PALESTINE ISLAMIC BANK

FINANCIAL STATEMENTS

DECEMBER 31, 2020

Ernst & Young
P.O. Box 1373
7th Floor,
PADICO House Bldg.
Al-Masyoun
Ramallah-Palestine

Tel: +972 22421011
Fax: +972 22422324
www.ey.com

Building a better working world

Independent Auditor's Report
to the shareholders of Palestine Islamic Bank

Opinion

We have audited the financial statements of Palestine Islamic Bank (the Bank), which comprise the statement of financial position as at December 31, 2020, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows, and statement of earnings and disbursements prohibited by Shari'a 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, 2020, 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 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 Code of Ethics for Professional Accountants (including International Independence 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 as at December 31, 2020.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” provision: The process of estimating expected credit losses of customers’ receivables and finances, balances and investment accounts at banks and financial institutions, and financial assets at amortized cost in accordance with the International Financial Reporting Standard No. (9) is important, complex and requires significant judgment. International Financial Reporting Standard No. (9) requires the use of the expected credit losses model. This requires the Bank’s management to use several assumptions and estimates to determine the timing and value of expected credit losses as well as applying judgment to determine the inputs to the impairment measurement process including assessing collaterals and determining the date of default. The Coronavirus pandemic (COVID-19) has impacted the calculation of expected credit loss calculations. During the year, the Bank revised its macroeconomic indicators and gave higher weight to the worst-case scenarios. Due to the importance of the judgements applied in IFRS (9) and credit exposures that form major portion of the Bank’s assets, ECL was considered a significant audit risk. The net balance of credit financing, balances with banks and banking institutions, investments with Islamic banks, and financial assets at amortized cost of the Bank as at December 31, 2020 amounted to U.S. $ 1,081,398,537, which represents 72% of the total assets of the bank. The balance of the expected credit loss provision on these assets was U.S. $24,023,769 as at December 31, 2020. Accounting policies, estimates and significant accounting judgments, disclosure of provision for expected credit losses, and credit risk management are detailed in notes (2, 4, 5, 8, 22, 44 and 50) in the accompanying financial statements.	Our audit procedures included the assessment of the controls over the granting, booking and monitoring processes of receivables and finances, and the process of measuring expected credit losses, including the requirements of Palestine Monetary Authority to validate the operating effectiveness of the main key controls in place, which determine the expected credit losses of customers’ receivables and finances, balances and investment accounts at banks and financial institutions, and financial assets at amortized cost and the required provisions against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented, and operating effectively, as well as procedures for assessing the following: - The Bank's policy regarding the provision for expected credit losses in accordance with the International Financial Reporting Standard No. (9). - Key assumptions and judgments related to the material increase in credit risk, the definition of default, and the use of macroeconomic inputs to verify that the ECL amounts recorded reflect the underlying credit quality and macroeconomic trends, including the impact of the Coronavirus (Covid-19). - The appropriateness of the stages. - Appropriateness of determining exposure at default (EAD), including the consideration of repayments in the cash flows and the resultant arithmetical calculations. - The appropriateness of the probability of default (PD), exposure at default (EAD) and loss giving default (LGD) used for different exposures at different stages. - Appropriateness and objectivity of the internal rating. - Soundness and mathematical integrity of the expected credit losses calculation. - 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. - For exposures determined to be individually impaired, we obtained an understanding of the latest developments in the counterparty’s situation of the latest developments in estimate of future cash flows, current financial position any rescheduling or restructuring agreements. - We assessed collaterals valuation techniques against the Bank’s valuation guidelines. - We also assessed whether the financial statements appropriately reflect the requirements of the International Financial Reporting Standard No. (9).

Other information included in the Bank's 2020 Annual Report

Other information consists of the information included in the Bank's 2020 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2020 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 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, 2020 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
March 9, 2021

PALESTINE ISLAMIC BANK

STATEMENT OF FINANCIAL POSITION
As at December 31, 2020

	Notes	December 31, 2020 U.S. $	December 31, 2019 U.S. $ Restated (note 52)	January 1, 2019 U.S. $ Restated (note 52)
Assets				
Cash and balances at Palestine Monetary Authority	3	340,336,885	272,313,933	213,512,859
Balances at banks and financial institutions	4	178,264,933	167,205,799	115,424,163
Direct Islamic financing	5	885,476,487	770,485,510	679,951,860
Financial assets at fair value through profit or loss	6	1,286,319	1,421,721	1,462,341
Financial assets at fair value through other comprehensive income	7	3,710,705	4,077,419	4,423,848
Financial assets at amortized cost	8	13,946,412	19,658,542	14,140,580
Investment in associates	9	11,669,721	11,635,582	11,450,784
Investment properties	10	8,375,539	8,676,559	8,869,721
Property, plant and equipment	11	27,368,410	28,840,990	28,827,812
Projects in progress	12	2,702,117	3,231,217	1,419,676
Right-of-use assets	13	8,067,525	9,233,781	-
Deferred tax assets	20	5,150,501	4,692,922	
Intangible assets	14	874,374	739,647	874,504
Other assets	15	24,101,388	13,032,461	18,432,634
Total assets		1,511,331,316	1,315,246,083	1,098,790,782
Liabilities, unrestricted investment accounts and equity				
Liabilities				
Banks and financial institutions' deposits	16	190,545,199	111,741,306	58,916,241
Customers' deposits	17	325,999,812	263,137,015	223,814,250
Cash margins	18	71,385,535	55,151,605	36,281,439
Sundry provisions	19	9,217,580	10,232,494	8,322,582
Tax provisions	20	2,043,961	1,609,930	1,762,414
Lease liabilities	21	7,904,982	8,815,947	
Other liabilities	22	13,326,670	15,437,607	20,888,828
Total liabilities		620,423,739	466,125,904	349,985,754
Unrestricted investment accounts	23	767,572,773	736,405,412	644,386,756
Equity				
Paid-in share capital	1	80,000,000	77,000,000	74,000,000
Additional paid-in capital		3,200,000	3,200,000	3,200,000
Statutory reserve	24	10,238,012	9,121,040	7,668,633
General banking risk reserve	24	4,384,678	4,384,678	3,165,788
Pro-cyclicality reserve	24	11,023,917	11,023,917	11,023,917
Investment properties reserve	10	187,345	256,946	398,487
Cumulative change in fair value	7	(753,171)	(273,086)	(234,153)
Retained earnings		15,054,023	8,001,272	5,195,600
Net equity		123,334,804	112,714,767	104,418,272
Total liabilities, unrestricted investment accounts and equity		1,511,331,316	1,315,246,083	1,098,790,782

The accompanying notes from 1 to 53 form part of these financial statements

INCOME STATEMENT
For the year ended December 31, 2020

	Notes	2020 U.S. $	2019 U.S. $
Revenues			
Investment and financing revenues	25	48,989,167	49,918,185
Less: Return on unrestricted investment accounts	26	(6,920,711)	(6,929,453)
Bank's share of income from financing and investments		42,068,456	42,988,732
Net commissions	27	8,907,451	10,242,565
Foreign currency exchange gains		2,676,907	2,941,265
Bank's share of the associates' results of operations	9	147,510	175,762
Income from financial assets at amortized cost	8	838,600	841,493
Cash dividends	28	502,113	502,113
Other revenues	29	1,240,169	429,775
Total revenues		56,381,206	58,121,705
Expenses			
Personnel expenses	30	(18,967,797)	(20,855,139)
Other operating expenses	31	(10,741,133)	(12,926,992)
Expected credit losses allowance, net	32	(5,672,825)	(4,006,222)
Depreciation and amortization	11&13&14	(4,482,863)	(4,258,188)
Sundry provisions	19	(69,902)	(20,949)
Finance costs on lease liabilities	21	(229,416)	(256,384)
Losses on impairment of financial assets at fair value through profit or loss	6	(135,402)	(40,620)
Loss on impairment of investments properties	10	(24,452)	-
Palestine Monetary Authority fines	33	(33,209)	(14,104)
Total expenses		(40,356,999)	(42,378,598)
Profit before taxes		16,024,207	15,743,107
Taxes expense	20	(4,854,484)	(1,219,039)
Profit for the year		11,169,723	14,524,068
Basic and diluted earnings per share	38	0.14	0.18

The accompanying notes from 1 to 53 form part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2020

	Notes	2020	2019
		U.S. $	U.S. $
			Restated (note 52)
Profit for the year		11,169,723	14,524,068
Other comprehensive income:			
Items to be reclassified to income statement in subsequent periods:			
Bank's share of the associates' other comprehensive income	7	(113,371)	448,695
Losses on revaluation of investment properties	10	(94,933)	(193,162)
Deferred taxes	10	25,332	51,621
Change in fair value of financial assets	7	(366,714)	(83,368)
Items that will not be reclassified to income statement in subsequent periods:			
Bank's share of the associates' other comprehensive income	7	-	(161,359)
Total other comprehensive income		(549,686)	62,427
Total comprehensive income for the year		10,620,037	14,586,495

The accompanying notes from 1 to 53 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2020

			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, 2020	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance, as at January 1, 2020 – restated	77,000,000	3,200,000	9,121,040	4,384,678	11,023,917	256,946	(273,086)	8,001,272	112,714,767
Profit for the year	-	-	-	-	-	-	-	11,169,723	11,169,723
Other comprehensive income	-	-	-	-	-	(69,601)	(480,085)	-	(549,686)
Total comprehensive income for the year	-	-	-	-	-	(69,601)	(480,085)	11,169,723	10,620,037
Transfer to reserves	-	-	1,116,972	-	-	-	-	(1,116,972)	-
Stock dividends distributions (note 34)	3,000,000	-	-	-	-	-	-	(3,000,000)	-
Balance, as at December 31, 2020	80,000,000	3,200,000	10,238,012	4,384,678	11,023,917	187,345	(753,171)	15,054,023	123,334,804
December 31, 2019									
Balance, as at January 1, 2019 – before restatement	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
Restatement (note 52)	-	-	(310,585)	-	-	(562,264)	-	(2,795,268)	(3,668,117)
Balance, as at January 1, 2019 - restated	74,000,000	3,200,000	7,668,633	3,165,788	11,023,917	398,487	(234,153)	5,195,600	104,418,272
Profit for the year	-	-	-	-	-	-	-	14,524,068	14,524,068
Other comprehensive income	-	-	-	-	-	(141,541)	236,927	(32,959)	62,427
Total comprehensive income for the year	-	-	-	-	-	(141,541)	236,927	14,491,109	14,586,495
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	9,121,040	4,384,678	11,023,917	256,946	(273,086)	8,001,272	112,714,767

