PALESTINE ISLAMIC BANK

FINANCIAL STATEMENTS

DECEMBER 31, 2019

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Independent Auditor's Report
To the Shareholders of Palestine Islamic Bank P.L.C

Opinion

We have audited the accompanying financial statements of Palestine Islamic Bank (the Bank), which comprise the statement of financial position as at December 31, 2019, and the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the statement of sources and uses of earnings prohibited by Sharia' for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019, and its financial performance and its cash flows, and earnings and disbursements prohibited by Shari'a for the year then ended in accordance with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, and in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Basis for Opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' (including International Indpendence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	Audit Procedures
Expected Credit Loss "ECL" allowances: This is considered as a key audit matter as the Bank exercises significant judgement and estimates to determine when and how much to record as impairment. Direct Islamic financing form major portion of the Bank's assets, and there is a risk that inappropriate impairment provisions are booked, whether from the use of inaccurate underlying data, or the use of unreasonable assumptions. Due to the significance of the judgments used in classifying direct Islamic financing into various stages stipulated in IFRS (9) and determining related provision requirements, this audit area is considered a key audit matter. As at December 31, 2019, the Bank had direct Islamic financing amounted to U.S. $ 791,215,176 and the related ECL amounted to U.S. $ 16,653,259. ECL and the related accounting policies are presented in note (2) to the financial statements.	Our audit procedures include: - We obtained an understanding of the Bank's key credit processes comprising granting and booking and tested the operating effectiveness of key controls over these processes. - We also assessed the Bank's impairment provisioning policy and compared it with the requirements of IFRS 9 as well as relevant regulatory instructions. - Assessed the Bank's ECL model, in particular focusing on its alignment with the requirements of IFRS (9). - We examined a sample of exposures, assessed on an individual basis and performed the following procedures: ▪ Assessed the appropriateness of the Bank's staging (stage 1, 2 or 3). ▪ Assessed the appropriateness of determining Exposure at Default (EAD), including the consideration of repayments in the cash flows and the resultant arithmetical calculations. ▪ Assessed the appropriateness of the Probability of Defaults (PD), Exposure at Default (EAD) and Loss Given Defaults (LGD) used for different exposures at different stages. ▪ Assessed soundness and mathematical integrity of the ECL Model. ▪ For exposures moved between stages, we have checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. We also checked the timely identification of exposures with a significant deterioration in credit quality.

	Audit Procedures
	▪ For exposures determined to be individually impaired we re-preformed the ECL calculation, obtained an understanding of the latest developments on the counterparty's situation and estimated future cash flows, current financial position and any rescheduling or restructuring agreements. ▪ For forward looking assumptions used by the Bank in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information. ▪ Assessed the adequacy of disclosures, including accounting policies, significant accounting estimates and judgments to ensure compliance with IFRS 9. The accounting policies, significant accounting estimates and judgments are detailed in notes number (2, 4, 5, 8 and 22) in the accompanying financial statements.

Other information included in the Bank's 2019 Annual Report

Other information consists of the information included in the Bank's 2019 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2019 Annual Report is expected to be made available to us after the date of this auditor's report. Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, and in accordance with AAOIFI, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with AAOIFI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with AAOIFI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements as at December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young – Middle East
License # 206/2012

Abdelkarim M.

Ernst + Young

Abdelkarim Mahmoud
License # 101/2017

Ramallah - Palestine
April 12, 2020

STATEMENT OF FINANCIAL POSITION
As at December 31, 2019

	Notes	December 31, 2019 U.S. $	December 31, 2018 U.S. $ Restated (note 51)	January 1, 2018 U.S. $ Restated (note 51)
Assets				
Cash and balances at Palestine Monetary Authority	3	270,867,467	213,512,859	223,544,810
Balances at banks and financial institutions	4	168,265,799	115,424,163	88,918,297
Direct Islamic financing	5	770,485,510	679,951,860	609,976,414
Financial assets at fair value through profit or loss	6	1,421,721	1,462,341	1,550,353
Financial assets at fair value through other comprehensive income	7	4,077,419	4,423,848	3,290,146
Financial assets at amortized cost	8	19,658,542	14,140,580	11,453,085
Investment in associates	9	11,635,582	11,450,784	11,335,987
Investment properties	10	11,843,798	12,742,899	7,958,529
Property, plant and equipment	11	28,840,990	28,827,812	24,615,614
Projects in progress	12	3,231,217	1,419,676	2,583,848
Right-of-use assets	13	9,233,781	-	-
Deferred tax assets	20	4,692,922	-	-
Intangible assets	14	739,647	874,504	779,081
Other assets	15	13,418,927	18,432,634	13,154,032
Total assets		1,318,413,322	1,102,663,960	999,160,196
Liabilities, unrestricted investment accounts and equity				
Liabilities				
Banks and financial institutions' deposits	16	111,741,306	58,916,241	65,959,956
Customers' deposits	17	263,137,015	223,814,250	221,222,338
Cash margins	18	55,151,605	36,281,439	38,909,681
Sundry provisions	19	10,232,494	8,322,582	7,290,039
Tax provisions	20	1,609,930	1,762,414	5,836,407
Lease liabilities	21	8,815,947	-	-
Other liabilities	22	15,454,050	21,093,889	12,100,249
Total liabilities		466,142,347	350,190,815	351,318,670
Unrestricted investment accounts	23	736,405,412	644,386,756	549,498,014
Equity				
Paid-in share capital	1	77,000,000	74,000,000	69,000,000
Additional paid-in capital		3,200,000	3,200,000	3,200,000
Statutory reserve	24	9,431,625	7,979,218	6,466,058
General banking risk reserve	24	4,384,678	3,165,788	154,628
Pro-cyclicality reserve	24	11,023,917	11,023,917	9,143,315
Investment properties reserve	10	301,889	960,751	-
Cumulative change in fair value	7	(273,086)	(234,153)	250,325
Retained earnings		10,796,540	7,990,868	10,129,186
Net equity		115,865,563	108,086,389	98,343,512
Total liabilities, unrestricted investment accounts and equity		1,318,413,322	1,102,663,960	999,160,196

The accompanying notes from 1 to 52 form part of these financial statements

INCOME STATEMENT
For the year ended December 31, 2019

	Notes	2019 U.S. $	2018 U.S. $
Revenues			
Investment and financing revenues	25	49,918,185	46,518,669
Less: Finance costs and return on unrestricted investment accounts	26	(7,185,837)	(6,106,828)
Bank's share of income from financing and investments		42,732,348	40,411,841
Net commissions	27	10,242,565	8,853,981
Foreign currency exchange gains		2,941,265	2,590,719
Bank's share of the associates' results of operations	9	175,762	677,002
Income from financial assets at amortized cost	8	841,493	772,047
Cash dividends	28	502,113	384,295
(Provision) Recovery of other provisions	19	(20,949)	425,980
Recovery from expected credit losses allowance	32	1,482,479	5,839,943
Other revenues	29	429,775	440,402
Total revenues		59,326,851	60,396,210
Expenses			
Personnel expenses	30	(20,855,139)	(20,642,269)
Other operating expenses	31	(12,926,992)	(12,974,486)
Expected credit losses allowance	32	(5,488,701)	(4,627,886)
Depreciation and amortization	11&13 &14	(4,258,188)	(4,182,299)
Losses on impairment of financial assets at fair value through profit or loss		(40,620)	(88,012)
Palestine Monetary Authority fines	33	(14,104)	(10,000)
Total expenses		(43,583,744)	(42,524,952)
Profit before taxes		15,743,107	17,871,258
Taxes expense	20	(1,219,039)	(2,739,654)
Profit for the year		14,524,068	15,131,604
Basic and diluted earnings per share	38	0.19	0.20

The accompanying notes from 1 to 52 form part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2019

	Notes	2019	2018
		U.S. $	U.S. $
Profit for the year		14,524,068	15,131,604
Other comprehensive income:			
Items to be reclassified to income statement in subsequent periods:			
Bank's share of the associates' other comprehensive income	7	448,695	(176,225)
Unrealized (losses) gains on revaluation of investment properties	10	(899,101)	1,311,143
Deferred taxes	10	240,239	(350,392)
Change in fair value of financial assets	7	(83,368)	(200,573)
Bank's share of the associates' other comprehensive income	7	(161,359)	(107,680)
Total other comprehensive income		(454,894)	476,273
Total comprehensive income for the year		14,069,174	15,607,877

STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2019

			Reserves						
	Paid-in share capital	Additional paid-in capital	Statutory	General banking risk	Pro-cyclicality	Investment properties	Cumulative change in fair value	Retained earnings	Net equity
December 31, 2019	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance, as at January 1, 2019 – before restatement	74,000,000	3,200,000	8,152,436	3,165,788	11,283,744	960,751	(234,153)	9,290,000	109,818,566
Restatement (note 51)	-	-	(173,218)	-	(259,827)	-	-	(1,299,132)	(1,732,177)
Balance, as at January 1, 2019 – restated	74,000,000	3,200,000	7,979,218	3,165,788	11,023,917	960,751	(234,153)	7,990,868	108,086,389
Profit for the year	-	-	-	-	-	-	-	14,524,068	14,524,068
Other comprehensive income	-	-	-	-	-	(658,862)	236,927	(32,959)	(454,894)
Total comprehensive income for the year	-	-	-	-	-	(658,862)	236,927	14,491,109	14,069,174
Transfers resulted from associates	-	-	-	-	-	-	(275,860)	275,860	-
Transfer to reserves	-	-	1,452,407	1,218,890	-	-	-	(2,671,297)	-
Stock dividends distributions (note 34)	3,000,000	-	-	-	-	-	-	(3,000,000)	-
Cash dividends distributions (note 34)	-	-	-	-	-	-	-	(6,290,000)	(6,290,000)
Balance, as at December 31, 2019	77,000,000	3,200,000	9,431,625	4,384,678	11,023,917	301,889	(273,086)	10,796,540	115,865,563
December 31, 2018									
Balance, as at January 1, 2018 – before restatement	69,000,000	3,200,000	6,639,276	9,704,592	9,403,142	-	250,325	11,428,318	109,625,653
Impact of IFRS 9 implementation	-	-	-	(9,549,964)	-	-	-	-	(9,549,964)
Restatement (note 51)	-	-	(173,218)	-	(259,827)	-	-	(1,299,132)	(1,732,177)
Balance, as at January 1, 2018 - restated	69,000,000	3,200,000	6,466,058	154,628	9,143,315	-	250,325	10,129,186	98,343,512
Profit for the year	-	-	-	-	-	-	-	15,131,604	15,131,604
Other comprehensive income	-	-	-	-	-	960,751	(484,478)	-	476,273
Total comprehensive income for the year	-	-	-	-	-	960,751	(484,478)	15,131,604	15,607,877
Transfer to reserves	-	-	1,513,160	3,011,160	1,880,602	-	-	(6,404,922)	-
Stock dividends distributions (note 34)	5,000,000	-	-	-	-	-	-	(5,000,000)	-
Cash dividends distributions (note 34)	-	-	-	-	-	-	-	(5,865,000)	(5,865,000)
Balance, as at December 31, 2018	74,000,000	3,200,000	7,979,218	3,165,788	11,023,917	960,751	(234,153)	7,990,868	108,086,389

STATEMENT OF CASH FLOWS
For the year ended December 31, 2019

	Notes	2019 U.S. $	2018 U.S. $
Operating activities			
Profit before taxes		15,743,107	17,871,258
Adjustments for:			
Loss on financial assets at fair value through profit or loss		40,620	88,012
Sundry provisions		2,394,767	1,682,197
Depreciation and amortization		4,258,188	4,182,299
Bank's share of the associates' results of operations		(175,762)	(677,002)
Expected credit losses, net		4,006,222	(1,212,057)
Loss (Gain) on sale and disposal of Property, plant and equipment		45,057	(291,094)
Losses from financial assets at amortized cost		8,693	36,543
Gain from sale of investment properties		-	(19,427)
Finance costs on lease liabilities		256,384	-
Other non-cash items		-	205,724
		26,577,276	21,866,453
Changes in assets and liabilities:			
Statutory cash reserve		(10,388,685)	(9,382,309)
Restricted balances with Palestine Monetary Authority		1,000,000	(1,000,000)
Direct Islamic financing		(94,451,460)	(72,208,092)
Other assets		4,496,479	(5,278,602)
Customers' deposits		39,322,765	2,591,912
Cash margins		18,870,166	(2,628,242)
Other liabilities		(5,852,801)	8,688,432
Net cash flows used in operating activities before provisions and taxes		(20,426,260)	(57,350,448)
Taxes paid		(6,064,445)	(7,019,371)
Sundry provisions paid		(484,855)	(649,654)
Net cash flows used in operating activities		(26,975,560)	(65,019,473)
Investing activities			
Sales of investment properties		-	70,527
Dividends from Investment in associates		278,300	278,300
Purchase of property, plant, equipment and intangible assets		(1,753,617)	(4,145,133)
Sale of Property, plant and equipment		14,430	440,330
Projects in progress additions		(2,923,311)	(3,329,851)
Matured financial assets at amortized cost		1,435,194	1,525,672
Sale of financial assets at amortized cost		-	674,814
Purchase of financial assets at amortized cost		(7,052,186)	(4,985,047)
Purchase of financial assets at fair value through profit or loss		-	(1,334,275)
Sale of financial assets at fair value through profit or loss		263,061	-
Net cash flows used in investing activities		(9,738,129)	(10,804,663)
Financing activities			
Cash dividends distributed		(5,883,788)	(5,865,000)
Lease liabilities paid		(1,487,599)	-
Unrestricted investment accounts		92,018,656	94,888,742
Net cash flows from financing activities		84,647,269	89,023,742
Increase in cash and cash equivalents		47,933,580	13,199,606
Cash and cash equivalents, beginning of the year	37	207,021,179	193,821,573
Cash and cash equivalents, end of the year		254,954,759	207,021,179

The accompanying notes from 1 to 52 form part of these financial statements

STATEMENT OF SOURCES AND USES OF EARNINGS PROHIBITED BY SHARIA'

For the year ended December 31, 2019

	Note	2019 U.S. $	2018 U.S. $
Earnings prohibited by Sharia'			
Balance, beginning of the year		14,382	13,516
Excess in cash		11,486	31,739
Profit from direct Islamic financing		12,600	10,068
Total earnings prohibited by Sharia' at the end of year		38,468	55,323
Disbursements of earnings prohibited by Sharia'			
Donations		(20,382)	(40,941)
Total disbursements of earnings prohibited by Sharia'		(20,382)	(40,941)
Balance of earnings prohibited by Sharia' at the end of year	22	18,086	14,382

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

1. General

Palestine Islamic Bank P.L.C. (the Bank) was incorporated in Gaza City on December 16, 1995 in accordance with the Companies Law of 1929, and was registered under registration number (563200922).

The Bank commenced operations in early 1997. The Bank is licensed to provide banking services, financing, trading and investing activities in accordance with the directives of the Islamic Shari'a Rules through its headquarters in Ramallah and its twenty-four branches and twenty-one offices that are spread through Palestine.

The Bank is a subsidiary of the National Islamic Investment Company (National Company), which in turn is affiliated to The National Bank Public Shareholding Company (The National Bank) with a controlling share of 45.36%. Additionally, the National Company constitutes six out of eleven members of the Bank's board of directors. Accordingly, the Bank's financial statements are consolidated with the financial statements of the National Company and The National Bank.

The Bank's operations are subject to the supervision of Shari'a Supervisory Board (the Board), consisting of four members appointed by the General Assembly of the Bank. The Board's role is to review the Bank's activities and transactions to ensure the Bank's compliance with Islamic Shari'a Rules and Principles.

