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# EVALUATING MERGERS AS A TOOL TO STRENGTHEN AND MODERNIZE THE PALESTINIAN BANKING SYSTEM, AN ANALYTICAL STUDY OF PALESTINIAN LOCAL BANKS: 2010-2017

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**Abstract**
The study aimed to identify the importance of using mergers and acquisitions strategies in order to strengthen and modernize the banking industry, Through evaluation and analysis of the results of the merged Palestinian banks, by using the descriptive analytical approach as well as the inductive and deductive approach. The study concluded that the circulars issued by the Palestine Monetary Authority mainly which relate to the raising of the minimum paid -up capital of local banks had a positive role in and was the main motivation towards these mergers and acquisitions. The mergers and acquisition that took place in the Palestinian banking sector had resulted in a significant improvement in data and financial indicators as well as the competitiveness of domestic merged banks and reflected positively on the national economy. Based on these results, the study recommended the need to redouble the efforts of the Palestine Monetary Authority by using literary persuasion at certain times, and through the development of laws and regulations that encourage and stimulate mergers and acquisition to create stronger banking entities that are capable of facing the challenges of competition and financial crises and other banking risks, at other times. Moreover, national banks and large-scale expatriate must play a more active role in the process of economic development and work to maximize their economic role and expand the value of productive projects that require large funding through granting syndicated loans and establishing joint ventures.

**Keywords:** mergers and acquisition; strengthening and modernizing; banking industry

## INTRODUCTION

The safety of the banking system, in general, and the avoidance of any banking shocks, in particular, may weaken trust and confidence if some institutions are left alone to meet and confront bankruptcy or liquidation. These strong motives urge the Monetary Authorities to persuade and, sometimes, force such institutions to merge or acquisition. The safety of banking is a vital guarantee to support the national economy; therefore, part of the main tasks of Monetary Authorities is to ensure and continuously validate the banking structure and assess them in a way that gives the correct answer to whether there is a need to move towards merger as an important tool to strengthen the banking system, or resort to other means of integration that may be more useful and more convenient in terms of application (1).

There is no doubt that some of the banks operating in Palestine suffer mainly from weakness in their financial indicators and from the small size of their capital especially those which do not meet the requirements of the Palestine Monetary Authority regarding raising their capital to reach the minimum required of them. In 2003 the Palestine Monitory Authority planned carefully to promote the idea of merger to build strong Palestinian banking entities capable of coping with the challenges facing the Palestinian economy. Consequently, mergers and/or acquisitions between banks operating in Palestine became necessary. This allows for the formation of large banking entities that are capable of absorbing and confronting the expected and unexpected risks as well as meeting the requirements of the Palestinian economy. Until 2004, there was no merger in the Palestinian banking sector until the Palestine Monetary Authority (PMA) announced in 2005 the signing of an agreement between the Islamic Bank of Palestine and branches of Cairo-Amman Islamic Bank to sell the net assets of all transactions to Palestine Islamic Bank in a process known as banking consolidation in the form of acquisition.

Demand for mergers has increased, especially for small banks, which have taken this approach as a necessity to increase their competitiveness and to establish the principle of presence and continuity in the banking sector due to two main variables (2):

1. The Agreement on Liberalization of Banking Services that comes within the framework of the World Trade Organization Agreement which would increase the competition in the global banking market.

2. The capital adequacy standard which should be at least 12% of the value of the banking obligations towards any bank in addition to other variables such as technological progress, the development of informatics and the consolidation of the phenomenon of giant economic blocs.

### Statement of the problem and study questions

The current study aimed to highlight mergers as a way to strengthen and modernize the Palestinian banking system. This will be done by analyzing and evaluating the indicators for the local Palestinian banks which were merged during the period 2010-2017. The main problem of the study can be formulated in the following question: What is the importance of mergers as a way to strengthen and modernize the banking system in Palestine? The researchers aimed to answer the following set of questions that can be formulated as follows:

[1]Abdel Fattah, Ahmed (1992).Extrapolating the results and future of banking integration. Union of Arab Banks, Beirut.

[2] Yassin, al-Tayeb, and Matai, Abdelqader (2008). "Banking Integration as a Tool for Improving the Performance of the Algerian Banking System".

1. Does the instructions issued by the Palestine Monetary Authority after 2010 regarding the raising of paid-up capital led to further mergers and acquisition with local banks in Palestine?

2. What are the most important drives of mergers and acquisition in the Palestinian banking sector after 2010?

3. Does mergers and acquisitions leads to Strengthen and modernize the Palestinian local banks?

**Importance and objectives of the study**

The current study intended to achieve the following objectives:

1. Determine the need of the Palestinian banking sector to merge some of the banks operating in Palestine.

2. Illustrate the important role played by the process of banking mergers in order to build a strong and effective banking system.

3. Identify the most important motives that are required in the process of merger among national banks operating in Palestine.

4. Evaluate the results of the mergers and acquisitions carried out in the local Palestinian banks after 2010 in strengthening and modernizing the system of the Palestinian banking sector, the reasons for the interest of local banks in the recent mergers, in particular, as one of the phenomena that have been developed in the Palestinian banking arena, and finally the benefits gained by the local Palestinian banks in the framework of these mergers.

The study also aimed to formulate a set of conclusions and recommendations that will help banks and decision makers in the banking field to work on expanding bank mergers or integrations and understanding how to manage it efficiently and effectively by Palestinian national banks.

**BACKGROUND**

This part of the study presents the concept of bank mergers, the development of the Palestinian banking sector and the measures of promotion and motivation; the researchers then review the relevant literature on mergers in the banking sector.

**The concept of bank mergers and acquisitions**

In the field of banking economics, there are many definitions of banking mergers and acquisition. For example, Abdul Hamid (2001) argued that a merger is "an agreement that leads to the union of two or more banks and their voluntary solubility in one banking entity, so that the new entity has a higher and more effective ability to achieve objectives that could not have been

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achieved without the consolidation of the new bank(3). Some also believe that bank merger is the financial process that leads to the acquisition of one or more banks by another financial or banking institution, whereby the merged /consolidated bank usually abandons its independence and enters into the merging bank and both become one. The new bank takes a new name; it is usually the name of the merging/consolidating institution or a common name that combines or integrates both names. The expansion of bank mergers and the formation of giant banks is one of the most important features of modern banking in the context of financial globalization. Hammad (1999) defined mergers as a union of interests between two or more companies or institutions; it is a combination of the assets and liabilities of two or more banks. Such a union may take place through two or more companies or banks for the emergence of a new entity or the incorporation of one or more companies / banks into it. The merger may be wholly or partially and the process may be fully or partially controlled or carried out voluntarily or involuntarily(4).

There are many other definitions for bank mergers; most of them vary according to the perspective of its content, its composition, its effects, or whether it is legal or illegal. Below are the most important definitions mentioned by Matai, 2010 (5):

- An agreement between two or more banks; it is an administrative liability in one single banking entity so that the new entity becomes highly capable and effective to achieve objectives that cannot be achieved before the completion of the process of consolidating the new banking entity.

- A bank joins another bank or more; they are usually of equal importance and size. The two of them disappear individually and a new independent entity with a new name emerges.