STATEMENT OF CASH FLOWS
For the year ended December 31, 2020

	Notes	2020 U.S. $	2019 U.S. $
Operating activities			
Profit before taxes		16,024,207	15,743,107
Adjustments for:			
Loss on financial assets at fair value through profit or loss		135,402	40,620
Loss on impairment of investments properties		24,452	-
Sundry provisions		2,806,151	2,394,767
Depreciation and amortization		4,482,863	4,258,188
Bank's share of the associates' results of operations		(147,510)	(175,762)
Expected credit losses, net		5,672,825	4,006,222
(Gain) Loss on sale and disposal of Property, plant and equipment		(46,257)	45,057
Loss from disposal of projects in progress		260,181	-
Amortization of net discount and premium for financial assets at amortized cost		4,115	8,693
Gain from sale of investment properties		(3,365)	-
Finance costs on lease liabilities		229,416	256,384
		29,442,480	26,577,276
Changes in assets and liabilities:			
Statutory cash reserve		(34,799,602)	(53,663,594)
Restricted balances with Palestine Monetary Authority		-	1,000,000
Direct Islamic financing		(120,562,347)	(94,451,460)
Other assets		(11,068,927)	4,496,479
Customers' deposits		62,862,797	39,322,765
Cash margins		16,233,930	18,870,166
Other liabilities		(2,089,725)	(5,852,801)
Net cash flows used in operating activities before provisions and taxes		(59,981,394)	(63,701,169)
Taxes paid		(4,878,032)	(6,064,445)
Sundry provisions paid		(3,821,065)	(484,855)
Net cash flows used in operating activities		(68,680,491)	(70,250,469)
Investing activities			
Sales of investment properties		185,000	-
Dividends from Investment in associates		-	278,300
Purchase of property, plant and equipment		(974,066)	(1,629,805)
Purchase of intangible assets		(252,956)	(123,812)
Sale of Property, plant and equipment		112,253	14,430
Projects in progress additions		(270,261)	(2,923,311)
Matured financial assets at amortized cost		5,650,347	1,435,194
Purchase of financial assets at amortized cost		-	(7,052,186)
Sale of financial assets at fair value through other comprehensive income		-	263,061
Net cash flows used in investing activities		4,450,317	(9,738,129)
Financing activities			
Cash dividends distributed		-	(5,883,788)
Lease liabilities paid		(1,418,929)	(1,487,599)
Unrestricted investment accounts		31,167,361	92,018,656
Net cash flows from financing activities		29,748,432	84,647,269
Increase in cash and cash equivalents		(34,481,742)	4,658,671
Cash and cash equivalents, beginning of the year	37	169,582,239	164,923,568
Cash and cash equivalents, end of the year		135,100,497	169,582,239

The accompanying notes from 1 to 53 form part of these financial statements

STATEMENT OF SOURCES AND USES OF EARNINGS PROHIBITED BY SHARIA'
For the year ended December 31, 2020

	Note	2020 U.S. $	2019 U.S. $
Earnings prohibited by Sharia'			
Balance, beginning of the year		18,086	14,382
Excess in cash		8,246	11,486
Profit from direct Islamic financing		5,053	12,600
Total earnings prohibited by Sharia' at the end of year		31,385	38,468
Disbursements of earnings prohibited by Sharia'			
Donations		(18,086)	(20,382)
Foreign currency exchange		(906)	-
Total disbursements of earnings prohibited by Sharia'		(18,992)	(20,382)
Balance of earnings prohibited by Sharia' at the end of year	22	12,393	18,086

The accompanying notes from 1 to 53 form part of these financial statements

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 three 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 in 2019 its Paid-in share capital increased by U.S. $ 77,000,000. During 2020, it was raised again by U.S. $ 80,000,000.

The total number of the Bank's staff is (668) and (664) as at December 31, 2020 and December 31, 2019, respectively.

The financial statements were authorized for issuance by the Bank's Board of Directors on March 3, 2021.

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, 2020

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.

The bank implement FAS (33) "Investment in sukuk, shares and similar instruments" and did not have an impact on the financial statements.

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.

The bank implement FAS (34) "Financial Reporting for Sukuk -holders" and did not have an impact on the financial statements.

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.

The amendments have been applied to transactions that are either business merger or acquisition of assets; whose acquisition date is on or after the beginning of the first annual reporting period that began on or after January 1, 2020. Thus, the bank has not had to reconsider these transactions that occurred on earlier periods. Early application is permitted and must be disclosed.

These amendments had no impact on the financial statements

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

The IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

These amendments had no impact on the financial statements.

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.

These amendments had no impact on the financial statements.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. This relates to any reduction in lease payments which are originally due on or before 30 June 2021. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification.

These amendments had no impact on the 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:

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

International Financial Reporting Standard No. (9) of 2014 was applied on the date of the compulsory application of the standard on January 1, 2018 and until the issuance of instructions for Islamic banks in accordance with the requirements of the Islamic Financial Accounting Standard, where the bank applied the requirements of the expected credit loss model under PMA circular number (2/2018) on April 1, 2018.

This standard specifies the accounting principles and disclosure requirements for declining financial assets and expected credit losses on various credit exposures, investments, and other assets of Islamic financial institutions and their related provisions in line with best practices followed internationally.

This standard also resulted in recommendations regarding changes and improvements in reserve accounting represented in risk reserves in accordance with Financial Accounting Standard No. 35, which must be approved simultaneously with the same effective date for FAS (30). Both standards are Financial Accounting Standard No. (30) Financial Accounting Standard No. (35) replaces the previous Financial Accounting Standard No. (11) related to “provisions and reserves.”

The standard is effective for annual periods beginning on or after January 1, 2021, and early adoption is permitted.

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.

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

B- wakala venture.

A 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 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.

This standard shall be effective beginning or after 1 January 2021, with early adoption permitted.

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 2023 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.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- what is meant by a right to defer settlement,
- the right to defer must exist at the end of the reporting period,
- that classification is unaffected by the likelihood,
- that an entity will exercise its deferral right,
- and that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have a material impact on the Bank.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Bank.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.
The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities.

General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The amendments are not expected to have a material impact on the Bank.

IFRS 9 Financial Instruments – Fees in the ’10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Bank.

IBOR reform Phase 2

IBOR reform Phase 2, which will be effective on 1 January 2021, includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of profit rate benchmark reform are required as a practical expedient to be treated as changes to a floating profit rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing profit rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an profit rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the profit rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price islamic financing and derivatives. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months.

For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon 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, (and therefore, the amortized cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the effective profit rate method. The Bank recognizes financing revenues using a rate of return that represents the best estimate of a constant rate of return over the expected life of the Islamic financing. Hence, it recognizes the effect of potentially different profit rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty profit and charges).

<u>Financial assets and liabilities</u>

<u>Fees and commission income</u>

Fees income can be divided into the following two categories:

1. Fees income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and private wealth and asset management fees, custody and other management fees.

2. Fee income forming an integral part of the corresponding financial instrument

Fees that the Bank considers to be an integral part of the corresponding financial instruments include:

Loan origination fees, loan commitment fees for islamic financing that are likely to be drawn down and other credit related fees.

Financial Instruments – Initial Recognition

Date of recognition
Financial assets and liabilities, with the exception of Islamic financing balances due to customers, are initially recognized on the trade date, i.e., the date that the bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Islamic financing is recognized when funds are transferred to the customers' accounts. The bank recognizes balances due to customers when funds are transferred to the bank.
Commission is recorded as revenue when the related services are provided, moreover dividends are recorded when realized (decided upon by the General Assembly of Shareholders).

Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the bank accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the bank recognizes the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

Measurement categories of financial assets and liabilities
The bank classifies its financial assets (Debt Instruments) based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The bank classifies and measures its derivative and trading portfolio at FVTPL. The bank may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

Financial Assets and Liabilities
The bank only measures due from banks, Islamic financing and other financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

The bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the bank's assessment

The Business model assessment depends on reasonably expected scenarios without taking into consideration the "worse case" or "stress test" scenarios.

If cash flows after initial recognition are realized in a way that is different from the bank's original expectations, the bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Derivatives recorded at FVTPL

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified profit rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The bank enters into derivative transactions with various counterparties. These include profit rate swaps, futures and cross-currency swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied.

Debt instruments at FVOCI

The bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Profit income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost.

Where the bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to the consolidated income statement.

Equity instruments at FVOCI

Upon initial recognition, the bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to the consolidated income statement. Dividends are recognized in consolidated statement of income as other operating income when the right of the payment has been established, except when the bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Financial assets and financial liabilities at FVTPL

Financial assets and financial liabilities at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Profit earned or incurred on instruments designated at FVTPL is accrued in profit income or profit expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Profit earnt on assets mandatorily required to be measured at FVTPL is recorded using contractual profit rate. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

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, 2019, 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 islamic financing 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.

The calculation of ECLs

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% and the PD is larger than stage 1 and 2.
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.

Repossessed collaterals

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value of the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date, in line with the Bank's policy.

In its normal course of business, the Bank engages external agents to recover funds from repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customer/ obligators. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

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.

Islamic financing

Islamic financing is carried at cost net of allowance for impairment losses and profit in suspense.

Profit and commission on non-performing Islamic financing are suspended according to PMA instructions.

Islamic financing and related impairment provision are written off when collection procedures become ineffective, according to PMA regulations. The excess in the provision for impairment losses, if any, is transferred to the income statement. Collections of previously written off facilities are recognized as revenues.

In accordance with PMA regulations, Islamic financing that are in default for more than 6 years together with related profit in suspense and impairment provisions are excluded from the financial statements.

The continuous evaluation of a significant increase in the credit risk of renewed Islamic financing is like the evaluation applied to other financing. The profit rate used to discount the expected credit losses for the credit cards is the effective return rate.

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 %	
	2020	2019	2020	2019	2020	2019
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 profit). 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 profit) 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.

Tawaroq

Tawarooq is the purchase of a commodity at a deferred bargaining or murabaha price and then selling it to a non-seller to obtain cash at a fair price, and this product (which has been approved by PMA and its Shari’a Supervisory Board temporarily for a specific period related to the Corona pandemic) allows the Bank's customers to obtain cash to cover their needs and obligations in accordance with the provisions and controls of Sharia standards.