The Bank carries out banking, financial, commercial and investment activities in accordance with Islamic Shari'a Rules and Principles. The Bank's authorized share capital is U.S. $ 100,000,000 at U.S. $ 1 par value each, while 2018 its Paid-in share capital increased to U.S. $ 74,000,000. During 2019, it was raised again to U.S. $ 77,000,000.

The total number of the Bank's staff is (664) and (700) as at December 31, 2019 and December 31, 2018, respectively.

The financial statements were authorized for issuance by the Bank's Board of Directors on April 9, 2020.

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with the Financial Accounting and Auditing Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Shari'a Rules and Principles as determined by the Bank's Shari'a Supervisory Board, prevailing laws in Palestine and Palestine Monetary Authority (PMA) regulations.

The financial statements have been prepared on a historical cost basis, the financial assets and financial liabilities that have been hedged for changes in their fair value are stated at their fair value.

The financial statements have been presented in U.S. Dollars, which is the functional currency of the Bank.

The standards issued by the International Accounting Standard Board and the interpretations issued by International Financial Reporting Interpretations Committee of the International Accounting Standards Board are applied in case of the absence of accounting standards issued by the Accounting and Auditing Organizations for Islamic Financial Institutions, until AAOIFI issues new relevant standards.

2.2 Changes in accounting policies

The accounting policies adopted in the preparation of the Banks financial statements are consistent with those of the previous financial year except that the Bank has adopted the following amended standards during January 1, 2019.

FAS 28 - Murabaha and Other Deferred Payment Sales

The Bank has adopted FAS 28 which is effective on the financial statements on or after 1 January 2019.

This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale". This standard has been applied on a prospective basis for transaction executed on or after the effective date. The standard did not have any significant impact on the financial statements.

IFRS (16) Leases

IFRS (16) supersedes IAS (17) Leases, IFRIC (4) Determining whether an Arrangement contains a Lease, SIC (15) Operating Leases-Incentives and SIC (27) Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS (16) is substantially unchanged from IAS (17). Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS (17). Therefore, IFRS (16) did not have an impact for leases where the Bank is the lessor.

The Bank elected to apply IFRS (16) optionally in accordance with the instructions of the PMA, and AAOIFI (32) "Lease Contracts" was issued on December 31, 2019 and its effective for financial periods beginning on January 1, 2020 with early application is permitted. The bank later will evaluate the impact of the standard, based on the management there is no material differences in the application of the standards.

The bank adopted IFRS (16) using the modified retrospective approach with the date of initial application of 1 January 2019, accordingly, prior year financial statements for the previous year were not restated. The bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS (17) and IFRIC (4) at the date of initial application.The weighted average lease contracts was 6 years.

Following is the effect of adopting IFRS (16) on the Statement of Financial Position as at January 1, 2019 :

Assets	U.S. $
Operating leases as at January 1, 2019	11,879,506
Weighted average discount rate as at January 1, 2019	3%
Right-of-use assets	10,327,864
Prepayments	(517,228)
Net effect on assets	9,810,636
Liabilities	
Lease liabilities	9,810,636

a) Nature of the effect of adoption IFRS (16)
The bank has lease contracts for various items of plant and equipment before the adoption of the new standard. The bank used to classify each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the bank; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized, and the lease payments were recognized as rent expense in the statement of income and comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under prepayments and trade and other payables, respectively.

Upon adoption of the new standard, the bank applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The standard provides specific application requirements and practical solutions, which the bank has used when applying the standard.

Leases previously accounted for as operating leases
The bank recognized right-of-use assets and operating lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- The bank used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The bank used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.
- The bank applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application.
- The bank excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application.

b) Set out below are the new accounting policies of the bank upon adoption of IFRS (16):

Right-of-use assets
The bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the bank and payments of penalties for terminating a lease, if the lease term reflects the bank's exercising the option to terminate as per the lease contract.

The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The bank has the option, under some of its leases to lease the assets for additional terms. The bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew.

That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The bank included the renewal period as part of the lease term due to the significance of these assets to its operations. These leases are considered to have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

IFRIC Interpretation (23) - Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS (12) and does not apply to taxes or levies outside the scope of IAS (12), nor does it specifically include requirements relating to fees and penalties associated with uncertain tax treatments. The Bank must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. These amendments do not have any impact on the Bank's financial statements.

Amendments to IFRS (9): Prepayment Features with Negative Compensation

Under IFRS (9), a debt instrument can be measured at amortized cost or at fair value through comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS (9) clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments do not have any impact on the Bank's financial statements.

Standards issued but not yet effective

The IASB and AAOIFI issued standards and interpretations that are not yet effective till the date of the financial statements listed below, the Bank intends to adopt these standards when they become effective:

Amendments to IAS (1) and IAS (8): Definition of "Material"

The International Accounting Council has issued amendments to IAS (1) - Presentation of Financial Statements and International Accounting Standard No. (8) - Accounting policies, changes in accounting estimates and errors, to standardize the definition of "material" within all standards and clarify certain aspects of the definition. The new definition states that "information is essential if its omission, omission or concealment results in a reasonable impact on decisions taken by the users of the financial statements, which provide specific financial information about the enterprise." This amendment applies to periods beginning on or after January 1, 2020.

The amendments are not expected to have any material impact on the bank's financial statements.

IFRS (17) Insurance Contracts

IFRS (17) provides a comprehensive model for insurance contracts covering the recognition and measurement and presentation and disclosure of insurance contracts and replaces IFRS (4) -Insurance Contracts. The standard applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The standard general model is supplemented by the variable fee approach and the premium allocation approach.

The new standard will be effective for annual periods beginning on or after 1 January 2021 with comparative figures required. Early application is permitted provided that the entity also applies IFRS (9) and IFRS (15) on or before the date it first applies IFRS (17). Tha bank doesn't expect any impact from the adoption of this standard.

Amendments to IFRS (3): Definition of a Business

The IASB issued amendments to the definition of a business in IFRS (3) Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

Profit Rate Benchmark Reform: Amendments to IFRS (9), and IFRS (7)

Profit Rate Benchmark Reform Amendments to IFRS (9), and IFRS (7) includes a number of reliefs, which apply to all hedging relationships that are directly affected by profit rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of profit rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing profit rate benchmark with an alternative nearly risk-free profit rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

As a result of this amendment, there may be uncertainty about the timing and / or volume of cash flows based on the standard, for the hedging item or hedging instrument during the period prior to replacing the current profit rate standard with a risk-free alternative (RFR). Adjustments apply to financial periods beginning on or after January 1, 2020, with early application permitted. It is applied retroactively. However, any hedged relationship that was previously canceled cannot be returned when the order is applied, and no hedge relationship can be assigned using the experience of the past.

After completing the first stage, the IASB shifts its focus to issues that may affect financial reporting when the current profit rate standard is replaced by an RFR. This is referred to as the second phase of the IASB project.

The bank did not implement the amendments early, as the uncertainty arising from the amendment does not affect the hedging relationship to the extent that requires terminating the relationship.

AAOIFI Financial Accounting Standard (30) – Impairment, Credit losses, Commitments, and Contingencies

The standard addresses the accounting treatment regarding the impairment and expected credit losses on direct islamic financing, investments, and high-risk commitments at Islamic financial institutions. The requirements regarding expected credit losses are highly similar to those requirements of IFRS (9). The standard is effective for annual periods beginning on or after January 1, 2020.

The Bank later will assess the impact of this standard on the financial statements, based on the Bank's management there is no material differences in applying the two standards.

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)

This standard defines the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent. This standard shall be effective beginning on or after 1 January 2020, with early adoption permitted. The standard requires the principal to evaluate the nature of the investment as either A- a pass-through investment or B- wakala venture.

Pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. An investor shall apply the pass-through investment approach for its investments in an investment agency instruments; unless it opts to apply the wakala venture approach.

Under this approach, the principal shall initially recognize the assets underlying the wakala arrangement in its books of account applying the initial recognition principles as applicable in line with respective FAS.

The principal may opt to apply the wakala venture approach if, and only if, the investment agency contract meets any of the conditions required under certain conditions. Under this approach, an investment shall be accounted for in the books of the investor applying the "equity method of accounting"; where the investment shall be recognized initially at cost and subsequently shall be measured at the end of the financial period at carrying amount and shall be adjusted to include the investor's share in profit or loss of the wakala venture.

From the agent perspective, the standard requires that at inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach since the agent does not control the related assets / business. However, there are exceptions to off-balance sheet approach whereby virtue of additional considerations attached to the instrument based on investment agency may mandate the same to be accounted for as on-balance sheet.

An agent may maintain multi-level investment arrangements. Under such arrangement, the Bank will reinvest Wakala funds into a secondary contract. Such secondary contracts shall be accounted for in line with the requirements of respective FAS in the books of the agent.

The Bank's management will assess the impact of this standard on the financial statements at the initial application date.

FAS (32) "Ijarah"

This standard supersedes FAS 8 "Ijarah and Ijarah Muntahia Bittamleek". The standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee. The Bank elected to adopt IFRS (16) optionally according to PMA instructions. This standard was issued on December 30, 2019 and shall be effective beginning or after 1 January 2020, with early adoption permitted. The Bank later will assess the impact of this standard on the financial statements, based on the Bank's management there is no material differences in applying the two standards.

FAS (33) "Investment in sukuk, shares and similar instruments"

This standard aims at setting out principles for the classification, recognition, measurement, presentation, and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institution. The standard defines the key types of instruments of Shari'ah compliant investments and the primary accounting treatments commensurate to the characteristic and business model of institution under which the investments are made, managed and held.

This standard supersedes FAS (25) "Investment in Sukuk" and shall be effective beginning or after 1 January 2020 with early adoption permitted. The Bank's management expects that the adoption of this standard will have no impact on the financial statements of the Bank in the year of initial application.

FAS (34) "Financial Reporting for Sukuk -holders"

This standard prescribes the accounting principles and reporting requirements for underlying assets of a sukuk instrument. It requires the originator to prepare or cause to prepare financing reports as needed under this standard. This standard shall be effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted.The Bank's management expects that the adoption of this standard will have no impact on the financial statements of the Bank in the year of initial application.

FAS (35) "Risk Reserves"

This standard defines the accounting and financial reporting principles for risk reserves to be in line with global best practices for accounting and risk management. This standard complements FAS (30) "Impairment, Credit Losses and Onerous Commitments". Both standards FAS (35) & FAS (30) together supersede the earlier FAS (11) "Provisions and Reserves". This standard shall be effective beginning or after 1 January 2021, with early adoption is permitted, only if the financial institution decided to early adopt FAS (30).The Bank's management expects that the adoption of this standard will have no material impact on the financial statements of the Bank in the year of initial application.

2.3 Segments information

A business segment consists of assets and operations providing goods or services that are exposed to risks and returns different from those of other business segments.

A geographic segment relates to goods or services within a specific economic environment that are exposed to risks and returns different from those of other segments working in other economic environments.

Significant accounting policies

Revenues and expenses recognition

Financing revenues is recognized using the effective profit rate method, except for profit and commission from non-performing Islamic financing. Commission income is recognized when the services are rendered. Dividends income is recognized when the right to receive dividends is established.

Expenses are recognized when incurred based on the accrual basis of accounting.

Financial assets and liabilities

Financial assets at amortized cost

Debt instruments are measured at amortized cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

If either or both of the two conditions are not met the financial instrument is classified as at FVTPL. Even if the instrument meets the two conditions, the Bank has the option to classify the financial asset as at FVTPL if this designation reduces any inconsistency recognition.

Subsequent to initial recognition, debt instruments are measured at amortized cost using the effective profit method net of impairment losses, if any. Islamic Sukuk are measured at cost. The Bank determines whether there is any evidence that the financial assets are impaired. If this is the case, the Bank calculates the amount of impairment and recognizes the amount in the income statement. Profit revenue from the financial assets at amortized cost is recognized in the income statement.

Financial assets at fair value through profit or loss

These financial assets represent debt instruments that do not meet amortized cost conditions or financial instruments that meet amortized cost conditions but which the Bank has classified as fair value through profit or loss at initial recognition. The Bank has not classified any debt instrument that meets the terms of debt instruments at amortized cost as financial assets at fair value through profit or loss.

On initial recognition, the Bank classifies equity instruments at fair value as financial assets at fair value through profit or loss except for investments not held for trading where such assets can be classified at fair value through other comprehensive income.

Financial assets are measured at fair value through profit or loss and any gain or loss arising from changes in their fair value is recognized in the income statement.

Dividend income is recognized from the investment in the financial instruments of the investee when the right to receive it arises.

Financial assets at fair value through comprehensive income

Upon initial recognition, the Bank classified the equity instruments at fair value through other comprehensive income. This classification is on a non-reversible. The Bank cannot classify an equity instruments held for trading as Financial assets at fair value through other comprehensive income.

Equity instruments through other comprehensive income are initially measured at fair value plus acquisition costs. These assets are subsequently measured at fair value and any gain or loss arising from changes in fair value through other comprehensive income is recognized in the fair value reserve when disposed of these assets, the gain or loss previously recognized in the fair value reserve is reclassified to the income statement.

Dividend income is recognized as an investment in the equity instruments of an investee when a right to receive it is recognized in the income statement, unless the proceeds are considered as a part of the investment.

Debt instruments can be classified as financial assets at fair value through comprehensive income if the following conditions are met:

- The debt instrument should be held in a business model intended to retain the asset to obtain and sell contractual cash flows
- The contractual terms of the instrument give on a fixed date the right to use cash flows that represent payments of principal and profit on the outstanding balance.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

Impairment of financial assets

Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's Islamic financing loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach.

From January 1, 2018, the Bank has been recording the allowance for expected credit losses for all Islamic financing and other debt financial assets not held at FVPL, together with Islamic financing commitments and financial guarantee contracts (financial instruments).

Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The 12mECL is the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit loss has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into stage 1, 2 and 3, as described below:

Stage 1	Financial instruments whose credit risk has not significantly increased since their initial recognition and which has not been impaired since being granted, the Bank has recorded a provision for impairment of ECL over a period of 12 months.
Stage 2	Financial instruments whose credit risk has significantly increased since their initial recognition and which has not been impaired since being granted, the Bank recorded a provision for impairment of ECL over the life of the financial instruments.
Stage 3	Financial instruments that considered credit-impaired. The Bank records a provision for impairment of ECL over the life of the financial instruments.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a portion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

<u>The calculation of ECLs</u>

The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation of the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, As follows:

PD	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period.
EAD	The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.
LGD	The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as percentage of the EAD.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside and a mild downside). Each of these is associated with different PDs, EADs and LGDs.

The mechanics of the ECL method are summarized below:

Stage 1	The 12mECL is calculated as the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
Stage 2	When an Islamic financing has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
Stage 3	For financial assets considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these financial assets. The method is similar to that for Stage 2 assets, with the PD set at 100%.
Commitments and contingencies	When estimating LTECLs for undrawn commitments, the Bank estimates the expected portion of the commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the commitments is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR .

Forward looking information

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Unemployment rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets. The Bank's accounting policy for collateral under IFRS (9) is the same is it was under IAS (39) and PMA instructions.

Collateral, unless repossessed, is not recorded on the Bank's statements of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using methods. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers.

Write-offs
The Bank's accounting policy under IFRS (9) remains the same as it was under IAS (39) and PMA instructions. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are recorded in the other revenues.

Forborne and modified Islamic financing
The Bank sometimes makes concessions or modifications to the original terms of Islamic financing as a response to the customer financial difficulties, rather than taking possession or to the otherwise enforce collection of collateral. The Bank considers a forborne when such concessions or modifications are provided as a result of the customer present or expected financial difficulties. Conditions may include extension of payments or agreement on new financing terms. It is the Bank's policy to monitor forborne Islamic financing to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between stage 2 and stage 3 are determined on a case-by-case basis.

