

Results Brief - Q1 2012

Bank of Palestine (BOP)

Palestine Stock Exchange

| Ticker | Sector | Trading Currency | ISIN | Free Float | Close 08/05/2012 | YTD | Forward PE | Market Capitalization\$ | 52 Week High | 52 Week Low | Trading Turnover Q1 |
|--------|------------------------------|------------------|--------------|------------|------------------|--------|------------|-------------------------|--------------|-------------|---------------------|
| BOP | Banking & Financial Services | USD | PS1004112600 | 69.70% | 2.84 | -2.07% | 6.47 | 380,560,000 | 3.23 | 2.75 | 3.53% |

Profits drop on higher expenses despite top-line growth from more financing

- Bank of Palestine BOP reported an increase of 6.06% in net interest and commission income, reaching \$21.03 million in Q1 2012 compared to Q1 2011 and contributing by 87.06% to gross revenues, driven by a growth in net interest income by 4.31% which was resulted from an increase in interest revenues by 8.18% that aggregated at \$17.96 million compared to \$16.61 million in Q1 2011; following BOP's strategy to provide diversified credit facilities services to customers, where BOP's direct credit facilities portfolio reached \$744.93 million in Q1 2012 compared to \$619.00 million in Q1 2011; up by 20.34% and enhanced by targeting all sectors in the Palestinian community. Net interest income accounted for 75.96% from net interest and commission income and for 66.13% from gross revenues. In addition, net commissions settled at \$5.06 million in Q1 2012, increasing by 12.02% compared to Q1 2011.
- Non-interest and commissions income totaled at \$3.12 million in Q1 2012; up 1.73% compared to Q1 2011 and accounting for 12.94% to gross revenues amid a balanced changes in constituents, where foreign currency gains contributed by \$1.07 million down by 26.58% compared to Q1 2011, versus a growth of 15.68% in the other revenues item to settle at \$1.45 million that usually includes revenues of: visa and master cards fees, recovery of suspended interest, trading commissions, recovery of tax provision of a subsidiary and others. Also, financial assets gains increased remarkably by 200% to reach \$0.47 million in Q1 2012 compared to \$0.16 million in Q1 2011.
- Amid BOP's operations expansion and new branches opening, total expenses increased by 20.56% amounting to \$10.99 million; 45.49% out of gross revenues. Among this figure, employees expenses - main contributor to total expenses by 56.22% - increased by 15.74% settling at \$6.18 million, and operating expenses also increased by 19.18% to reach \$3.54 million along with higher depreciation expenses amid operations expansion.
- Total assets reported similar levels between Q1 2012 and the end of 2011, aggregating at \$1.65 billion. The major contributor to total assets by 45.05% - direct credit facilities- grew by 3.44% amounting to \$744.93 million in Q1 2012, while cash and balances with PMA and balances at banks and financial institutions dropped by 7.74% settling together at \$597.40 million and accounting for 35.95% of total assets, accompanied by a decline of 2.34% in investments to reach \$228.74 million in which the available for sale investments contribute by 90.08%.
- Total deposits in BOP - PMA's, Banks' and financial institutions', customers' and cash margins- aggregated at \$1.34 billion in Q1 2012; down slightly by 2.47% compared to the end of 2011. Out of total deposits, customers deposits grew by 2.40% -an amount of \$29.87 million- reaching \$1.27 billion accounting for 94.69% of total deposits; 1.71 times of direct credit facilities. Also, cash margins increased by 19.74% - an amount of \$10.62 million- settling at \$64.41 million in Q1 2012. This was opposed to a major reduction in the PMA, Banks' and financial institutions' deposits by \$74.59 million- a rate of 91.50% -, which in turn together hit \$6.93 million in Q1 2012 compared to \$81.51 million at the end of 2011. In total, total liabilities dropped by 1.06% to stand at \$1.44 billion in Q1 2012.
- In aggregate, total shareholders' equity stood at \$209.49 million in Q1 2012; a growth rate of 7.77% compared to the end of 2011. While net equity excluding non controlling interest reached \$208.92 million, growing by 7.79%. Retained earnings grew by 65.38% to aggregate at \$36.52 million in Q1 2012 compared to \$23.35 million at the end of 2011. BOP maintains a balance of reserves of \$43.36 million; contributing 20.70% of total equity. The statutory reserve contributes up to 45.69% of total reserves. Book value per share recorded \$1.74 per share at the end of Q1 2012 compared to \$1.62 at December30, 2011.
- It should be noted that the GA of BOP had approved on April 27, 2012 distributing cash dividends of \$9 million - 7.50% of the share's par value-, and bonus stock dividends of \$14 million - 11.67% of the paid in capital-, therefore raising the paid in capital to \$134 million. Market cap today is \$380.56 million

