727	5,141,115	1,006,468	1,561,418
<i>Palestine Islamic Bank, (ISBK)</i>	1,988,206	2,323,762	519,644	617,810
<i>Palestine Investment Bank, (PIBC)</i>	2,689,967	1,968,371	968,617	593,211
<i>Al Rafah Microfinance Bank, (AMB)</i>	1,017,246	1,671,900	163,830	534,582
<i>Palestine Commercial Bank, (PCB)</i>	845,601	904,135	206,866	316,147
<i>Arab Islamic Bank, (AIB)</i>	1,797,533	1,020,764	249,200	373,209

Source: Banks' Financials

Average Interest Rates

The loans and deposits in Palestine are mainly denominated in one of three currencies: The Israeli Shekel, The Jordanian Dinar and US Dollars. Average interest rates on deposits and loans for the banks have increased during 2011 on all three currencies. The spread on the USD has increased to 6.46% in 2011, which positively affected the performance of most of the banks since 63.44% of facilities are denominated in USD.

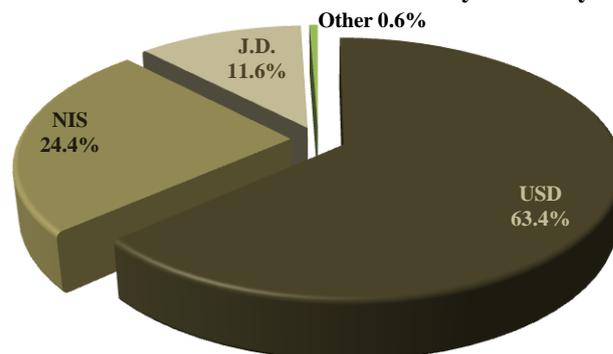
Figure 16: Average Interest Rates for Loans & Deposits

	2005	2006	2007	2008	2009	2010	2011
<i>Jordanian Dinar</i>							
<i>Rate on deposits</i>	1.84%	2.72%	3.51%	1.98%	1.91%	1.15%	1.22%
<i>Rate on loans</i>	8.94%	9.08%	9.18%	9.04%	7.45%	7.54%	7.59%
<i>Spread</i>	7.10%	6.36%	5.67%	7.06%	5.54%	6.39%	6.37%
<i>United States Dollar</i>							
<i>Rate on deposits</i>	2.24%	2.98%	3.02%	0.80%	0.41%	0.29%	0.33%
<i>Rate on loans</i>	7.34%	7.81%	7.98%	7.47%	6.19%	6.33%	6.79%
<i>Spread</i>	5.10%	4.83%	4.96%	6.67%	5.79%	6.04%	6.46%
<i>Israeli Shekel</i>							
<i>Rate on deposits</i>	2.01%	2.48%	2.51%	1.04%	0.24%	0.30%	1.01%
<i>Rate on loans</i>	13.50%	13.23%	12.72%	12.04%	10.99%	10.93%	11.72%
<i>Spread</i>	11.49%	10.75%	10.21%	11.00%	10.75%	10.63%	10.71%

Source: PMA

The highest spread was on loans and deposits denominated in NIS where the spread was 10.71% in 2011, while the spread for the US dollars and Jordanian dinars was 6.46% and 6.37% respectively.

Figure 17: Distribution of Credit Facilities by Currency



Source: PMA

Deposits

Overall, Customers' deposits have been growing steadily throughout the period (2008 - 2011) at an average rate of 7%, total deposits of all banks in Palestine have amounted to USD 7.619 billion in year 2011, a 5% increase from USD 7.223 billion reported in 2010.

The majority of deposits were placed in Jordanian banks, where deposits at Jordanian banks reached USD 4.451 billion in 2011, which is 58% of total deposits in Palestine. Even though during the past the majority of deposits were obtained by Jordanian banks, deposits at Palestinian banks have been growing much faster as the following table shows, where Palestinian banks' deposits grew from USD 1.307 billion back in 2008 to USD 2.062 billion in 2011, a 57.81%, while deposits at Jordanian banks grew by 12.41% during the same period.

Figure 18: Break down of Deposits by Banks' Nationality

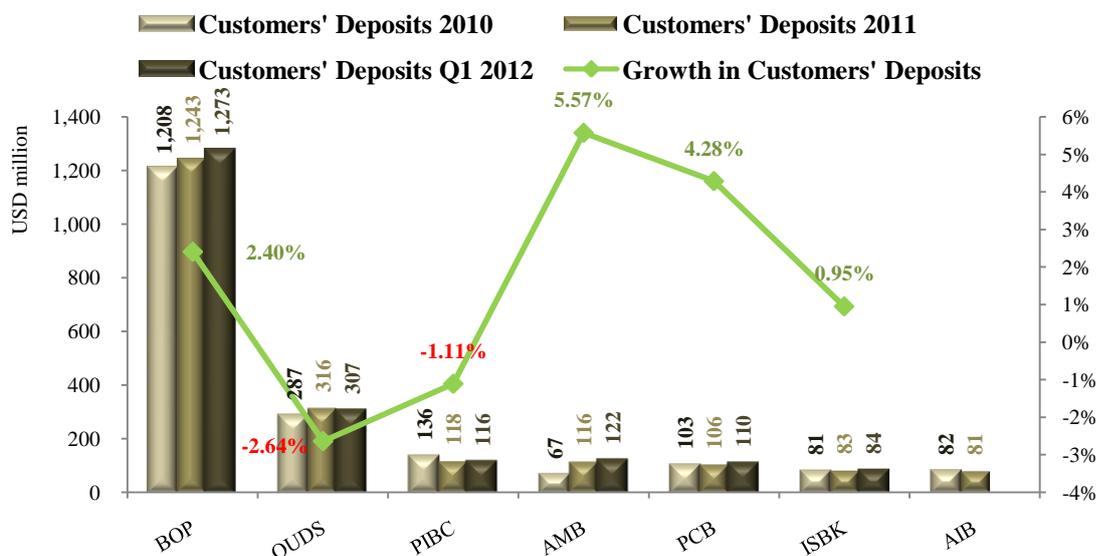
	Customers' Deposits 2008	Customers' Deposits 2009	Customers' Deposits 2010	Customers' Deposits 2011
	USD (Mn)	USD (Mn)	USD (Mn)	USD (Mn)
<i>Deposits in Palestine (Total)</i>	6,269	6,667	7,223	7,619
<i>Deposits at Palestinian Banks</i>	1,307	1,590	1,965	2,062
<i>Deposits at Jordanian Banks</i>	3,960	3,970	4,197	4,451

Source: PMA, Central Bank of Jordan (CBJ)

Listed Palestinian banks obtained 27% of customer deposits in 2011, which is very similar to their market share in year 2010, Palestinian banks were trying to increase their market share by providing higher rates on deposits during 2011.