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 profit 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 profit.

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 profit 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.

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.

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 current law obliges the employer to settle the end of service benefits for the periods preceding the application of the provisions of the Law.

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 profit 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 profit 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.

Assets under management on behalf of customers

These represent the accounts managed by the bank on behalf of its customers, but do not represent part of the bank's assets. The fees and commissions on managing these accounts are taken to the consolidated statement of income. Moreover, a provision is taken for the decline in the value of capital-guaranteed portfolios managed on behalf of its customers.

Capital cost

Cost arising from the issuance or purchase of the bank's shares are charged to retained earnings (net of the tax effect of these costs if any). If the shares issuance or purchase process is incomplete these costs are recorded as expenses in the consolidated statement of income.

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:

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.

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.

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.

IFRS 9 implementation Governance

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:

	2020	2019
	U.S. $	U.S. $
Cash on hand	139,963,837	112,382,236
Balances at PMA:		
Deposits maturing within 3 months or less	5,641,749	-
Statutory cash reserve	194,584,299	159,784,697
Restricted balances	147,000	147,000
	340,336,885	272,313,933

- 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 on current and demand accounts.
- Restricted balances as at December 31, 2020 and 2019 amounted to U.S. $ 147,000, respectively.

4. Balances at banks and financial institutions

This item comprises the following:

	2020	2019
	U.S. $	U.S. $
Local banks and financial institutions:		
Current and demand accounts	147,582,627	118,116,526
Deposits maturing within 3 months or less	-	16,500,000
	147,582,627	134,616,526
Foreign banks and financial institutions:		
Current and demand accounts	8,952,432	12,982,906
Deposits maturing within 3 months or less	23,505,051	21,341,877
	32,457,483	34,324,783
	180,040,110	168,941,309
ECL allowance	(1,775,177)	(1,735,510)
	178,264,933	167,205,799

– Non-profit bearing balances at banks and financial institutions amounted to U.S. $ 156,535,059 and U.S. $ 131,099,432 as at December 31, 2020 and 2019, respectively.

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

	2020			
	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2020	167,251,406	-	1,689,903	168,941,309
Net change during the year	11,098,801	-	-	11,098,801
Balance, end of the year	178,350,207	-	1,689,903	180,040,110

	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	51,732,722	-	-	51,732,722
Balance, end of the year	167,251,406	-	1,689,903	168,941,309

Following is the movement of balances at banks and financial institutions ECL allowance as at December 31, 2020 and December 31, 2019:

	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2020	45,607	-	1,689,903	1,735,510
ECL allowance	39,667	-	-	39,667
Balance as of December 31, 2020	85,274	-	1,689,903	1,775,177

	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2019	94,521	-	1,689,903	1,784,424
ECL allowance	(48,914)	-	-	(48,914)
Balance as of December 31, 2019	45,607	-	1,689,903	1,735,510

5. Direct Islamic financing

This item represents the following:

	2020	2019
	U.S. $	U.S. $
Murabaha receivables	750,890,313	696,651,071
Tawaroq*	43,068,370	-
Istisna'a financing	34,013,665	26,749,823
Musawama financing	23,853,907	24,309,456
Islamic credit cards	20,628,618	23,175,479
Current overdraft accounts	6,699,334	5,962,583
Mudarabah financing	8,000,000	8,000,000
Ijara muntahia bittamleek	8,089,099	4,721,772
Qard Hasan	14,066,352	1,644,992
	909,309,658	791,215,176
Suspended profits	(1,916,846)	(4,076,407)
ECL allowance	(21,916,325)	(16,653,259)
	885,476,487	770,485,510

* This item represents the financing for the purchase of a commodity at a deferred bargaining or murabaha price, then selling it to a non-seller to obtain cash at a fair price. This product allows the bank's customers to obtain cash to cover their needs and obligations in accordance with the provisions and controls of Sharia standards.

- Islamic financing net of unearned profits amounted to U.S. $ 91,188,612 and U.S. $ 101,484,753 as at December 31, 2020 and 2019, respectively.
- Downgraded Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 56,784,743 and representing (6.26%) and U.S. $ 152,813,865 representing (19.41%) of gross Islamic financing as at December 31, 2020 and 2019, respectively.
- Defaulted Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 33,180,542 representing (3.66%) of gross Islamic financing and U.S. $ 33,683,457 representing (4.28%) of gross Islamic financing as at December 31, 2020 and 2019, respectively.
- Direct Islamic financing granted to Palestine National Authority and by its guarantee amounted to U.S. $ 132,458,148 representing (14.57%) of gross Islamic financing and U.S. $ 50,895,568 representing (6.43%) of gross Islamic financing as at December 31, 2020 and 2019, respectively.
- Fair value of customers' collaterals against direct Islamic financing according to PMA regulations amounted to U.S. $ 465,976,243 and U.S. $ 465,815,776 as at December 31, 2020 and 2019, 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. $ 2,435,301 and U.S. $ 2,355,841 as at December 31, 2020 and December 31, 2019, respectively. The balance of provision and suspended profits for defaulted accounts amounted to U.S. $ 13,454,829 and U.S. $ 11,227,069 as at December 31, 2020 and December 31, 2019, respectively.

The movement on the direct Islamic financing is as follows:

2020	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	586,065,743	169,178,559	35,970,874	791,215,176
Transferred to stage 1	55,169,562	(53,771,167)	(1,398,395)	-
Transferred to stage 2	(41,496,852)	48,499,115	(7,002,263)	-
Transferred to stage 3	(6,861,904)	(7,786,756)	14,648,660	-
Net change during the year	155,900,000	(30,500,475)	(6,961,900)	118,437,625
Written off	-	-	(343,143)	(343,143)
	748,776,549	125,619,276	34,913,833	909,309,658

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)	(4,792,721)	97,381,498
Written off	-	-	(333,855)	(333,855)
	586,065,743	169,178,559	35,970,874	791,215,176

Following is the movement of direct Islamic financing ECL provision:

2020	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	3,168,840	4,544,767	8,939,652	16,653,259
Transferred to stage 1	850,931	(724,941)	(125,990)	-
Transferred to stage 2	(176,719)	1,594,953	(1,418,234)	-
Transferred to stage 3	(3,705)	(103,521)	107,226	-
Net re-measurement of ECL provision during the year	773,661	72,298	4,725,411	5,571,370
Defaulted direct Islamic financing for more than 6 years	-	-	(308,304)	(308,304)
Balance, end of the year	4,613,008	5,383,556	11,919,761	21,916,325

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
Defaulted direct Islamic financing 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

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

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	2,355,841	2,090,027
Additions	377,982	352,817
Written off	(298,522)	(87,003)
Balance, end of the year	2,435,301	2,355,841

The movement on the suspended profits is as follows:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	4,076,407	1,180,580
Suspended profits during the year	486,258	3,199,544
Suspended profits recovered	(1,026,858)	(284,755)
Transferred to unearned revenues	(1,584,122)	-
Suspended profits written off for Islamic financing in default for more than 6 years	(34,839)	(18,962)
Balance, end of the year	1,916,846	4,076,407

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

	2020	2019
	U.S. $	U.S. $
Public		
Palestine National Authority	132,458,148	50,895,568
Manufacturing and Agricultural		
Manufacturing	3,410,275	6,436,111
Agricultural	5,768,170	23,180,125
	9,178,445	29,616,236
Services	1,885,096	2,316,628
Trade		
Internal trade	221,432,168	148,779,141
External trade	16,506,636	62,690,515
	237,938,804	211,469,656
Real Estate and Construction		
Constructions	95,287,401	113,312,511
Permanent residence and houses improvement	23,488,402	33,180,246
	118,775,803	146,492,757
Lands	150,593,982	108,537,953
Consumers' Financing		
Cars	148,839,885	138,282,758
Consumable goods	41,205,394	41,201,398
	190,045,279	179,484,156
Others	66,517,255	58,325,815
	907,392,812	787,138,769

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. $ 1,286,319 as at December 31, 2020 compared to U.S. $ 1,421,721 as at December 31, 2019, during the year, valuation losses were recorded in the income statement amounted to U.S. $ 135,402.

7. Financial assets at fair value through other comprehensive income

This item represents the following:

	2020	2019
	U.S. $	U.S. $
Quoted shares	3,483,780	3,850,494
Unquoted shares*	226,925	226,925
	3,710,705	4,077,419

* Unquoted shares are stated at cost due to the inability to determine their fair value. In the management opinion, the fair value of unquoted shares is not materially different from their apparent value in the financial statements.

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

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	(273,086)	(234,153)
Change in fair value of financial assets	(366,714)	(83,368)
The Bank's share of the associate's other comprehensive items	(113,371)	287,336
Loss on sale of financial assets at fair value through other comprehensive income recognized in retained earnings	-	32,959
Transfers from associates	-	(275,860)
Balance, end of the year	(753,171)	(273,086)

8. Financial assets at amortized cost

	2020	2019
	U.S. $	U.S. $
Financial securities quoted at foreign financial markets	2,916,337	3,749,925
Unquoted foreign financial securities	11,283,498	16,104,372
	14,199,835	19,854,297
ECL allowance	(253,423)	(195,755)
	13,946,412	19,658,542

Total gain recorded in the income statement on this investment for the year ended December 31, 2020 and 2019 is U.S. $ 838,600 and U.S. $ 841,493, respectively.