## The development of the Palestinian banking sector

In spite of the challenges and obstacles that face the Palestinian economy, the Palestinian banking sector, which is particularly important in economic activity as the main component of the financial system, has continued to grow and is able to deal with many local and regional risks; it has established itself as one of the most important pillars that support the Palestinian economy. The number of licensed banks in Palestine was(15) in 2017 including seven local banks and eight foreign commercial banks. These banks have (332) branches with(204) branches for local banks and (128) branches for foreign banks with an increase of (10%) from the last year according to the Annual Report of Palestine Monitory Authority, 2017 (6). The following table shows developments in the banking indicators of the Palestinian banking sector.

[3] Abdul Hamid, Abdulmutallab (2001). Globalization and Banking Economics, University House, Egypt.
[4]Hammad, Abdel Aal Tariq(1999). The Integration and Privatization of Banks", Part 4, Commercial Banking Series, University House, Alexandria.
[5] Matai, Abdelqader (2010). Banking Integration as a Modern Approach to the Development and Modernization of the Banking System, University of Mohammed KhaderBiskra, Issue 7.
[6]Palestinian Monetary Authority (2017). Annual Report, Monetary Research and Policy Department, Palestine.

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**Table(1):The Main Financial Statements For The Palestinian Banking Sector During 2010-2017 (USD Million)**

| **Item** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
|---|---|---|---|---|---|---|---|---|
| Total Assets | 8,555.7 | 9,076.9 | 9,663.8 | 10,783.8 | 11,416.7 | 12,271.0 | 13,765.1 | 15,376.4 |
| Total Liabilities | 7,461.4 | 7,891.8 | 8,405.7 | 9,422.2 | 9,949.1 | 10,271.0 | 12,093.8 | 13,623.5 |
| Total Equity Capital | 809.6 | 874.6 | 894.7 | 928.1 | 976.0 | 961.3 | 1,021.7 | 1,082.6 |
| Total Reserves | 110.2 | 199.2 | 241.8 | 288.2 | 306.8 | 346.0 | 377.7 | 420.9 |
| Total Property Rights | 1,094.2 | 1,186.5 | 1,258 | 1,361.5 | 1,467.4 | 1,467.6 | 1,601.8 | 1,752.9 |
| Total Customer Deposits | 6,778 | 6,945.8 | 7,460.1 | 8,277.0 | 8,906.4 | 9,627.8 | 10,586.7 | 11,948.8 |
| Total Facilities | 2,820.5 | 3,487.0 | 4,117.9 | 4,404.3 | 4,816.6 | 5,736.7 | 6,765.4 | 7,900.2 |
| Total Interest & commission income | 285.7 | 344.32 | 376.4 | 423.4 | 443.6 | 460.9 | 492.4 | 580.1 |
| Total Revenue | 396.9 | 416.1 | 434.3 | 479.3 | 514.5 | 530.6 | 569.7 | 680.6 |
| Total Net Profit | 138.7 | 128.6 | 123.5 | 143.4 | 146.9 | 132.8 | 149.3 | 168.5 |
| Total Retained Earnings | 94.3 | 87.8 | 106.4 | 121.8 | 159.6 | 129.6 | 136.4 | 170.8 |

Source: Financial statements issued by the Association of Banks in Palestine 2010-2017

**Table( 2): The Main Financial Indicators for the Palestinian Banking Sector During 2010-2017 (%)**

| **capital structure index** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
|---|---|---|---|---|---|---|---|---|
| Liabilities / assets | 87.4 | 86.9 | 87.0 | 87.4 | 87.1 | 88.0 | 88.3 | 88.6 |
| Facilities / Equity | 257.8 | 293.9 | 327.4 | 323.5 | 328.2 | 390. | 422.4 | 450.6 |

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| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | 9 | | |
| Property rights / assets | 12.7 | 13.0 | 13.0 | 12.6 | 12.8 | 11.9 | 11.7 | 11.4 |
| Retained Earnings / Equity | 8.6 | 7.5 | 8.4 | 9.0 | 10.9 | 8.8 | 8.5 | 9.7 |
| **liquidity index** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| Customer deposits / assets | 79.2 | 76.6 | 77.2 | 76.7 | 78.1 | 78.5 | 77.3 | 77.7 |
| Facilities / assets | 33.0 | 38.4 | 42.6 | 40.8 | 42.2 | 46.8 | 49.4 | 51.4 |
| Facilities / customer deposits | 41.6 | 50.1 | 55.2 | 53.2 | 54.0 | 59.6 | 63.9 | 66.1 |
| **profitability index** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| Net interest income & commission/total income | 72.0 | 82.8 | 86.8 | 88.3 | 86.2 | 86.8 | 86.4 | 85.2 |
| Return on assets | 1.6 | 1.4 | 1.3 | 1.3 | 1.3 | 1.0 | 1.0 | 1.1 |
| Return on equity | 12.75 | 10.8 | 9.8 | 10.5 | 10.0 | 9.1 | 9.3 | 9.6 |

Source: Financial indicators issued by the Association of Banks in Palestine 2010-2017

## Measures of the Palestinian Monetary Authority to strengthen the Palestinian banking system

Since its establishment in 1994, the Palestinian Monetary Authority has worked to strengthen the status of the Palestinian banking sector by issuing laws and regulations to monitor and control the banking industry. In order to enhance this trend, the Palestinian Monetary Authority has given great importance to dealing with weak banks and encouraging them to merge in order to raise the level of competitiveness in the Palestinian banking sector. It also put into force a number of resolutions and circulars to determine the minimum paid-up capital for Palestinian banks. In 2008, they issued instructions No. (5) to raise the paid-up capital from $ 10 million to $ 35 million. In 2009, it also issued instructions on the forms, conditions and procedures of mergers and acquisitions. Consequently, the banks began to prepare the necessary plans for mergers and integration in order to continue to grow and strengthen their financial positions. The restructuring policy of the banking sector resulted in the acquisition of Al-Aqsa Islamic Bank by Palestine Islamic Bank in 2009. In 2010, the Palestinian Monetary Authority issued instructions to raise the paid-up capital from $ 35 million to $ 50 million. This led Al-Quds Bank to acquire

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Palestine International Bank at the end of 2010 and Palestine Welfare Bank to merge with the Arab Investment Bank and make National Bank at the end of 2012. The Palestinian Monetary Authority issued its instructions No. (5) to raise the minimum paid-up capital from $ 50 million to $ 75 million in order to strengthen the Palestinian banking sector and protect it from the risks and financial crises which led to the acquisition of Jordan Union Bank by the National Bank, on the one hand, and the Bank of Palestine acquired Palestine Commercial Bank at the end of 2015, on the other hand. Moreover, there was the acquisition of a controlling stake in the Arab Islamic Bank by the Bank of Palestine in 2016. Likewise, National Bank acquired a controlling stake in the Palestine Islamic Bank in 2018.

All of these measures have strengthened the system of local Palestinian banks because some of those banks were suffering from weak capital, which forced them to merge to meet the requirements of the Palestinian Monetary Authority for the minimum capital. The capitals of these banks did not correspond to the challenges that the banking industry was passing through such as its incapability to meet the requirements of the Palestinian Monetary Authority with respect to raising their paid-up capital to the minimum or its inability to achieve growth in their capital to match the growth of the capital of other working banks. Therefore, the strengthening of the Palestinian banking system requires banks capable of creating balance and building strong Palestinian banking entities that can cope with the foreign banks so that they could face the challenges that beset the Palestinian economy. This is a necessity for conducting interbank mergers to create banking entities that have the capacity to absorb expected and unexpected risks and meet the requirements of the Palestinian economy (7).