Bank of Palestine maintained having the largest amount of deposits compared to other listed banks, where deposits grew from USD 1,208 million to USD 1,243 million. While QUDS bank deposits grew by 9% to reach USD 316 million. Other notable growth in deposits is AMB's growth of 73% where deposits grew from USD 67 million to USD 116 million in 2011.

Figure 19: Customer's Deposits



Source: Banks' Financials

Palestine Islamic bank (ISBK) had the highest loan to deposit ratio which was 225% in 2011. While the Arab Islamic Bank (AIB) ratio increased from 94.79% in 2010 to 164.95% in 2011. PCB and BOP reported the lowest loan to deposits ratios at 53.34% and 57.95% respectively. Lending growth has significantly outpaced deposit generation during the year, leading to an improvement in the loans to deposits ratio.

Figure 20: Loan to Deposit Ratios for Palestinian Banks

	2008	2009	2010	2011	Q1 2012
<i>Palestine Islamic Bank, (ISBK)</i>	129.60%	137.53%	210.88%	224.94%	230.55%
<i>Al Quds Bank, (QUDS)</i>	88.21%	60.05%	69.27%	91.34%	98.18%
<i>Al Rafah Microfinance Bank, (AMB)</i>	124.84%	71.50%	64.18%	65.84%	83.30%
<i>Palestine Investment Bank, (PIBC)</i>	49.11%	71.83%	70.18%	66.96%	68.43%
<i>Palestine Commercial Bank, (PCB)</i>	21.48%	38.68%	45.11%	53.34%	60.71%
<i>Bank of Palestine, (BOP)</i>	35.31%	35.00%	45.11%	57.95%	58.53%
<i>Arab Islamic Bank, (AIB)</i>	142.72%	108.13%	94.79%	164.95%	148.84%

Source: Banks' Financials

Total Assets, Liabilities and Capital employed

Assets have increased from USD 7.401 billion in 2008 to USD 9.214 billion in April 2012. The majority of this increase is attributed to the increase in credit facilities where they have almost doubled during the period. As for foreign assets which rose to USD 3.84 billion in 2011, they have dropped slightly to USD 3.79 billion by April 2012.

Balances of banks with the PMA has also dropped from USD 941 million in the end of 2011 to USD 908 million by the end of the first four months of 2012.

Figure 21: Assets and Liabilities of All Banks Operating in Palestine

	2008	2009	2010	2011	April 2012
	USD (Mn)				
Total Assets of Banks in Palestine	7.401	7.876	8.590	9.110	9.214
Growth	Base	6.42%	9.06%	6.06%	1.13%
Total Liabilities of Banks in Palestine	6.545	6.906	7.494	7.928	7.985
Growth	Base	5.53%	8.51%	5.79%	0.72%

Source: PMA

On the other hand, total liabilities have increased by 22% from USD 6.545 billion in 2008 to USD 7.986 in April 2012, mostly to the increase in customers' deposits. By the end of year 2011, total capital has amounted to USD 1.182 billion, which increased slightly during the first four months of 2012 to reach USD 1.229 billion.

Being one of the key players in the market, it is no surprise that the majority of assets and liabilities belong to Jordanian Banks' operating in Palestine, the banks' assets grew from USD 4.8 billion in 2008 to USD 5.54 by the end of April 2012. During the same period, the investment portfolio has almost quadrupled growing from USD 78.6 million to USD 579 million; also, credit facilities have almost doubled reaching USD 1.950 billion in the same period.

Total assets of all listed banks grew by 8% during 2011 to reach USD 3.474 billion. One of the most notable increases in assets was the AMB bank where its assets grew by 56% to reach USD 247 million by the end of 2011. Other notable increases were QUDS and ISBK where their assets increased by 10%. Shareholders' equity has also increased by 12% during the year where they amounted to USD 479 million.

Figure 22: Assets, Liabilities and Capital of Jordanian Banks Operating in Palestine

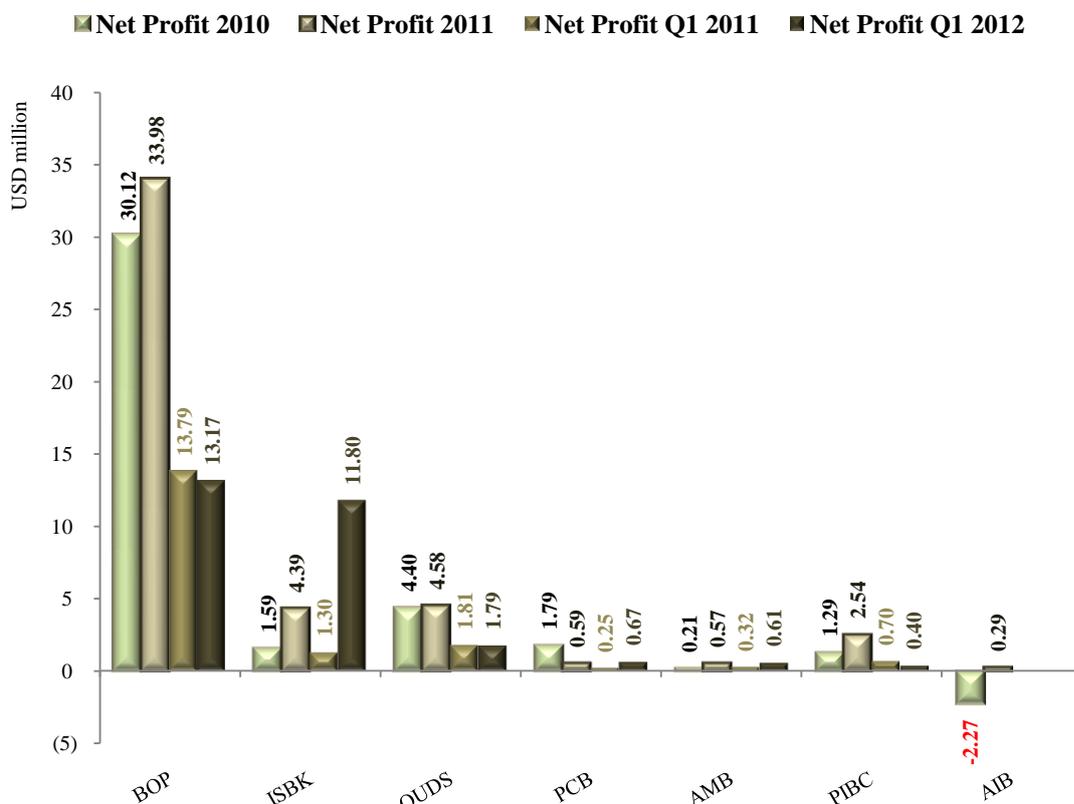
	2008	2009	2010	2011	April 2012
	USD (Mn)				
Total Assets of Jordanian Banks in Palestine	4,804	4,877	5,239	5,490	5,539
Total Liabilities of Jordanian Banks in Palestine	4,287	4,294	4,599	4,786	4,782
Total Capital of Jordanian Banks in Palestine	517	583	640	704	757

Source: Central Bank of Jordan

Profitability

All of the listed banks have reported profits during 2011, and all of the banks have also reported an increase in net income in the light of increase in credit facilities of the banks, and the increase witnessed in the spreads, except for Palestine Commercial Bank (PCB), where its net income has dropped 67% during the year, mostly due to the drop in profits gained from selling financial securities.