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

2020	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at beginning of the year	14,104,372	5,749,925	-	19,854,297
Net change during the year	(3,650,347)	(2,004,115)	-	(5,654,462)
Transferred to stage 2	1,490,463	(1,490,463)	-	-
	11,944,488	2,255,347	-	14,199,835

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

Following is the movement of provision for financial assets at amortized cost as of December 31, 2020 and 2019:

2020	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at January 1, 2020	194,639	1,116	-	195,755
Transferred to stage 2	169	(169)	-	-
Net re-measurement of ECL provision	2,345	55,323	-	57,668
Balance, as at December 31, 2020	197,153	56,270	-	253,423

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, 2020	194,639	1,116	-	195,755

9. Investment in associates

The following table shows the Bank's investment in associates as at December 31, 2020 and December 31, 2019:

	Country of Incorporation	Ownership %	2020 U.S. $	2019 U.S. $
Al-Takaful Palestinian Insurance Company*	Palestine	28 %	8,136,515	8,041,161
Palestine Ijara Company**	Palestine	33 %	3,533,206	3,594,421
			11,669,721	11,635,582

* 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, 2020, 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, 2020, 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:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	11,635,582	11,450,784
Bank's share of the associate's results of operations	147,510	175,762
Bank's share of the associate's other comprehensive income	(113,371)	287,336
Cash dividends	-	(278,300)
Balance, end of the year	11,669,721	11,635,582

The following table summarizes the financial information related to the Bank's investment in its associates as at December 31, 2020 and December 31 , 2019 :

	Al-Takaful		PIC	
	2020	2019	2020	2019
The financial position of associates:	U.S. $	U.S. $	U.S. $	U.S. $
Total assets	80,722,784	70,862,330	24,964,249	26,687,572
Total liabilities	59,837,636	52,514,209	14,364,626	15,904,307
Total equity	20,885,148	18,348,121	10,599,623	10,783,265
Book value before adjustments	5,812,337	5,106,282	3,533,206	3,594,421
Adjustments	2,324,178	2,934,879	-	-
Book value after adjustments	8,136,515	8,041,161	3,533,206	3,594,421
Revenues and results of operations:				
Net revenues	8,933,460	11,169,528	2,436,310	1,953,508
Operational, administrative and general expenses	(6,822,128)	(6,868,063)	(1,737,966)	(1,138,834)
Depreciation and amortization	(882,900)	(693,990)	(76,183)	(33,779)
Finance costs	(38,193)	(57,600)	(537,323)	(397,649)
Other revenues	1,863,442	(426,202)	(97,265)	142,624
Income before tax	3,053,681	3,123,673	(12,427)	525,870
Tax expense	(835,155)	(1,346,924)	(200,215)	(116,405)
Net income for year after tax	2,218,526	1,776,749	(212,642)	409,465
Adjustments	(1,468,530)	(1,342,804)	29,001	(244,480)
Net income for year after tax-after adjustments	749,996	433,945	(183,641)	164,985
Bank's share from the year results	208,724	120,767	(61,214)	54,995
Bank's share from other comprehensive income	(113,371)	287,336	-	-

10. Investment properties

Following is the movement on Investment properties:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	8,676,559	8,869,721
Investment properties sold	(181,635)	-
Loss on impairment of investments	(24,452)	-
Change in fair value during the year through other comprehensive income	(94,933)	(193,162)
Balance, end of the year	8,375,539	8,676,559

Following is the movement on investment properties reserve:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	256,946	398,487
Unrealized gains on revaluation	(94,933)	(193,162)
Deferred tax liabilities	25,332	51,621
Balance, end of year	187,345	256,946

11. Property, plant and equipment

	Real estate	Furniture, equipment and leasehold improvements	Motor vehicles	Computers	Total
December 31, 2020	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:					
Balance, beginning of the year	15,906,850	22,013,297	354,199	4,671,030	42,945,376
Additions	5,922	646,913	-	321,231	974,066
Transferred from projects in progress (note 12)	-	-	-	336,680	336,680
Disposals	-	-	(263,306)	(1,949)	(265,255)
Balance, end of the year	15,912,772	22,660,210	90,893	5,326,992	43,990,867
Accumulated depreciation:					
Balance, beginning of the year	2,948,957	7,499,484	219,556	3,436,389	14,104,386
Depreciation for the year	437,848	1,818,081	22,595	438,806	2,717,330
Disposals	-	-	(198,285)	(974)	(199,259)
Balance, end of the year	3,386,805	9,317,565	43,866	3,874,221	16,622,457
Net book value as at December 31, 2020	12,525,967	13,342,645	47,027	1,452,771	27,368,410
Net book value as at December 31, 2019	12,957,893	14,513,813	134,643	1,234,641	28,840,990

12. Projects in progress

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	3,231,217	1,419,676
Additions during the year*	270,261	2,923,311
Transferred to property, plant and equipment (note 11)	(336,680)	(1,060,046)
Transferred to intangible assets (note 14)	(202,500)	(51,724)
Disposals	(260,181)	-
Balance, end of the year	2,702,117	3,231,217

* Additions to projects in progress represents payments done for implementing a new banking system and for the renovation of branches. The system and the branches are still under the preparation phase. The expected cost of completing the projects in progress as of December 31, 2020 is estimated to U.S. $ 2,446,216 and it is expected to be completed in 2021.

13. Right-of-use assets

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

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	9,233,781	10,327,864
Additions	278,548	236,526
Depreciation for the year	(1,444,804)	(1,330,609)
Balance, end of the year	8,067,525	9,233,781

14. Intangible assets

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

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	739,647	874,504
Additions	252,956	123,812
Transferred from projects in progress (note 12)	202,500	51,724
Amortization	(320,729)	(310,393)
Balance, end of the year	874,374	739,647

15. Other assets

This item represents the following:

	2020	2019
	U.S. $	U.S. $
Clearing checks	17,170,121	5,403,196
Receivables, advances and temporary accounts	2,815,964	4,084,739
Accrued revenues	1,179,708	1,077,999
Prepaid expenses	708,634	606,860
Stationery and printings	405,107	453,744
Others	1,821,854	1,405,923
	24,101,388	13,032,461

16. Banks and financial institutions' deposits

	2020	2019
	U.S. $	U.S. $
Banks and financial institutions inside Palestine:		
Deposits maturing within 3 months	165,545,199	111,741,306
Deposits maturing within more than 3 months*	25,000,000	-
	190,545,199	111,741,306

* This item represents incentive deposits from PMA with the aim of mitigating the economic impacts of the Coronavirus crisis (COVID-19) on the bank's activities and subsequent losses as a result of delaying customers' installments during the year 2020.

17. Customers' deposits

	2020	2019
	U.S. $	U.S. $
Current and demand account	325,999,812	263,137,015

- Total deposits comprise customers’ deposits (note 17), cash margins (note 18) and unrestricted investment accounts (note 23), amounting to U.S. $ 1,164,958,120 and U.S. $ 1,054,694,032 as at December 31, 2020 and 2019, respectively.
- Governmental deposits amounted to U.S. $ 16,137,788 and U.S. $ 19,470,024 representing %1.39 and %1.85 of the total deposits as at December 31, 2020 and 2019, respectively.
- Quasi-governmental deposits amounted to U.S. $ 226,378 and U.S. $ 4,418,190 representing %0.02 and %0.42 of the total deposits as at December 31, 2020 and 2019, respectively.
- Dormant deposits amounted to U.S. $ 24,207,551 and U.S. $ 23,435,728 representing %2.08 and %2.22 of the total deposits as at December 31, 2020 and 2019, respectively.
- Non-profit bearing deposits amounted to U.S. $ 361,854,577 and U.S. $ 295,540,552 representing %31.06 and %28.02 of the total deposits as at December 31, 2020 and December 31, 2019, respectively.

18. Cash margins

This item represents cash margins against the following:

	2020	2019
	U.S. $	U.S. $
Direct Islamic financing*	49,511,448	35,316,360
Indirect Islamic financing	9,099,307	8,988,759
Others	12,774,780	10,846,486
	71,385,535	55,151,605

* Cash margins on direct Islamic financing include cash margins participating in profits amounting to U.S. $ 35,530,770 and U.S. $ 22,748,068 as at December 31, 2020 and December 31, 2019, respectively.

19. Sundry provisions

This item represents the following provisions:

	Balance, beginning of the year	Additions for the year	Payments during the year	Balance, end of the year
	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2020				
Provision for employees’ indemnity	9,584,530	2,736,249	(3,797,100)	8,523,679
Provision for legal cases	647,964	69,902	(23,965)	693,901
	10,232,494	2,806,151	(3,821,065)	9,217,580
December 31, 2019				
Provision for employees’ indemnity	7,648,849	2,373,818	(438,137)	9,584,530
Provision for legal cases	673,733	20,949	(46,718)	647,964
	8,322,582	2,394,767	(484,855)	10,232,494

20. Tax provisions

The movement on tax provisions during the years ended December 31, 2020 and 2019 was as follows:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	1,609,930	1,762,414
Provision for the year	5,312,063	5,911,961
Payments	(4,878,032)	(6,064,445)
Balance, end of the year	2,043,961	1,609,930

Tax expense as disclosed in the Income Statement

	2020	2019
	U.S. $	U.S. $
Provison for the year	5,312,063	5,911,961
Deferred tax assets*	(457,579)	(4,692,922)
	4,854,484	1,219,039

* 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 reconciliation between accounting income and taxable income is as follows:

	2020	2019
	U.S. $	U.S. $
Bank's accounting profit before taxes	16,024,207	15,743,107
Profit subject to Value Added Tax (VAT)	18,838,275	19,113,830
VAT on income	(2,598,383)	(2,636,390)
Profit subject to income tax	9,076,357	10,319,389
Income tax	1,811,454	1,547,908
Total taxes (VAT and income tax)	4,409,836	4,184,298
Provision for the year	5,149,794	5,911,961
Effective tax rate	%32.14	%37.55

The bank reached a final settlement with the tax department as at 2018. The bank has not reached final clearances with the income tax and value added tax departments on the results of the year ended 2019. The bank has submitted the tax return for the year 2019, and the tax advisor continues the procedure of the final clearances.

The income tax rates and value added tax rates were %15 and %16, respectively as at December 31, 2020. 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:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	8,815,947	9,810,636
Additions	278,548	236,526
Payments	(1,418,929)	(1,487,599)
Finance costs on lease liabilities	229,416	256,384
Balance, end of the year	7,904,982	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 5% discount rate as at January 1, 2020.

	2020	2019
	U.S. $	U.S. $
Short-term liabilities	1,447,975	1,406,682
Long-term liabilities	6,457,007	7,409,265
	7,904,982	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. $ 72,488 and U.S. $ 10,000, respectively for the year ended December 31, 2020.

