



بنك الاستثمار الفلسطيني
PALESTINE INVESTMENT BANK
تنمية وأمان

Annual Report 2020

The Twenty-Sixth Annual Report

Results and Achievements in 2020



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About Palestinian Investment Bank



Palestine Investment Bank was established by a group of elite Arab and Palestinian bankers known for their banking superior experience gained from their global banking exposure. PIB was granted a banking license on August 10th, 1994. The Bank was the first Palestinian bank to obtain the necessary permits from the Palestinian National Authority to conduct its business in Palestine. In accordance with the Companies Law of 1929, PIB was registered as a public shareholding company with 20 million U.S. Dollars as paid up capital.

Since the beginning of its operations in March 1995, PIB has grown exponentially over the years with its commercial banking activities leading the way. Maintaining a large footprint with multiple branches and offices spanning over 9 different cities in Palestine and notably a fully-fledged foreign branch in Bahrain. PIB's clients consist of an eclectic mix of retail, corporate, and financial institutions which have helped PIB maintain a diversified service offering of a wide array of core banking activities as well as investment and commercial products, and services.

Our mission is to use our resources, expertise, and platform to fulfill our social and economic obligations by an efficient and effective delivery method in a manner that most contributes to society, the growth and development of the economy, and to provide our clients the most value possible.



Members of the Board of Directors as of December 31, 2020



Mr. Abed Dayeh

Chairman



Mr. Khalil Nasr

Vice-Chairman



Dr. Adnan Steitieh

Non-executive Director



Mr. Yousef Bazian

Non-executive Director



Mr. Sami Al Sayid

Non-executive Director



Mr. Jamil Al-Muti

Non-executive Director



Yazan Abdul Aziz

Non-executive Director



Mr. Walid Al-Najjar

Non-executive Director



Dr. Tareq Al-Haj

Non-executive Director



Mr. Hanna (Johny) Abuaitah

Non-executive Director



Mr. Basem Abed Al Halim

Non-executive Director



Mr. Samih Sbieh	General Manager
Mr. Fawzi Al Jawhari	Deputy General Manager
Mr. Salah Fares	Assistant General Manager – Branches Department
Mr. Sami Aghbar	Head of Internal Audit
Mr. Lutfi Khaseeb	Financial Manager
Mr. Burhan Hammad	Risk Department Manager
Mr. Feras Enaya	Credit Department Manager
Mr. Ashraf Hassounh	Treasurer



Advisors as of December 31, 2020

- **Legal**

Mr. Hussam Al Atira

Mr. Malik Al Auri

Mr. Sharhabeel Al Zaim

- **External Auditors**

Price Waterhouse Coopers - Palestine





بنك الاستثمار الفلسطيني
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The Bank's Message

- Vision and Tasks
- Basic Values
- Future Expectations



Vision and Tasks

- We always strive to be the leading bank in Palestine, by providing the finest financial services and outstanding and superior banking products to our clients. Those services and products are provided by a highly qualified staff who do their work in a stimulating environment, supported by modern technology, with products and services which are carefully selected, through the application of the highest professional and ethical standards, by aiming to achieve financial results suitable to our ranking in the Palestinian banking sector.
- To contribute to the growth and development of the Palestinian economy, with the utmost responsibility and commitment.

Core Values

- Our basic values are founded on honesty and truthfulness and the permanent pursuit of excellence and fulfilling of our promises. In addition to being committed to the foundations of corporate governance in all our business, and the continuing challenge to find the best ways to satisfy our clients, we are always committed to social responsibilities everywhere.

Future Expectations

- Our future expectations are to maintain the achievements and sustainability of growth and development, and to continue to meet efficiently and effectively the needs and desires of our clients. In addition, to help their assets grow with the utmost care and responsibility by continuing to introduce and develop new products within the Palestinian banking market. We will continue to reinforce our financial position through the application of risk management, human resource development, and effective use of modern technology for the continuity of excellence in performance, and increase in efficiency in dealing with our clients with the utmost transparency.



بنك الاستثمار الفلسطيني
PALESTINE INVESTMENT BANK
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PIB's Products and Services

- Financial Services
- Commercial Services
- Treasury and Investment Services





Financial Services

- Current, saving accounts, and deposits (multiple currencies).
- Personal Revolving overdrafts, and car, commercial and housing loans.
- Export financing.
- Project financing.
- Financing for contractors.
- Financing for manufacturers.
- Financing for investments in real estate.
- Financing for all types of small and medium enterprises (SMEs).
- Issuing visa cards.
- ATM services.
- Payment of phone, electricity and water bills.
- SWIFT services.
- Online banking services (electronic banking services and SMS services).