As per Palestine Monetary Authority instructions, The bank has classified its' non-performing and non-scheduled facilities granted to public sectors employees in the southern governorates within stage 2 and recorded the difference between the present value of future cash flows and the book value in the income statement in accordance with IFRS (9), assuming there is implied scheduling for these loans. In addition, the bank has suspended profits on non-performing and non-scheduled public sector loans from the date of the salary irregularity.

Return on unrestricted investment accounts
Returns are distributed to unrestricted investment accounts according to the Bank's policy, after deducting the Bank's share as a Mudarib according to predetermined rates.

Profits from jointly financed Islamic financing and investments are distributed from unrestricted investment accounts and the Bank's own sources according to the average monthly balances of such investments. The distribution for all currencies is as follows:

	Deposits' share in profits %		Bank's share %		Unrestricted investment accounts' share %	
	2019	2018	2019	2018	2019	2018
Saving and cash margins sharing profits	40	40	70	70	30	30
Deposits maturing within 1 month	40	40	70	70	30	30
Deposits maturing within 3 months	40	40	70	70	30	30
Deposits maturing within 6 months	65	65	65	65	35	35
Deposits maturing within 1 year	75	75	35	35	65	65
Annual Islamic deposit certificates	75	75	35	35	65	65

The Bank bears all administrative costs. In addition, the executive management of the Bank adjusts the profit percentage distributed to unrestricted investment accounts according to the Bank's results as well as prevailing market rates.

Finance Contracts

Finance contracts are recorded at cost after deducting suspended profits and the provision for doubtful Islamic financing (net amount).

A provision for doubtful Islamic financing is made when it is not possible to collect the amounts owed to the Bank, when there is objective evidence that an event had an adverse impact on the future cash flows of finance contracts and when the impairment can be reasonably estimated. The impairment is recorded in the statement of comprehensive income.

According to PMA instructions, profits on non-performing finance contracts are suspended.

Finance contracts are written off when measures taken to collect these amounts are deemed impractical. Any excess in the provision is transferred to the income statement. Collected amounts already written off are recorded as revenues.

Murabaha

Murabaha is a sale contract between the Bank and the customer where the Bank sells the customer a product at a price above its cost after the difference is determined (Murabaha Rebeh). The Bank applies a binding promise in accordance with standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

Ijara contracts

Ijara is the benefit of ownership against compensation and is divided into two types:

Operating ijara: are lease contracts that do not end with the lessee owning the leased asset.

Ijara muntahia bittamleek: are lease contracts that end with the lessee owning the leased asset and take several forms in accordance with the Financial Accounting and Auditing Standards for Islamic Financial Institutions.

Ijara assets net of provision for doubtful Islamic financing and suspended profits are recorded at cost including direct cost to make ready for intended use. Income is distributed in proportion to the financial periods covered by the lease contract. Maintenance expenses are recorded in the financial period in which they occur.

Istisna'a financing

Istisna'a is a contract of sale between the Bank as maker or contractor and the owner of the contract (the buyer), where the Bank undertakes to build or manufacture the subject of the contract, upon request of the owner of the contract and according to buyer's specifications, for the right price and in a manner agreed upon payment, whether paid in advance or by installments or deferring payment to a specific date in the future. Istisna'a is recoded at fair value after deducting the suspended profits and provision for doubtful Islamic financing.

Musharaka

Musharaka is when the Bank and the customer contribute capital in equal or different amounts for the purpose of constructing a new project or participating in an existing one. Each of the Bank and the owner become owners of shares in a fixed or declining manner earning the right to a share in profits. Loss is divided according to each partner's share of capital. Musharaka is recorded at fair value of the consideration paid net of suspended profits and provision for doubtful Islamic financing.

Mudaraba

Mudaraba is a partnership in which the Bank contributes capital whereas the other party (mudarib) invests it in a project or certain activity in exchange for a specified share in profits under the condition that the mudarib bears the loss in the case of neglect or violation of the terms of Mudaraba. Gains and losses are recorded on the accrual basis if they can be reliably measured. Otherwise, gain is recorded when the mudarib distributes it while losses are recognized in the income statement when announced by the mudarib. Mudaraba is recorded at fair value net suspended profits and provision for doubtful Islamic financing.

Musawama

Musawama is a contract to sell a commodity to the Bank's customer (the buyer) at a specified increase over cost after specifying this increase (Murabaha rebeh) where the Bank's capital does not appear to the buyer. The Bank applies the principal of binding promises in Musawama contracts in accordance with the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

Bad debts without a provision

Islamic financing related to died owners with insufficient guarantees are written off in accordance with PMA instructions.

Financial assets investments

Financial assets investments are initially measured at fair value plus cost of acquisition if they are not classified at fair value through profit or loss (FVTPL). Subsequent to initial recognition all financial assets are stated at fair value or amortized cost as follows:

Financial assets at fair value

They are equity instruments and financial derivatives that are recognized at FVTPL. The entity can irrevocably elect to designate equity instruments not held for trading through other comprehensive income items.

If the Bank elects to designate equity instruments at fair value through other comprehensive income (FVOCI), the Bank recognizes change in fair value in a special account in equity. Where the asset is disposed of, the gain or loss is reclassified to the income statement.

Dividends on these investments in equity instruments are recognized in the income statement when the Bank's right to receive the dividends is established.

Derecognition of financial assets

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

Fair value measurement

The Bank measures most of its financial instruments, and discloses some of its non-financial assets such as investment properties, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or Liability.

The principal or the most advantageous market must be accessible to by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows:

- Level 1 — Quoted (unadjusted) market prices in active markets
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Investment in associates

Investment in an associate is accounted for using the equity method. An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Under the equity method, investment in an associate is carried in the statement of financial position at cost plus post acquisition changes in Bank's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Bank's share in associate's results is recorded in the income statement. Unrealized gains and losses resulting from transactions between the Bank and its associate are eliminated to the extent of its interest in the associate.

The reporting dates of the associates and the Bank are identical and the associates' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Bank determines whether there is objective evidence that the investments in the associates are impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amounts of the associates their carrying value, then recognizes the difference in the income statement.

Investments properties

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments properties. Investments properties are measured initially at cost including transaction costs, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investment properties are stated at fair value and changes in fair value are recognized in the statement of comprehensive income. In case of decline in the carrying value of these properties a provision should be taken and recognized in the income statement in the period where the decline occurs.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the Property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the income statement as incurred. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful lives as following:

	Useful life (Years)
Real estate	33
Furniture, equipment and leasehold improvements	6-16
Motor vehicles	6
Computers	5

An item of Property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Projects in progress

Projects in progress represent all the cost related to preparing branches and offices, development costs of the new banking system and other projects not completed as of the date of the financial statements. Upon completion of each project it's transferred to the Property, plant and equipment or intangible assets.

A decrease in the carrying amount of projects in progress is carried out when there is evidence that the carrying amount of such projects cannot be recovered. If such indicators exist, the carrying amount of the projects is reduced to the expected recoverable amount.

Intangible assets

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Intangible assets acquired separately are measured on initial recognition at cost.

The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization expense on intangible assets with finite lives is recognized in the income statement. Intangible assets with indefinite useful lives are tested for impairment annually and the impairment expenses are recognized in the income statement.

Intangible assets resulting from the Bank's operations are not capitalized and should be recognized in the income statement during the period in which the expenditure incurred.

Intangible assets are reviewed for impairment at each reporting date. Also, the economic useful lives for definite life intangible assets are reassessed and any adjustments are made in the subsequent periods.

Intangible assets comprise computer software. Bank's management estimates the useful lives of the intangibles. Intangibles are amortized using the straight-line method based on the expected useful life of 5 years.

Earnings prohibited by Sharia'

The Bank records earnings prohibited by Sharia' in a special account that is shown in the statement of financial position within other liabilities. This amount is disbursed on charitable activities as determined by the Bank's Sharia' Supervisory Board.

Zakat

According to the Bank's articles of association, the Bank's shareholders are responsible to pay their zakat.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment in the value of financial assets

An assessment is made at the date of the financial statements to determine whether there is an objective evidence for specific financial assets impairment. If such evidence exists, any impairment loss is recognized in the income statement.

Equity instruments classified as financial assets at fair value through statement of comprehensive income – the objective evidence includes a significant or prolonged decline in value. The materiality of the decrease is measured by reference to the original cost of the investment, and the length of the decline is measured by reference to the period during which the fair value has been below its original value. The decrease represents the difference between the original cost and the fair value, after downloading any previously recognized impairment loss in the income statement.

Debt instruments classified as financial assets at amortized cost - the decrease represents the difference between the amortized cost and the fair value, net of any previously recognized impairment loss in the income statement.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Taxes provisions

The Bank deducts tax provisions in accordance with International Accounting Standard No. (12) and the tax rates determined in accordance with the laws, regulations and instructions in force in Palestine.

IAS (12) recognizes temporary differences in time as at the balance sheet date, as deferred taxes. As a result, the Bank may have deferred tax assets or liabilities.

Deferred taxes are taxes expected to be paid or recovered as a result of temporary differences in time between the value of assets or liabilities in the financial statements and the amount on which the taxable profit is calculated. Deferred taxes are accounted for using the liability method of the statement of financial position. Deferred taxes are accounted for in accordance with the tax rates expected to be applied when the tax liability is settled, or the deferred tax asset is realized.

Taxable profits are calculated on the basis of taxable profits. The taxable profits differ from the profits declared in the financial statements because the declared profits include non-taxable income or non-deductible expenses in the financial period but in subsequent years or cumulative taxable losses or items not subject to Acceptable for tax purposes.

Deferred tax assets and liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Provision for employees' indemnity

Provision for employee's end of service benefits is provided for in accordance with the labor law prevailing in Palestine and the Bank's human resources policies. The Palestinian Social Security Law was expected to be implemented during 2019, but was suspended in accordance with a presidential decree on January 28, 2019, which states that the dialogue with the relevant parties will continue to arrive at a national consensus on the provisions of the law and the date of enforcement. The current law obliges the employer to settle the end of service benefits for the periods preceding the application of the provisions of the Law.

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Bank (after deducting income and any related expenses on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Cash and cash equivalents

Cash and cash equivalents represent cash and balances maturing within three months. It includes cash on hand and cash balances at PMA, cash at financial institutions, and investments at Islamic banks maturing within three months after subtracting the statutory reserve, restricted balances at PMA, banks and financial institutions' deposits that mature within three months and restricted balances.

Foreign currencies

Foreign currency transactions during the year are recorded using exchange rates that were in effect at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the financial statements date as issued by PMA.

Non-monetary items measured at fair value denominated in foreign currencies are translated using the exchange rates prevailing at the date of determining their fair value.

Any foreign currency exchange gains or losses are recognized in the income statement.

Use of estimates

The preparation of financial statements requires to use estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosures in the financial statements. Because of the use of these estimates and assumptions, actual results may differ from estimates and may require an adjustment to the carrying amount of assets or liabilities in the future.

Details of the Bank's significant judgments are as follows:

Provision for expected credit losses

Financial assets are assessed for impairment on the basis described in the "Impairment of financial assets" section.

The provision for expected credit losses (ECL) is reviewed on the basis of the principles established by PMA and IFRS 9. The determination of ECL provision require the management of the Bank to make judgments and assumption to estimate the amounts and timing of future cash flows, as well as an estimate of any significant increase in the credit risk of financial assets after initial recognition, and taking into account future measurement information for expected credit losses.

Fair value of Investment properties

Investment properties are appraised by using real estate appraisers registered at Palestine Capital Market Authority.

Provision for legal cases

Provision for legal cases is established to provide for legal obligations, if any, based on the opinion of the Bank’s lawyer.

Provisions for employees’ indemnity

The Bank's management uses certain estimates to determine the amount of employees’ indemnity. The Bank’s management believes that these estimates and assumptions are reasonable.

The useful lives of tangible and intangible assets

The Bank’s management reassess the useful lives of tangible and intangible assets and adjusts them, if necessary, at the end of each financial year.

Income tax Provision

The Bank's management uses certain estimates to determine the amount of the income tax provision. The Bank's management believes that these estimates and assumptions are reasonable.

Fair value of financial instruments

The determination of the ECL provision expected from the Banks’s management requires significant judgment and assumption to estimate the amounts and timing of future cash flows, as well as any significant increase in the credit risk of financial assets after its initial recognition and taking into account future measurement information for ECL.

The Bank’s computes the provision for impairment of financial assets according to the International Financial Reporting Standards (IFRSs) and PMA instructions.

The Bank's policy of identifying the common elements (s) on which credit risk and ECL are measured on an individual basis are based on the following:

- Retail Portfolio: individual basis at facility level/customer
- Corporate Portfolio: individual basis at facility level/customer
- Banks Portfolio: individual basis at facility level /bank
- Debt instruments measured at amortized cost (sukuk): individual basis at debt instrument level

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

- **Assessment of Significant Increase in Credit Risk (SICR)**

  To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank’s existing risk management processes.

The assessment of significant increases in credit risk will be performed quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. Management have established thresholds for significant increases in credit risk based on movement in the customer's internal credit grade and the related PDs relative to initial recognition.
2. Restructuring and/or Rescheduling on the customers' accounts/ facilities during the assessment period is considered as indicator for SICR.
3. IFRS 9 (Financial Instruments) includes an assumption that there is a significant increase in the credit risk of financial instruments that have been defaulted and have been matured for more than 30 days. In this regard, the Bank adopted a 30-day period.
4. Government employees in the Gaza Strip.
5. Two degrees decline in the credit rating of financial assets.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit – impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39, as mentioned in the "Definition of default" below.

- **Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios**

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment in cooperation with international expert in this area.

PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio.

Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

The estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability- weighted estimate that considers the future macroeconomic scenarios for future years.

The base case scenario will be based on macroeconomic forecasts (e.g. GDP, unemployment rate and inflation, profit rate). Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions.

- **Definition of default**

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

- **Expected Life:**

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving Islamic financing that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

<u>IFRS 9 implementation Governance</u>

To ensure proper governance of the IFRS9 implementation, a steering committee was formed consisting of the Risk Manager, Credit Manager , Financial Manager, and IT Manager with the responsibilities to provide decisions/ feedback on the work plan regarding implementation and adoption of IFRS 9 to ensure all relevant policies and procedures are updated in line with the new requirements and systems are modified / updated for the new requirements, in addition to present the ECL results to the Bank Management and related Committees of the Board of Directors.

3. Cash and balances at Palestine Monetary Authority

This item represents the following:

	2019	2018
	U.S. $	U.S. $
Cash on hand	110,935,770	106,631,222
Balances at PMA:		
Current and demand accounts	85,758,986	42,097,611
Statutory cash reserve	74,025,711	63,637,026
Restricted balances	147,000	1,147,000
	270,867,467	213,512,859

- According to PMA circular number (67/2010), the Bank shall maintain statutory cash reserves with PMA at 9% of total customers' deposits. The statutory reserve is calculated at the end of each month.
- PMA does not pay profit on these statutory reserves and current and demand accounts.
- Restricted balances as at December 31, 2019 and 2018 amounted to U.S. $ 147,000 and U.S.$ 1,147,000, respectively.

4. Balances at banks and financial institutions

This item comprises the following:

	2019	2018
	U.S. $	U.S. $
Local banks and financial institutions:		
Current and demand accounts	118,116,526	59,199,487
Deposits maturing within 3 months or less	16,500,000	25,000,000
	134,616,526	84,199,487
Foreign banks and financial institutions:		
Current and demand accounts	14,042,906	9,958,131
Deposits maturing within 3 months or less	21,341,877	23,050,969
	35,384,783	33,009,100
	170,001,309	117,208,587
ECL allowance	(1,735,510)	(1,784,424)
	168,265,799	115,424,163

– Non-profit bearing balances at banks and financial institutions amounted to U.S. $ 132,159,432 and U.S. $ 69,157,618 as at December 31, 2019 and 2018, respectively.