22. Other liabilities

This item represents the following:

	2020	2019
	U.S. $	U.S. $
Bank's transfers and certified checks	4,345,143	4,960,964
Accrued expenses	1,811,314	1,667,010
Accrued cash dividends	1,186,393	1,375,735
Temporary accounts and intermediary accounts	1,138,233	2,160,516
Return on unrestricted investment accounts	1,103,792	963,236
Board of Directors' bonuses	307,175	378,049
Provision for employees' incentives	600,000	696,117
Vacations provision	331,793	793,803
Social responsibility provision	101,804	457,417
Palestinian Deposit Insurance Corporation insurance provision	278,929	748,018
Deferred tax liabilities*	68,378	93,710
Provision for indirect Islamic financing ECL**	78,844	74,724
Earnings prohibited by Sharia'	12,393	18,086
Palestine Monetary Authority Fund–Estidama program	475,400	-
Other credit balances	1,487,079	1,050,222
	13,326,670	15,437,607

*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:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	93,710	145,331
Additions	-	24,543
Deductions	(25,332)	(76,164)
Balance, end of the year	68,378	93,710

**Following the movement on the indirect Islamic financing ECL provision:

2020	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
As at January 1, 2020	74,724	-	-	74,724
Transferred to stage 1	2,459	(2,459)	-	-
Transferred to stage 2	(2,602)	2,602	-	-
Net re-measurement of ECL provision	1,994	2,126	-	4,120
As at December 31, 2020	76,575	2,269	-	78,844

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

23. Unrestricted investment accounts

This item represents the following:

	2020	2019
	U.S. $	U.S. $
Saving deposits	548,342,041	507,622,850
Time deposits	219,230,732	228,782,562
	767,572,773	736,405,412

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. $ 1,140,917 as at December 31, 2020. The reserve is not to be utilized or reduced without PMA's prior approval. 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 (2/2018).

Pro-cyclicality reserve

This reserve represents 15% of net profit in accordance with PMA instruction (6/2015) to support the Bank's capital against banking risks. Transfers to this reserve shall not cease until the total balance of this reserve reaches 20% of the Bank's share capital. During 2019, PMA issued instructions number (13/2019) 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 2020 and 2019 was determined to be %0.66 of risk weighted assets. The Bank did not deduct the Pro-cyclicality reserve this year since the reserve is sufficient as for PMA regulations.

25. Investment and financing revenues

This item represents revenues from the following:

	2020	2019
	U.S. $	U.S. $
Murabaha financing	44,002,924	43,809,988
Mudaraba financing	-	1,762,417
Istisna'a financing	2,051,505	1,640,798
Musawama financing	1,496,525	1,410,225
Investment in Islamic institutions	696,651	1,041,217
Ijara muntahia bittamleek	272,044	253,540
Tawaroq financing	469,518	-
	48,989,167	49,918,185

26. Return on unrestricted investment accounts

This item represents revenues as following:

	2020	2019
	U.S. $	U.S. $
Time deposits	5,768,009	5,696,831
Saving deposits	1,046,732	1,153,903
Profits sharing cash margins	105,970	78,719
	6,920,711	6,929,453

27. Net Commissions

This item represents the following:

	2020	2019
	U.S. $	U.S. $
Commissions received on:		
Issuing cards	3,311,911	3,773,391
Accounts' management	3,109,657	2,905,309
Returned and post-dated checks	1,732,653	1,886,070
Indirect financing	904,283	946,041
Other banking services	734,176	884,255
Cash deposits	485,211	426,879
Transfers	187,622	196,699
	10,465,513	11,018,644
Commissions paid	(1,558,062)	(776,079)
	8,907,451	10,242,565

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:

	2020	2019
	U.S. $	U.S. $
Financial assets at fair value through profit or loss	135,399	135,399
Financial assets at fair value through other comprehensive items	366,714	366,714
	502,113	502,113

29. Other revenues

This item represents revenues from the following:

	2020	2019
	U.S. $	U.S. $
Recovery of suspended profits	1,026,858	284,755
Others	118,672	47,906
Safety deposit box rental income	94,639	97,114
	1,240,169	429,775

30. Personnel expenses

This item represents the following:

	2020	2019
	U.S. $	U.S. $
Salaries and related benefits	12,783,528	13,524,869
Provision for employees' indemnity	2,736,249	2,373,818
VAT on salaries	1,890,315	2,240,256
Medical insurance	804,714	791,173
Bank's contribution to the provident fund*	600,227	809,116
Clothing allowances	211,793	225,816
Travel and accommodation	145,676	194,053
Car Rentals	72,488	117,388
Training expenses	30,293	122,489
Leave allowance (recovery)	(417,787)	383,428
Others	110,301	72,733
	18,967,797	20,855,139

* 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 customers deposits.

31. Other operating expenses

This item represents the following:

	2020	2019
	U.S. $	U.S. $
Maintenance and cleaning	1,930,416	1,555,232
Fees, license and subscriptions	1,879,194	1,683,505
Subscription fees for Palestine Insurance Deposit Corporation*	1,815,198	2,832,222
Telephone, fax and postage	1,265,514	1,249,794
Social responsibility**	512,470	737,324
Professional and consultancy fees	663,171	538,089
Utilities	593,786	626,284
Board of Directors' bonuses and expenses	320,175	534,107
Advertisements and marketing	508,165	752,040
Guarding	403,742	374,624
Stationery and printings	351,921	426,447
Insurance	210,339	221,458
Hospitality	74,500	89,079
Rents	10,000	10,498
Disposal of property, plant and equipment	1,363	-
Cash and in-kind awards	-	970,100
Sundry expenses	201,179	326,189
	10,741,133	12,926,992

* 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%. On October 27, 2020 the Palestinian Deposit Insurance Corporation issued circular no. (02/2020) regarding reducing the minimum subscription fees to be (%0.1 - %0.8), in which as of October 1, 2020, the subscription fees will be 0.1% of average total deposits instead of 0.2%.

** The Bank provides donations in areas of social, religious and others as part of social responsibility policy. The percentage of donations reached %4.59 and %5.08 of net income as at December 31, 2020 and 2019, respectively.

32. Expected credit losses allowance, net

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

2020	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances at Banks and financial institutions	39,667	-	-	39,667
Direct Islamic financing*	773,661	72,298	4,725,411	5,571,370
Financial assets at amortized cost	2,345	55,323	-	57,668
Indirect Islamic financing	1,994	2,126	-	4,120
As at December 31, 2020	817,667	129,747	4,725,411	5,672,825

* Recovery during the year amounted to U.S. $ 2,983,550.

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

* Recovery for the year amounted to U.S. $ 1,482,479.

33. Palestine Monetary Authority fines

This item represents fines imposed by PMA on the Bank due to noncompliance with some of PMA instructions.

34. Cash and stocks dividends

At its meeting held on March 18, 2020, the Bank's General Assembly approved the distribution of stock dividends at a rate of 3.896% of the share par value for a total amount of U.S. $ 3,000,000 for the Bank's 2019 business results.

At its meeting held on April 17, 2019, 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.$ 6,290,000. At the same meeting, it also 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.

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 2020 and 2019 amounted to 0.0557 and 0.0497, respectively.

36. Commitments and contingencies

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

	2020	2019
	U.S. $	U.S. $
Unutilized limits of Islamic financing	36,268,760	59,619,694
Letters of guarantee	61,982,235	61,141,358
Letters of credits	1,142,962	2,532,080
	99,393,957	123,293,132

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:

	2020	2019
	U.S. $	U.S. $
Cash and balances at PMA	340,336,885	272,313,933
Balances at banks and financial institutions	180,040,110	168,941,309
Less: statutory cash reserve and restricted balances at PMA	(194,584,299)	(159,784,697)
Banks and financial institutions' deposits maturing within three months	(190,545,199)	(111,741,306)
Restricted balances at PMA	(147,000)	(147,000)
	135,100,497	169,582,239

38. Basic and diluted earnings per share

This item represents the following:

	2020	2019
	U.S. $	
Profit for the year	11,169,723	14,524,068
	Shares	
Weighted average number of subscribed shares	80,000,000	80,000,000
	U.S. $	
Basic and diluted earnings per share	0.14	0.18

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

This item represents the following:

	2020			2019		
	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	340,336,885	-	340,336,885	272,313,933	-	272,313,933
Balances at banks and financial institutions	178,264,933	-	178,264,933	167,205,799	-	167,205,799
Direct Islamic financing	885,476,487	-	885,476,487	770,485,510	-	770,485,510
Financial assets at fair value through profit and loss	-	1,286,319	1,286,319	-	1,421,721	1,421,721
Financial assets at fair value through other comprehensive income	-	3,710,705	3,710,705	-	4,077,419	4,077,419
Financial assets at amortized cost	-	13,946,412	13,946,412	-	19,658,542	19,658,542
Investment in associates	-	11,669,721	11,669,721	-	11,635,582	11,635,582
Investment properties	-	8,375,539	8,375,539	-	8,676,559	8,676,559
Property, plant and equipment	-	27,368,410	27,368,410	-	28,840,990	28,840,990
Projects in progress	-	2,702,117	2,702,117	-	3,231,217	3,231,217
Right-of-use assets	-	8,067,525	8,067,525	-	9,233,781	9,233,781
Deferred tax assets	-	5,150,501	5,150,501	-	4,692,922	4,692,922
Intangible assets	-	874,374	874,374	-	739,647	739,647
Other assets	-	24,101,388	24,101,388	-	13,032,461	13,032,461
	1,404,078,305	107,253,011	1,511,331,316	1,210,005,242	105,240,841	1,315,246,083

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	2020 U.S. $	2019 U.S. $
Statement of financial position items:			
Direct Islamic financing	Associate	1,143,225	1,530,548
	Executive Management	466,416	965,095
	Chairman and Board of Directors Members	14,930	11,853
	Others	14,350,172	19,480,924
Customers deposits	Associate	3,657,012	8,796,252
	Executive Management	711,809	534,239
	Chairman and Board of Directors Members	402,090	361,366
	Others	31,717,923	20,954,837
SWAPs, net	Major shareholder	1,610,957	939,826
Balances at banks and financial institutions	Major shareholder	2,934,137	2,343,532
Cash margins	Associate	11,281	37,201
	Others	35,819	160,630

		2020 U.S. $	2019 U.S. $
Income statement items:			
Financing income	Associate	58,029	117,668
	Executive Management	33,409	31,143
	Others	408,759	713,948
Return on unrestricted investment accounts	Associate	225	-
	Executive Management	804	-
	Others	6,690	7,463

		2020 U.S. $	2019 U.S. $
Commitments and contingencies:			
Indirect Islamic financing	Associate	174,561	63,201
	Others	261,174	509,678

- Direct Islamic financing granted to related parties as at December 31, 2020 and 2019 represent %1.80 and %2.85 of the net Islamic financing, respectively.
- Direct Islamic financing granted to related parties as at December 31, 2020 and 2019 represent %12.29 and %20.63 of the Bank’s regulatory capital, respectively.
- Returns on Islamic financing granted to related parties ranges between %1.35 to %13.01 during 2020.