## The motives for merges and acquisitions in the Palestinian banking sector

Since the establishment of the Palestinian Monetary Authority in 1994, no special draft law that may encourage banking mergers and integration has been submitted except that which was incorporated in Chapter Eleven of the Palestinian Banking Law No. (2) of 2002. This chapter contains several merger items that are characterized by lack of clarity and void of incentives and encouraging features which can be presented to the banks operating in Palestine for the purposes of mergers or integration. There is only one item (i.e., No. 6) that states that the Monetary Authority can offer some benefits and incentives to banks in order to encourage the merger as provided by the Banking Act without clarifying those benefits and/or incentives. The Banking Law No. (2) for the year 2002 was then amended, and a new law for banks No.( 9) of 2010 was issued; explained the instructions and provisions on the benefits and incentives for mergers. The most important provisions are:

a. The bank may be granted a loan or loans for different periods with the interest rates and defined by the monetary authority and based on its instructions.

[7]Zaida, Mahib Mohammed (2006). The motives of banking integration in Palestine and its determinants. Islamic University in Gaza, Palestine.

b . Granting tax exemptions to the bank resulting from the merger in coordination with the Council of Ministers regarding the value and period of these exemptions.

c. The bank shall be exempted from part of the license fees and the annual fees for one year renewable by a decision of the Monetary Authority.

In addition to the above motives that stimulate banks to merge, the weakness of capital in some national banks and their inability to meet the requirements of the Palestinian Monetary Authority regarding the minimum capital, on the one hand, and the small size of the Palestinian banks compared with foreign banks were among the main reasons and motives that led to more mergers and acquisitions that may develop the Palestinian banking sector, which is reflected eventually on the Palestinian economy as a whole as the banking sector is one of the main pillars of the Palestinian economy. Consequently, many mergers and acquisitions in the bank industry took place in Palestine after the year 2010.

**Previous relevant studies**

There is a wide interest in the role of mergers and acquisitions in banks on the general performance of the banking sector in many countries of the world ,Liargovas, Repousis (2011) study worked to examines the impact of Greek mergers and acquisitions on the performance of the Greek Banking Sector during the period 1996-2009. With the use of event study methodology, we reject the "semi-strong form" of Efficient Market Hypothesis (EMH) of the Athens Stock Exchange. results generally indicate that bank mergers and acquisitions have no impact and do not create wealth. The operating performance of the Greek Banking Sector was studied by estimating twenty financial ratios. The results also indicated that operating performance does not improve, following mergers and acquisitions. Likewise, Pawar, Swati B. (2008) study came to confirm that Banking is becoming an increasingly global industry, which knows no geographic and territorial boundaries. Within the banking industry, the increasing spate of mergers and acquisitions are manifestations of an inorganic growth process. in this paper analyze the trends in banking industry as well as the background of the merger and acquisitions in various countries. This paper Discuss diverse issues such as reasons for the mergers and acquisitions in the banking industry, its implications for various stakeholders and possible reasons for failure of a merger alongside emerging indicators of successes.

Ther is a number of studies have been conducted to analyze and evaluate the importance of banking mergers in strengthening the financial sector in various Arab countries. For instance, Abdul Nabi (2004) carried out a study to clarify the importance of banking integration or mergers in Iraq; the researcher followed an analytical-descriptive approach to find out the reasons for mergers in Iraqi banks and found that mergers are a necessity for economic reform and to achieve the objectives of the bank to provide broader and better services in order to increase the public's confidence to maintain their savings and eventually offer them the best facilities. The study stressed that the central bank should explain and clarify the process of bank integration and mergers in Iraq; create the appropriate environment for these mergers within a certain transitional period; grant a time limit for the bank to resolve its problems; and finally

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grant soft loans using secondary means of credit which can be provided by the Central Bank of Iraq under Law No. (56) of 2004.

Mohammed (2015) conducted a study to investigate the need of bank mergers in The Sudan using the inductive and deductive approaches. The researchers stressed the need of the banking sector in the Sudan to provide large capital and high cash liquidity in order to be able to carry out its functions. The study findings showed that some Sudanese banks opted for mergers with other banks to form new ones with larger financial capacities; this led to increasing the size of the investment activity of the Sudanese banking sector and the improvement of liquidity and profitability.

Jahmani and Umar (2002) evaluated the mergers that had already taken place in the Jordanian banking sector and the resulting financial and economic results that affected the banking sector. The researchers collected data on commercial banks in which actual mergers took place and resulted in public shareholding companies during the period 1985-1997. The results of this study were based on a period of two years before the merger, the merger year, and two years after the merger. The researchers aimed at identifying the impact of mergers among Jordanian banks on a range of financial ratios. These ratios include expenditure rates, cash flow ratios and income ratios. The study examined the effect of these ratios on the merged banks and compared them with the rates achieved before the merger at individual banks. The study concluded that there is a positive effect of banking merger or integration on these ratios in these merged banks.

At the local level, Rihan (2006) carried out a study to evaluate the experience of Palestine Islamic Bank's acquisition of the three branches of Cairo-Amman Bank mainly those which are classified as Islamic whose focus is religious transactions and were operating in Palestine in 2005. The study adopted a descriptive-analytical approach. The study findings showed that the merger was a successful operation as the assets of the Palestinian Islamic Bank increased by 342%, the volume of deposits by 233% and the volume of profits by 32%. The Palestinian Islamic Bank obtained incentive benefits and encouragement from the Monetary Authority including approval of these new branches. Therefore, the researcher recommended that the other banks operating in Palestine, particularly the weak ones, follow the example of Palestine Islamic Bank to think about mergers and integration as a means to solve some of its problems, and that the Monetary Authority is to work on the development of regulated mechanisms for bank merger and integration, and to identify the advantages and incentives that can be offered to banks in Palestine to encourage them to integrate and merge.

Zaida Mohib (2006)followed an analytical-descriptive approach as well as the inductive and the deductive methods to examine the various motives of the banking industry to integration and merge and its determinants that hinder or block such integration, whether they are internal determinants- resulting from the internal environment of national banks- or external determinants. The researcher aimed also to determine the various attitudes of the employees working in both the Palestine Monetary Authority and the high-ranking administrative staffs of the national banks operating in Palestine towards the nature of the motives and determinants of achieving such mergers or integrations. The results of the study showed that the national banks are concerned and worried about the small size of its entities and its limited activity in the

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Palestinian banking market, which is dominated by foreign banks. Consequently, it is necessary for these national banks to merge and form large and strong banking entities that capable of meeting the challenges and confronting the crises they are likely to face.

**Contribution of the current study and its difference from previous studies:**

This study has benefited from previous studies and came in a more inclusive and comprehensive manner. All the recent mergers from 2010 to 2017 have been dealt with using analytical, deductive, inductive approaches to complement some aspects of mergers and integration and identify its importance as a way to strengthen and modernize the Palestinian banking system.