Commercial Services

- Letters of Credit.
- Bank guarantees.
- Local and international transfers.
- Bills of collection.

Treasury and Investment Services

- Investing in securities traded in the global financial markets, including the Palestinian securities exchange.
- Portfolio Management.
- Buying and selling stocks and bonds through Global Securities Co. (GSC), PIB's subsidiary.
- Buying and selling foreign currencies.
- Trading future contracts for foreign currencies.



Chairman's Message

Dear Shareholders,

On behalf of Palestine Investment Bank's Board of Directors and myself, it gives me great pleasure to welcome you to our annual ordinary general assembly, in which we discuss the twenty-sixth annual report, detailing our achievements, and the consolidated financial statements for the year 2020.

The year 2020 was full of challenges and difficulties due to the Corona pandemic that befell the world, which led to a significant decline in the global economy and disruption of many economic activities. The Palestinian economy has been greatly affected. In addition, the suspension of transfer of Clearing fund, led to a 12% decline in the economy, significant decrease in the GDP by 14%, and a large increase in the number of unemployed with the unemployment rate increasing to 27.8%.

Palestine undertook multiple partial or complete closures across all sectors during the year. This led to a noticeable decline in economic activities such as service, tourism, and construction, in addition to a decline in trading volume on the Stock exchange, and a decrease in imports and exports. The banking sector has been negatively affected because of the financial and economic situation, and the bank has maintained its conservative policy and approach in handling all adverse repercussions of the Pandemic.

Despite the unprecedented circumstances and challenges. The bank's management was able to maintain a level of growth in the bank's Balance Sheet on all levels.

The bank achieved remarkable growth during the year 2020 compared to the previous year in the most important financial indicators, the bank's total balance sheet has grown by more than \$140 million with a 28% increase. This growth was mainly translated in the balance sheet through the noticeable increase in clients' deposits of \$138 million, a growth rate 38%. The credit facilities also grew by \$69 million with a growth rate of 31%. This growth is indicative of the increased client confidence in our bank and its management. As for profits, they decreased by approximately 24.5% during the year 2020, as a result of the increased levels of provision to strengthen the bank's position going forward.

The bank has continued to implement its plan in developing its banking services, based on the strategic plan set by the Board of Directors for development and digitalization. During the year 2020, the bank launched the service of business sector account management electronically (Cash Management System), the online and mobile banking services received new developments with faster and broader services and the bank initiated a comprehensive development and modernization process for all ATMs with new features in addition to implementing electronic (clearing systems) and enhancing the information security.

The bank has made an effective contribution in the field of social responsibility during the year 2020. As it hastened to support the groups most affected by the consequences of the pandemic in compliance with the bank's mission to support the Palestinian community, according to plans and budgets prepared for this purpose, which had a positive impact on society.

We have entered the year 2021 and the outbreak of the COVID 19 virus continues in Palestine and the world. The bank's management will continue to maintain the safety of its employees and clients and developing plans to deal with any developments or damage that the epidemic may cause.

In conclusion, I would like to extend my sincere gratitude to the shareholders for their supportive efforts and trust, and we pledge to always continue to work with sincerity to achieve the goals set.

I would also like to express my thanks and appreciation to our clients for their precious trust in the bank and also to the Palestinian regulatory authorities, for their continuous efforts and care aimed at improving the financial and banking sector in Palestine.

I extend my sincere thanks to all employees and executives of the Bank for their dedicated efforts at all levels, and for their understanding and cooperation in working together for the success of the bank during these difficult times.