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

	2020	2019
	U.S. $	U.S. $
Board of Directors' members expenses	320,175	630,120
Executive management salaries and related benefits	811,575	753,005
Executive management end of service benefits	97,092	70,771

The Board of Director's bonuses for 2020 and 2019 are as follows:

	2020	2019
	U.S. $	U.S. $
National Islamic Investment Company represented by Mr. Maher Al-Masri	47,456	55,831
National Islamic Investment Company represented by Mr. Salem Abu khaizaran	28,333	33,333
National Islamic Investment Company represented by Mr. Salah Al-Daghmeh	28,333	33,333
National Islamic Investment Company represented by Mr. Ahmad Hassan	14,166	33,333
National Islamic Investment Company represented by Mr. Omar Al-Masri	28,333	33,333
National Islamic Investment Company represented by Mr. Talal Nassereldeen	28,333	27,777
Mr. Ali Abu Zuhri	23,611	33,333
Mr. Abdulhameed Al-Obweh	28,333	33,333
Mr. Majid Al-Helu	28,333	33,333
Mr. Anees Al-Hajjeh	28,333	33,333
Institution of Management and Development of Orphans Money represented by Mr. Rafiq Al-Natsheh	23,611	27,777
	307,175	378,049

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, 2020	Palestine	Jordan	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances at Palestine Monetary Authority	340,336,885	-	-	340,336,885
Balances at banks and financial institutions	147,582,627	11,965,461	18,716,845	178,264,933
Direct Islamic financing	885,476,487	-	-	885,476,487
Financial assets at fair value through profit or loss	1,286,319	-	-	1,286,319
Financial assets at fair value through other comprehensive items	3,710,705	-	-	3,710,705
Financial assets at amortized cost	-	11,033,706	2,912,706	13,946,412
Investment in associates	11,669,721	-	-	11,669,721
Investment properties	8,375,539	-	-	8,375,539
Property, plant and equipment	27,368,410	-	-	27,368,410
Projects in progress	2,702,117	-	-	2,702,117
Right-of-use assets	8,067,525	-	-	8,067,525
Deferred tax assets	5,150,501	-	-	5,150,501
Intangible assets	874,374	-	-	874,374
Other assets	24,101,388	-	-	24,101,388
	1,466,702,598	22,999,167	21,629,551	1,511,331,316
Commitments and contingencies:				
Unutilized limits of Islamic financing	36,268,760	-	-	36,268,760
Letters of guarantee	61,982,235	-	-	61,982,235
Letters of credit	1,142,962	-	-	1,142,962
	99,393,957	-	-	99,393,957

December 31, 2019	Palestine	Jordan	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances at Palestine Monetary Authority	272,313,933	-	-	272,313,933
Balances at banks and financial institutions	134,616,526	2,850,098	29,739,175	167,205,799
Direct Islamic financing	770,485,510	-	-	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	8,676,559	-	-	8,676,559
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	13,032,461	-	-	13,032,461
	1,262,998,268	16,759,831	35,487,984	1,315,246,083
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

	2020			2019		
	Assets	Liabilities and unrestricted investment accounts	Commitments and contingencies	Assets	Liabilities and unrestricted investment accounts	Commitments and contingencies
According to segment	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Retail accounts	487,621,731	1,042,813,014	43,546,413	502,690,542	900,947,506	43,545,726
Corporates and institutions	397,854,756	122,145,106	55,847,544	267,794,968	153,746,526	79,747,406
Treasury	537,545,254	190,545,199	-	464,290,948	111,741,306	-
Others	88,309,575	32,493,193	-	80,469,625	36,095,978	-
Total	1,511,331,316	1,387,996,512	99,393,957	1,315,246,083	1,202,531,316	123,293,132

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 2020 and 2019.

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2020:

			Fair value Measurement using		
	Date of Measurement	Total	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, 2020	1,286,319	1,286,319	-	-
Financial assets measured at fair value through other comprhensive income (note 7):					
Quoted	December 31, 2020	3,483,780	3,483,780	-	-
Unquoted	December 31, 2020	226,925	-	-	226,925
Investment properties (note10):	December 31, 2020	8,375,539	-	-	8,375,539
Financial assets that fair value has been disclosed:					
Financial assets at amortized cost(note 8)					
Quoted	December 31, 2020	3,031,807	3,031,807	-	-

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	8,676,559	-	-	8,676,559
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	-	-

- 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
2020	%	U.S. $
Fair value per square meter		
Fair value per square meter	5+	418,777
	5-	(418,777)
2019		
Fair value per square meter	5+	433,828
Fair value per square meter	5-	(433,828)

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, 2020 and 2019:

	Carrying amount		Fair value	
	2020	2019	2020	2019
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Cash and balances at PMA	340,336,885	272,313,933	340,336,885	272,313,933
Balances at banks and financial institutions	178,264,933	167,205,799	178,264,933	167,205,799
Direct Islamic financing	885,476,487	770,485,510	885,476,487	770,485,510
Financial assets at fair value through profit or loss	1,286,319	1,421,721	1,286,319	1,421,721
Financial assets at fair value through other comprehensive income	3,710,705	4,077,419	3,710,705	4,077,419
Financial assets at amortized cost	13,946,412	19,658,542	14,314,659	19,945,179
Other financial assets	22,987,647	11,971,857	22,987,647	11,971,857
	1,446,009,388	1,247,134,781	1,446,377,635	1,247,421,418

	Carrying amount		Fair value	
	2020	2019	2020	2019
	U.S. $	U.S. $	U.S. $	U.S. $
Financial liabilities				
Banks and financial institutions' deposits	190,545,199	111,741,306	190,545,199	111,741,306
Customers' deposits	325,999,812	263,137,015	325,999,812	263,137,015
Cash margins	71,385,535	55,151,605	71,385,535	55,151,605
Lease Liabilities	7,904,982	8,815,947	7,904,982	8,815,947
Other financial liabilities	12,916,033	14,569,080	12,916,033	14,569,080
	608,751,561	453,414,953	608,751,561	453,414,953
Unrestricted investment accounts	767,572,773	736,405,412	767,572,773	736,405,412

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, 2020 and December 31, 2019.

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):

	2020	2019
	U.S. $	U.S. $
Statement of financial position items:		
Balances with PMA	200,373,048	159,931,697
Balances at banks and financial institutions	178,264,933	167,205,799
Direct Islamic financing	885,476,487	770,485,510
Financial assets at amortized cost	13,946,412	19,658,542
Other assets	22,987,647	11,971,857
Total statement of financial position items	1,301,048,527	1,129,253,405
Commitments and contingencies:		
Unutilized limits of Islamic financing	36,268,760	59,619,694
Letters of guarantee	61,982,235	61,141,358
Letters of credit	1,142,962	2,532,080
Total commitments and contingencies	99,393,957	123,293,132

B. Concentration of risk exposures according to IFRS 9 Stages as at December 31, 2020 and 2019:

2020	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances with PMA	200,373,048	-	-	200,373,048
Balances at banks and financial institutions	178,350,207		1,689,903	180,040,110
Direct Islamic financing:				
Public sector	132,458,148			132,458,148
Industrial and agriculture	46,669,280	4,217,945	1,679,210	52,566,435
Service sector	1,674,115	88,766	4,490	1,767,371
Commercial	231,707,104	36,001,100	20,052,668	287,760,872
Real estate and constructions	63,643,460	18,485,136	6,050,660	88,179,256
Lands	77,415,789	33,178,195	-	110,593,984
Consumer Finance	144,121,620	19,882,519	3,293,202	167,297,341
Others	51,087,033	13,765,615	3,833,603	68,686,251
Financial assets at amortized cost	11,944,488	2,255,347	-	14,199,835
Other assets	24,101,388	-	-	24,101,388
Total	1,163,545,680	127,874,623	36,603,736	1,328,024,039

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	167,251,406	-	1,689,903	168,941,309
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	14,104,372	5,748,809	-	19,853,181
Other assets	13,032,461	-	-	13,032,461
Total	937,216,839	168,593,611	26,433,708	1,132,244,158

C. Concentration of risk exposures according to IFRS 9 Stages as at December 31, 2020 and 2019:

2020	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	1,121,833,300	124,958,286	34,913,833	1,281,705,419
Jordan	20,082,828	2,916,337	-	22,999,165
Others	21,629,552	-	1,689,903	23,319,455
Total	1,163,545,680	127,874,623	36,603,736	1,328,024,039

2019	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	890,608,689	162,206,187	24,743,805	1,077,558,681
Jordan	16,729,586	30,245	-	16,759,831
Others	29,878,564	6,357,179	1,689,903	37,925,646
Total	937,216,839	168,593,611	26,433,708	1,132,244,158

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

December 31, 2020	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 o statement of financial position:										
Balances with PMA	200,373,048	-	-	-	-	-	-	-	200,373,048	-
Balances at banks and financial institutions	180,040,110	-	-	-	-	-	-	-	180,040,110	1,775,177
Direct Islamic financing:										
Retails	499,825,485	19,834,664	8,437	151,227,576	-	98,433,683	-	269,504,360	230,321,125	12,875,884
Small and medium-sized institution	68,329,300	11,014,169		46,642,956	-	5,900,336	-	63,557,461	4,771,839	5,915,107
Corporates	206,779,879	18,662,615	5,022,172	92,359,767	-	16,869,868	-	132,914,422	73,865,457	2,644,421
Government and public sector	132,458,148	-	-	-	-	-	-	-	132,458,148	480,913
Financial assets at amortized cost	14,199,835	-	-	-	-	-	-	-	14,199,835	253,423
Other financial assets	22,987,647	-	-	-	-	-	-	-	22,987,647	
	1,324,993,452	49,511,448	5,030,609	290,230,299	-	121,203,887	-	465,976,243	859,017,209	23,944,925
Credit exposures relating to items o commitments and contingencies:	99,393,957	9,099,307	-	-	-	-	-	9,099,307	90,294,649	78,844
Total	99,393,957	9,099,307	-	-	-	-	-	9,099,307	90,294,649	78,844

December 31, 2019

	Total Credit risk exposure	Fair value of collaterals						Total collaterals	Net Exposure	ECL
		Cash margins	Letters of guarantee	Real estate	Quoted stocks	Vehicles and equipment	Others			
	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	168,941,309	-	-	-	-	-	-	-	168,941,309	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	11,971,857	-	-	-	-	-	-	-	11,971,857	-
	1,147,642,174	35,316,360	-	282,699,597	280,000	147,519,819	-	465,815,776	681,826,398	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