Figure 23: Net Income of Palestinian Banks



Source: Banks' Financials

BOP reported the highest ROE where it amounted to 19% in 2011, while ISBK witnessed a remarkable increase in ROE from 3.78% in 2010 to 8.73% in 2011, due to its impressive increase in net income which grew from USD 1.59 million to USD 4.39 million for the same period.

Figure 24: ROA for Palestinian Banks

	2008	2009	2010	2011
BOP	2.49%	2.31%	2.13%	2.12%
ISBK	-0.83%	0.12%	0.49%	1.17%
QUDS	-2.30%	0.91%	1.16%	1.02%
PIBC	1.37%	1.27%	0.51%	1.00%
PCB	0.21%	1.69%	1.18%	0.35%
AMB	-3.25%	1.41%	0.13%	0.28%
AIB	1.67%	0.34%	-0.78%	0.10%

Source: Banks' Financials

Figure 25: ROE for Palestinian Banks

	2008	2009	2010	2011
BOP	22.13%	19.65%	19.18%	19.00%
ISBK	20.29%	1.28%	3.78%	8.73%
QUDS	10.42%	5.90%	9.06%	8.73%
PIBC	4.11%	4.77%	2.10%	4.02%
PCB	2.39%	7.74%	6.52%	2.11%
AMB	2.15%	6.71%	0.73%	1.96%
AIB	0.60%	2.05%	-4.63%	0.55%

Source: Banks' Financials

Capital Adequacy and NPL

Capital adequacy ratios of the listed banks have been decreasing over the past four years, which is natural due to the banks' loan portfolios was growing rapidly during the mentioned period. The most notable drop was in AMB's ratio where it dropped from 33.58% to 19.05%, while PIBC increased from 27.25% to 31.72% by the end of 2011.

Most of the Palestinian listed banks are still over capitalized, where their capital adequacy ratio is much higher than the minimum limit specified by the PMA (12%) or minimum limit specified by the Basel Committee (8%). A notable exception is BOP's capital adequacy ratio, which its ratio grew to reach 13.6% in 2011, showing that the bank is making use of most of its capital.

Figure 26: Capital Adequacy Ratio for Palestinian Banks

	2008	2009	2010	2011
<i>Palestine Investment Bank, (PIBC)</i>	43.97%	40.58%	27.25%	31.72%
<i>Palestine Islamic Bank, (ISBK)</i>	16.90%	35.90%	36.72%	30.09%
<i>Palestine Commercial Bank, (PCB)</i>	45.89%	32.39%	26.13%	24.21%
<i>Al Quds Bank, (QUDS)</i>	28.90%	25.80%	23.13%	21.98%
<i>Al Rafah Microfinance Bank, (AMB)</i>	41.40%	32.31%	33.58%	19.05%
<i>Bank of Palestine, (BOP)</i>	22.50%	16.50%	12.88%	13.57%
<i>Arab Islamic Bank, (AIB)</i>	18.49%	20.26%	20.31%	N/A

Source: Banks' Financials

The NPL ratio for most of the banks has been improving greatly during the period. The highest ratio was reported by AMB where non-performing loans amounted to 10.25% of direct credit facilities, although it should be noted that it has dropped from 14.4% reported in 2010. Bank of Palestine has the lowest NPL ratio among the listed banks, where its NPL ratio was only 1.72%.

Figure 27: Non-performing Loans & NPL Ratio for Palestinian Banks

	2008	2009	2010	2011
<i>BOP</i>	7,576,940	4,100,168	6,448,492	12,531,075
<i>Bank of Palestine</i>	2.39%	1.16%	1.17%	1.72%
<i>QUDS</i>	17,513,390	16,635,338	5,405,969	12,453,386
<i>Al Quds Bank</i>	12.00%	12.00%	2.68%	4.26%
<i>AMB</i>	429,910	45,822	2,344,316	2,509,388
<i>Al Rafah Microfinance Bank</i>	1.05%	0.97%	5.30%	3.20%
<i>PIBC</i>	1,437,443	1,187,960	10,568,708	7,677,361
<i>Palestine Investment Bank</i>	2.76%	1.45%	10.80%	9.40%
<i>ISBK</i>	7,021,641	7,180,667	6,236,285	5,875,259
<i>Palestine Islamic Bank</i>	7.90%	8.08%	3.59%	3.09%
<i>PCB</i>	4,660,302	2,971,627	2,179,865	1,638,213
<i>Palestine Commercial Bank</i>	25.58%	8.85%	4.33%	2.86%
<i>AIB</i>	1,183,788	1,234,743	2,874,800	N/A
<i>Arab Islamic Bank</i>	1.00%	1.30%	3.58%	N/A

Source: Banks' Financials

NPL coverage ratio for banks varied where some banks improved their NPL coverage while others deteriorated. The highest coverage ratio was for Bank of Palestine which reported a 48.60% coverage ratio, although it should be noted that it decreased from 94.06% that was reported in 2010. The lowest NPL coverage was AMB's coverage which was 20.22%, higher than the coverage ratio of 14.68% which was reported in 2010.

Figure 28: NPL Coverage

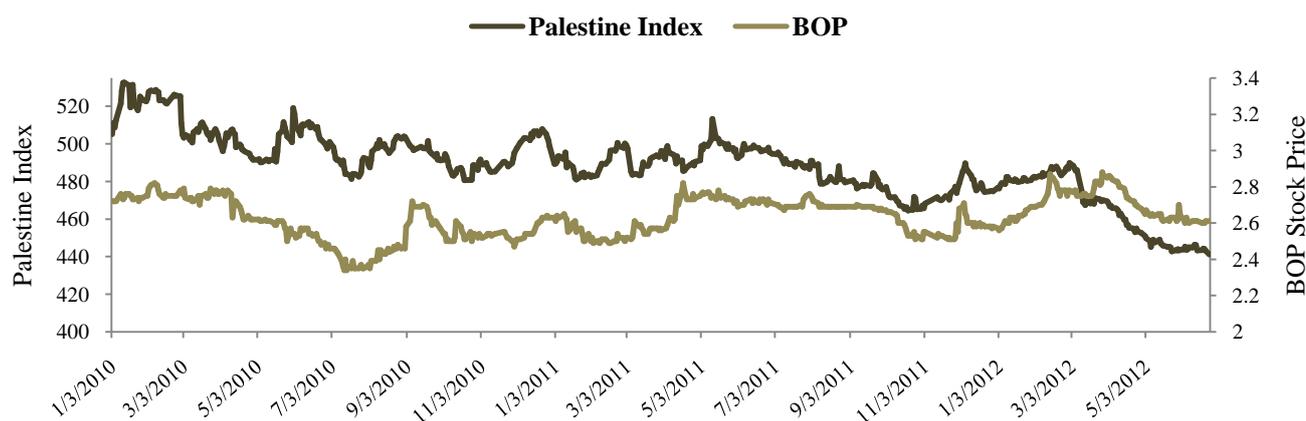
	2008	2009	2010	2011
<i>Al Rafah Microfinance Bank, (AMB)</i>	61.15%	618.08%	39.63%	64.36%
<i>Bank of Palestine, (BOP)</i>	91.1%	175.0%	115.4%	54.9%
<i>Palestine Islamic Bank, (ISBK)</i>	34.1%	33.2%	37.0%	43.1%
<i>Palestine Investment Bank, (PIBC)</i>	45.1%	65.3%	24.8%	36.7%
<i>Palestine Commercial Bank, (PCB)</i>	69.9%	53.3%	40.5%	27.9%
<i>Al Quds Bank, (QUDS)</i>	51.8%	49.0%	33.4%	21.8%
<i>Arab Islamic Bank, (AIB)</i>	41.7%	46.8%	75.8%	N/A