Following is the movement for balances at banks and financial institutions:

	2019			
	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2019	115,518,684	-	1,689,903	117,208,587
Net change during the year	52,792,722	-	-	52,792,722
Balance, end of the year	168,311,406	-	1,689,903	170,001,309

	2018			
	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2018	88,948,533	-	1,689,903	90,638,436
Net change during the year	26,570,151	-	-	26,570,151
Balance, end of the year	115,518,684	-	1,689,903	117,208,587

Following is the movement of balances at banks and financial institutions ECL allowance as at December 31, 2019 and December 31, 2018:

	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2019- before restatement	94,521	-	-	94,521
Restatement (note 51)	-	-	1,689,903	1,689,903
Balance as of January 1, 2019- restated	94,521	-	1,689,903	1,784,424
ECL allowance	(48,914)	-	-	(48,914)
Balance, end of the year	45,607	-	1,689,903	1,735,510

	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2018- before restatement	-	-	-	-
Effect of IFRS (9) implementation	30,236	-	-	30,236
Restatement (note 51)	-	-	1,689,903	1,689,903
Balance, beginning of the year – Restated	30,236	-	1,689,903	1,720,139
ECL allowance	64,285	-	-	64,285
Balance, end of the year	94,521	-	1,689,903	1,784,424

5. Direct Islamic financing

This item represents the following:

	2019	2018
	U.S. $	U.S. $
Murabaha receivables	696,651,071	619,767,742
Islamic credit cards	23,175,479	21,557,905
Ijara muntahia bittamleek	4,721,772	3,552,214
Mudarabah financing	8,000,000	11,493,439
Istisna'a financing	26,749,823	17,040,913
Musawama financing	24,309,456	14,421,039
Qard Hasan	1,644,992	1,353,017
Current overdraft accounts	5,962,583	4,981,264
	791,215,176	694,167,533
Suspended profits	(4,076,407)	(1,180,580)
ECL allowance	(16,653,259)	(13,035,093)
	770,485,510	679,951,860

- Islamic financing net of unearned profits amounted to U.S. $ 101,484,753 and U.S. $ 92,248,835 as at December 31, 2019 and 2018, respectively.
- Downgraded Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 152,813,865 and representing (19.41%) and U.S. $ 108,709,308 representing (15.69%) of gross Islamic financing as at December 31, 2019 and 2018, respectively.
- Defaulted Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 33,683,457 representing (4.28%) of gross Islamic financing and U.S. $ 21,163,783 representing (3.05%) of gross Islamic financing as at December 31, 2019 and 2018, respectively.
- Direct Islamic financing granted to Palestine National Authority and by its guarantee amounted to U.S. $ 50,895,568 representing (6.43%) of gross Islamic financing and U.S. $ 46,755,623 representing (6.74%) of gross Islamic financing as at December 31, 2019 and 2018, respectively.
- Fair value of customers' collaterals against direct Islamic financing according to PMA regulations amounted to U.S. $ 465,815,776 and U.S. $ 394,041,402 as at December 31, 2019 and 2018, respectively.
- Islamic financing granted to non-residents amounted to U.S. $ 124,615 and U.S. $ 1,071,424 as at December 31, 2019 and 2018, respectively.
- According to PMA circular number (1/2008), defaulted Islamic financing for more than 6 years were written off from financial statements. These defaulted Islamic financing amounted to U.S. $ 2,355,841 and U.S. $ 2,090,027 as at December 31, 2019 and December 31, 2018, respectively. The balance of provision and suspended profits for defaulted accounts amounted to U.S. $ 11,227,069 and U.S. $ 6,963,440 as at December 31, 2019 and December 31, 2018, respectively.

The movement on the direct Islamic financing is as follows:

2019	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	532,923,061	138,900,109	22,344,363	694,167,533
Transferred to stage 1	12,512,558	(11,594,997)	(917,561)	-
Transferred to stage 2	(79,647,343)	81,882,820	(2,235,477)	-
Transferred to stage 3	(6,816,543)	(15,089,582)	21,906,125	-
Net change during the year	127,094,010	(24,919,791)	(4,811,683)	97,362,536
Written off	-	-	(314,893)	(314,893)
	586,065,743	169,178,559	35,970,874	791,215,176

2018	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	484,539,002	126,274,803	14,224,344	625,038,149
Transferred to stage 1	6,452,141	(6,452,141)	-	-
Transferred to stage 2	(41,733,999)	41,733,999	-	-
Transferred to stage 3	(9,546,077)	(7,720,191)	17,266,268	-
Net change during the year	93,211,994	(14,936,361)	(8,895,195)	69,380,438
Written off	-	-	(251,054)	(251,054)
	532,923,061	138,900,109	22,344,363	694,167,533

Following is the movement of direct Islamic financing ECL provision:

2019	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	3,247,092	4,005,141	5,782,860	13,035,093
Transferred to stage 1	470,008	(151,665)	(318,343)	-
Transferred to stage 2	(620,558)	929,887	(309,329)	-
Transferred to stage 3	(32,847)	(297,700)	330,547	-
Net re-measurement of ECL provision during the year	105,145	59,104	3,753,561	3,917,810
Excluding in default for more than 6 years	-	-	(314,893)	(314,893)
Foreign currency differences	-	-	15,249	15,249
Balance, end of the year	3,168,840	4,544,767	8,939,652	16,653,259

2018	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	-	-	5,131,703	5,131,703
Effect of IFRS 9 implementation	3,322,324	6,079,590	-	9,401,914
Balance as at beginning of the year – Adjusted	3,322,324	6,079,590	5,131,703	14,533,617
Transferred to stage 1	36,541	(36,541)	-	-
Transferred to stage 2	(183,527)	183,527	-	-
Transferred to stage 3	(19,916)	(210,999)	230,915	-
Net re-measurement of ECL provision during the year	91,670	(2,010,436)	627,085	(1,291,681)
Excluding in default for more than 6 years	-	-	(251,054)	(251,054)
Foreign currency differences	-	-	44,211	44,211
Balance, end of the year	3,247,092	4,005,141	5,782,860	13,035,093

The movement on the provision for doubtful Islamic financing default for more than 6 years was as follows:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	2,090,027	1,921,037
Additions	314,893	251,054
Written off	(49,079)	(82,064)
Balance, end of the year	2,355,841	2,090,027

The movement on the suspended profits is as follows:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	1,180,580	528,118
Suspended profits during the year	3,199,544	942,543
Suspended profits recovered	(284,755)	(278,907)
Suspended profits written off for Islamic financing in default for more than 6 years	(18,962)	(11,174)
Balance, end of the year	4,076,407	1,180,580

- Following is the distribution of Islamic financing net of suspended profits by economic sector:

	2019	2018
	U.S. $	U.S. $
Public		
Palestine National Authority	50,895,568	46,755,623
Manufacturing and Agricultural		
Manufacturing	6,436,111	1,486,359
Agricultural	23,180,125	9,009,673
	29,616,236	10,496,032
Services	2,316,628	97,014
Trade		
Internal trade	148,779,141	239,183,105
External trade	62,690,515	15,618,617
	211,469,656	254,801,722
Real Estate and Construction		
Constructions	113,312,511	128,994,347
Permanent residence and houses improvement	33,180,246	40,417,333
	146,492,757	169,411,680
Lands	108,537,953	77,543,545
Consumers' Financing		
Cars	138,282,758	81,763,643
Consumable goods	41,201,398	13,055,538
	179,484,156	94,819,181
Private		
Others	58,325,815	39,062,156
	787,138,769	692,986,953

6. Financial assets at fair value through profit or loss

This item represents financial assets listed on the Palestine Exchange with an amount of U.S. $ 1,421,721 as at December 31, 2019 compared to U.S. $ 1,462,341 as at December 31, 2018.

7. Financial assets at fair value through other comprehensive income

This item represents the following:

	2019	2018
	U.S. $	U.S. $
Quoted shares	3,850,494	4,225,036
Unquoted shares	226,925	198,812
	4,077,419	4,423,848

Following is the movement on the cumulative change in fair value during the year:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	(234,153)	250,325
Change in fair value of financial assets	(83,368)	(200,573)
The Bank's share of the associate's other comprehensive items	287,336	(283,905)
loss on sale of financial assets at fair value through other comprehensive income recognized in retained earnings	32,959	-
Transfers resulted from associates	(275,860)	-
Balance, end of the year	(273,086)	(234,153)

8. Financial assets at amortized cost

	2019	2018
	U.S. $	U.S. $
Financial securities quoted at foreign financial markets	3,749,925	5,193,808
Unquoted foreign financial securities	16,104,372	9,052,190
	19,854,297	14,245,998
ECL allowance	(195,755)	(105,418)
	19,658,542	14,140,580

Total gain recorded in the income statement on this investment for the year ended December 31, 2019 and 2018 is U.S. $ 841,493 and U.S. $ 772,047, respectively.

The movement on financial assets at amortized cost is as follows:

2019	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at beginning of the year	10,070,341	4,175,657	-	14,245,998
Net change during the year	6,297,596	(689,297)	-	5,608,299
Transferred to stage 2	(2,263,565)	2,263,565	-	-
	14,104,372	5,749,925	-	19,854,297

2018	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at beginning of the year	11,497,979	-	-	11,497,979
Net change during the year	2,748,019	-	-	2,748,019
Transferred to stage 2	(4,175,657)	4,175,657	-	-
	10,070,341	4,175,657	-	14,245,998

Following is the movement of provision for financial assets at amortized cost as of December 31, 2019 and 2018:

2019	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at January 1, 2019	105,181	237	-	105,418
Transferred to stage 2	(74)	74	-	-
Net re-measurement of ECL provision	89,532	805	-	90,337
Balance, as at December 31, 2019	194,639	1,116	-	195,755

2018	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at January 1, 2018	-	-	-	-
Effect of IFRS 9 implementation	44,894	-	-	44,894
Balance as at January 1, 2018 – Restated	44,894	-	-	44,894
Transferred to stage 2	(63)	63	-	-
Net re-measurement of ECL provision	60,350	174	-	60,524
Balance, as at December 31, 2019	105,181	237	-	105,418

9. Investment in associates

The following table shows the Bank's investment in associates as at December 31, 2019 and December 31, 2018:

	Country of Incorporation	Ownership %	2019 U.S. $	2018 U.S. $
Al-Takaful Palestinian Insurance Company*	Palestine	27.83%	8,041,161	7,911,358
Palestine Ijara Company**	Palestine	33.33 %	3,594,421	3,539,426
			11,635,582	11,450,784

* Al-Takaful Palestinian Insurance Company (Al-Takaful) has been established at the end of 2006 in Ramallah. It provides in all insurance and reinsurance services according to Islamic Sharia' rules. Al-Takaful operates through its headquarter and branches in Palestine. As at December 31, 2019, Al-Takaful paid-in capital amounted to U.S. $ 10,000,000.

** Palestine Ijara Company (PIC), which mainly provides Islamic leases for small and medium institutions according to Islamic Sharia' rules, has been established in Ramallah. As at December 31, 2019, PIC's paid-in capital amounted to U.S. $ 12,000,000.

The movement on the value of the investment in associates was as follows:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	11,450,784	11,335,987
Bank's share of the associate's results of operations	175,762	677,002
Bank's share of the associate's other comprehensive income	287,336	(283,905)
Cash dividends	(278,300)	(278,300)
Balance, end of the year	11,635,582	11,450,784

The following table summarizes the financial information related to the Bank's investment in its associates as at December 31, 2019 and December 31 , 2018 :

	Al-Takaful		PIC	
	2019	2018	2019	2018
The financial position of associates:	U.S. $	U.S. $	U.S. $	U.S. $
Total assets	70,862,330	62,125,264	26,687,572	18,583,905
Total liabilities	52,839,073	44,566,959	15,904,307	7,965,627
Total equity	18,023,257	17,558,305	10,783,265	10,618,278
Book value before adjustments	5,015,872	4,886,476	3,594,421	3,539,426
Adjustments	3,025,289	3,024,882	-	-
Book value after adjustments	8,041,161	7,911,358	3,594,421	3,539,426
Revenues and results of operations:				
Net revenues	11,169,528	8,938,325	1,953,508	1,271,752
Operational, administrative and general expenses	(6,868,063)	(4,671,766)	(1,138,834)	(1,111,371)
Depreciation and amortization	(693,990)	(484,326)	(33,779)	(39,682)
Finance costs	(57,600)	(22,407)	(397,649)	(156,472)
Other revenues	(426,202)	420,767	142,624	50,390
Income before tax	3,123,673	4,180,593	525,870	14,617
Tax expense	(1,346,924)	(1,441,267)	(116,405)	-
Net income for year after tax	1,776,749	2,739,326	409,465	14,617
Adjustments	(1,342,804)	(324,964)	(244,480)	638
Net income for year after tax-after adjustments	433,945	2,414,362	164,985	15,255
Bank's share from the year results	120,767	671,917	54,995	5,085
Bank's share from other comprehensive income	287,336	(283,905)	-	–

10. Investment properties

Following is the movement on Investment properties:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	12,742,899	7,958,529
Additions	-	3,524,327
Investment properties sold	-	(51,100)
Change in fair value during the year	(899,101)	1,311,143
Balance, end of the year	11,843,798	12,742,899

Following is the movement on investment properties reserve:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	960,751	-
Unrealized gains on revaluation	(899,101)	1,311,143
Deferred tax liabilities	240,239	(350,392)
Balance, end of year	301,889	960,751

11. Property, plant and equipment

December 31, 2019	Real estate U.S. $	Furniture, equipment and leasehold improvements U.S. $	Motor vehicles U.S. $	Computers U.S. $	Total U.S. $
Cost:					
Balance, beginning of the year	15,833,628	20,739,204	432,949	4,606,297	41,612,078
Additions	73,222	1,355,286	-	201,297	1,629,805
Transferred from projects in progress (note 12)	-	729,446	-	330,600	1,060,046
Disposals	-	(810,639)	(78,750)	(467,164)	(1,356,553)
Balance, end of the year	15,906,850	22,013,297	354,199	4,671,030	42,945,376
Accumulated depreciation:					
Balance, beginning of the year	2,511,395	6,540,591	259,005	3,473,275	12,784,266
Depreciation for the year	437,562	1,711,061	39,301	429,262	2,617,186
Disposals	-	(752,168)	(78,750)	(466,148)	(1,297,066)
Balance, end of the year	2,948,957	7,499,484	219,556	3,436,389	14,104,386
Net book value as at December 31, 2019	12,957,893	14,513,813	134,643	1,234,641	28,840,990
Net book value as at December 31, 2018	13,322,233	14,198,613	173,944	1,133,022	28,827,812

12. Projects in progress

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	1,419,676	2,583,848
Additions during the year*	2,923,311	3,329,851
Transferred to Property, plant and equipment (note 11)	(1,060,046)	(2,707,852)
Transferred to intangible assets (note 14)	(51,724)	(1,786,171)
Balance, end of the year	3,231,217	1,419,676

* The additions to projects in progress represent payments for new banking system and preparing new branches up to the date of preparation of these financial statements. The system and the branches are still under in the preparation phase.