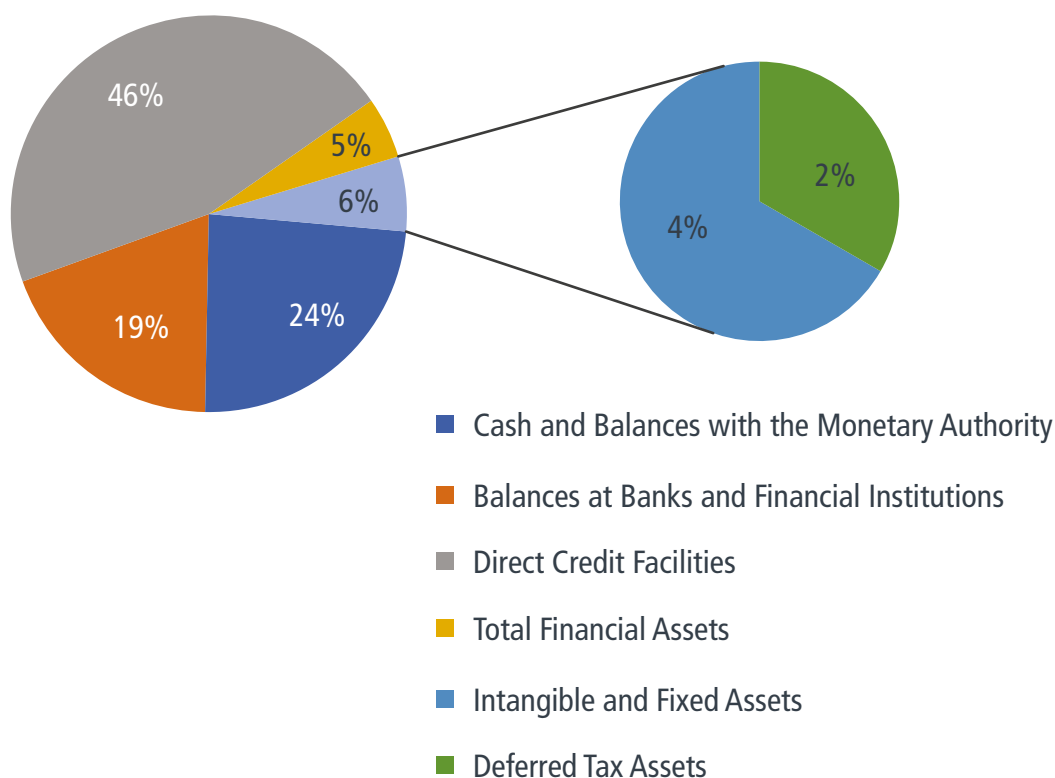
Abed Dayeh
Chairman of the Board

Analysis of the Financial Position and Results of Operations in 2020

The Bank's management continued the growth in shareholders' equity and maintained a balance between profitability and preserving capital. The management also continued providing the necessary liquidity to meet the financial obligations of different maturities and the optimal use of available funds efficiently and effectively in order to support the financial position, and to maintain the growth of revenue generating resources.

Relative Importance of the Elements of the Financial Position of the Bank				
	US\$ Million		%	
Assets	2020	2019	2020	2019
Cash and Balances with the Monetary Authority	156.335	84.589	24	17
Balances at Banks and Financial Institutions	119.080	105.582	19	21
Direct Credit Facilities	294.908	226.030	46	45
Total Financial Assets	31.387	43.216	5	9
Intangible and Fixed Assets	27.352	28.078	4	6
Deferred Tax Assets	12.121	14.139	2	3
Total Assets	641.183	501.635	100 %	100 %

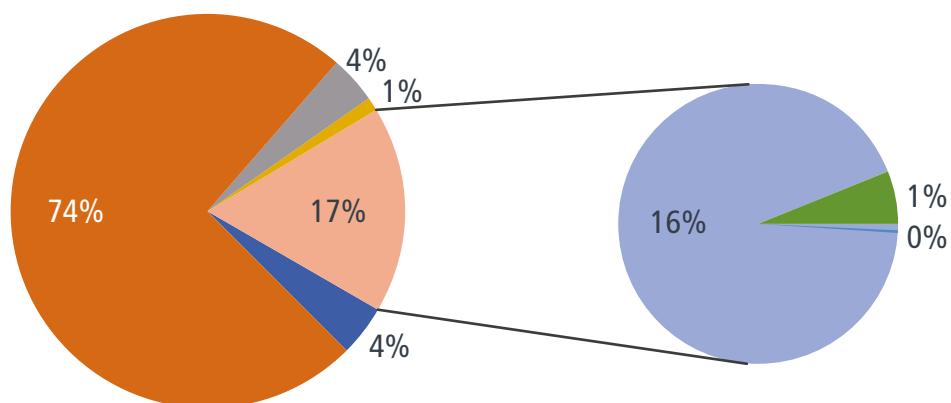
Analysis of the Financial Position and Results of Operations
2020



Liabilities and Equity				
	US\$ Million		%	
	2020	2019	2020	2019
Banks and Financial Institutions' Deposits	24.339	22.763	3.54	4.56
Customer Deposits	475.204	339.070	74.45	67.96
Cash Margins	27.456	25.841	4.30	5.18
Sundry and Tax Provisions	5.106	3.657	0.63	0.73
Leases Liabilities	1.759	0	0.28	0.35
Other Liabilities	8.466	7.557	1.33	1.51
Total Equity	98.853	98.301	15.49	19.70
Total Liabilities and Equity	641.183	497.190	100	100