Source: Banks' Financials

Stock Performance of Bank of Palestine

During 2010 BOP has outperformed the general index, this trend continued in 2011, although the stock price dropped significantly in the beginning of May 2011 but that was due to distributing 20 million shares as stock dividends to investors. In the first quarter of 2012, BOP and the general index witnessed a high correlation in their performances, this correlation was lost where the index has dropped significantly while BOP maintained its performance.

Figure 29: Palestine Stock Exchange Index & BOP Stock Price



Source: Palestine Stock Exchange, using adjusted prices

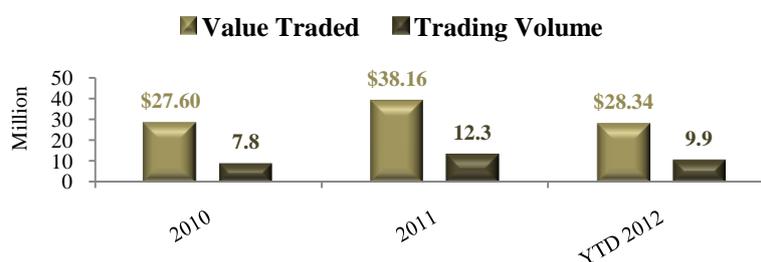
Figure 30: Close Price & 52 weeks High & Low Prices

	Close Price	52 Week High	52 Week Low
2010	3.4	3.78	3.15
2011	2.9	3.61	2.8
YTD 2012	2.6	3.22	2.6

Source: Palestine Stock Exchange
YTD 2012 as of 26 August, normal prices

During 2011, total volume traded for BOP has increased 58% to reach 12.3 million shares, while so far trading volume has reached 9.9 million in 2012.

Figure 31: Value Traded & Trading Volume for BOP



Source: Palestine Stock Exchange 2012 as of 26 August.

BOP was the most traded bank during 2011 and 2012 in terms of value and volume, the second most traded bank was the ISBK, were value traded amounted to USD 7.1 million in 2012 and volume reached 8.1 million shares.

Figure 32: Value Traded for Palestinian Listed Banks

	2011	2011	YTD 2012	YTD 2012
	Value Traded	Trading Volume	Value Traded	Trading Volume
<i>BOP</i>	38,157,142	12,327,737	28,343,744	9,937,841
<i>AIB</i>	2,075,831	2,515,060	3,219,869	4,082,713
<i>AMB</i>	5,536,710	7,159,640	3,441,967	4,271,523
<i>ISBK</i>	6,750,276	7,822,799	7,107,188	8,083,240
<i>PIBC</i>	2,149,292	2,026,265	469,885	492,114
<i>QUDS</i>	3,857,226	3,520,768	455,066	475,711
<i>PCB</i>	2,081,120	2,695,278	240,057	300,232

Source: Palestine Stock Exchange
 YTD 2012 as of 26 August.

Bank of Palestine

Company Brief

Bank of Palestine is the first national bank established in Palestine; the bank was founded back in 1960 and currently has a very wide network consisting of 50 branches and sub branches. The bank was listed on the Palestine stock exchange in 2005, and currently the bank has a capital of USD 134 million. The bank is the largest listed bank on all metrics.

Board of Directors

The following table represents Bank of Palestine board of directors.

Figure 33: Board of Directors

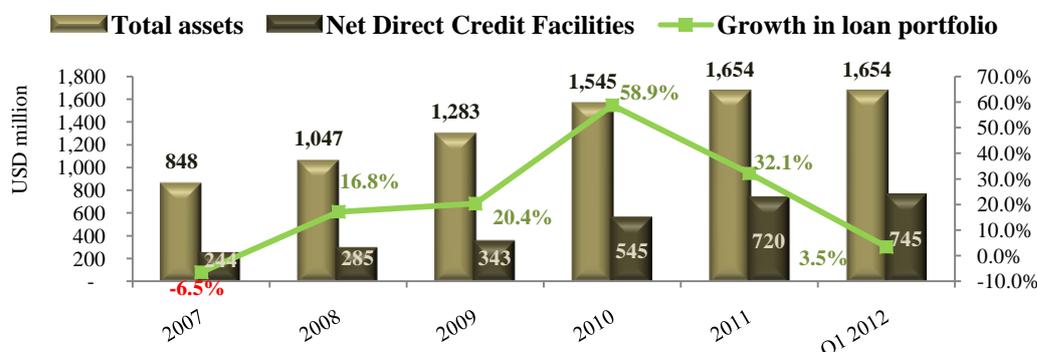
<i>Board of Directors</i>	
<i>Name</i>	<i>Position</i>
<i>Hashim Hani Shawa</i>	<i>Chairman</i>
<i>Mamon AbdAlhadi Abu Shahla</i>	<i>Vice Chairman</i>
<i>Youssef Mahmoud Nijm</i>	<i>Member</i>
<i>Dr. Awni Mohiuddin Skaik</i>	<i>Member</i>
<i>Reyad Ali Zimmou</i>	<i>Member</i>
<i>Maher Jawad Farah</i>	<i>Member</i>
<i>Faysal Ghazi Shawa</i>	<i>Member</i>
<i>Dr. Hani Hassan Nigim</i>	<i>Member</i>
<i>Tareq Taher Shaka</i>	<i>Member</i>
<i>Mohammed Nafiz</i>	<i>Member</i>
<i>John Houry</i>	<i>Member</i>

Source: Bank of Palestine Annual Report

Net Direct Credit Facilities

Bank of Palestine maintained holding the largest net direct credit facilities of listed banks in Palestine as its credit facilities grew 32% to reach USD 720 million by the end of 2011, more than double the amount of credit facilities granted by the second largest listed bank, and 47% of total facilities of all listed banks in 2011. Credit facilities grew by 3.4% during the first quarter of 2012. Net credit facilities have been growing at a CAGR of 25% for the period 2007 to 2011.