13. Right-of-use assets

Following is the movement on right-of-use assets:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	-	-
Effect of IFRS 16 implementation	10,327,864	-
Balance, beginning of the year- restated	10,327,864	-
Additions	236,526	-
Depreciation for the year	(1,330,609)	-
Balance, end of the year	9,233,781	-

14. Intangible assets

Intangible assets comprise computer software and programs. Following are details of the movement on intangible assets:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	874,504	779,081
Additions	123,812	210,912
Transferred from projects in progress (note 12)	51,724	1,786,171
Amortization	(310,393)	(633,094)
Disposals	-	(1,268,566)
Balance, end of the year	739,647	874,504

15. Other assets

This item represents the following:

	2019	2018
	U.S. $	U.S. $
Clearing checks	5,403,196	13,033,488
Receivables, advances and temporary accounts*	5,531,205	3,117,686
Accrued revenues	1,077,999	265,473
Prepaid expenses	606,860	1,133,413
Stationery and printings	453,744	541,566
Others	345,923	341,008
	13,418,927	18,432,634

* This item represents cash intermediary accounts amounting to U.S. $ 1,446,466 and accounts receivable against customers' financing accounts amounting to U.S. $ 3,864,939 as at December 31, 2019.

16. Banks and financial institutions' deposits

	2019	2018
	U.S. $	U.S. $
Banks and financial institutions inside Palestine:		
Deposits maturing within 3 months	111,741,306	58,916,241

17. Customers' deposits

	2019	2018
	U.S. $	U.S. $
Current and demand account	263,137,015	223,814,250

- Total deposits comprise customers' deposits (note 17), cash margins (note 18) and unrestricted investment accounts (note 23), amounting to U.S. $ 1,054,694,032 and U.S. $ 904,482,445 as at December 31, 2019 and 2018, respectively.
- Governmental deposits amounted to U.S. $ 19,470,024 and U.S. $ 13,633,189 representing %1.85 and %1.51 of the total deposits as at December 31, 2019 and 2018, respectively.
- Quasi-governmental deposits amounted to U.S. $ 4,418,190 and U.S. $ 3,751,991 representing %0.42 and %0.41 of the total deposits as at December 31, 2019 and 2018, respectively.
- Dormant deposits amounted to U.S. $ 23,435,728 and U.S. $ 19,367,737 representing %2.22 and %2.14 of the total deposits as at December 31, 2019 and 2018, respectively.

– Non-profit bearing deposits amounted to U.S. $ 295,540,552 and U.S. $ 244,735,653 representing %28.02 and %27.06 of the total deposits as at December 31, 2019 and December 31, 2018, respectively.

18. Cash margins

This item represents cash margins against the following:

	2019	2018
	U.S. $	U.S. $
Direct Islamic financing*	35,316,360	23,631,457
Indirect Islamic financing	8,988,759	5,323,261
Others	10,846,486	7,326,721
	55,151,605	36,281,439

* Cash margins on direct Islamic financing include cash margins participating in profits amounting to U.S. $ 22,748,068 and U.S. $ 15,360,036 as at December 31, 2019 and December 31, 2018, respectively.

19. Sundry provisions

This item represents the following provisions:

	Balance, beginning of the year	Additions for the year	Recovered during the year	Payments during the year	Balance, end of the year
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2019					
Provision for employees' indemnity	7,648,849	2,373,818	-	(438,137)	9,584,530
Provision for legal cases	673,733	63,819	(42,870)	(46,718)	647,964
	8,322,582	2,437,637	(42,870)	(484,855)	10,232,494
December 31, 2018					
Provision for employees' indemnity	6,090,009	2,108,177	-	(549,337)	7,648,849
Provision for legal cases	1,200,030	84,020	(510,000)	(100,317)	673,733
	7,290,039	2,192,197	(510,000)	(649,654)	8,322,582

20. Tax provisions

The movement on tax provisions during the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	1,762,414	5,836,407
Provision for the year	5,911,961	2,739,654
Payments	(6,064,445)	(6,813,647)
Balance, end of the year	1,609,930	1,762,414

Tax expense as disclosed in the Income Statement

	2019	2018
	U.S. $	U.S. $
Provison for the year	5,911,961	2,739,654
Deferred tax assets*	(4,692,922)	-
	1,219,039	2,739,654

* This item represents the balance of deferred tax assets calculated on ECL allowance related to direct facilities, investments in Islamic banks and financial assets at amortized cost in addition to other accounts. The Bank's management has changed its accounting estimates during the year regarding benefiting form deferred taxes calculated on these items, and this was made based on its experience based on last tax settlements according to the laws and related instructions implemented in Palestine.

- The reconciliation between accounting income and taxable income is as follows:

	2019	2018
	U.S. $	U.S. $
Bank's accounting profit before taxes	15,743,107	17,871,258
Profit subject to Value Added Tax (VAT)	19,113,830	16,401,567
VAT on income	(2,636,390)	(2,262,277)
Profit subject to income tax	10,319,389	11,929,310
Income tax	1,547,908	1,714,396
Total taxes (VAT and income tax)	4,184,298	3,976,673
Provision for the year	5,911,961	2,739,654
Excess in tax provision from prior years	-	1,376,970
Effective tax rate	%37.55	%15.33

The bank reached a final settlement with the tax department as at 2018.

The income tax rates and value added tax rates were %15 and %16, respectively as at December 31, 2019. According to Law No. (4) for the year 2014 concerning the amendment of Law No. (8) for the year 2011 related to income taxes; income tax rate on profits resulted from financing small and medium enterprises equals to %10.

21. Lease liabilities

Following is the movement on lease liabilities:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	-	-
Effect of IFRS 16 implementation	9,810,636	-
Balance, beginning of the year- restated	9,810,636	-
Additions	236,526	-
Payments	(1,487,599)	-
Finance costs on lease liabilities	256,384	-
Balance, end of the year	8,815,947	-

The liabilities related to rent contracts represent the recognition of the lease liabilities at the present value of the lease payments that must be paid over the life of the contract. Rental payments include fixed payments (that include payments that are within their contents fixed payments) minus incentives for the accrued rent and variable rent payments that depend on indicators or agreed upon rates as per the terms of the contract, and the amounts expected to be collected under the residual value guarantees. Rent contracts also include the accrued amount when implementing the purchase option that the entity will certainly implement and the termination amount for the rent contract, if the entity intends to implement the termination option as per the terms of the contracts.

The liabilities related to rent contracts are deducted using 3% discount rate as at January 1, 2019.

	2019	2018
	U.S. $	U.S. $
Short-term liabilities	1,406,682	-
Long-term liabilities	7,409,265	-
	8,815,947	-

The amount of the lease expense for short-term contracts and lease contracts of low-value assets that were recognized in the income statement in the personnel expenses (note 30) and other operating expenses (note 31) amounted to U.S. $ 117,388 and U.S. $ 10,498, respectively for the year ended December 31, 2019.

22. Other liabilities

This item represents the following:

	2019	2018
	U.S. $	U.S. $
Bank's transfers and certified checks	4,960,964	12,164,746
Temporary accounts and intermediary accounts	2,160,516	610,603
Accrued expenses	1,667,010	2,700,377
Accrued cash dividends	1,375,735	1,229,791
Return on unrestricted investment accounts	963,236	866,269
Vacations provision	793,803	445,780
Palestinian Deposit Insurance Corporation insurance provision	748,018	655,914
Provision for employees' incentives	696,117	607,870
Board of Directors' bonuses	378,049	496,663
Social responsibility provision	457,417	227,457
Deferred tax liabilities	110,153	350,392
Provision for indirect Islamic financing ECL	74,724	27,735
Earnings prohibited by Sharia'	18,086	14,382
Other credit balances	1,050,222	695,910
	15,454,050	21,093,889

Following the movement on the indirect Islamic financing ECL provision:

2019	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
As at January 1, 2019	26,172	1,563	-	27,735
Transferred to stage 1	1,563	(1,563)	-	-
Net re-measurement of ECL provision	46,989	-	-	46,989
As at December 31, 2019	74,724	-	-	74,724

2018	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
As at January 1, 2018	-	-	-	-
Effect of IFRS 9 implementation	46,384	26,536	-	72,920
As at January 1, 2018 – Restated	46,384	26,536	-	72,920
Transferred to stage 1	2,023	(2,023)	-	-
Transferred to stage 2	(1,520)	1,520	-	-
Net re-measurement of ECL provision	(20,715)	(24,470)	-	(45,185)
As at December 31, 2018	26,172	1,563	-	27,735

The balance of deferred tax liabilities represents the result of the valuation of the investment properties which is included under the investment properties reserve in statement of changes in equity. Following is the movement on deferred tax liabilities:

	2019	2018
	U.S. $	U.S. $
Balance beginning of the year	350,392	-
(Deductions) additions	(240,239)	350,392
Balance end of the year	110,153	350,392

23. Unrestricted investment accounts

This item represents the following:

	2019	2018
	U.S. $	U.S. $
Saving deposits	507,622,850	427,426,899
Time deposits	228,782,562	216,959,857
	736,405,412	644,386,756

24. Reserves

Statutory reserve dividends

As required by the Companies' Law and Banking Law, 10% of the net profit is transferred to the statutory reserve. This transfer will continue until the total reserve balance equals the Bank's paid-in share capital. This reserve is not available for distribution to shareholders and cannot be utilized without the prior approval of PMA.

General banking risk reserve

This item represents the amount of general banking risk reserve deducted in accordance with PMA's regulations number (6/2015) based on 1.5% of direct Islamic financing after deducting impairment allowance for Islamic financing and suspended profits and 0.5% of indirect Islamic financing. According to PMA's instruction number (53/2013), no general banking risks reserve is required against the direct Islamic financing granted to small and medium size entities if these entities meet the conditions in this instruction. Direct Islamic financing granted to small and medium size entities amounted to U.S. $ 1,704,322 as at December 31, 2019. During 2018 the bank adopted IFRS (9), and recorded the impact of IFRS (9) from this reserve, in reference to Stage 1 and Stage 2 expected credit losses, as per PMA generalization number (2018/2).

Pro-cyclicality reserve

This reserve represents 15% of net profit in accordance with PMA instruction (1/2011) to support the Bank's capital against banking risks. The reserve is not to be utilized or reduced without PMA's prior approval. Transfers to this reserve shall not cease until the total balance of this reserve reaches 20% of the Bank's share capital. During 2018, PMA issued instructions number (1/2018) regarding the calculation of the Pro- cyclicality reserve, which will be calculated as a percentage of the risk weighted assets determined by PMA ranging between (2.5% -0%). the percentage in 2019 and 2018 determined to be %0.66 and 0.57% of risk weighted assets, respectively. The Bank did not deduct the Pro-cyclicality reserve this year based on understandings with the PMA.

25. Investment and financing revenues

This item represents revenues from the following:

	2019	2018
	U.S. $	U.S. $
Murabaha financing	43,809,988	42,665,589
Mudaraba financing	1,762,417	107,261
Istisna'a financing	1,640,798	1,093,990
Musawama financing	1,410,225	867,774
Investment in Islamic institutions	1,041,217	645,864
Ijara muntahia bittamleek	253,540	264,590
Musharaka financing	-	873,601
	49,918,185	46,518,669

26. Finance cost and return on unrestricted investment accounts

This item represents revenues as following:

	2019	2018
	U.S. $	U.S. $
Saving deposits	5,696,831	5,117,078
Time deposits	1,153,903	933,562
Profits sharing cash margins	78,719	56,188
Finance costs on lease contracts	256,384	-
	7,185,837	6,106,828

27. Net Commissions

This item represents the following:

	2019	2018
	U.S. $	U.S. $
Commissions received on:		
Issuing cards	3,773,391	3,342,276
Accounts' management	2,905,309	2,648,984
Returned and post-dated checks	1,886,070	1,693,945
Indirect financing	946,041	803,642
Other banking services	884,255	806,437
Cash deposits	426,879	361,692
Transfers	196,699	185,373
	11,018,644	9,842,349
Commissions paid	(776,079)	(988,368)
	10,242,565	8,853,981

28. Cash dividends

This item represents cash dividends on financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income as follows:

	2019	2018
	U.S. $	U.S. $
Financial assets at fair value through profit or loss	135,399	141,697
Financial assets at fair value through other comprehensive items	366,714	242,598
	502,113	384,295

29. Other revenues

This item represents revenues from the following:

	2019	2018
	U.S. $	U.S. $
Recovery of suspended profits	284,755	278,907
Safety deposit box rental income	97,114	89,566
Others	47,906	71,929
	429,775	440,402

30. Personnel expenses

This item represents the following:

	2019	2018
	U.S. $	U.S. $
Salaries and related benefits	13,524,869	13,860,175
Provision for employees' indemnity	2,373,818	2,108,177
VAT on salaries	2,240,256	1,902,484
Bank's contribution to the provident fund*	809,116	763,058
Medical insurance	791,173	761,691
Clothing allowances	225,816	290,829
Travel and accommodation	194,053	245,718
Training expenses	122,489	207,611
Car Rentals	117,388	335,779
Others	456,161	166,747
	20,855,139	20,642,269

* The Bank contributes 10% of the basic salary of the employee and the employee contributes between 5% and 10% of its basic salary to the provident fund according to the years of service. The provident fund balance is shown in the customer deposits.

31. Other operating expenses

This item represents the following:

	2019	2018
	U.S. $	U.S. $
Subscription fees for Palestine Insurance Deposit Corporation*	2,832,222	2,438,096
Fees, license and subscriptions	1,683,505	1,545,326
Maintenance and cleaning	1,555,232	1,467,988
Telephone, fax and postage	1,249,794	989,782
Cash and in-kind awards	970,100	826,000
Advertisements and marketing	752,040	725,597
Social responsibility**	737,324	559,021
Board of Directors' bonuses and expenses	534,107	681,827
Utilities	626,284	623,685
Professional and consultancy fees	538,089	730,545
Stationery and printings	426,447	454,625
Guarding	374,624	308,570
Insurance	221,458	184,897
Hospitality	89,079	135,266
Rents	10,498	1,038,943
Sundry expenses	326,189	264,318
	12,926,992	12,974,486

* Banks are required to accrue and account for an annual fee of %0.3 from the total deposits specified by the Law No. (7) of the year 2013. On January 1, 2019, the Palestinian Deposit Insurance Corporation issued circular no. (03/2019) regarding reducing the minimum subscription fees to be (%0.2 - %0.8), in which as of January 1, 2020 the subscription fees will be 0.2% of average total deposits instead of 0.3%.

** The Bank provides donations in areas of social, religious and others as part of social responsibility policy. The percentage of donations reached %5.08 and %3.69 of net income as at December 31, 2019 and 2018, respectively.

32. Expected credit losses allowance

This item represents net re-measurement of provision for credit losses:

2019	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances at Banks and financial institutions	(48,914)	-	-	(48,914)
Direct Islamic financing*	105,145	59,104	3,753,561	3,917,810
Financial assets at amortized cost	89,532	805	-	90,337
Indirect Islamic financing	46,989	-	-	46,989
As at December 31,2019	192,752	59,909	3,753,561	4,006,222*

* Net recovery during the year amounted to U.S. $ 1,482,479.

2018	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances at Banks and financial institutions	64,285	-	-	64,285
Direct Islamic financing*	91,670	(2,010,436)	627,085	(1,291,681)
Financial assets at amortized cost	60,350	174	-	60,524
Indirect Islamic financing	(20,715)	(24,470)	-	(45,185)
As at December 31,2018	195,590	(2,034,732)	627,085	(1,212,057) *

* Net recovery for the year amounted to U.S. $ 5,839,943.

33. Palestine Monetary Authority fines

This item represents fines imposed by PMA on the Bank due to noncompliance with PMA instructions regarding Know Your Customers procedures.

34. Cash and stocks dividends

At its meeting held on April 17, 2019, the Bank's General Assembly approved the distribution of cash dividends at a rate of 8.5% of the share par value for a total amount of U.S. $ 6,290,000. At the same meeting, the Bank's General Assembly approved the distribution of stock dividends at a rate of 4.05% of the share par value for a total amount of U.S. $ 3,000,000 for the Bank's 2018 business results.