Liabilities and Equity

2020



- Banks and Financial Institutions' Deposits
- Customer Deposits
- Cash Margins
- Sundry and Tax Provisions
- Leases Liabilities
- Other Liabilities
- Total Equity

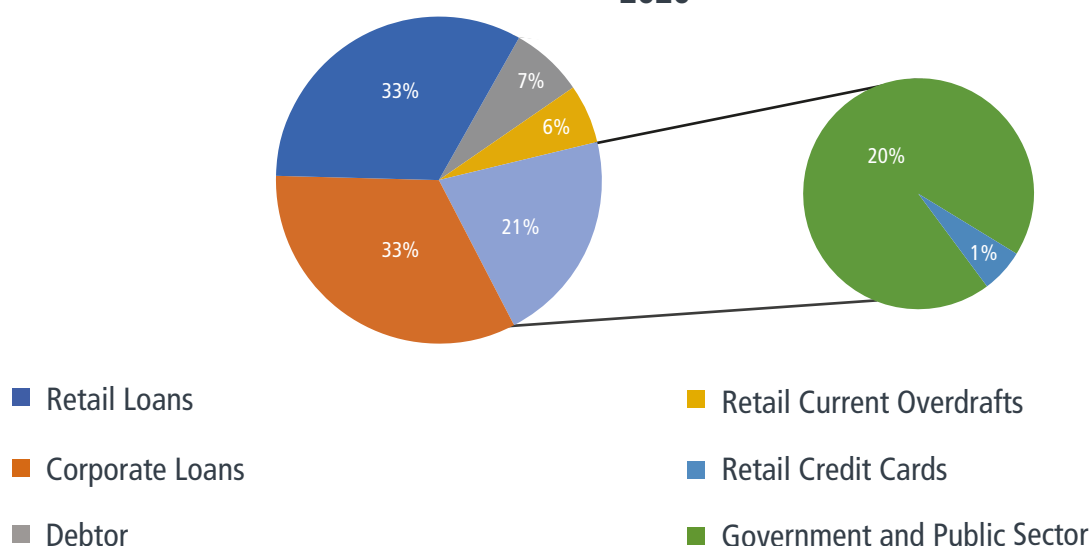
Direct Credit Facilities

Over the year of 2020, the Bank's management continued working on the development of the Bank's credit facilities portfolio by following a balanced and cautious credit policy in light of the situation in Palestine and changes in interest rates and expected returns on credit facilities. Under the supervision of the Executive Committee, the Bank strives to maintain the quality of the credit portfolio after studying the market and credit risk as well as working on collecting outstanding loans.

The proportion of non-performing credit facilities to the total also decreased from the same level in the past year and remained within the standard ratio. Work continued on financing the various economic sectors, and consumer finance sector as well as large companies and small and medium enterprises and the public sector. This has been done with a view to the continuity of risk allocation and management of available funds effectively and efficiently.

Direct Credit Facilities				
The Statement	US\$ Million		%	
	2020	2019	2020	2019
Retail Loans	99.30	85.13	32.96	36.94
Corporate Loans	101.28	86.00	33.62	37.32
Debtor	20.08	20.59	6.66	8.94
Retail Current Overdrafts	18.68	18.03	6.20	7.82
Retail Credit Cards	2.18	2.11	0.72	0.92
Government and Public Sector	59.77	18.56	19.84	8.06
Total	301.28	230.41	100	100