**Study methodology**

This study is based on the analytical-descriptive approach in addition to the inductive and deductive approach. The researchers used the data and financial indicators of the banks operating in Palestine, as well as the available literature, and previous research on the subject of banking mergers and integration.

**Study population and sample**

The population and sample of the study consisted of all the banks that merged during the period 2010-2017, namely the National Bank ,Arab Bank for Investment, Al Rafah Bank, Union Bank of Jordan, Palestine Commercial Bank and Bank of Palestine, which have all the necessary financial data.

**Study Hypotheses**

The study hypotheses were meant to examine the effectiveness of mergers as a tool to strengthen and modernize the Palestinian banking system. They can be hypothesized as follows:

H01: There is no significance for the instructions issued by the Palestinian Monetary Authority after 2010 regarding raising the paid up capital and granting incentive benefits for mergers with local banks in Palestine?

H02: Are there any motives that call for mergers in the Palestinian banking sector after 2010?

H03: There is no significance for mergers in strengthening and modernizing the local Palestinian banks?

**Mergers and Acquisitions in the Palestinian Banking Sector after 2010**

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The following are the mergers that took place in the Palestinian banking sector after 2010, which came as a natural result of the new Palestinian Banking Law No. (9) of 2010, which included several incentives for the processes of merger:

**First: National Bank (of Palestinian origin)**

The National Bank was established in 2012 as a result of the merger of the Palestinian Welfare Bank and the Arab Palestinian Investment Bank. The National Bank is currently considered as one of the most important commercial banks in Palestine. It is the second largest bank in terms of the paid-up capital ($ 75 million). In addition to providing investment services, treasury and financing of small and medium enterprises, which have the lion's share in the Palestinian banking market; the National Bank is the fastest growing Palestinian bank and the second largest banking group providing comprehensive, integrated financial services for the corporate, retail, investment and microfinance sectors. With over 9,000 shareholders, The National Bank commands the largest shareholder base within the Palestinian banking sector and attracts the most respected and successful companies to its board. Some of these companies include Massar International Investment Company, Pal-Tel Group, Birzeit Pharmaceutical Company and Mashareq for Investment & Development. The bank offers its banking services to its customers the various Palestinian geographic regions through its scattered (17) branches in the West Bank to provide its unique banking services to more than 80,000 customers. In addition, the bank offers banking services to its customers outside the geographic regions where its branches are located through electronic services such as electronic banking and mobile banking. The National Bank operates through an ATM network located in various vital and strategic locations in the West Bank. Although the National Banks the most recent bank in the Palestinian banking market, it has been able to demonstrate its financial performance and prove that it is a Palestinian bank over the past years. The bank has been recognized as the fastest growing bank in Palestine in 2013,2016, and 2017 by CPI Financial / Banker Middle East, the leading bank rating company in the Middle East; the CPI Financial has been ranked the bank as the fastest growing bank in the Middle East in terms of assets and liabilities (8).The National Bank was able to win the best treasury management prize among banks in Palestine Prize offered by the Banker Middle East magazine in 2014. Below are the mergers and acquisitions that took place in the Palestinian banking sector after 2010; the most important merger was the National Bank merger:

**The merger between Al Rafah Microfinance Bank and the Arab Palestinian Investment Bank in 2012**

At the end of 2012, a merger agreement was announced between Al Rafah Microfinance Bank and the Arab Palestinian Investment Bank to invest in one bank under the name of the National Bank (Palestinian origin) with a paid-up capital of ($ 50 million) in the first stage. The paid-up capital will be raised to ($ 75 million) in 2013. The agreement provides for the acquisition of the Arab Palestinian Investment Bank's assets and liabilities by the National Bank (formerly known as Al-Arabi). In return for the value of Arab Investment Bank's net assets, its shareholders

[8] National Bank: Annual Report of the National Bank 2012-2017.

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receive shares in the National Bank. The Arab Palestinian Investment Bank was established in 1996 as a limited public shareholding company. In 1997 it started to provide services in accordance with the laws and regulations that are put in force in Palestine with a capital of ($ 15 million) in partnership with Arab Bank, International Financing Corporation and the Deutsche Bank to be the first Palestinian bank specialized in investment banking services. Since its inception until the end of 2010, the Arab Palestinian Investment Bank's management did not comply with the instructions of the Monetary Authority to increase the paid-up capital to a minimum of ($ 50 million) at the end of 2010 as per the requirements of the Palestinian Monetary Authority. On the other hand, Al-Rafah Microfinance Bank was established in 2005- to finance microenterprises- with an authorized and subscribed capital of US $ 30 million; however, 25% of the subscribed capital was paid in 2005. Since 2006, the Bank has not taken any action to increase the paid-up capital. The Bank's management did not comply with the Monetary Authority's resolution No.( 5/2008) which called for raising the paid-up capital to $ 35 million or resolution No.( 7/2009) which stated that the minimum capital required for the practice of banking was set at $ 50 million. This had promoted the two banks to sign a memorandum of understanding with the aim of reaching an agreement leading to the formation of a Palestinian banking entity integrated in the name of the National Bank that has the basic requirements and ability to meet the needs of the local market for different types of financial services and all segments of society and its economic sectors, on the one hand, and can stand all various types of crises and meet the requirements of the Palestinian Monetary Authority. The following are the most important financial statements of the two banks before the completion of the merger:

**Table( 3): The most important financial indicators for Al-Rafah Bank and Arab Palestinian Investment Bank (%)**

| **Year** | **2010** | **2011** | **2010** | **2011** |
|---|---|---|---|---|
| Indicators | **Al Rafah Bank** | | **Arab Palestinian Investment Bank** | |
| | Capital Structure Index | | Capital Structure Index | |
| Liabilities / assets | 81.8 | 88.2 | 3.1 | 3.8 |
| Facilities / Equity | 149.6 | 260.8 | 0.3 | 0.2 |
| Retained Earnings / Equity | (7.3) | (7.3) | 1.3 | 2.3 |
| Capital adequacy | 33.6 | 19.0 | 27.9 | 228.8 |
| Capital / Liabilities | 23.0 | 13.6 | 305.4 | 244.4 |
| | Liquidity | | Liquidity | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Customer deposits / assets | | | 50.38 | 52.4 | 0.9 | 0.9 |
| Facilities / assets | | | 27.2 | 30.8 | 0.3 | 0.2 |
| Facilities / customer deposits | | | 53.6 | 58.8 | 32.0 | 27.2 |
| | | | Profitability | | Profitability | |
| Interest income and commissions / total income | | | 91.7 | 84.6 | 87.4 | 96.0 |
| Return on assets | | | 0.1 | 0.2 | 0.5 | 1.3 |
| Return on equity | | | 0.7 | 1.9 | 0.5 | 1.3 |
| Return on capital | | | 0.7 | 1.9 | 0.5 | 1.4 |
| **Al Rafah Bank** | | | | **Arab Palestinian Investment Bank** | | |
| Year | Paid-up Capital | Minimum Amount | Disability Amount | Paid-up Capital | Minimum Amount | Disability Amount |
| 2005 | 7.8 | 20 | (12.2) | 15 | 20 | (5) |
| 2006 | 28.8 | 20 | 8.8 | 15 | 20 | (5) |
| 2007 | 29.8 | 20 | 9.8 | 15 | 20 | (5) |
| 2008 | 29.8 | 35 | (5.2) | 15 | 35 | (20) |
| 2009 | 29.8 | 35 | (5.2) | 15 | 35 | (20) |
| 2010 | 29.8 | 50 | (20.2) | 15 | 50 | (35) |
| 2011 | 29.8 | 50 | (20.2) | 15 | 50 | (35) |
| 2012 | 29.8 | 50 | (20.2) | 15 | 50 | (35) |