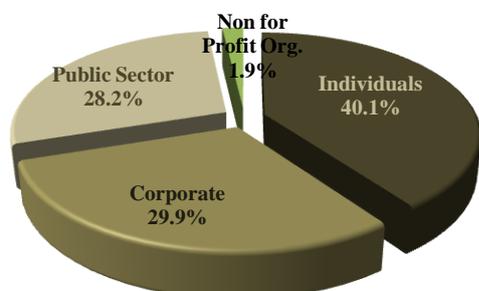
Figure 34: Total Assets, Net Credit Facilities & Growth in Loan Portfolio for BOP



Source: Bank of Palestine Annual Report, Figures are rounded

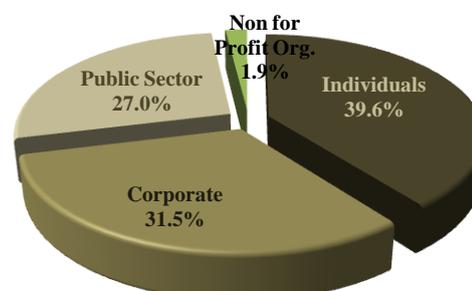
Facilities granted to Individuals contributed 40% of the total net credit facilities, making it the largest segment. While corporations and the public sector were 30% and 28% respectively, the remaining was granted to Non-for-profit organizations. The credit facilities classification was very similar to last year's as the following figures show.

Figure 35: Net Credit Facilities Classification for 2011



Source: Bank of Palestine Annual Report

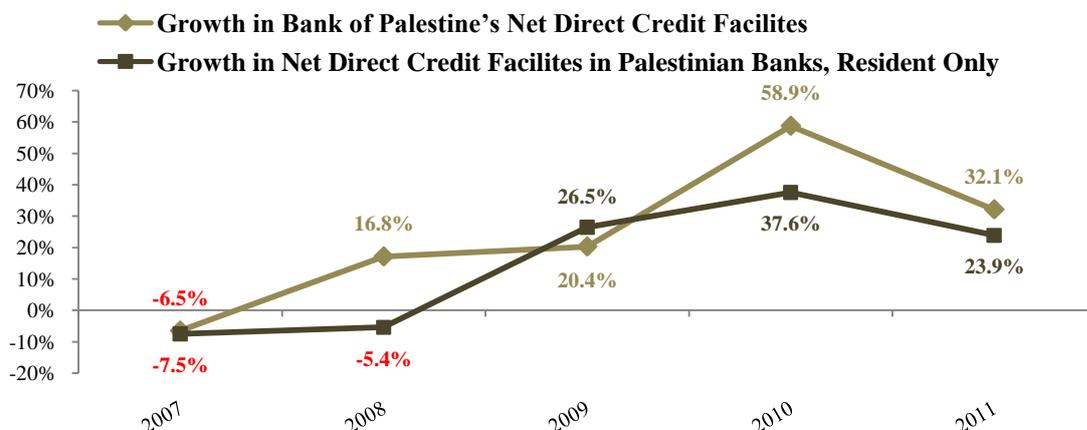
Figure 36: Net Credit Facilities Classification for 2010



Source: Bank of Palestine Annual Report

As shown in the figure below, Bank of Palestine credit facilities growth has been outperforming the growth in credit facilities for all the banks operating in Palestine, especially during the last two years where BOP's facilities growth was 58.8% and 32.1% while facilities in Palestine grew by 37.6% and 23.9% for years 2010 and 2011 respectively.

Figure 37: Growth in Net Credit Facilities for Palestine & Resident Only

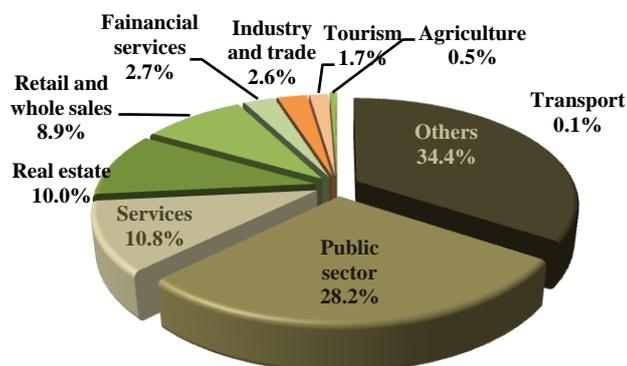


Source: Bank of Palestine Annual Report

Credit facilities by Segment

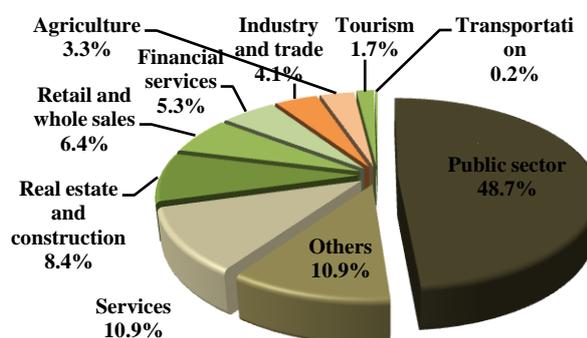
As noted from the figures below, in 2010 the bank's credit facilities portfolio was concentrated in the public sector where it constituted 48.7%, this has significantly changed in 2011 where public sector facilities dropped to 28.2% only, which resulted in a more diversified portfolio. The Real Estate and Services are still considered key segments in the portfolio comprising 10% and 10.8% respectively, while about 34.4% were diversified across several economic sectors.

Figure 38: Net Credit Facilities Segments for 2011



Source: Bank of Palestine Annual Report

Figure 39: Net Credit Facilities Segments for 2010



Source: Bank of Palestine Annual Report

Non-performing Loans

The non-performing loans of the bank has increased substantially during 2011 to reach USD 12.531 million from USD 6.448 million a year earlier, a 94% increase. However, the NPL ratio witnessed a modest increase of 55 bps to 1.72% in 2011, that was mainly due to the small gross amount of non-performing loans compared to the total credit facilities granted by the bank, noting that the bank's NPL ratio is currently the lowest of all listed Palestinian banks.

Figure 40: BOP's NPL ratios and coverage ratios

	2008	2009	2010	2011
<i>Non-performing Loans</i>	7,576,940	4,100,168	6,448,492	12,531,075
<i>Non-performing Loans Coverage</i>	91.08%	174.98%	115.39%	54.92%
<i>Non-performing Loans Ratio</i>	2.39%	1.16%	1.17%	1.72%

Source: BOP's financials

The bank's NPL coverage ratio has been dropping gradually during the last three years, where it dropped from 174.98% in 2009 to 115.39% in 2010, by the end of year 2011 the coverage ratio has dropped to % 54.92, the cause of this drop was that the bank has recovered about USD 628 thousands of provision of doubtful facilities during year 2011; which contributed to the drop of the provision from USD 7.44 million in 2010 to USD 6.88 million in 2011, combined with the increase of 94% in nonperforming loans. Due to this drop in the coverage ratio, we expect that the bank will have to take further provisions in the near future in order to maintain its coverage ratio around its healthy levels.