Direct Credit Facilities
2020



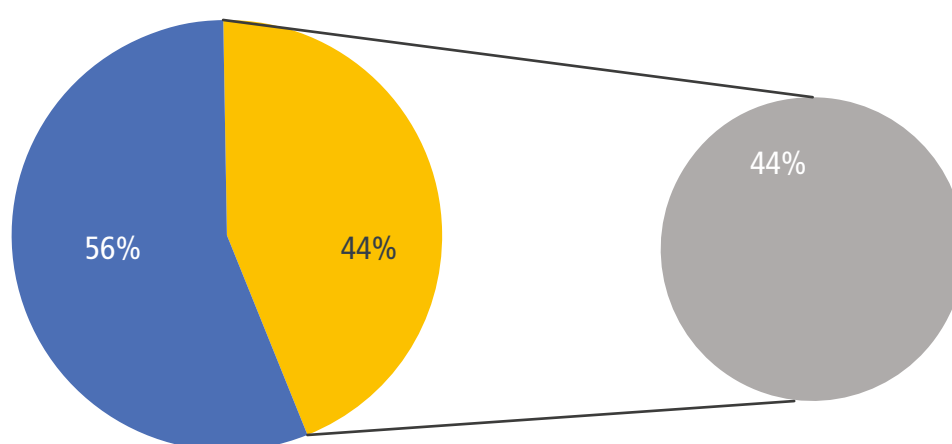
Portfolio of Financial Assets



Balance of the investment portfolio was at \$31.39 million in 2020, compared to \$43.22 million in the year 2019, due to the decrease of financial assets.

Diversified Financial Assets				
	US\$ Million		%	
	2020	2019	2020	2019
Financial Assets at fair value through profit or loss	17.414	24.936	55.48	57.70
Financial Assets at Fair Value through Comprehensive Income	0.044	0.117	0.14	0.27
Financial Assets at Amortized Cost	13.929	18.163	44.38	42.03
Total	31.387	43.216	100	100

Financial Assets
2020



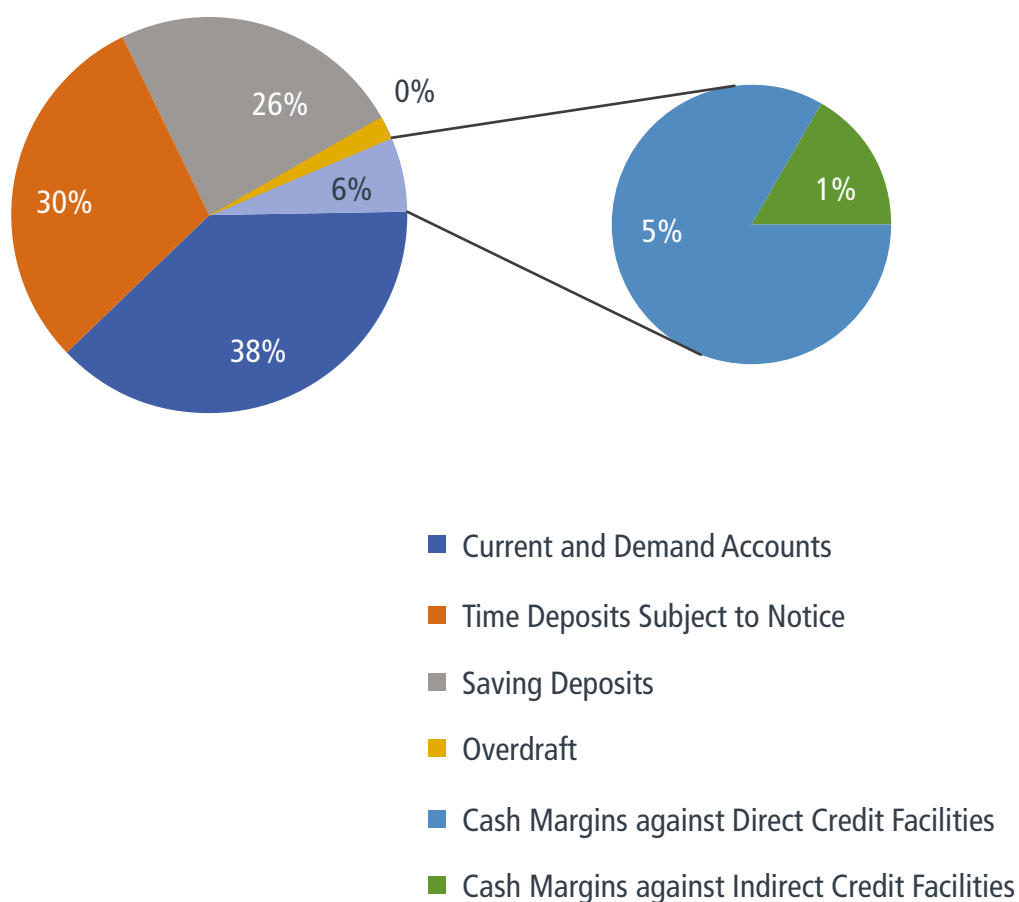
- Financial Assets at fair value through profit or loss
- Financial Assets at Fair Value through Comprehensive Income
- Financial Assets at Amortized Cost

Customers' Deposits

Deposits grew in 2020 by 37.7% compared to the previous year.