Key Financial Highlights

| Item (USD) | Q1 2011 | Q1 2012 | Δ |
|-------------------------------------|------------|------------|--------|
| Net interest and commissions income | 19,830,454 | 21,032,742 | 6.06% |
| Non-interest and commissions income | 3,072,639 | 3,125,791 | 1.73% |
| Gross revenues | 22,903,093 | 24,158,533 | 5.48% |
| Total expenses | 9,114,536 | 10,988,563 | 20.56% |
| Profit before tax | 13,788,557 | 13,169,970 | -4.49% |

| Item (USD) | 2011 | Q1 2012 | Δ |
|---|---------------|---------------|--------|
| Direct credit facilities | 720,173,048 | 744,934,100 | 3.44% |
| Total assets | 1,653,307,523 | 1,653,525,568 | 0.01% |
| Customers' deposits | 1,242,780,471 | 1,272,653,709 | 2.40% |
| Total deposits | 1,378,083,099 | 1,343,989,268 | -2.47% |
| Total liabilities | 1,459,560,970 | 1,444,029,980 | -1.06% |
| Retained earnings | 23,354,098 | 36,522,279 | 56.38% |
| Paid up capital | 120,000,000 | 120,000,000 | 0.00% |
| Shareholders' equity attributable to the parent | 193,827,503 | 208,921,540 | 7.79% |

Key Financial Ratios

| Item | Q1 2011 | Q1 2012 | Δ |
|---|-------------|-------------|---------|
| Net income/ Net interest and commissions income | 69.53% | 62.62% | -9.95% |
| Net income/ Gross revenues | 60.20% | 54.51% | -9.45% |
| Net shareholders equity/ customers deposits | 15.20% | 16.42% | 8.01% |
| Net shareholders equity/Net credit facilities | 28.82% | 28.05% | -2.68% |
| Net credit facilities/ total assets | 41.03% | 45.05% | 9.81% |
| Net credit facilities/ customers deposits | 52.74% | 58.53% | 10.99% |
| Debt Ratio | 88.14% | 87.33% | -0.92% |
| Equity ratio | 11.86% | 12.67% | 6.81% |
| Credit facilities/net equity | 347.00% | 356.56% | 2.76% |
| ROaA | 0.90% | 0.80% | -11.79% |
| ROaE | 8.04% | 6.52% | -18.92% |
| ROaE (Net Equity) | 8.07% | 6.54% | -18.96% |
| Current Ratio | 1.11 | 1.12 | 0.67% |
| Working Capital | 147,440,221 | 170,907,583 | 15.92% |
| Working Capital turnover | 13.45% | 12.31% | -8.50% |
| Working Capital Ratio | 9.77% | 10.34% | 5.77% |

Key Market Ratios

| Item | Q1 2011 | Q1 2012 | Δ |
|----------------------------------|---------|---------|---------|
| EPS | 0.138 | 0.110 | -20.41% |
| BV | 1.78 | 1.74 | -2.40% |
| Market / BV Ratio | 1.934 | 1.763 | -8.82% |
| Earnings Yield | 4.00% | 3.57% | -10.55% |
| Price to Sales – Annualized | 4.35 | 4.38 | 0.68% |
| Q Ratio | 22.87% | 22.28% | -2.56% |
| Customers deposits to Market Cap | 3.40 | 3.45 | 1.54% |

Major Shareholders

| Major Shareholders as of Dec 31, 2011 | % |
|---------------------------------------|-------|
| A. M. Al-Kharafi & Sons Trading Co | 7.63% |
| Mrs. Mahdiya Y. Shawa | 6.29% |
| Palestine Investment Fund | 5.63% |
| Blakeney Investment Fund | 5.25% |
| International Finance Corporation IFC | 5.00% |

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