Credit Facilities versus Balances at Banks

The amounts of deposits held at banks increased by 7.35% from USD 362 million in 2010 to USD 388 million by the end of 2011, in addition their percentage to total assets has remained almost unchanged at around 23.48%.

On the other hand, balances at the Palestinian Monetary Authority (PMA) have dropped 10.5% to USD 127 million by the end 2011. Also, their percentage to total assets dropped from 9.18% in 2010 to 7.67% in 2011. While credit facilities to total assets increased from 35.28% to 43.55% by the end of 2011.

Customer's Deposits

BOP's deposits increased slightly from USD 1.208 billion to USD 1.243 billion in 2011, an increase of 3%, the lowest growth rate in deposits witnessed by the bank. Bank of Palestine is still the largest listed bank also in terms of customer's deposits in which it held 60% of customers' deposits of all listed Palestinian banks in 2011.

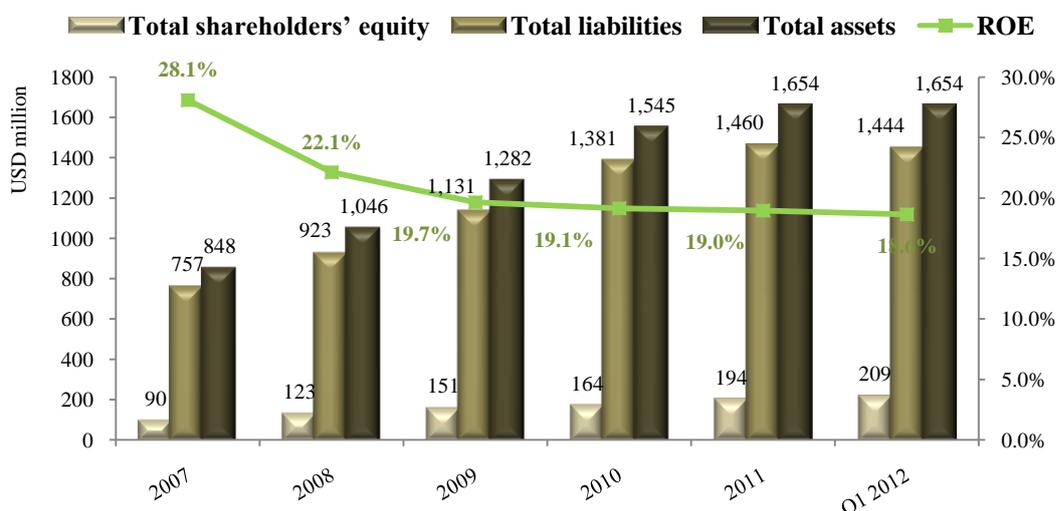
The main reason for this drop was that customer deposits held in all of the banks operating in Palestine witnessed sluggish growth in 2011 where they grew only by 5.5%. While listed Palestinian banks witnessed even lower growth rates, where deposits grew only by 2.2%, the lowest growth rate reported from five years.

One of the reasons that attributed to this drop in deposits' growth is the toughening competition in the banking sector over market shares, which led to interest rate wars in the market, however this increase in rates is not expected to be maintained in the future and therefore customer deposits are expected to increase on a higher rate in 2012, which is evident in the first quarter of 2012, where BOP's customers deposits grew 2.4%.

Total Assets

Bank of Palestine is also the largest listed bank in terms of total assets size, making out 48% of the assets of the listed banks. BOP assets grew by 7% from USD 1.545 billion in 2010 to USD 1.654 billion by the end of 2011. The main items that contributed to the growth in assets were direct credit facilities as well as balances at banks and financial institutions where they both witnessed notable increases during the year. Assets have been growing at the CAGR of 14.3% during the period 2007 to 2011.

Figure 41: Total Assets, Shareholders' Equity & Liabilities



Source: Bank of Palestine Annual Report

Liabilities

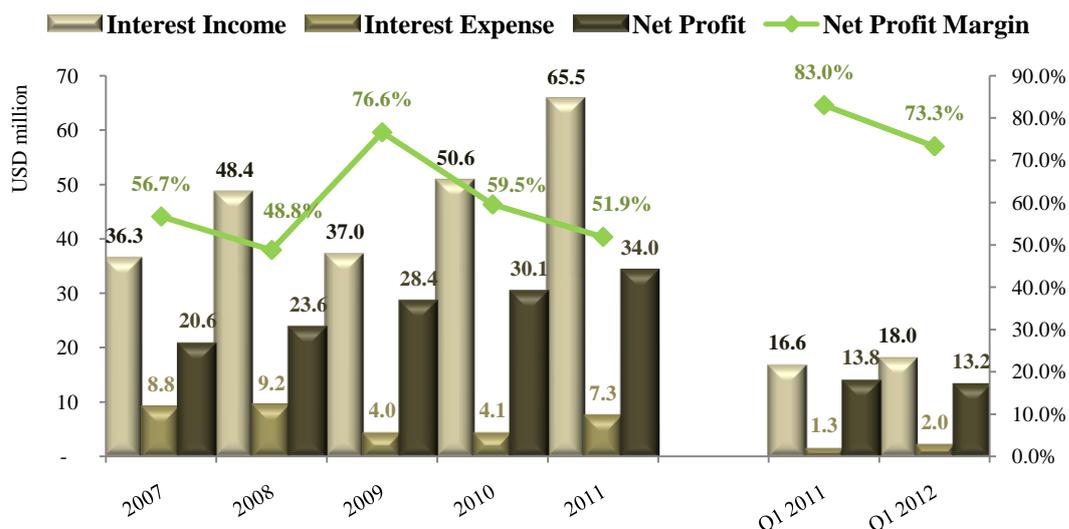
Total liabilities of the bank has increased 6% to reach USD 1.46 billion in 2011 compared to USD 1.38 billion in 2010, which was mostly due to the growth in customer's deposits which

went up an additional USD 34 million during 2011, in addition to the increase in the deposits of banks and financial institutions which grew by % 65 to USD 33 million.s

Interest Income

BOP interest income rose by a remarkable 27% during 2011. Interest income reached USD 65 million up from USD 51 million in 2010. Net interest income went up by 26% to reach USD 58 million by the end of 2011 compared to USD 46 million obtained in 2010.