Source: Financial indicators issued by the Association of Banks in Palestine 2010-2017

**The motives for the merger of Arab Investment Bank with Al Rafah Bank for the formation of the National Bank in 2012**

According to the financial statements of the banks in Table (3) above, the most important motives and reasons for the merger were the inability of the two banks to meet the requirements of the Palestinian Monetary Authority to raise capital despite the increase in the size of deposits in the Al Rafah Bank from ($ 80 million) in 2010 to ($ 129 million)with a growth rate of 61%. As a result, direct credit facilities increased from ($ 42 million) to ($ 76 million), an increase of (81%). However, the bank's retained losses remained negative at ($ 2.1 million).When a shallow comparison of the most significant bank indicators with the financial indicators of the banks operating in Palestine in as shown in Table (2) during the same period, it can be noticed that they are weak and below the required level of growth. Similarly, we find that the indicators and data of Arab Palestinian Investment Bank are below the required level of growth.

**National Bank's acquisition of the branches of Al Etihad Jordan Bank operating in Palestine in 2015**

As a result of the growth of National Bank after the merger in 2012 and will be shown later in Table (4) to assess the performance of the National Bank, the National Bank acquired the assets and liabilities of Al Etihad Jordan Bank that was operating in 2015in Palestine by combining its assets and liabilities to the assets and liabilities of the National Bank. The partnership agreement was the entry of Al-Etihad Jordan Bank as a new strategic partner in the National Bank with 10% of the paid-up capital which was($ 75 million). The portfolio of Al Etihad Jordan Bank that was working in Palestine will be transferred to the National Bank's portfolio. It was also agreed to choose a member of its Board of Directors to represent it in the new bank’s Board of Directors. The following table shows the most important financial indicators of the Al Etihad Bank from 2010 until the year of acquisition 2014.

**Table( 4): The most important financial indicators for Al Etihad Jordan Bank (%)**

| **Year** | **2010** | **2011** | **2012** | **2013** | **2014** |
|---|---|---|---|---|---|
| **Capital Structure Index** | | | | | |
| Liabilities / assets | 56.8 | 56.3 | 54.5 | 45.3 | 34.3 |
| Credit facilities / equity | 30.4 | 31.4 | 49.3 | 25.5 | 20.0 |
| Property rights / assets | 43.1 | 43.7 | 45.4 | 54.6 | 65.6 |
| Retained Earnings / Equity | 11.5 | 11.8 | 11.4 | 8.2 | 6.6 |
| Capital adequacy | 92.3 | 77.7 | 83.8 | 101.0 | 108.1 |
| Capital / Liabilities | 65.1 | 66.1 | 71.1 | 107.8 | 175.1 |
| **Liquidity** | | | | | |
| Customer deposits / assets | 55.8 | 55.0 | 53.2 | 43.9 | 33.2 |
| Credit facilities / assets | 13.1 | 13.7 | 22.4 | 14.0 | 13.2 |

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| | | | | | |
|---|---|---|---|---|---|
| Credit facilities / customer deposits | 23.5 | 24.9 | 42.1 | 31.8 | 39.7 |
| **Profitability** | | | | | |
| Direct revenue / total revenue | 81.3 | 88.0 | 87.7 | 93.7 | 94.2 |
| Return on assets | 1.0 | 0.2 | -0.002 | 0.4 | 0.39 |
| Return on equity | 2.4 | 0.5 | -0.004 | 0.8 | 0.6 |
| Return on capital | 2.8 | 0.6 | -0.005 | 0.8 | 0. 6 |
| Al Etihad Jordan Bank | | | | | |

| Year | Paid-up Capital | Minimum Amount | Disability Amount |
|---|---|---|---|
| 2010 | 23 | 50 | (27) |
| 2011 | 23 | 50 | (27) |
| 2012 | 23 | 50 | (27) |
| 2013 | 36.5 | 50 | (13.5) |
| 2014 | 50 | 50 | 0 |

Source: Financial indicators issued by the Association of Banks in Palestine 2010-2014

**The motives for the Al Etihad Jordan Bank to merge with the National Bank in 2014**

In reference to the most important financial indicators of Al Etihad Jordan Bank as shown in Table (4) above and in comparison with the most significant financial indexes compiled for the banks operating in Palestine as shown in table (2) and during the same period, it can be notices they are weak and below the required level. The bank's capital structure index shows a drop in most indicators compared to the capital structure of the banks operating in Palestine; the same is true with respect to the liquidity index and the profitability index. Most of the reasons that prompted the bank to get involved into the partnership deal with the National Bank are attributed to its inability to meet the requirements of the Palestinian Monetary Authority. The data in Table (4) of the bank indicate that there is a deficit in the payment of the capital from 2011 until 2013; however, the deficit was resolved when the transaction was concluded in 2014 and the paid-up capital was raised to ($ 50 million).

**Assessment of the importance of mergers on the performance of the National Bank**

The National Bank was able to demonstrate that it is a strong banking entity which develop steadily. Its financial results show a growth of (207%)to reach($ 1,079.3 million) at the end of

2017 which represents (7%) of the total assets of the Palestinian banking sector compared to ($ 350.8 million) at the end of 2012; moreover, its liabilities increased by (227%) to reach ($ 299.5 million) in 2012 and rising to ($981.8 million) in 2017 representing(7.2%) of the total liabilities of the Palestinian banking sector. On the other hand, its deposits grew by (274%)and became($ 808.7 million)instead($ 216.1 million) at the end of the year 2012. These figures represented(6.7%) of the total deposits of the Palestinian banking sector. As for the direct credit facilities portfolio, it reached ($ 653.8 million) at the end of 2017 compared to 142.7% in 2012 with a growth rate of (358%). Net profit also witnessed some changes; it increased from ($ 2 million) in 2012 to ($ 9.2 million) in 2017. The total equity raised from ($ 51.3 million) in 2012 to ($ 97.5 million) in 2017 and a growth rate of (90%)compared to the growth rate of the total equity of the Palestinian banking sector for the same period which was (39%); it is a clear crystal indication of the rapid growth of the bank in a short period (less than 6 years when it was established in 2012 until 2017).