At its meeting held on April 16, 2018, the General Assembly of the Bank approved the distribution of cash dividends at a rate of 8.5% of the share par value for a total amount of U.S.$ 5,865,000. At the same meeting, it also approved the distribution of stock dividends at a rate of 7.246% of the share par value for a total amount of U.S. $ 5,000,000 for the Bank's 2017 business results.

35. Zakat

Each shareholder bears the responsibility for Zakat payment. The Bank, with the consent of Shari'a Supervisory Board, annually informs the shareholders of the amount of Zakat due on each share. The Zakat per share for 2019 and 2018 amounted to 0.0497 and 0.0423, respectively.

36. Commitments and contingencies

Total outstanding commitments and contingencies as at the financial statements date are as follows:

	2019	2018
	U.S. $	U.S. $
Unutilized limits of Islamic financing	59,619,694	41,814,338
Letters of guarantee	61,141,358	42,474,837
Letters of credits	2,532,080	3,091,891
	123,293,132	87,381,066

37. Cash and cash equivalents

Cash and cash equivalents depicted in the statement of cash flows comprise items presented in the statement of financial position as follows:

	2019	2018
	U.S. $	U.S. $
Cash and balances at PMA	270,867,467	213,512,859
Balances at banks and financial institutions	170,001,309	117,208,587
Less: statutory cash reserve and restricted balances at PMA	(74,025,711)	(63,637,026)
Banks and financial institutions' deposits maturing within three months	(111,741,306)	(58,916,241)
Restricted balances at PMA	(147,000)	(1,147,000)
	254,954,759	207,021,179

38. Basic and diluted earnings per share

This item represents the following:

	2019	2018
	U.S. $	
Profit for the year	14,524,068	15,131,604
	Shares	
Weighted average number of subscribed shares	77,000,000	77,000,000
	U.S. $	
Basic and diluted earnings per share	0.19	0.20

39. Sources of financing the Bank's assets and investments

This item represents the following:

	2019			2018		
	Joint financing	Self- financing	Total	Joint financing	Self- financing	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances at PMA	270,867,467	-	270,867,467	213,512,859	-	213,512,859
Balances at banks and financial institutions	168,265,799	-	168,265,799	115,424,163	-	115,424,163
Direct Islamic financing	770,485,510	-	770,485,510	679,951,860	-	679,951,860
Financial assets at fair value through profit and loss	-	1,421,721	1,421,721	-	1,462,341	1,462,341
Financial assets at fair value through other comprehensive income	-	4,077,419	4,077,419	-	4,423,848	4,423,848
Financial assets at amortized cost	-	19,658,542	19,658,542	-	14,140,580	14,140,580
Investment in associates	-	11,635,582	11,635,582	-	11,450,784	11,450,784
Investment properties	-	11,843,798	11,843,798	-	12,742,899	12,742,899
Property, plant and equipment	-	28,840,990	28,840,990	-	28,827,812	28,827,812
Projects in progress	-	3,231,217	3,231,217	-	1,419,676	1,419,676
Right-of-use assets	-	9,233,781	9,233,781	-	-	-
Deferred tax assets	-	4,692,922	4,692,922	-	-	-
Intangible assets	-	739,647	739,647	-	874,504	874,504
Other assets	-	13,418,927	13,418,927	-	18,432,634	18,432,634
	1,209,618,776	108,794,546	1,318,413,322	1,008,888,882	93,775,078	1,102,663,960

40. Related party transactions

Related parties represent major shareholders and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties during the year represented by deposits and Islamic financing are as follows:

	Nature of relationship	2019 U.S. $	2018 U.S. $
Statement of financial position items:			
Direct Islamic financing	Associate	1,530,548	2,168,379
	Executive Management	965,095	768,442
	Chairman and Board of Directors Members	11,853	–
	Others	19,480,924	19,341,302
Customers deposits	Associate	8,796,252	9,598,348
	Executive Management	534,239	157,204
	Chairman and Board of Directors Members	361,366	131,393
	Others	20,954,837	17,466,212
SWAPs, net	Major shareholder	939,826	16,286
Cash margins	Associate	37,201	12,250
	Others	160,630	29,354

		2019 U.S. $	2018 U.S. $
Income statement items:			
Financing income	Associate	117,668	57,300
	Executive Management	31,143	26,805
	Others	713,948	524,091
Return on unrestricted investment accounts	Associate	-	559
	Executive Management	-	614
	Others	7,463	13,525

		2019 U.S. $	2018 U.S. $
Commitments and contingencies:			
Indirect Islamic financing	Associate	63,201	24,600
	Others	509,678	775,001

- Direct Islamic financing granted to related parties as at December 31, 2019 and 2018 represent %2.85 and %3.29 of the net Islamic financing, respectively.
- Direct Islamic financing granted to related parties as at December 31, 2019 and 2018 represent %20.63 and %23.85 of the Bank's regulatory capital, respectively.
- Returns on Islamic financing granted to related parties ranges between %0.50 to %7 during 2019.

Board of Directors and key management remuneration (salaries, bonuses and other benefits) are as follows:

	2019	2018
	U.S. $	U.S. $
Board of Directors' members expenses	630,120	681,827
Executive management salaries and related benefits	753,005	693,258
Executive management end of service benefits	70,771	56,551

The Board of Director's bonuses for 2019 and 2018 are as follows:

	2019	2018
	U.S. $	U.S. $
National Islamic Investment Company represented by Mr. Maher Al-Masri	55,831	74,444
National Islamic Investment Company represented by Mr. Salem Abu khaizaran	33,333	44,444
National Islamic Investment Company represented by Mr. Salah Al-Daghmeh	33,333	44,444
National Islamic Investment Company represented by Mr. Ahmad Hassan	33,333	37,037
National Islamic Investment Company represented by Mr. Omar Al-Masri	33,333	37,037
National Islamic Investment Company represented by Mr. Talal Nassereldeen	27,777	37,037
Mr. Ali Zeidan Abu Zuhri	33,333	44,444
Mr. Abdulhameed Fayez Al-Obweh	33,333	44,444
Mr. Majid Al-Helu	33,333	37,037
Mr. Anees Al-Hajjeh	33,333	37,037
Institution of Management and Development of Orphans Money represented by Mr. Rafiq Shaker Al-Natsheh	27,777	44,444
Palestine Investment Fund represented by Mr. Mahmoud Fareed Abu Al-Rob	-	7,407
Aswaq Company for Investment Portfolios represented by Mr. Mazen Tawfiq Sunokrot	-	7,407
	378,049	496,663

Policy of remuneration and bonuses

According to PMA instructions number (1/2012), the Bank prepared policies governing rules of practice of remuneration and bonuses associated with the level of performance and risk. Members of the Board of Directors are committed to assume full responsibility for the promotion of effective corporate governance principles and best practices for the financial rewards and to ensure transparency and objectivity in the granting of bonuses. The Bank has adopted quantitative criteria which can be measured and ensures that all employees are motivated and appreciated. These incentives have been split to moral incentives that are intended for continuous communication with employees and to appreciate their efforts, and financial incentives based on results and achievements. The policy takes into account all kinds of risks that the Bank can be exposed to, the profit earned, percentage of bonuses to profits and compliance with the Bank's bylaws.

41. Concentration of assets and off statement of financial position items

Following is breakdown of the Bank's assets and off-balance sheet items by geographical area:

December 31, 2019	Palestine	Jordan	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances at Palestine Monetary Authority	270,867,467	-	-	270,867,467
Balances at banks and financial institutions	134,666,397	2,850,098	30,749,304	168,265,799
Direct Islamic financing	770,360,895	-	124,615	770,485,510
Financial assets at fair value through profit or loss	1,421,721	-	-	1,421,721
Financial assets at fair value through other comprehensive items	4,077,419	-	-	4,077,419
Financial assets at amortized cost	-	13,909,733	5,748,809	19,658,542
Investment in associates	11,635,582	-	-	11,635,582
Investment properties	11,843,798	-	-	11,843,798
Property, plant and equipment	28,840,990	-	-	28,840,990
Projects in progress	3,231,217	-	-	3,231,217
Right-of-use assets	9,233,781	-	-	9,233,781
Deferred tax assets	4,692,922	-	-	4,692,922
Intangible assets	739,647	-	-	739,647
Other assets	13,418,927	-	-	13,418,927
	1,265,030,763	16,759,831	36,622,728	1,318,413,322
Commitments and contingencies:				
Unutilized limits of Islamic financing	59,619,694	-	-	59,619,694
Letters of guarantee	61,141,358	-	-	61,141,358
Letters of credit	2,532,080	-	-	2,532,080
	123,293,132	-	-	123,293,132

December 31, 2018	Palestine	Jordan	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances at Palestine Monetary Authority	213,512,859	-	-	213,512,859
Balances at banks and financial institutions	84,175,461	1,671,321	29,577,381	115,424,163
Direct Islamic financing	678,880,436	-	1,071,424	679,951,860
Financial assets at fair value through profit or loss	1,462,341	-	-	1,462,341
Financial assets at fair value through other comprehensive items	4,423,848	-	-	4,423,848
Financial assets at amortized cost	-	6,947,103	7,193,477	14,140,580
Investment in associates	11,450,784	-	-	11,450,784
Investment properties	12,742,899	-	-	12,742,899
Property, plant and equipment	28,827,812	-	-	28,827,812
Projects in progress	1,419,676	-	-	1,419,676
Intangible assets	874,504	-	-	874,504
Other assets	18,432,634	-	-	18,432,634
	1,056,203,254	8,618,424	37,842,282	1,102,663,960
Commitments and contingencies:				
Unutilized limits of Islamic financing	41,814,338	-	-	41,814,338
Letters of guarantee	42,474,837	-	-	42,474,837
Letters of credit	3,091,891	-	-	3,091,891
	87,381,066	-	-	87,381,066

According to segment	2019 Assets U.S. $	2019 Liabilities and unrestricted investment accounts U.S. $	2019 Commitments and contingencies U.S. $	2018 Assets U.S. $	2018 Liabilities and unrestricted investment accounts U.S. $	2018 Commitments and contingencies U.S. $
Retail accounts	502,690,542	900,947,506	43,545,726	462,890,292	752,421,295	18,369,525
Corporates and institutions	267,794,968	153,746,526	79,747,406	217,061,568	152,061,150	69,011,541
Treasury	464,290,948	111,741,306	-	348,963,791	58,916,241	-
Others	83,636,864	36,112,421	-	73,748,309	31,178,885	-
Total	1,318,413,322	1,202,547,759	123,293,132	1,102,663,960	994,577,571	87,381,066

42. Fair value measurement

The Bank uses the following hierarchy for determining and disclosing the fair value of its financial instruments:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs, which have a significant effect on the recorded fair value, are observable, either directly or indirectly.
- Level 3: Techniques which use inputs, which have a significant effect on the recorded fair value, that are not based on observable market data.

The Bank has not made any transfers between the above levels during 2019 and 2018.

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2019:

	Date of Measurement	Total	Fair value Measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		U.S. $	U.S. $	U.S. $	U.S. $
Assets measured at fair value:					
Financial assets measured at fair value through profit or loss (note 6):					
Quoted	December 31, 2019	1,421,721	1,421,721	-	-
Financial assets measured at fair value through other comprhensive income (note 7):					
Quoted	December 31, 2019	3,850,494	3,850,494	-	-
Unquoted	December 31, 2019	226,925	-	-	226,925
Investment properties (note10):	December 31, 2019	11,843,798	-	-	11,843,798
Financial assets that fair value has been disclosed:					
Financial assets at amortized cost(note 8)					
Quoted	December 31, 2019	3,840,807	3,840,807	-	-
Unquoted	December 31, 2019	16,104,372	-	-	16,104,372

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2018:

	Date of Measurement	Total	Fair value Measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		U.S. $	U.S. $	U.S. $	U.S. $
Assets measured at fair value:					
Financial assets measured at fair value through profit or loss (note 6):					
Quoted	December 31, 2018	1,462,341	1,462,341	-	-
Financial assets measured at fair value through other comprhensive income (note 7):					
Quoted	December 31, 2018	4,225,036	4,225,036	-	-
Unquoted	December 31, 2018	198,812	-	-	198,812
Investment properties (note10):	December 31, 2018	12,742,899			12,742,899
Financial assets that fair value has been disclosed:					
Financial assets at amortized cost (note 8)					
Quoted	December 31, 2018	4,989,518	4,989,518	-	-
Unquoted	December 31, 2018	9,052,190	-	-	9,052,190

- Sensitivity of unobservable inputs (Level 3):

Authorized external appraisers are assigned to assess the significant assets such as investments properties. After discussion with these external appraisers, the Bank selects the methods and inputs to be used for the valuation in each case, which are mostly sale prices for similar lands during the year which are calculated at fair value per square meter of land multiplied by the numbers of square meters.

The following table represents the sensitivity of the fair value of investment properties:

	Increase / decrease in fair value	Impact on fair value
2019	%	U.S. $
Fair value per square meter		
Fair value per square meter	5+	592,190
	5-	(592,190)
2018		
Fair value per square meter	5+	637,145
Fair value per square meter	5-	(637,145)

43. Fair value of financial instruments

The table below represents a comparison by class of the carrying amounts and fair values of the Bank's financial instruments carried in the financial statements as at December 31, 2019 and 2018:

	Carrying amount		Fair value	
	2019	2018	2019	2018
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Cash and balances at PMA	270,867,467	213,512,859	270,867,467	213,512,859
Balances at banks and financial institutions	168,265,799	115,424,163	168,265,799	115,424,163
Direct Islamic financing	770,485,510	679,951,860	770,485,510	679,951,860
Financial assets at fair value through profit or loss	1,421,721	1,462,341	1,421,721	1,462,341
Financial assets at fair value through other comprehensive income	4,077,419	4,423,848	4,077,419	4,423,848
Financial assets at amortized cost	19,658,542	14,140,580	19,945,179	14,041,708
Other financial assets	12,358,323	16,757,655	12,358,323	16,757,655
	1,247,134,781	1,045,673,306	1,247,421,418	1,045,574,434

	Carrying amount		Fair value	
	2019	2018	2019	2018
	U.S. $	U.S. $	U.S. $	U.S. $
Financial liabilities				
Banks and financial institutions' deposits	111,741,306	58,916,241	111,741,306	58,916,241
Customers' deposits	263,137,015	223,814,250	263,137,015	223,814,250
Cash margins	55,151,605	36,281,439	55,151,605	36,281,439
Other financial liabilities	14,475,370	20,269,982	14,475,370	20,269,982
	444,505,296	339,281,912	444,505,296	339,281,912
Unrestricted investment accounts	736,405,412	644,386,756	736,405,412	644,386,756

The fair value of the financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

- Fair values of cash and balances at PMA, balances at banks and financial institutions, other financial assets, banks and financial institutions' deposits, customers' deposits, cash margins, other financial liabilities and unrestricted investment accounts approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income that are actively traded in active financial markets is determined by reference to quoted prices at the date of the financial statements.
- The fair value of financial assets at amortized cost was estimated using the expected future cash flows using the same discount rates at prevailing market prices.
- The fair value of direct Islamic financing is determined through the consideration of different variables such as rates of return, risk factors and the debtor's ability to pay. The carrying value for Islamic financing approximates its fair value as at December 31, 2019 and December 31, 2018.

44. Risk management process

The Bank's Board of Directors is responsible for identifying and controlling risks. In addition, there are several entities responsible for the Bank's risk management process in each department. The responsibility for developing the risk strategy and permissible limits lies on the Bank's Risk Committee, Governance Committee and Compliance Committee which are appointed by the Board of Directors of the Bank.

The Bank has established policies and procedures to control the risks, and to mitigate its effects as much as possible. The risk management department monitors the effectiveness of risk management on a monthly basis.