Figure 42: Average Interest Bearing Assets & Liabilities



Source: Bank of Palestine Annual Report

Loans have generated a significant percentage of interest income amounting to USD 23.5 million in 2011 compared to USD 18.14 million in 2010. While overdraft accounts have generated USD 18.5 million in 2011 compared to USD 13 million in 2010. Interest from trading and held for sale investments increased to USD 10 million in 2011 from USD 8 million in 2010. While return from balances at banks decreased from USD 3.251 in 2010 to USD 2.718 in 2011.

Available for sale investments

About 62% of the available for sale investments of Bank of Palestine are in Bonds, while 11% are in stocks and 27% in treasury bills. Nearly 93% of all investments are allocated to foreign markets and the remaining 7% are invested in local unquoted bonds and shares.

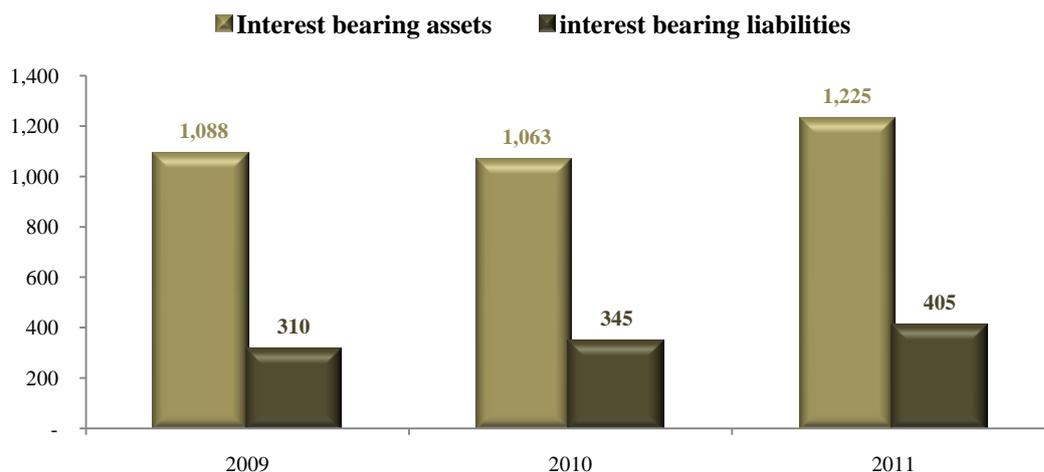
Available for sale investments have dropped from USD 253 million in 2010 to USD 211 million in 2011, the decrease was mainly in foreign quoted bonds which dropped from USD 156 million to USD 120 million, and due to the drop in treasury bills which dropped from USD 76 million to USD 57 million. By the end of 2011, available for sale investments made constituted 12.76% of total assets, compared to 16.4% in 2010.

Although total amount of available for sale investments dropped, the interest income generated through them has increased about 28% to USD 10 million in 2011 compared to USD 8 million in 2010.

Interest Bearing Assets and Liabilities

interest bearing liabilities growth exceeded interest bearing assets growth during year 2011, where they have increased by 17% compared to 15% growth witnessed in interest bearing assets. Throughout the last three years, BOP's interest bearing liabilities and assets have relatively stable, while noting that the liabilities has been growing at a steadier pace than assets which have slightly decreased in year 2010.

Figure 43: Interest Bearing Assets & Liabilities



Source: Bank of Palestine Annual Reports

As the following table shows, the spread earned during the period (2009 – 2011) has increased from 2.11% in 2009 to 3.54% in 2011, due to the rapid increase of interest earned on assets, coupled with the difference in the amount of interest bearing assets compared to interest bearing liabilities, where assets were more than triple the liabilities in 2011.

Figure 44: Average Interest Rates on Interest Bearing Assets & Liabilities

	2009	2010	2011
	USD (Mn)	USD (Mn)	USD (Mn)
<i>Interest Bearing Assets</i>	1,088	1,063	1,225
<i>Interest Bearing Liabilities</i>	310	345	405
<i>Average Interest Earned on Assets</i>	3.4%	4.76%	5.35%
<i>Average Interest Paid on Liabilities</i>	1.29%	1.19%	1.8%

Source: Bank of Palestine Annual Report

Capital Adequacy and Risk Weighted Assets

The capital adequacy ratio has increased during 2011 to 13.57% compared to 2010 level of 12.88%. Capital adequacy ratio was the highest in 2008 where it reached 22.5% and risk weighted assets were as low as 37.7% to total assets. By the end of 2011 risk weighted assets increased to USD 855 million, to constitute 52% of total assets. BOP's capital adequacy ratio shows that the bank is efficiently using its capital. In addition to the fact that the bank's capital adequacy ratio never fell below the 12% level which is required by the PMA.

Profitability Indicators

Throughout the period from 2007 to 2011, the bank's ROAE has been decreasing gradually, where it dropped from 28.1% in 2007 to 22.13% in 2008, then it dropped further to 19.65% in 2009. During 2011 the ROAE witnessed a very slight drop, where it dropped from 19.14% reported in 2010 to 18.97%. The bank's ROAA remained stable at around 2.1% during 2011.

Figure 45: ROAA & ROAE for BOP

	2006	2007	2008	2009	2010	2011	Q1 2011	Q1 2012
ROAA	2.53%	2.84%	2.49%	2.31%	2.13%	2.12%	2.45%	2.11%
ROAE	27.85%	28.10%	22.13%	19.66%	19.14%	18.97%	20.75%	17.18%

Source: Bank of Palestine Annual Report

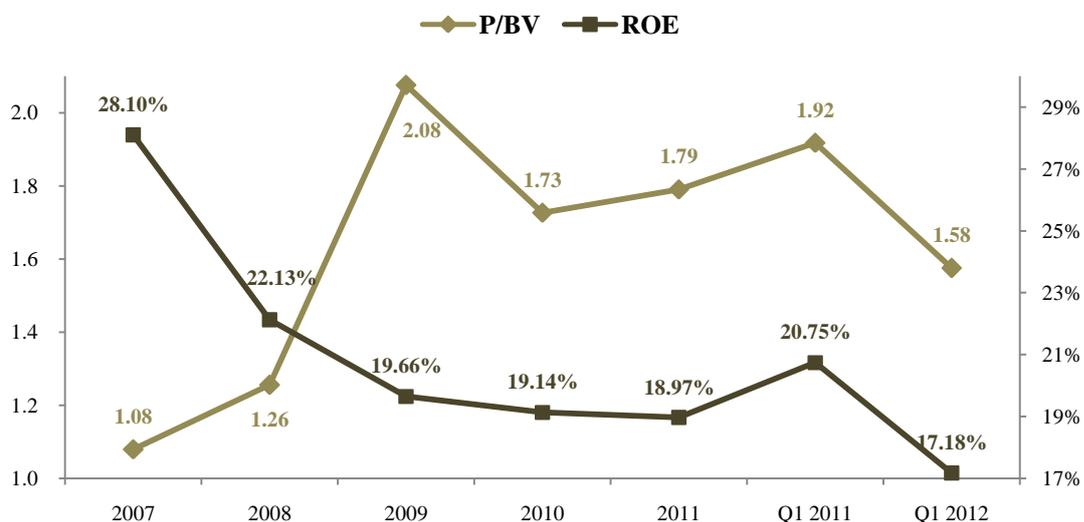
After breaking down the ROE to its components, we can see that throughout the last five years asset utilization has slightly increased from 4.19% in 2007 to 4.59% in 2011, while financial leverage has dropped to 8.51. But the main reason behind the persistent drop in the ROE over the past five years was the drop in the BOP's net profit margin, where it dropped from 57.92% in 2007 to 44.72% in 2011.