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

December 31, 2020		Fair value of collaterals								
	Total Credit risk exposure	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	12,700,836	124,298	-	10,274,293	-	445,559	-	10,844,150	1,856,686	5,577,948
Corporates	5,881,950	35,105	-	2,497,022	-	10,370	-	2,542,497	3,339,453	2,783,471
Small and medium-sized institution	14,597,756	392,347	-	10,191,060	-	88,592	-	10,671,999	3,925,757	3,558,342
Total	33,180,542	551,750	-	22,962,375	-	544,521	-	24,058,646	9,121,896	11,919,761

December 31, 2019		Fair value of collaterals								
	Total Credit risk exposure	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
Corporates	5,296,456	2,574	-	2,877,474	-	480,701	-	3,360,749	1,935,707	1,708,019
Small and medium-sized institution	15,184,704	238,086	-	6,455,634	-	625,135	-	7,318,855	7,865,849	5,519,076
Total	33,683,457	386,660	-	19,927,356	-	1,183,516	-	21,497,532	12,185,925	8,939,652

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 December 31, 2020:

Macroeconomic factors	Scenario used	Weight weighted for each scenario	Percentage change in Macroecono-mic factors (%)	Percentage change in Macroecon o-mic factors (%)	Percentage change in Macroecon o-mic factors (%)	Percentage change in Macroecono -mic factors (%)	Percentage change in Macroecono -mic factors (%)	Percentage change in Macroecon o-mic factors (%)
		(%)	2020	2021	2022	2023	2024	2025
Gross domestic product	Base scenario	40	(19.10)	5.69	2.70	(0.31)	(0.26)	(0.23)
	Best scenario	30	(11.39)	13.40	10.41	7.40	7.45	7.48
	Worst scenario	30	(22.96)	1.84	(1.16)	(4.17)	(4.12)	(4.09)
Unemployment rates								
	Base scenario	40	26.77	(12.42)	(7.80)	0.77	0.76	0.76
	Best scenario	30	19.37	(13.19)	(8.36)	0.83	0.82	0.82
	Worst scenario	30	30.47	(12.07)	(7.55)	0.74	0.74	0.73

- 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.

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 Macroecono-mic factors (%)	Percentage change in Macroecono-mic factors (%)	Percentage change in Macroecono-mic factors (%)	Percentage change in Macroecono-mic factors (%)	Percentage change in Macroecono-mic factors (%)	Percentage change in Macroecono-mic factors (%)
		(%)	2019	2020	2021	2022	2023	2024
Gross domestic product	Base scenario	80	1	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
	Best scenario	10	1	0.58	0.58	0.58	0.58	0.58
	Worst scenario	10	1	(2.18)	(2.18)	(2.18)	(2.18)	(2.18)
Unemployment rates								
	Base scenario	80	(1.53)	(2.71)	(2.71)	(2.71)	(2.71)	(2.71)
	Best scenario	10	(1.53)	(4.59)	(4.59)	(4.59)	(4.59)	(4.59)
	Worst scenario	10	(1.53)	(0.83)	(0.83)	(0.83)	(0.83)	(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:

Credit Rating	2020 U.S. $	2019 U.S. $
Private Sector:		
A- to AAA	750,604	752,462
B- to BBB+	2,159,236	4,996,346
Unrated	11,036,572	13,909,734
Total	13,946,412	19,658,542

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:

	2020		
	Increase in index	Effect on income statement	Effect on equity
Market	%	U.S. $	U.S. $
Palestine Securities Exchange	10	128,632	348,378
Unquoted	10	-	22,693

	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

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:

	2020		2019	
	Increase in currency	Effect on income statement	Increase in currency	Effect on income statement
Currency	(%)	U.S. $	(%)	U.S. $
ILS	+10	655,828	+10	(892,825)

Foreign currencies position of the Bank is as follows:

	Equivalent to U.S. $			
December 31, 2020	JOD	ILS	Other currencies	Total
Assets				
Cash and balances at PMA	59,342,495	188,417,152	2,389,648	250,149,295
Balances at banks and financial institutions	59,246,069	2,682,297	3,540,740	65,469,106
Direct Islamic financing	147,751,387	437,869,843	9,619,750	595,240,980
financial assets at fair value through profit or loss	1,286,319	-	-	1,286,319
financial assets at fair value through other comprehensive income	3,483,780	-	-	3,483,780
Financial assets at amortized cost	11,283,498	-	-	11,283,498
Investment properties	3,988,160	-	-	3,988,160
Projects in progress	-	51,617	-	51,617
Other assets	2,229,471	26,807,322	85,760	29,122,553
Total assets	288,611,179	655,828,231	15,635,898	960,075,308
Liabilities				
Banks' and financial institutions' deposits	-	155,509,754	1,400,832	156,910,586
Customers' deposits	53,020,272	203,568,202	3,337,931	259,926,405
Cash margin	14,511,124	21,247,916	4,729,854	40,488,894
Lease liabilities	2,787,269	25,234	-	2,812,503
Other liabilities	3,591,577	3,535,581	541,416	7,668,574
Total liabilities	73,910,242	383,886,687	10,010,033	467,806,962
Unrestricted investment accounts	214,227,663	268,342,831	5,021,498	487,591,992
Total liabilities and unrestricted investment account	288,137,905	652,229,518	15,031,531	955,398,954
Statement of financial position concentration	473,274	3,598,713	604,367	4,676,354
Commitments and contingencies	1,412,250	22,901,096	16,597,921	40,911,267

	Equivalent to U.S. $			
December 31, 2019	JOD	ILS	Other currencies	Total
Total assets	269,682,606	520,144,981	17,165,252	806,992,839
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
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

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, 2020 and 2019:

December 31, 2020	Less than 1 month	More than 1 month up to 3 months	More than 3 months up to 6 months	More than 6 months up to 1 year	More than 1 year	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Assets							
Cash and balances at PMA	340,189,885	-	-	-	-	147,000	340,336,885
Balances at banks and financial institutions	154,759,882	9,067,978	-	14,437,073	-	-	178,264,933
Direct Islamic financing	59,162,558	89,728,217	58,958,211	102,015,833	575,611,668	-	885,476,487
Financial assets at fair value through profit or loss	-	-	-	-	-	1,286,319	1,286,319
Financial assets at fair value through other comprehensive income	-	-	-	-	-	3,710,705	3,710,705
Financial assets at amortized cost	-	-	4,731,312	666,337	8,548,763	-	13,946,412
Investment in associates	-	-	-	-	-	11,669,721	11,669,721
Investment properties	-	-	-	-	-	8,375,539	8,375,539
Property, plant and equipment	-	-	-	-	-	27,368,410	27,368,410
Projects in progress	-	-	-	-	-	2,702,117	2,702,117
Right-of-use assets	-	-	-	-	-	8,067,525	8,067,525
Deferred tax assets	-	-	-	-	5,150,501	-	5,150,501
Intangible assets	-	-	-	-		874,374	874,374
Other assets	17,829,714	1,564,970	1,465,016	-	3,241,688	-	24,101,388
Total assets	571,942,039	100,361,165	65,154,539	117,119,243	592,552,620	64,201,710	1,511,331,316
Liabilities, Unrestricted Investments Accounts and Equity							
Banks and financial institutions' deposits	148,442,679	17,102,520	-	-	25,000,000	-	190,545,199
Customers' deposits	325,999,812	-	-	-	-	-	325,999,812
Cash margin	2,146,200	6,349,936	4,836,481	11,893,419	46,159,499	-	71,385,535
Sundry provisions	-	-	-	-	9,217,580	-	9,217,580
Tax provisions	-	2,043,961	-	-	-	-	2,043,961
Lease liabilities	164,688	329,374	494,062	988,122	5,928,736	-	7,904,982
Other liabilities	12,851,270	-	-	-	475,400	-	13,326,670
Total liabilities	489,604,649	25,825,791	5,330,543	12,881,541	86,781,215	-	620,423,739
Unrestricted investment accounts	711,588,115	17,052,302	21,936,750	16,877,283	118,323	-	767,572,773
Equity							
Paid-in share capital	-	-	-	-	-	80,000,000	80,000,000
Additional paid- in capital	-	-	-	-	-	3,200,000	3,200,000
Statutory reserve	-	-	-	-	-	10,238,012	10,238,012
General banking risk reserve	-	-	-	-	-	4,384,678	4,384,678
Pro-cyclicality reserve	-	-	-	-	-	11,023,917	11,023,917
Investment properties reserve	-	-	-	-	-	187,345	187,345
Cumulative change in fair value	-	-	-	-	-	(753,171)	(753,171)
Retained earnings	-	-	-	-	-	15,054,023	15,054,023
Net equity	-	-	-	-	-	123,334,804	123,334,804
Total Liabilities, Unrestricted Investment Accounts and Equity	1,201,192,764	42,878,093	27,267,293	29,758,824	86,899,538	123,334,804	1,511,331,316
Maturity gap	(629,250,725)	57,483,072	37,887,246	87,360,419	505,653,082	(59,133,094)	-
Cumulative maturity gap	(629,250,725)	(571,767,653)	(533,880,407)	(446,519,988)	59,133,094	-	-

December 31, 2019	Less than 1 month	More than 1 month up to 3 months	More than 3 months up to 6 months	More than 6 months up to 1 year	More than 1 year	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Assets							
Cash and balances at PMA	272,166,933	-	-	-	-	147,000	272,313,933
Balances at banks and financial institutions	129,409,529	37,796,270	-	-	-	-	167,205,799
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	-	-	-	-	-	8,676,559	8,676,559
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	9,544,049	870,463	814,867	-	1,803,082	-	13,032,461
Total assets	468,680,221	126,301,069	58,397,240	99,974,765	493,888,872	68,003,916	1,315,246,083
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	15,437,607	-	-	-	-	-	15,437,607
Total liabilities	392,157,722	6,883,146	4,287,604	10,290,705	52,506,727	-	466,125,904
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	–	–	–	–	–	9,121,040	9,121,040
General banking risk reserve	–	–	–	–	–	4,384,678	4,384,678
Pro-cyclicality reserve	–	–	–	–	–	11,023,917	11,023,917
Investment properties reserve	–	–	–	–	–	256,946	256,946
Cumulative change in fair value	–	–	–	–	–	(273,086)	(273,086)
Retained earnings	–	–	–	–	–	8,001,272	8,001,272
Net equity	–	–	–	–	–	112,714,767	112,714,767
Total Liabilities, Unrestricted Investment Accounts and Equity	1,057,516,930	28,183,060	34,391,462	29,933,137	52,506,727	112,714,767	1,315,246,083
Maturity gap	(588,836,709)	98,118,009	24,005,778	70,041,628	441,382,145	(44,710,851)	-
Cumulative maturity gap	(588,836,709)	(490,718,700)	(466,712,922)	(396,671,294)	44,710,851	-	-