Components of Customer Deposits				
	US\$ Million		%	
	2020	2019	2020	2019
Current and Demand Accounts	189.164	146.142	37.63	40.05
Time Deposits Subject to Notice	153.406	87.131	30.52	23.88
Saving Deposits	129.502	100.924	25.76	27.66
Overdraft	3.133	4.873	0.62	1.34
Cash Margins against Direct Credit Facilities	23.781	21.951	4.73	6.02
Cash Margins against Indirect Credit Facilities	3.675	3.891	0.37	1.07
Total Deposits	502.660	364.912	100	100

Customer's Deposits Structure
2020





Capital Adequacy:

The capital adequacy ratio equated to 21.5% in 2020 versus 26.33% in 2019. It is one of the highest ratios achieved in the banking sector in Palestine, and higher than the ratios assessed by the Supervisory Monetary Authority of 12%. It also higher than the Basel Committee on rates (Bank for International Settlements) of 8%. The total core capital ratio to risk weighted assets was 22.64% in 2020, compared with 27.79% in 2019.

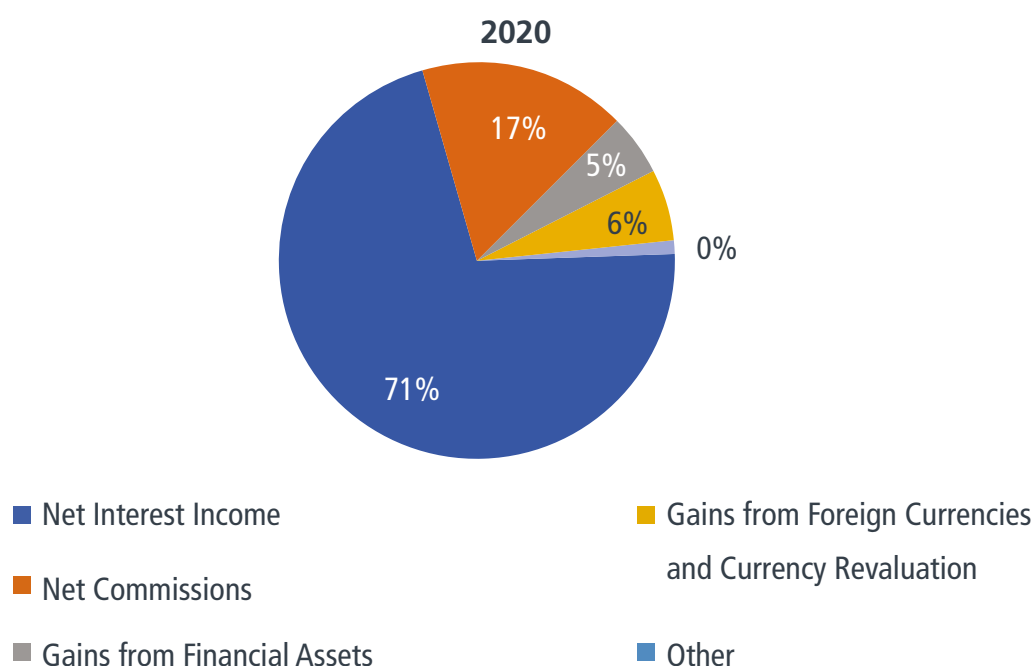
Bank's Operations Results

Net profit before tax reached \$5.03 million in 2020 compared with \$6.48 million in 2019, a total increase of 22.38%, and after deduction of tax, net profit reached \$3.675 million in 2020 compared with \$4.872 million in 2019, a decrease of 24.57%.

Net Profit Before and After Tax			
	US\$ Million		
	2020	2019	Change %
Net Profit Before Tax	5.03	6.48	-22.38
Tax Expenses	(1.35)	(1.6)	-15.71
Net Profit After Tax	3.675	4.872	24.57

Total Revenue				
	US\$ Million		%	
	2020	2019	2020	2019
Net Interest Income	16.096	17.265	71.02	71.75
Net Commissions	3.785	4.163	16.70	17.30
Gains from Financial Assets	191.1	1.147	5.25	4.77
Gains from Foreign Currencies and Currency Revaluation	1.441	1.163	6.36	4.83
Other	0.152	0.325	0.67	1.35
Total	22.665	24.063	100	100