**Table(5): The most important financial indicators of the National Bank (previously Al Rafah Bank & Arab Palestinian Investment Bank) (%)**

| **Year** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
|---|---|---|---|---|---|---|
| **Capital Structure Index** | | | | | | |
| Liabilities / assets | 85.4 | 89.6 | 88.2 | 89.1 | 89.5 | 91.0 |
| Credit facilities / equity | 278.2 | 415.3 | 373.2 | 447.3 | 561.5 | 670.1 |
| Property rights / assets | 14.6 | 10.3 | 11.7 | 10.9 | 10.5 | 9.0 |
| Retained Earnings / Equity | 0.5 | 0.9 | 4.8 | 7.1 | 6.9 | 7.6 |
| Capital adequacy | 20.5 | 16.3 | 20.4 | 17.5 | 14.3 | 14.4 |
| Capital / Liabilities | 16.3 | 10.3 | 11.8 | 10.2 | 9.4 | 7.6 |
| **Liquidity** | | | | | | |
| Customer deposits / assets | 61.6 | 57.1 | 60.9 | 65.7 | 74.1 | 74.9 |
| Credit facilities / assets | 40.7 | 43.1 | 43.9 | 49.0 | 58.7 | 60.0 |
| Credit facilities / customer deposits | 66.1 | 75.4 | 72.1 | 74.6 | 79.2 | 80.8 |
| **Profitability** | | | | | | |
| Direct revenue / total revenue | 74.9 | 85.1 | 84.5 | 87.0 | 87.0 | 85.4 |
| Return on assets | 60.0 | 0.7 | 0.65 | 0.66 | 0.8 | 0.9 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Return on equity | 80.8 | 6.5 | 5.5 | 6.1 | 8.0 | 9.4 |
| Return on capital | 74.9 | 7.2 | 6.2 | 7.2 | 9.8 | 12.2 |
| **The National Bank** | | | | | | |
| 2017 | Paid-up Capital | Minimum Amount | | Amount of surplus | | |
| | 75 | 75 | | 0 | | |

Source: Financial Indicators issued by the Association of Banks in Palestine 2010-2017

As a natural result of the rapid development and growth of the National Bank and within a short period of time it was able to acquire a significant, controlling stake in Palestine Islamic Bank in March 2018 (9) by purchasing 31,300 million shares of the Palestine Investment Fund and transferring other shares to its own. In other words, the National Bank acquired (45%) of the total shares of the bank in a deal worth up to ($70 million). The merits of the deal resulted in that fact that a consortium of shareholders led by the National Bank established the Islamic National Company for Investments, which bought 22 million shares of the total shares of the Islamic Bank of Palestine – which at that time was owned by the Investment Fund. A group of investors had invested their share(about 9 million shares) in the National Bank. Consequently, consortium became the dominant stake in the Palestinian Islamic Bank as it accounts for 45%. The Islamic Bank of Palestine remained an independent bank, maintaining its identity as an Islamic bank, to continue its business in accordance with the provisions of Islamic Shari'a. The change was only relevant to the Bank's shareholders and the rights of shareholders in the Palestine Islamic Bank; and the rights of customers and employees were also maintained. This transaction had a positive impact on both the National Bank and the Palestinian Islamic Bank (10). Furthermore, this transaction resulted in two entities that are mutually integrated, strong and reinforcing that aim at serving the Palestinian national economy which will positively affect the customers and the quality of banking products and performance. In total, the mergers and acquisitions that the National Bank had been involved in since its inception have led to the growth of the bank and the rise of its financial indicators; this has strengthened its position and competitiveness and has become one of the leading national banks in the banking industry.

**Second: Bank of Palestine**

Bank of Palestine was established in 1960 as a financial institution that sought to improve the level of banking services in Palestine and finance various projects and meet the financial and banking needs. Bank of Palestine is one of the largest and most popular national banks in terms of number of branches and offices; it has the most widespread branch network in Palestine (74 branches), a paid-up capital of ($200 million), assets of over ($ 4.76 billion), with (1,731)

[9] The National Bank: https://www.tnb.ps
[10] The National Bank: https://www.tnb.ps

employees serving more than(917,076) customers. The Bank has adopted a holistic, sustainable growth strategy which focused on modern banking, technology and information automation through the continuous development of services, expansion and empowerment, and the establishment of new departments to achieve this purpose. It has a long-embedded presence and experience; it is constantly growing to be financially inclusive. In recognition of the role and achievements of Bank of Palestine, it keeps continuously receiving local and international awards, most notably the award of the Best Bank in Palestine Award given by several prestigious international institutions. It was also awarded the Best Bank in the field of Investor Relations in Mashreq in 2017 by the Shareholders Relations Association Middle East, and the following are the mergers and acquisitions carried out by the Bank of Palestine to enhance its financial and competitive position:

**The merger of the Palestine Commercial Bank with the Bank of Palestine in 2016**

In the middle of 2016, the Board of Directors of Commercial Bank of Palestine unanimously approved the merger with the Bank of Palestine through an exchange of shares in which every three shares in the Commercial Bank of Palestine are equivalent to one share in the Bank of Palestine. Alternatively, under this agreement, the deposits of the customers of Commercial Bank of Palestine and its facilitations and assets will be added to the financial indicators of Bank of Palestine. The shareholders of the Palestine Commercial Bank became an essential part of the investors and shareholders of Bank of Palestine. This partnership was reflected positively on the performance of Bank of Palestine in various fields of the Palestinian economy(11). This merger was in line with the policy adopted by the Palestinian Monetary Authority to enhance the solvency and financial stability of the Palestinian banking sector and to enhance its ability to cope with the obstacles and risks that may strike the banking industry. The merger intended to prove that Palestine is the only investment compass of the two banks; it aimed also to enhance the trust in the Palestinian economy as well as contribute in the development of the banking industry. Finally, the merger was carried out to strengthen the capital adequacy.

By referring to financial indicators of Palestine Commercial Bank, its total assets increased from ($ 279.3 million) in 2014 to ($ 282.8 million) at the end of 2015, with a growth rate of (1.2%). The total value of the assets of the Palestinian commercial banking sector increased from ($ 243 million) in 2014 to ($ 244.8 million) in the year 2015 with a growth rate of (0.7%). The growth rate of the aggregated liabilities of the Palestinian banking sector for the same period was (3%), while the total commercial equity increased from ($ 36.3 million) in 2014 to ($ 38 million) in 2015 with a growth rate of (4%) whereas the total equity in the Palestinian banking sector increased by (0.2%). When considering the Palestine Commercial Bank net profit after tax, it had increased from ($ 1.1 million) in 2014 to ($ 1.3 million) in 2015 with a growth rate of 18%. The net profit of the Palestinian banking sector decreased by (9.6%). The bank's financial statements showed that it is growing at a low rate compared to the growth of other bank )12(.

[11]Bank of Palestine, Annual Report, 2016.

[12]Commercial Bank of Palestine, Annual Report of the Bank, 2010-2015.