Figure 46: BOP ROAE Du-Pont analysis

	2007	2008	2009	2010	2011	Q1 11	Q1 12
Net Profit / Net Interest & Commissions Income	57.92%	48.26%	50.92%	48.70%	44.72%	49.96%	43.22%
Net Interest & Commissions Income / Total Assets	4.19%	4.68%	4.12%	4.00%	4.59%	4.91%	4.88%
Total Assets / Total Shareholders' Equity	9.40	8.49	8.51	9.43	8.51	8.43	7.89

Source: Bank of Palestine Annual Report

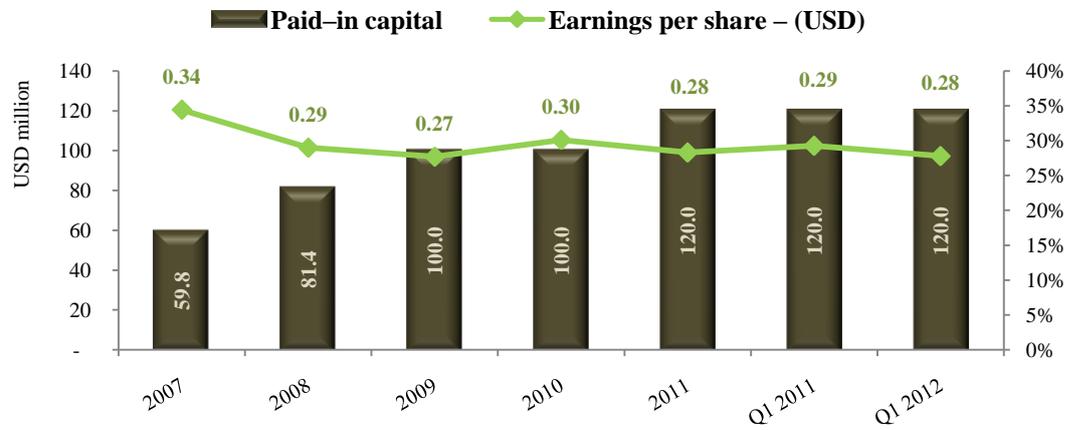
Figure 47: BOP P/BV compared to ROE



Source: Bank's financials, Palestine stock exchange

BOP's net income has been increasing during the last five years, to reach USD 33.98 million in 2011 compared to USD 20.6 million in 2007. While EPS of the bank has been stable even during increased of paid up capital, which has increased from USD 60 million to USD 134 million in 2012, due to the constant increase in net income.

Figure 48: Paid-up Capital & EPS



Source: Bank of Palestine Annual Report

Valuation

In this valuation, we applied the Equity Cash Flow model, in addition to P/E peer valuation, giving the larger weight to the Equity Cash Flow model. The following is an overview of the banks included in the peer valuation. The selected banks include 4 banks in Jordan, one bank in Oman, UAE and Egypt. Although Bank of Palestine has the highest market capitalization compared to other listed banks in Palestine, it has the lowest between the considered peers.

Figure 49: Peers considered for P/E valuation

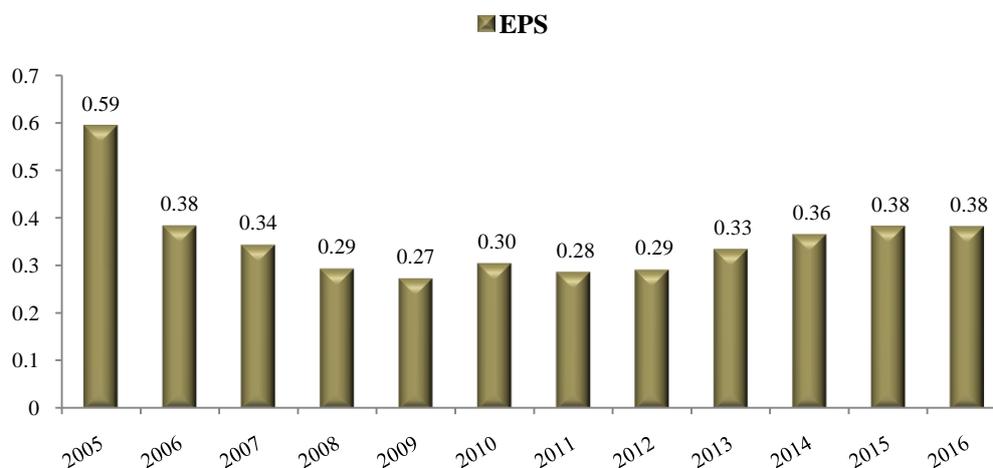
Name	Country	P/E
Bank Of Palestine	Palestine	11.4
Jordan Kuwait Bank	Jordan	9.07
Credit Agricole	Egypt	6.77
Bank of Jordan	Jordan	7.47
Cairo Amman Bank	Jordan	6.66
Bank Sohar	Oman	8.04
Commercial Bank	UAE	5.8
Jordan Ahli Bank	Jordan	6.82

Source: Bloomberg

Our discounted equity cash flow model yielded USD 3.04 per share. This is based on a 2% terminal growth rate, with 14.94% cost of equity, adjusted Beta of 0.72, market risk premium of 15% and risk free rate of 7.75%. We applied a weight of 90% to Equity Cash Flow model, and a weight of 10% to the P/E valuation. The P/E valuation yielded USD 2.49.

Bank of Palestine is the largest financial institution in Palestine and one of the major employers, yet we believe that the bank still has several growth areas that can be further explored, we expect that the additional branches to be opened, serving rural areas that are under served or not served at all, in addition to the possibility to branch out of the borders of Palestine will positively affect the future performance of the bank. We expect that credit facilities will grow 12% during 2012, 10% during 2013 and then growth will stabilize around 5% for the following years. EPS will maintain steady growth over the years as the following figure shows.

Figure 50: Historical and Forecasted EPS



Source : Bloomberg, Awraq investments

Our target price for Bank of Palestine is USD 3.04, 16% higher than the close price of USD 2.61 on July 23, 2011. Based on this valuation, our recommendation for Bank of Palestine is BUY. This valuation is based on the assumption that no major adverse events would happen throughout the forecast period. Should any negative developments arise, there could be a downside risk to our estimates.

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