Revenues Structure



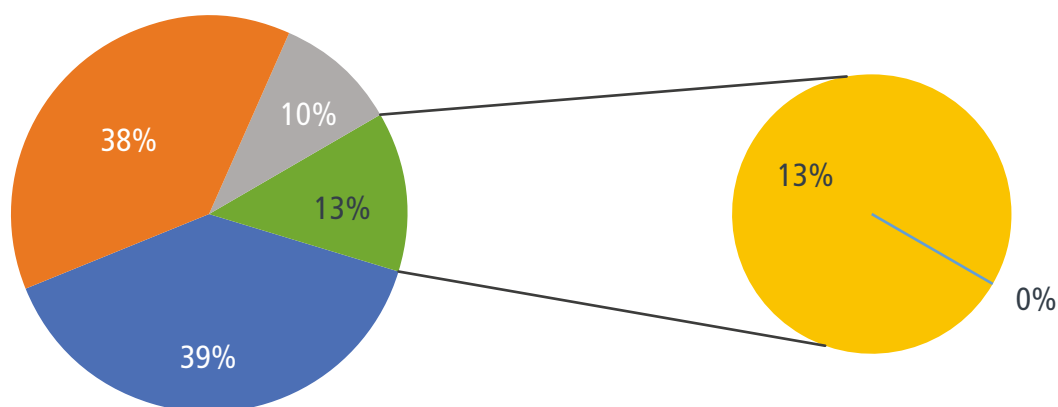
Expenses and Provisions



Total expenses and provisions reached \$17.639 million in 2020 compared with \$17.588 million in 2019, with an increase of \$51 thousand, representing about 0.2%.

Expenses, Provisions, and their Relative Importance				
	US\$ Million		%	
	2020	2019	2020	2019
Personnel Expenses	6.864	7.014	38.91	39.88
Other Operating and Expenses	6.760	7.897	38.32	44.90
Provisions for Expected Credit Losses	1.734	0.653	9.83	3.72
Depreciation and Amortization	2.221	1.966	12.91	11.50
Other Expenses	0.061	0.057	0.03	0.00
Total	17.639	17.588	100	100

Expenses and Provisions
2020



- Personnel Expenses
- Other Operating and Expenses
- Provisions for Expected Credit Losses
- Depreciation and Amortization
- Other Expenses

Key Financial Ratios for 2020 Compared with 2019		
	%	
	2020	2019
Return on Equity	4	5
Return on Capital	5	6
Return on Assets	1	1
Credit Facilities to Deposits	59	62
Credit Facilities to Assets	46	45
Total Equity to Assets	15	20
Basic Quota Share of Profit for the Year	5	6



Internal Audit

The Board of Directors fosters the role of the Internal Audit Department being the controlling authority that helps determine the efficiency of controlling systems, and adds value to them through:

- Fostering the independence of the role of the Internal Audit Department through subsidizing them to the Audit and Review Committee that emerged from the Board of Directors, and it periodically evaluates performance of the department and its staff.
- Adopting of the Internal Audit Charter which defines the functions and responsibilities of the Internal Audit Department and a plan of the department.
- Submitting periodical reports on the performance of the department as well as its findings and recommendations.
- The Audit and Review Committee adopts the plan of the Internal Audit Department that Risk Based Audit.

Risk Management

The Bank follows approved policies to manage the various risks within a clear and defined strategy in accordance with the requirements of the Monetary Authority and standards of Basel. The Risk Management Department monitors, controls and analyzes various risks for early recognition of potential risks and dealing with those risks and submitting reports to the Board of Directors through the Risk Management Committee of the Board of Directors.

Methodologies and the Process of Risk Management

The methodologies of risk management are set according to the requirements of the Monetary Authority and the instructions of the Basel requirements. In this regard, the adoption of risk management policy goes through the application software to manage and measure risk (LOXON).

Risk Management Works within the Following Framework:

- Adopting of risk management methodology based on identifying the best ways and means to deal with the potential internal and external risks according to clearly defined goals.
- Adopting of risk management policy by the Risk Management Committee emanating from the Board of Directors, including analysis to all risks at the bank, such as credit risk, market risk, liquidity risk, operational risk and any others.
- Reviewing the policy periodically and assess the extent of compliance in its application.
- Viewing the results of the Risk Management Committee emanating from the Board of Directors to the Board, besides its recommendations regarding the various activities.
- Using an automated program to measure the impact of the credit and operational risks, and providing appropriate elements of analysis to the effects of risks and their impact on the bank's capital and rate of its adequacy.
- Updating risks record to document the risks faced by the bank in order to refer to them and identify any potential losses, preparing plans to hedge their occurrence in addition to plans to limit their impact on outcomes of the bank's business.
- Executive Committees, Facilities Committee, Liability Committee and Human Resources Committee provide assistance to the Department of Risk Management to identify the risks to the bank, and ways to mitigate their impact on all operations.