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**Motives for the merger of Palestine Commercial Bank with the Bank of Palestine**

By referring to the data and financial indicators of Palestine Commercial Bank, it can be noticed that it had faced an average loss of ($ 4.5 million) between 2010 to 2015 and that the bank's capital adequacy ratio had declined from (26.1%) in 2010 to (15.7%) in 2015, see table (6) below for the most important indicators of the bank. The Commercial Bank of Palestine faced a decline in all its main indicators, including the return on equity, return on capital and return on assets and from 2010 to 2015; weakness in the indicators of profitability and liquidity are below the required level compared with the indicators of the banking sector in Palestine. The Bank was unable to meet the requirements of the Palestinian Monetary Authority to raise the paid-up capital. For example, the bank was facing a deficit in completing the paid-up capital of $ 20 million from 2010 until the year of merger in 2015; consequently, the deficit increased to ($ 45 million). The Commercial Bank of Palestine has approved the merger with Bank of Palestine in the middle of 2016 through an exchange of shares in which every three shares in the Commercial Bank of Palestine are equivalent to one share in the Bank of Palestine. The following are the main financial indicators of Commercial Bank:

**Table( 6): The most important financial indicators of Palestine Commercial Bank (%)**

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| **Capital Structure Index** | | | | | | |
| Liabilities / assets | 83.7 | 83.4 | 84.9 | 88.0 | 87.5 | 86.5 |
| Credit facilities / equity | 177.5 | 201.1 | 263.1 | 350.0 | 354.7 | 397.5 |
| Property rights / assets | 15.7 | 16.6 | 15.0 | 12.9 | 12.9 | 13.4 |
| Retained Earnings / Equity | (16.5) | (15.4) | (16.7) | (19.1) | )12.9( | (9.5) |
| Capital adequacy | 26.1 | 24.2 | 24.5 | 16.6 | 17.1 | 15.7 |
| Capital / Liabilities | 21.0 | 21.4 | 19.0 | 14.4 | 12.3 | 12.2 |
| **Liquidity** | | | | | | |
| Customer deposits / assets | 64.6 | 68.3 | 66.1 | 65.8 | 60.7 | 66.0 |
| Credit facilities / assets | 28.9 | 33.4 | 39.7 | 41.9 | 46.1 | 53.5 |
| Credit facilities / customer deposits | 44.7 | 49.0 | 60.1 | 63.7 | 76.0 | 81.0 |
| **Profitability** | | | | | | |

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| | | | | | | |
|---|---|---|---|---|---|---|
| Direct revenue / total revenue | 74.0 | 88.2 | 94.8 | 86.5 | 82.8 | 91.2 |
| Return on assets | 1.0 | 0.3 | 0.03 | 0.05 | 0.4 | 0.5 |
| Return on equity | 6.4 | 2.1 | 0.2 | 0.4 | 3.3 | 3.7 |
| Return on capital | 6.0 | 2.0 | 0.2 | 0.3 | 3.9 | 4.6 |

| **Palestine Commercial Bank** | | | |
|---|---|---|---|
| | Paid-up Capital | Minimum Amount | Disability Amount |
| **2010** | 30 | 50 | (20) |
| **2011** | 30 | 50 | (20) |
| **2012** | 30 | 50 | (20) |
| **2013** | 30 | 50 | (20) |
| **2014** | 30 | 50 | (20) |
| **2015** | 30 | 75 | (45) |

Source: Financial Indicators issued by the Association of Banks in Palestine 2010-2015

## Evaluation of Bank of Palestine performance after mergers of 2010

By referring to the financial indicators of Bank of Palestine, it can be noticed that it has been in constant development; its assets have increased from ($ 4.1 billion) in 2016 to ($ 4.8 billion) in 2017 with a growth rate of (18.5%) that represents(31%) of the total assets of the banks operating in Palestine while the growth of assets of the banks operating in Palestine was (11.7%). With respect to the liabilities, they increased from ($ 3.7 billion) in 2016 to ($ 4.4 billion) with a growth rate of (19%); it constitutes (32.5%) of the total liabilities of the Palestinian banking sector. The volume of credit facilities increased in 2017 to reach ($ 2.51 billion)while it was($ 2.21 billion) at the end of 2016 representing an increase of (13.7%). It constitutes(32%) of the total facilities granted by the Palestinian banking sector. Furthermore, customer deposits increased by(19.9%) to ($ 3.7 billion) in 2017 compared to ($ 3.1 billion) in 2016 representing(36%) of the total deposits of the Palestinian banking sector, while the total property rights increased from ($403.5 million) in 2016 to ($ 449.9 million) in 2017 and at a growth rate of (11.4%) constituting (25.6%) of the banking sector's total equity which grew by (9%)during 2016.The Bank achieved a net profit of ($ 54 million) in 2017 compared to ($ 53 million) in

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2016. By looking at the Bank's financial indicators in depth as shown in Table (7) below, it can be noticed that the Bank of Palestine is one of the leading banks in Palestine (13).

**Table (7): The most important financial indicators of Bank of Palestine (%)**

| **Year** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
|---|---|---|---|---|---|---|---|---|
| **Capital Structure Index** | | | | | | | | |
| Liabilities / assets | 89.4 | 88.2 | 89.0 | 89.3 | 88.4 | 89.0 | 90.2 | 90.8 |
| Credit facilities / equity | 332.6 | 370.5 | 441.9 | 437.9 | 411.2 | 454.2 | 548.5 | 504.6 |
| Property rights / assets | 10.5 | 11.7 | 11.0 | 10.7 | 11.5 | 10.9 | 9.8 | 9.2 |
| Retained Earnings / Equity | 12.8 | 12.0 | 12.5 | 9.5 | 12.8 | 10.0 | 9.0 | 11.4 |
| Capital adequacy | 13.6 | 13.6 | 13.2 | 13.9 | 13.0 | 14.56 | 14.7 | 14.44 |
| Capital / Liabilities | 7.2 | 8.2 | 7.5 | 7.1 | 7.4 | 7.0 | 5.2 | 4.5 |
| **Liquidity** | | | | | | | | |
| Customer deposits / assets | 81.2 | 78.4 | 77.6 | 74.3 | 85.1 | 80.5 | 76.3 | 77.1 |
| Credit facilities / assets | 35.3 | 43.5 | 48.7 | 47.0 | 47.5 | 49.9 | 53.7 | 51.6 |
| Credit facilities / customer deposits | 43.5 | 55.5 | 62.8 | 63.2 | 55.8 | 61.9 | 70.4 | 66.8 |
| **Profitability** | | | | | | | | |
| Direct revenue / total revenue | 78.2 | 85.6 | 82.2 | 88.4 | 85.2 | 84.6 | 84.0 | 82.7 |
| Return on assets | 1.9 | 2.1 | 1.9 | 1.7 | 1.7 | 1.5 | 1.3 | 1.1 |
| Return on equity | 18.4 | 17.5 | 17.4 | 16.0 | 14.4 | 14.1 | 13.1 | 12.0 |
| Return on capital | 30.1 | 28.2 | 28.5 | 26.9 | 25.0 | 24.5 | 27.1 | 27.0 |

[13] Bank of Palestine, Annual Reports of the Bank, 2010-2017.

| **The National Bank** | | | |
|---|---|---|---|
| 2017 | Paid-up Capital | Minimum Amount | Amount of surplus |
| | 200 | 75 | 125 |

Source: Financial Indicators issued by the Association of Banks in Palestine 2010-2017

As a natural result of the rapid development and growth of Bank of Palestine, it managed to acquire a controlling stake in the Arab Islamic Bank by getting about (52%) stake in March 2016. The total assets held by Bank of Palestine within the Arab Islamic Bank were 39 million shares. This was the largest controlling share that came after an additional purchase of (31%) of the bank's stake; it was around(21%) of the Bank's shares up to 2015. As a result, the bank witnessed a significant change in the structure of its shareholders' when the ownership of the Al Fakhouri Group was transferred to the Bank of Palestine and the Palestine Investment Fund. There the share of the Bank of Palestine was about (52%) and the share of the Palestine Investment Fund was about (35%). This change has impacted or influenced the structure, number and composition of the Board of Directors. The Arab Islamic Bank was established in 1995 and started its banking activities in the early 1996. It was meant to carry out banking and investment in accordance with Islamic Shari.