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, 2020:

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	346,773,320	343,555,102
Retail deposits including deposits of small enterprises:		
A-Stable deposits	554,637,281	27,731,864
B -Less stable deposits	448,431,227	39,559,565
Deposits and unsecured forms of financing for legal persons other than retail customers and small-scale enterprises:		
A-Operating Deposits	57,736,899	14,434,225
B-Non-operating deposits	19,500,293	7,800,117
Deposits and secured financing	1,080,305,700	89,525,771
Credit lines, non-cancellable credit lines and cancellable lines within a 30-day period		
Any other external contractual cash flows	310,651,374	310,651,374
Total cash outflows	1,390,957,074	400,177,145
Secured granting		
Other inflows based on the counterparty	225,732,842	181,246,275
Total cash inflows	225,732,842	181,246,275
Net cash outflow - after adjustments		218,930,870
Total high-quality assets - after adjustments		343,555,102
Net cash outflow - after adjustments		218,930,870
Liquidity Coverage Ratio (%)		%157

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	1,210,107,390	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

PMA issued instructions number (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, 2020:

Item	2020
	U.S. $
Regulatory capital	133,359,187
Retail deposits and small (stable) institutions	489,572,101
Retail deposits and small (less stable) institutions	388,767,544
Secured and unsecured financing (deposits)	36,937,344
Total stable funding available	1,048,636,176
High quality liquid assets of the second level / category (A) not mortgaged	1,677,180
High quality liquid assets of the second level / category (B) not mortgaged	2,385,049
High quality liquid and mortgaged assets	73,519,629
Islamic financing	690,728,674
Unquoted investments other than the mentioned above	11,716,871
All other assets	39,315,548
credit and liquidity financing not subject to cancellation and subject to conditional cancellation	1,813,437
Other potential future financing commitments	3,156,260
All off balance sheet exposures unlisted in the previous categories	3,156,260
Total required stable financing	827,468,908
Net stable financing ratio	%127

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
Islamic financing	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 %

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 2020	Total 2019
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	46,579,698	12,874,482	4,165,130	1,240,169	64,859,479	65,827,237
Net ECL re-measurement	(3,725,093)	(1,850,397)	(97,335)	-	(5,672,825)	(4,006,222)
Segment results	42,854,605	11,024,085	4,067,795	1,240,169	59,186,654	61,821,015
Unallocated expenses					(43,162,447)	(46,077,908)
Profit before taxes					16,024,207	15,743,107
Taxes expense					(4,854,484)	(1,219,039)
Profit for the year					11,169,723	14,524,068
Other information						
Depreciation and amortization					4,482,863	4,258,188
Capital expenditures					1,497,283	4,676,928
					2020	2019
					U.S. $	U.S. $
Total segment assets	498,226,691	387,249,796	537,545,254	88,309,575	1,511,331,316	1,315,246,083
Total segment liabilities and unrestricted investment accounts	1,026,448,846	138,509,274	190,545,199	32,493,193	1,387,996,512	1,202,531,316

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	
	2020	2019	2020	2019	2020	2019
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total revenues	63,361,228	64,861,177	1,498,251	966,060	64,859,479	65,827,237
Capital expenditures	1,497,283	4,676,928	-	-	1,497,283	4,676,928

	Local		Foreign		Total	
	2020	2019	2020	2019	2020	2019
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total assets	1,466,702,598	1,261,988,139	44,628,718	53,257,944	1,511,331,316	1,315,246,083

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:

	2020			2019		
	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	130,275,793	%8.62	%14.58	106,606,033	%8.11	%13.04
Basic capital	119,020,060	%7.88	%13.32	106,019,513	%8.06	%12.97

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 work collaborations.

48. Legal cases against the Bank

The number of litigations filed against the Bank were (63) and (69) in the amount of U.S. $ 8,612,159 and U.S. $ 15,321,521 as at December 31, 2020 and 2019, 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. The Impact of Coronavirus (COVID-19) on the Calculation of Expected Credit Losses Allowance

<u>Provision Calculate expected credit losses</u>

Determining the expected credit loss provision for credit financing requires the bank's management to issue important judgments to estimate the amounts and timing of future cash flows, in addition to estimating any substantial increase in the credit risk of financial assets after their initial recognition, and taking into consideration future measurement information for expected credit losses.

In accordance with International Financial Reporting Standard (9), credit financing must be transferred from stage (1) to stage (2) if, and only if, there has been a material increase in credit risk since inception. A significant increase in credit risk occurs when there is a significant increase in the risk of default.

The bank assessed borrowers for other indications of unwillingness to pay, considering the underlying cause of any financial difficulty and whether it is likely to be temporary because of the spread of Covid-19 or in the long term.

During the year, the bank also updated the macroeconomic factors according to the latest issue from the International Monetary Fund and the Palestinian Central Bureau of Statistics, in addition to changing the weighted possibilities for macroeconomic scenarios by calculating larger weights for the worst-case scenario, which negatively affected the calculation of the ECL provision.

Relevant PMA instructions

As a result of the spread of Coronavirus (Covid-19), on March 15, 2020, PMA issued Instructions No. (4/2020) related to PMA measures to mitigate the effects of the health crisis, as it included a set of decisions, the most prominent of which was instructing banks to postpone customer payments for four months and the tourism sector for six months extendable, in which the banks are prohibited from collecting any additional fees, commissions or returns on the deferred installments. Based on these instructions, the bank has postponed the financing installments to the customers. Also, on June 30, 2020, PMA issued Instructions No. (23/2020) that required Islamic banks to grant customers whose installments were postponed a grace period to pay their deferred installments until December 31, 2021. This was accompanied by some measures taken by the Palestinian government and PMA (which had an impact on the banking sector and the bank's business), such as not including customers who has declined checks for financial reasons in the black list and not charging them with the any commissions.

In July 22, 2020, the Monetary Authority issued Instructions No. (27/2020) regarding mitigating the effects of the financial crisis and the Coronavirus crisis, according to which the bank restructured or rescheduled funds or granted the customer a temporary securitization ceiling in the amount of installments owed on him or restructured the lease-to-own In addition to granting the customer, upon his request, a temporary securitization ceiling in the value of his obligations during the period from July 1, 2020 until January 1, 2021.

In response to the instructions of PMA No. (23/2020), the bank began during the year 2020 a program to reduce payments to support its affected customers by postponing the installments due for a period of four months to six months, so that they were given a grace period to pay their deferred installments. The bank has postponed / restructured the financing installments of clients of the affected economic sectors from companies and individuals without adding any returns in accordance with the instructions of PMA No. (23/2020).

These paid exemptions are short-term liquidity for the purpose of addressing the borrower's cash flow issues. The bank believes that extending payment does not automatically lead to a material increase in credit risk as the impact on the customer is expected to be in the short term. For all other customers, the bank continues to consider the severity and extent of the potential impact of COVID-19 on the economic sector, future outlook, cash flows, financial strength, mobility, and change in the risk profile along with the previous record in identifying a significant increase in credit risk.

Incnetivise deposits from PMA

During the year, the bank received an Incnetivise deposit from PMA amounting to U.S. $ 25 million at a yield less than the market return with a maturity of three years, with the aim of mitigating the economic effects of the Coronavirus (Covid 19) crisis on the bank’s activities and the subsequent losses due to the delay in customer payments during the year 2020.

Istidama Sustainability Program from PMA

In accordance with the instructions of PMA No. (22/2020) and with the aim of mitigating the economic effects of the Coronavirus crisis (Covid 19) on economic activities and projects, especially small and medium enterprises, sustainable financing has been granted by PMA so that the bank is committed to collecting a diminishing return of up to 3% of Borrowers. The islamic facilities related to istidama outsanding balance amounted to U.S. $ 407,868 as at December 31, 2020.

Accounting Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

On May 21, 2020, the Accounting Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued a statement "The accounting effects and consequences of the Corona epidemic" to provide clarifications and explanations regarding the accounting treatment in accordance with the financial accounting standards issued by AAOIFI in which the statemenets urged the banks to amortize the reminaing deferred profits over the period of the financincing and prohibit to calculate the present value of the financing or applying the concept of missed opportunity.

51. Subsequent events

Subsequent to the financial statements date, the Board of Directors of the Bank at its meeting held on February 9, 2021 decided to recommend to the General Assembly to increase the Bank's paid in capital by U.S. $ 5 million with a par value of 1 U.S. $ per share.

52. Prior years restatement

The financial statements were adjusted retrospectively due to an error in calculating fair value of one of the investments properties.

Following is the effect of the restatement on the financial position as of January 1, 2019:

	Before restatement	Restatement	Restated
	U.S. $	U.S. $	U.S. $
Investment properties	12,742,899	(3,873,178)	8,869,721
Other liabilities	21,093,889	(205,061)	20,888,828
Statutory reserve	7,979,218	(310,585)	7,668,633
Revaluation of investment properties reserve	960,751	(562,264)	398,487
Retained earnings	7,990,868	(2,795,268)	5,195,600

Following is the effect of the restatement on the financial position as of December 31, 2019:

	Before restatement	Restatement	Restated
	U.S. $	U.S. $	U.S. $
Investment properties	11,843,798	(3,167,239)	8,676,559
Other liabilities	15,454,050	(16,443)	15,437,607
Statutory reserve	9,431,625	(310,585)	9,121,040
Revaluation of investment properties reserve	301,889	(44,943)	256,946
Retained earnings	10,796,540	(2,795,268)	8,001,272

- The impact of the restatement on the comprehensive income statement as of December 31, 2019:

	Before restatement	Restatement	Restated
	U.S. $	U.S. $	U.S. $
Investment properties	(899,101)	(705,939)	(193,162)
Deferred taxes	240,239	(188,618)	51,621

53. Comparative figures

The corresponding figures for the year ended December 31, 2019 have been reclassified in order to conform with the presentation for the current year. Except for the restatements mentioned in note (52), these reclassifications do not affect the net income and equity of the previous years.