The Bank discloses information to help the users of the financial statements to assess the nature and level of risk the Bank is exposed to as a result of its financial instruments as at the date of the financial statements as follows:

I. Credit risks

Credit risks are those risks resulting from the default of counterparties to the financial instrument to repay their commitment to the Bank. The Bank sets ceilings for direct Islamic financing (retail or corporate) and total Islamic financing granted to each sector and each geographical area. The Bank also monitors credit risks and continuously evaluates the credit standing of customers. The Bank also obtains appropriate collaterals from customers.

A. Gross exposures to credit risk (net of ECL provisions and profit in suspense and prior to collaterals and other risk mitigations):

	2019	2018
	U.S. $	U.S. $
Statement of financial position items:		
Balances with PMA	159,931,697	106,881,637
Balances at banks and financial institutions	168,265,799	115,424,163
Direct Islamic financing	770,485,510	679,951,860
Financial assets at amortized cost	19,658,542	14,140,580
Other assets	12,358,323	16,757,655
Total statement of financial position items	1,130,699,871	933,155,895
Commitments and contingencies:		
Unutilized limits of Islamic financing	59,619,694	41,814,338
Letters of guarantee	61,141,358	42,474,837
Letters of credit	2,532,080	3,091,891
Total commitments and contingencies	123,293,132	87,381,066

B. Concentration of risk exposures according to IFRS 9 Stages as at December 31, 2019 and 2018:

2019	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances with PMA	159,931,697	-	-	159,931,697
Balances at banks and financial institutions	168,265,799	-	-	168,265,799
Direct Islamic financing:				
Public sector	50,895,568	-	-	50,895,568
Industrial and agriculture	24,341,061	4,149,685	740,894	29,231,640
Service sector	2,136,346	115,581	8,278	2,260,205
Commercial	164,030,658	29,677,474	13,833,342	207,541,474
Real estate and constructions	92,108,192	42,841,149	7,028,089	141,977,430
Lands	71,797,988	33,394,514	-	105,192,502
Consumer Finance	134,088,887	39,611,884	2,292,753	175,993,524
Others	43,498,203	13,054,515	840,449	57,393,167
Financial assets at amortized cost	13,909,733	5,748,809	-	19,658,542
Other assets	12,358,323	-	-	12,358,323
Total	937,362,455	168,593,611	24,743,805	1,130,699,871

2018	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances with PMA	106,881,637	-	-	106,881,637
Balances at banks and financial institutions	115,424,163	-	-	115,424,163
Direct Islamic financing:				
Public sector	46,755,623	-	-	46,755,623
Industrial and agriculture	3,322,886	6,827,473	202,816	10,353,175
Service sector	14,878	8,145	54,942	77,965
Commercial	223,266,236	28,607,351	18,847	251,892,434
Real estate and constructions	123,730,339	37,117,102	5,487,292	166,334,733
Lands	67,995,344	8,664,568	-	76,659,912
Consumer Finance	47,274,996	46,109,282	275,443	93,659,721
Others	17,315,667	7,561,047	9,341,583	34,218,297
Financial assets at amortized cost	9,965,160	4,175,420	-	14,140,580
Other assets	16,757,655	-	-	16,757,655
Total	778,704,584	139,070,388	15,380,923	933,155,895

C. Concentration of risk exposures according to IFRS 9 Stages as at December 31, 2019 and 2018:

2019	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	890,414,050	162,206,187	24,739,349	1,077,359,586
Jordan	16,729,586	30,245	-	16,759,831
Others	30,218,819	6,357,179	4,456	36,580,454
Total	937,362,455	168,593,611	24,743,805	1,130,699,871

2018	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	736,461,572	134,894,968	15,380,923	886,737,463
Jordan	8,618,424	-	-	8,618,424
Others	33,624,588	4,175,420	-	37,800,008
Total	778,704,584	139,070,388	15,380,923	933,155,895

D. Fair value of collaterals obtained against total credit exposures is as follows:

December 31, 2019	Total Credit risk exposure	Fair value of collaterals: Cash margins	Letters of guarantee	Real estate	Quoted stocks	Vehicles and equipment	Others	Total collaterals	Net Exposure	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Credit exposures relating to items on statement of financial position:										
Balances with PMA	159,931,697	-	-	-	-	-	-	-	159,931,697	-
Balances at banks and financial institutions	168,265,799	-	-	-	-	-	-	-	168,265,799	1,735,510
Direct Islamic financing:										
Retails	514,177,219	25,813,451	-	204,970,618	204,658	107,825,257	-	338,813,984	175,363,235	11,486,677
Small and medium-sized institution	74,918,236	4,637,820	-	36,826,415	36,770	19,372,619	-	60,873,624	14,044,612	2,145,149
Corporates	147,147,746	4,865,089	-	40,902,564	38,572	20,321,943	-	66,128,168	81,019,578	2,940,674
Government and public sector	50,895,568	-	-	-	-	-	-	-	50,895,568	80,759
Financial assets at amortized cost	19,658,542	-	-	-	-	-	-	-	19,658,542	195,755
Other financial assets	12,358,323	-	-	-	-	-	-	-	12,358,323	-
	1,147,353,130	35,316,360	-	282,699,597	280,000	147,519,819	-	465,815,776	681,537,354	18,584,524
Credit exposures relating to items on commitments and contingencies:	123,293,132	8,988,759	-	-	-	-	-	8,988,759	114,304,373	74,724
Total	123,293,132	8,988,759	-	-	-	-	-	8,988,759	114,304,373	74,724

December 31, 2018	Total Credit risk exposure	Fair value of collaterals: Cash margins	Letters of guarantee	Real estate	Quoted stocks	Vehicles and equipment	Others	Total collaterals	Net Exposure	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Credit exposures relating to items on statement of financial position:										
Balances with PMA	106,881,637	-	-	-	-	-	-	-	106,881,637	-
Balances at banks and financial institutions	115,424,163	-	-	-	-	-	-	-	115,424,163	1,784,424
Direct Islamic financing:										
Retails	472,343,719	13,868,865	-	190,049,681	204,658	82,452,751	-	286,575,955	185,767,764	9,453,427
Small and medium-sized institution	84,864,483	4,764,556	-	31,872,836	36,770	14,814,022	-	51,488,184	33,376,299	1,711,796
Corporates	89,023,128	4,998,036	-	35,400,696	38,572	15,539,959	-	55,977,263	33,045,865	1,795,680
Government and public sector	46,755,623	-	-	-	-	-	-	-	46,755,623	74,190
Financial assets at amortized cost	14,140,580	-	-	-	-	-	-	-	14,140,580	105,418
Other financial assets	16,757,655	-	-	-	-	-	-	-	16,757,655	-
	946,190,988	23,631,457	-	257,323,213	280,000	112,806,732	-	394,041,402	552,149,586	14,924,935
Credit exposures relating to items on commitments and contingencies:	87,381,066	5,323,261	-	-	-	-	-	5,323,261	82,057,805	27,735
Total	87,381,066	5,323,261	-	-	-	-	-	5,323,261	82,057,805	27,735

E. Fair value of collaterals obtained against Stage 3 credit exposures is as follows:

December 31, 2019

	Total Credit risk exposure	Fair value of collaterals: Cash margins	Letters of guarantee	Real estate	Quoted stocks	Vehicles and equipment	Others	Total collaterals	Net Exposure	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Direct Islamic financing:										
Retails	13,202,297	146,000	-	10,594,248	-	77,680	-	10,817,928	2,384,369	1,712,557
Small and medium-sized institution	15,184,704	238,086	-	6,455,634	-	625,135	-	7,318,855	7,865,849	5,519,076
corporates	5,296,456	2,574	-	2,877,474	-	480,701	-	3,360,749	1,935,707	1,708,019
Total	33,683,457	386,660	-	19,927,356	-	1,183,516	-	21,497,532	12,185,925	8,939,652

December 31, 2018

	Total Credit risk exposure	Fair value of collaterals: Cash margins	Letters of guarantee	Real estate	Quoted stocks	Vehicles and equipment	Others	Total collaterals	Net Exposure	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Direct Islamic financing:										
Retails	7,439,677	-	-	6,378,715	-	228,602	-	6,607,317	832,360	3,034,280
Small and medium-sized institution	4,149,649	151,696	-	2,038,990	-	55,000	-	2,245,686	1,903,963	831,066
corporates	9,574,457	122,614	-	3,947,717	-	218,281	-	4,288,612	5,285,845	1,917,514
Total	21,163,783	274,310	-	12,365,422	-	501,883	-	13,141,615	8,022,168	5,782,860

Macroeconomic factors, expected future events and the use of more than one scenario
In estimating the ECL the Bank takes into account three scenarios (the normal scenario, the best scenario and the worst scenario), each with different weights of the probability of default and credit exposure at default and excepted loss at default.

The following are the effects of macroeconomic factors on expected future events using more than one scenario as of January 1, 2019:

Macroeconomic factors	Scenario used	Weight weighted for each scenario (%)	Percentage change in Macroeconomic factors (%) 2019
Gross domestic product	Base scenario	80	0.40
	Best scenario	10	2.32
	Worst scenario	10	(1.52)
Unemployment rates	Normal scenario	80	0.97
	Best scenario	10	(5.37)
	Worst scenario	10	7.31

The following are the impact of macroeconomic factors on expected future events using more than one scenario as of December 31, 2019:

Macroeconomic factors	Scenario used	Weight weighted for each scenario (%)	Percentage change in Macroeconomic factors (%) 2020
Gross domestic product	Base scenario	80	(0.8)
	Best scenario	10	0.58
	Worst scenario	10	(2.18)
Unemployment rates	Base scenario	80	(2.71)
	Best scenario	10	(4.59)
	Worst scenario	10	(0.83)

- The bank has assigned a weighted average ratio of 100% to the worst scenario when estimating expected credit losses related to public sector employees in the southern governorates.

F. Classification of debt securities facilities based on risk rating:

The table below analyzes the credit exposure of the debt securities using the credit rating as per the global credit rating agencies:

	2019	2018
Credit Rating	U.S. $	U.S. $
Private Sector:		
A- to AAA	752,462	753,230
B- to BBB+	4,996,346	6,335,164
Unrated	13,909,734	7,052,186
Total	19,658,542	14,140,580

II. Equity price risk

Equity price risk results from changes in fair value of equity instruments. The effect of the expected decrease in equity instrument prices is equal and opposite to the effect of the increase stated below:

	2019		
	Increase in index	Effect on income statement	Effect on equity
Market	%	U.S. $	U.S. $
Palestine Securities Exchange	10	142,172	385,049
Unquoted	10	-	22,693

	2018		
	Increase in index	Effect on income statement	Effect on equity
Market	%	U.S. $	U.S. $
Palestine Securities Exchange	10	146,234	422,504
Unquoted	10	-	19,881

III. Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The U.S. Dollars is the functional currency for the Bank. The Board of Directors sets limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The Jordanian Dinar (JOD) exchange rate is pegged to the U.S. Dollars, so foreign currency risk of JOD is not material on the Bank's financial statements.

The effect of decrease in foreign currency exchange rate is expected to be equal and opposite to effect of increase shown below:

	Increase in currency	Effect on income statement	Increase in currency	Effect on income statement
Currency	(%)	U.S. $	(%)	U.S. $
ILS	+10	(892,825)	+10	(653,130)

Foreign currencies position of the Bank is as follows:

	Equivalent to U.S. $			
December 31, 2019	JOD	ILS	Other currencies	Total
Assets				
Cash and balances at PMA	54,422,036	152,381,293	3,933,149	210,736,478
Balances at banks and financial institutions	38,591,008	9,364,403	4,110,340	52,065,751
Direct Islamic financing	153,000,741	348,507,142	8,759,871	510,267,754
financial assets at fair value through profit or loss	1,421,721	-	-	1,421,721
financial assets at fair value through other comprehensive income	3,850,494	-	-	3,850,494
Financial assets at amortized cost	13,909,734	-	-	13,909,734
Other assets	4,486,872	9,892,143	361,892	14,740,907
Total assets	269,682,606	520,144,981	17,165,252	806,992,839
Liabilities				
Banks' and financial institutions' deposits	7,404,795	96,492,734	2,843,776	106,741,305
Customers' deposits	51,669,477	160,065,308	3,640,031	215,374,816
Cash margin	10,141,505	16,529,269	5,125,324	31,796,098
Other liabilities	6,470,930	4,047,736	644,939	11,163,605
Total liabilities	75,686,707	277,135,047	12,254,070	365,075,824
Unrestricted investment accounts	194,812,260	251,938,182	4,911,182	451,661,624
Total liabilities and unrestricted investment account	270,498,967	529,073,229	17,165,252	816,737,448
Statement of financial position concentration	(816,361)	(8,928,248)	-	(9,744,609)
Commitments and contingencies	4,836,798	12,922,774	17,684,587	35,444,159

	Equivalent to U.S. $			
December 31, 2018	JOD	ILS	Other currencies	Total
Total assets	223,433,694	404,028,564	14,609,892	642,072,150
Total liabilities	59,473,595	195,930,041	9,862,698	265,266,334
Unrestricted investment accounts	168,501,153	214,629,826	4,747,194	387,878,173
Statement of financial position concentration	(4,541,054)	(6,531,303)	-	(11,072,357)
Commitments and Contingencies	5,794,134	12,751,178	9,613,488	28,158,800

IV. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due. To limit this risk, management arranges diversified funding sources, manages assets and liability with liquidity in mind, and monitors future cash flows and liquidity, and maintain an adequate balance of cash and cash equivalents.