When the Bank of Palestine has acquired a controlling stake in Arab Islamic Bank, it was hoped to become a strong strategic partner that intends to work hard to achieve qualitative additions to Arab Islamic Bank. This agreement will have a positive impact on both Bank of Palestine and the Arab Islamic Bank. This transaction will result in and constitute two mutually supportive entities that serve the Palestinian national economy. And again, this would be reflected on customers and on banking products. On the other hand, the Bank of Palestine's acquisition of a controlling stake in the Arab Islamic Bank would be a major lever for the Arab Islamic Bank. This was reflected in the paid up share capital of the Arab Islamic Bank, as shown in Table 8 below. The Bank's capital increased in 2016 to ($ 62.5 million) after it had a deficit of ($ 25 million) in 2015. However, in 2017, the bank increased the paid up capital to ($ 69 million). As a result, the acquisition had impacted the financial performance of 2017; it increased from ($ 794.1 million) in 2016 to ($ 1,041 million) in 2017 with a growth rate of (31%). With respect to the liabilities, they increased from ($ 718.9 million) in 2016 to ($ 934.1 million) in 2017 with a growth rate of (29%).Moreover, the property rights increased from ($ 75.2 million)in 2016 to ($ 106.9 million) in 2017 with a growth rate of (42%), and consequently, the bank gained a profit of ($ 6.4 million) in 2017.

**Table( 8): The Most Important Financial Indicators of Arab Islamic Bank (%)**

| **Year** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
|---|---|---|---|---|---|---|---|---|

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Capital Structure Index** | | | | | | | | |
| Liabilities / assets | 83.2 | 81.1 | 84.8 | 86.7 | 87.9 | 89.4 | 90.5 | 89.7 |
| Credit facilities / equity | 162.4 | 234.3 | 300.2 | 307.0 | 364.9 | 451.3 | 558.0 | 524.2 |
| Property rights / assets | 16.8 | 18.9 | 15.3 | 13.2 | 12.0 | 10.6 | 9.5 | 10.3 |
| Retained Earnings / Equity | (4.3) | (1.4) | 0.4 | 2.5 | 7.1 | 5.4 | 8.9 | 3.1 |
| Capital adequacy | 20.2 | 24.2 | 21.6 | 18.9 | 15.5 | 12.4 | 14.1 | 15.9 |
| Capital / Liabilities | 16.8 | 19.9 | 14.9 | 11.7 | 10.1 | 8.6 | 6.9 | 8.0 |
| **Liquidity** | | | | | | | | |
| Customer deposits / assets | 81.31 | 78.6 | 77.4 | 74.8 | 75.8 | 79.5 | 78.6 | 76.0 |
| Credit facilities / assets | 27.3 | 44.4 | 45.8 | 40.7 | 44.0 | 47.9 | 54.2 | 53.9 |
| Credit facilities / customer deposits | 33.6 | 56.5 | 59.2 | 54.4 | 58.0 | 60.2 | 68.9 | 70.9 |
| **Profitability** | | | | | | | | |
| Direct revenue / total revenue | 85.5 | 77.1 | 88.1 | 83.6 | 83.1 | 85.4 | 87.1 | 86.0 |
| Return on assets | (0.8) | 0.3 | 0.2 | 0.7 | 0.7 | 0.8 | 0.8 | 0.6 |
| Return on equity | (4.7) | 1.6 | 1.1 | 5.6 | 6.1 | 7.5 | 8.3 | 6.0 |
| Return on capital | (5.6) | 1.9 | 1.4 | 7.1 | 8.2 | 10.4 | 12.4 | 8.5 |

| **Arab Islamic Bank** | | | |
|---|---|---|---|
| | Paid-up Capital | Minimum Amount | Disability Amount |
| **2011** | 47 | 50 | (4) |
| **2012** | 50 | 50 | (3) |

| | | | |
|---|---|---|---|
| **2013** | 50 | 50 | (0) |
| **2014** | 50 | 50 | (0) |
| **2015** | 62.5 | 75 | (25) |
| **2016** | 69 | 75 | (12.5) |
| **2017** | 46 | 75 | (6) |

Source: Financial Indicators issued by the Association of Banks in Palestine 2010-2015

## CONCLUSION

Through the study, many results can be drawn; the most significant findings were:

1. The study showed that the circulars issued by the Palestine Monetary Authority concerning raising the minimum capital have had a positive impact and the main motivation for mergers and acquisitions. The gradual increase in the minimum capital from ($10 million) in 2008 to ($35 million) on the one hand, and from ($ 35 million) to ($ 50 million) in 2010, and then from ($ 50 million) to ($ 75 million) in 2015, on the other hand, had a positive impact on mergers and acquisitions in Palestine. The incentives and benefits offered by the Monetary Authority had significantly contributed to mergers and also had a positive effect on them.

2. The study showed that mandatory circulars for capital support were in line with the decision of the Monetary Authority in 2009 that entails the necessity of not transferring any profits outside of Palestine or to distribute them in cash; instead, they have to be capitalized or retained in the amount of profits in circulation with the banks. Finally, they should also be consistent with the instructions on the forms, conditions, terms and procedures of mergers and acquisitions.

3. The study revealed that most of the banking mergers were carried out in the Palestinian banking sector according to an integrated voluntary negotiation process between the Palestinian banks in order to improve the competitive position of the new banking entity resulting from the mergers which aimed to achieve high growth rates that enable the banks to survive and to form large-scale banking units that are able to participate significantly in the financing of economic development plans.

4. The study showed that the mergers and acquisitions that took place in the Palestinian banking sector resulted in a significant positive improvement in the data and financial indicators of the local banks. This was reflected positively on the national economy.

5. The study showed that bank mergers and acquisitions protect banking institutions from bankruptcy or liquidation, thus reducing the banking crises, and consequently, stabilizing the banking system as well as the national economy as a whole.

6. The increase in the productivity of merged banks, the great development in their performance, and increase the quality and efficiency in the services provided to customers after these mergers

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played had positive impacts on the performance and productivity of the Palestinian banking system compared to foreign banks.

## Recommendations

In light of these findings, the researchers recommend that the efforts of the Palestinian Monetary Authority should be intensified to stimulate mergers in order to create banking entities capable of facing the competitive challenges, financial crises and banking risks. It is also required to raise awareness towards the importance of banking mergers and /or acquisitions in Palestine and clarify the side effects of them. Large-scale national banks side by side with expatriate banks must play a more active role in the economic development process; they should work hard to maximize the economic development and expand the establishment of productive projects that need large funding that might be obtained through the granting of syndicated loans.

It is necessary to periodically assess the performance and indicators of the banks operating in Palestine, especially the weak ones, and to come up with decisions that ultimately contribute to the development of the Palestinian banking system. There are instances of banks that are weak financially and competitively in the Palestinian banking sector; they need to be strengthened through more mergers and acquisitions. Consequently, the safety of banking is a necessary guarantee to support the national economy. Therefore, the monetary authorities have the duty to ensure and continuously validate the banking structure and assess them in a way that ensures whether there is a need to move towards mergers and acquisitions to strengthen the banking industry or not.

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