The table below summarizes the allocation of assets and liabilities on the basis of the remaining contractual entitlement as at December 31, 2019 and 2018:

December 31, 2019	Less than 1 month U.S. $	More than 1 month up to 3 months U.S. $	More than 3 months up to 6 months U.S. $	More than 6 months up to 1 year U.S. $	More than 1 year U.S. $	Without maturity U.S. $	Total U.S. $
Assets							
Cash and balances at PMA	270,720,467	-	-	-	-	147,000	270,867,467
Balances at banks and financial institutions	130,469,529	37,796,270	-	-	-	-	168,265,799
Direct Islamic financing	57,559,710	87,634,336	57,582,373	97,176,943	470,532,148	-	770,485,510
Financial assets at fair value through profit or loss	-	-	-	-	-	1,421,721	1,421,721
Financial assets at fair value through other comprehensive income	-	-	-	-	-	4,077,419	4,077,419
Financial assets at amortized cost	-	-	-	2,797,822	16,860,720	-	19,658,542
Investment in associates	-	-	-	-	-	11,635,582	11,635,582
Investment properties	-	-	-	-	-	11,843,798	11,843,798
Property, plant and equipment	-	-	-	-	-	28,840,990	28,840,990
Projects in progress	-	-	-	-	-	3,231,217	3,231,217
Right-of-use assets	-	-	-	-	-	9,233,781	9,233,781
Deferred tax assets	-	-	-	-	4,692,922	-	4,692,922
Intangible assets	-	-	-	-	-	739,647	739,647
Other assets	9,930,515	870,463	814,867	-	1,803,082	-	13,418,927
Total assets	468,680,221	126,301,069	58,397,240	99,974,765	493,888,872	71,171,155	1,318,413,322
Liabilities, Unrestricted Investments Accounts and Equity							
Banks and financial institutions' deposits	111,741,306	-	-	-	-	-	111,741,306
Customers' deposits	263,137,015	-	-	-	-	-	263,137,015
Cash margin	1,658,128	4,905,885	3,736,607	9,188,712	35,662,273	-	55,151,605
Sundry provisions	-	-	-	-	10,232,494	-	10,232,494
Tax provisions	-	1,609,930	-	-	-	-	1,609,930
Lease liabilities	183,666	367,331	550,997	1,101,993	6,611,960	-	8,815,947
Other liabilities	15,454,050	-	-	-	-	-	15,454,050
Total liabilities	392,174,165	6,883,146	4,287,604	10,290,705	52,506,727	-	466,142,347
Unrestricted investment accounts	665,359,208	21,299,914	30,103,858	19,642,432	-	-	736,405,412
Equity	-	-	-	-	-		
Paid-in share capital	-	-	-	-	-	77,000,000	77,000,000
Additional paid- in capital	-	-	-	-	-	3,200,000	3,200,000
Statutory reserve	-	-	-	-	-	9,431,625	9,431,625
General banking risk reserve	-	-	-	-	-	4,384,678	4,384,678
Pro-cyclicality reserve	-	-	-	-	-	11,023,917	11,023,917
Investment properties reserve	-	-	-	-	-	301,889	301,889
Cumulative change in fair value	-	-	-	-	-	(273,086)	(273,086)
Retained earnings	-	-	-	-	-	10,796,540	10,796,540
Net equity	-	-	-	-	-	115,865,563	115,865,563
Total Liabilities, Unrestricted Investment Accounts and Equity	1,057,533,373	28,183,060	34,391,462	29,933,137	52,506,727	115,865,563	1,318,413,322
Maturity gap	(588,853,152)	98,118,009	24,005,778	70,041,628	441,382,145	(44,694,408)	-
Cumulative maturity gap	(588,853,152)	(490,735,143)	(466,729,365)	(396,687,737)	44,694,408	-	-

December 31, 2018	Less than 1 month U.S. $	More than 1 month up to 3 months U.S. $	More than 3 months up to 6 months U.S. $	More than 6 months up to 1 year U.S. $	More than 1 year U.S. $	Without maturity U.S. $	Total U.S. $
Assets							
Cash and balances at PMA	212,365,859	1,147,000	–	–	–	–	213,512,859
Balances at banks and financial institutions	115,424,163	–	–	–	–	–	115,424,163
Direct Islamic financing	209,338,555	68,653,076	87,211,655	136,397,033	178,351,541	–	679,951,860
Financial assets at fair value through profit or loss	–	–	–	–	–	1,462,341	1,462,341
Financial assets at fair value through other comprehensive income	–	–	–	–	–	4,423,848	4,423,848
Financial assets at amortized cost	-	99,792	946,350	393,642	12,700,796	–	14,140,580
Investment in associates	–	–	–	–	–	11,450,784	11,450,784
Investment properties	–	–	–	–	–	12,742,899	12,742,899
Property, plant and equipment	–	–	–	–	–	28,827,812	28,827,812
Projects in progress	–	–	–	–	–	1,419,676	1,419,676
Intangible assets	–	–	–	–	–	874,504	874,504
Other assets	14,210,130	1,053,641	986,345	–	2,182,518	–	18,432,634
Total assets	551,338,707	70,953,509	89,144,350	136,790,675	193,234,855	61,201,864	1,102,663,960
Liabilities, Unrestricted Investments Accounts and Equity							
Banks and financial institutions' deposits	58,916,241	–	–	–	-	–	58,916,241
Customers' deposits	223,814,250	–	–	–	-	–	223,814,250
Cash margin	22,154,219	2,121,102	2,518,749	9,487,369	-	–	36,281,439
Sundry provisions	–	–	–	-	8,322,582	–	8,322,582
Tax provisions	–	1,762,414	–	-	-	–	1,762,414
Other liabilities	21,093,889	–	–	-	-	–	21,093,889
Total liabilities	325,978,599	3,883,516	2,518,749	9,487,369	8,322,582	–	350,190,815
Unrestricted investment accounts	582,218,238	18,638,351	26,342,185	17,187,982	-	–	644,386,756
Equity							
Paid-in share capital	–	–	–	–	–	74,000,000	74,000,000
Additional paid- in capital	–	–	–	–	–	3,200,000	3,200,000
Statutory reserve	–	–	–	–	–	7,979,218	7,979,218
General banking risk reserve	–	–	–	–	–	3,165,788	3,165,788
Pro-cyclicality reserve	–	–	–	–	–	11,023,917	11,023,917
Investment properties reserve	–	–	–	–	–	960,751	960,751
Cumulative change in fair value	–	–	–	–	–	(234,153)	(234,153)
Retained earnings	–	–	–	–	–	7,990,868	7,990,868
Net equity	–	–	–	–	–	108,086,389	108,086,389
Total Liabilities, Unrestricted Investment Accounts and Equity	908,196,837	22,521,867	28,860,934	26,675,351	8,322,582	108,086,389	1,102,663,960
Maturity gap	(356,858,130)	48,431,642	60,283,416	110,115,324	184,912,273	(46,884,525)	–
Cumulative maturity gap	(356,858,130)	(308,426,488)	(248,143,072)	(138,027,748)	46,884,525	–	–

In 2018, PMA issued instructions (4/2018) regarding the application of the liquidity coverage ratio, which is considered to be one of the quantitative repair tools prescribed by Basel Committee for Banking Supervision. This percentage should not be less than 100%.

The table below shows the calculation of the liquidity coverage ratio for the year ended December 31, 2019:

Item	Value before applying discount rates/ Cash flows (average)	Value after applying discount rates/ Cash flows (average)
	U.S. $	U.S. $
Total high-quality assets	280,501,299	275,684,382
Retail deposits including deposits of small enterprises:		
A-Stable deposits	486,431,637	24,321,582
B -Less stable deposits	480,068,543	54,199,112
Deposits and unsecured forms of financing for legal persons other than retail customers and small-scale enterprises:		
A-Operating Deposits	55,284,708	13,821,177
B-Non-operating deposits	30,828,131	6,165,626
Deposits and secured financing	1,052,613,019	98,507,497
Credit lines, non-cancellable credit lines and cancellable lines within a 30-day period		
Any other external contractual cash flows	157,494,371	157,494,371
Total cash outflows	1,206,832,193	256,001,868
Secured granting		
Other inflows based on the counterparty	199,834,481	156,859,945
Total cash inflows	199,834,481	156,859,945
Net cash outflow - after adjustments		99,141,923
Total high-quality assets - after adjustments		275,684,382
Net cash outflow - after adjustments		99,141,923
Liquidity Coverage Ratio (%)		%278

The table below shows the calculation of the liquidity coverage ratio for the year ended December 31, 2018:

Item	Value before applying discount rates/ Cash flows (average)	Value after applying discount rates/ Cash flows (average)
	U.S. $	U.S. $
Total high-quality assets	218,935,708	216,224,283
Retail deposits including deposits of small enterprises:		
A-Stable deposits	71,000,398	3,550,020
B -Less stable deposits	741,356,744	148,271,349
Deposits and unsecured forms of financing for legal persons other than retail customers and small-scale enterprises:		
A-Operating Deposits	68,824,161	17,206,040
B-Non-operating deposits	40,215,707	8,043,141
Deposits and secured financing	921,397,010	177,070,550
Credit lines, non-cancellable credit lines and cancellable lines within a 30-day period		
Any other external contractual cash flows	75,717,623	75,717,623
Total cash outflows	997,114,633	252,788,173
Secured granting		
Other inflows based on the counterparty	184,850,302	144,824,979
Total cash inflows	184,850,302	144,824,979
Net cash outflow - after adjustments		107,963,194
Total high-quality assets - after adjustments		216,224,283
Net cash outflow - after adjustments		107,963,194
Liquidity Coverage Ratio (%)		%200

PMA issued instructions number (No. 5/2018) regarding the application of the net stable financing ratio, the following table shows the calculation of the net stable financing ratio for the year ended December 31, 2019:

Item	2019
	U.S. $
Regulatory capital	121,936,930
Retail deposits and small (stable) institutions	462,110,055
Retail deposits and small (less stable) institutions	441,826,336
Secured and unsecured financing (deposits)	16,990,808
Total stable funding available	1,042,864,129
High quality liquid assets of the second level / category (A) not mortgaged	2,370,608
High quality liquid assets of the second level / category (B) not mortgaged	3,636,107
High quality liquid and mortgaged assets	55,399,447
Loans	530,484,284
Unquoted investments other than the mentioned above	12,028,103
All other assets	20,895,317
credit and liquidity financing not subject to cancellation and subject to conditional cancellation	2,971,377
Other potential future financing commitments	3,183,672
All off balance sheet exposures unlisted in the previous categories	3,183,672
Total required stable financing	634,152,587
Net stable financing ratio	%164

Net stable financing ratio for the year ended December 31, 2018:

Item	2018
	U.S. $
Regulatory capital	104,184,636
Retail deposits and small (stable) institutions	399,903,348
Retail deposits and small (less stable) institutions	348,528,254
Secured and unsecured financing (deposits)	43,260,614
Total stable funding available	895,876,852
High quality liquid assets of the second level / category (A) not mortgaged	6,486,692
High quality liquid assets of the second level / category (B) not mortgaged	4,116,232
High quality liquid and mortgaged assets	32,771,254
Loans	433,271,978
Unquoted investments other than the mentioned above	11,694,036
All other assets	20,813,286
credit and liquidity financing not subject to cancellation and subject to conditional cancellation	2,090,717
Other potential future financing commitments	2,278,336
All off balance sheet exposures unlisted in the previous categories	2,278,336
Total required stable financing	515,800,867
Net stable financing ratio	174 %

45. Segment information

a. Information on the Bank's business segments

For management purposes, the Bank is organized into three major business segments:

- **Retail Banking:** Principally handling individual customers' deposits and providing them with Islamic financing and other services.
- **Corporate Banking:** Principally handling Islamic financing, deposits and current accounts for corporate and institutional customers.
- **Treasury:** Principally providing trading and treasury services and the management of the Bank's funds.

The Bank's business segments:

	Retail	Corporate	Treasury	Others	Total 2019	Total 2018
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	44,536,748	16,400,081	4,460,633	429,775	65,827,237	61,651,463
Net ECL re-measurement	(2,768,267)	(1,196,532)	(41,423)	-	(4,006,222)	1,212,057
Segment results	41,768,481	15,203,549	4,419,210	429,775	61,821,015	62,863,520
Unallocated expenses					(46,077,908)	(44,992,262)
Profit before taxes					15,743,107	17,871,258
Taxes expense					(1,219,039)	(2,739,654)
Profit for the year					14,524,068	15,131,604
Other information						
Depreciation and amortization					4,258,188	4,182,299
Capital expenditures					3,471,246	7,474,984
					2019	2018
					U.S. $	U.S. $
Total segment assets	502,690,542	267,794,968	464,248,674	83,679,138	1,318,413,322	1,102,663,960
Total segment liabilities and unrestricted investment accounts	900,947,506	153,746,526	111,741,306	36,112,421	1,202,547,759	994,577,571

b. Geographical distribution information

This disclosure represents the geographical distribution of the Bank's operations. The Bank mainly carries out its activities in Palestine which represents the local operations. In addition, the Bank carries out its activities outside Palestine which represents the foreign operations.

Following is the distribution of the Bank's revenues, assets and capital expenditures according to geographical sector:

	Local		Foreign		Total	
	2019	2018	2019	2018	2019	2018
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total revenues	64,861,177	60,746,685	966,060	904,778	65,827,237	61,651,463
Capital expenditures	3,471,246	7,474,984	-	-	3,471,246	7,474,984

	Local		Foreign		Total	
	2019	2018	2019	2018	2019	2018
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total assets	1,264,921,801	1,056,245,528	53,491,521	46,418,432	1,318,413,322	1,102,663,960

46. Capital management

The primary objective of the Bank's capital management is to ensure that it maintains adequate capital ratios in order to support its business and maximize shareholders value.

The Bank manages its capital structure and adjusts it in light of changes in business conditions. The Bank did not make any adjustments to objectives and policies related to the capital structure during the year, except for raising the paid-in share capital by U.S. $ 3,000,000 through stock divdands .

The capital adequacy ratio is computed in accordance with PMA regulations derived from Basel Committee regulations as follows compared to the previous year:

	2019			2018		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S. $	Percent	Percent	U.S. $	Percent	Percent
Regulatory capital	106,606,033	%8.09	%13.04	93,411,804	%8.47	%12.58
Basic capital	106,019,513	%8.04	%12.97	94,029,499	%8.53	%12.66

47. Development strategy

The Bank's development policy includes the following:

- Providing innovative financial solutions and products that are modern, Sharia-compliant, to meet the needs of all targeted segments.
- Focus on customer service and the allocation of services and products to suit their individual needs.
- Design and update all bank operations in order to raise performance and improve the quality of service.
- Flexibility and efficiency in the introduction of new products and services and increase the efficiency of operations and enhance the access of banking services to customers in a safe and effective way, through digital transformation and the benefit from technological development.

- Utilizing the data available in performance analysis, needs, product development and services.
- Developing the human recourses and provide an appropriate work environment.
- Continue to focus on reducing business risks and compliance with relevant domestic and international regulatory requirements.
- Optimize existing partnerships and build new partnerships.

48. Legal cases against the Bank

The number of litigations filed against the Bank were (69) and (45) in the amount of U.S. $ 15,321,521 and U.S. $ 10,736,768 as at December 31, 2019 and 2018, respectively. The Bank's management and lawyer believe that the provision is sufficient against these litigations.

49. Concentration of risk in geographical area

The Bank carries out its activities in Palestine. The political and economic destabilization in the area increases the risk of carrying out business and could adversely affect performance.

50. Subsequent events

Subsequent to the financial statements date, and as a result of the spread of Corona virus (COVID 19) in various regions of the world, many countries, including Palestine, imposed restrictions on movement, travel and quarantine measures, which affected various economic activities.

On March 15, 2020, PMA issued instructions No. (4/2020) related to the procedures of the PMA to mitigate the effects of the health crisis. These instructions included a set of decisions, most notably instructing banks to defer customer instalments for four months and the tourism sector for six months subject to extension. Moreover, banks are prohibited from fulfilling any additional fees, commissions, or interest on deferred instalments.

This subsequent event is expected to affect the Bank's operating activities, investments, income and results of operations. The bank's management believes that, due to the continued spread of the pandemic, it is still too early at this stage to estimate the quantitative impact of this event on the Bank's financial position.

Additionally, at its meeting held on March 18, 2020, the Board of Directors of the Bank decided to recommend to the General Assembly to increase the Bank's paid in capital by U.S. $ 3 million with a par value of 1 U.S. $ per share.

51. Prior years restatement

The financial statements were adjusted retrospectively due to an error in calculating the provision for expected credit loss on balances at banks and financial institutions.

Following is the effect of the restatement on the financial position as of January 1, 2018:

	Before restatement	Restatement	Restated
	U.S. $	U.S. $	U.S. $
Balances at banks and financial institutions	90,608,200	(1,689,903)	88,918,297
Other assets	13,196,306	(42,274)	13,154,032
Retained earnings	11,428,318	(1,299,132)	10,129,186
Statutory reserve	6,639,276	(173,218)	6,466,058
Pro-cyclicality reserve	9,403,142	(259,827)	9,143,315

Following is the effect of the restatement on the financial position as of December 31, 2018:

	Before restatement	Restatement	Restated
	U.S. $	U.S. $	U.S. $
Balances at banks and financial institutions	117,114,066	(1,689,903)	115,424,163
Other assets	18,474,908	(42,274)	18,432,634
Retained earnings	9,290,000	(1,299,132)	7,990,868
Statutory reserve	8,152,436	(173,218)	7,979,218
Pro-cyclicality reserve	11,283,744	(259,827)	11,023,917

52. Comparative figures

The corresponding figures for the year ended December 31, 2018 have been reclassified in order to conform with the presentation for the current year. Except for the restatements mentioned in note (51), these reclassifications do not affect the net income and equity of the previous years.