Anti-Money Laundering

The Bank is pursuing a policy to combat money laundering by following the policies and procedures approved by the Board of Directors and based on the law against Money Laundering, and to the requirements of the Basel Committee. Training has been provided to qualify concerned employees in the various departments, branches and offices of the bank on ways of early detection of money laundering and procedures for compliance with the laws in force and instructions.

External Audit

An external auditor authorized by the regulatory authority audits the Bank's activities of financial and banking operations. The external auditor is chosen annually by the General Assembly of Shareholders and reports to the Board of Directors and to the regulatory authorities. The auditor sends reports and recommendations to the Board of Directors and to the General Assembly that have to be addressed.

Branches



Headquarters ensures regular maintenance of all of its branches and offices in order to preserve a high standard of offering, internally and externally, to ensure high customer satisfaction. With a high dispersion of branches, the Bank gives customers the banking services and facilities at the convenience and comfort of their jurisdiction while striving to deliver the highest quality of service.

During the year of 2020, major efforts have been put in to place in upgrading and developing internal policies and procedures for all branches and offices in order to fully maximize performance, efficiency, labor productivity, and technological breakthroughs in order to ensure a higher standard of customer service across all branches and offices.

Technological Development and Information Systems



Banking and financial operations are carried out through the automated system (BANKS). The Department of Information Systems continues to develop the automation of many of its banking and investment services. This is done through the expansion in the field of telecommunications in order to increase the ways to keep in contact with customers to offer additional services. Those services will lend speed and accuracy to banking operations in order to ensure their assistance and facilitate dealing with them to meet their needs.

In addition to contribute to their success and to achieve their highest satisfaction, the executive management is keen on keeping up with the latest technology and automated systems in all areas of the banking services, by working towards:

- Going forward with the development of the main banking system (BANKS), which includes the updated versions of the system, with their security applications.
- Strengthening the security of the bank's network from the risks of external and internal penetration, this goal is considered one of the most important objectives of the department in order to protect the bank's systems and data, as the bank has introduced a system of security and encryption for various applications called Web Application Firewall (WAF).
- Developing an account management system for the bank corporate clients, which allows them to manage the company's accounts on their own, in terms of opening sub-accounts or implementing internal and external transfers as well as transferring the salaries for their employees without the help of the bank customer service employee.
- Strengthening the security of the ATM network by implementing a series of measures to reduce the risks of the ATM theft or penetration to a minimum in terms of installing alarm devices and many other security measures.
- Finally, the bank developed its electronic services by launching a unique service in Palestine and the Arab world by operating the electronic payment service through the electronic wallet system, which enables the public to process their payment and transferring the funds electronically via mobile applications. The bank has been the first to introduce this service to the local market. The bank also succeeded in making agreements during the first month of the launch with 500 merchants to activate the service with what is called a virtual point of sale service.



Human Resources

Human resources is one of the key elements for success and excellence achieved by the Bank. In order to maintain this essential element, which is considered the human capital element, the Board of Directors is constantly working on developing the skills and capabilities of the Bank's staff. This is accomplished through the attendance of seminars and necessary specialized training courses in Palestine and abroad.

These courses are related to banking activities and investment in general, and the risks in banking and financial and credit analysis in particular. In addition, keeping the employees informed on the legal aspects that control banking operations. This is according to a plan put in place to help achieve excellence and provide the best service to Bank's customers and to keep up on the developments and changes in the banking industry.

Executive management has been keen on taking care of the Bank's staff in response to the effort of each employee. Executive management organizes many activities and programs for staff in order to strengthen loyalty and affiliation given that human capital is the Bank's most valuable asset. The Bank has sent 243 employees to attend training courses inside and outside of Palestine in all of the disciplines necessary for the Bank.



Foreign Banking Services and Various Treasury Activities

The Bank's Executive Management is adamant about developing the Bank's services in the fields of treasury, investment, financial brokerage, and foreign exchange. This includes investing and employing the Bank's financial resources denominated in different currencies in several money and capital markets, domestically and internationally.

This is done through deliberate and cautious policy in order to achieve an appropriate and reasonable return on those resources. The Bank has maintained its advanced ranking in the fields of treasury and banking services and trading in foreign currencies as the Bank continues to issue money orders, cashier's checks and the sale and purchase of foreign currencies through a correspondent bank network with banks financial institutions spread all over the world. Treasury activities contributed to a strong performance for the year of 2020, similar to that of 2019 in the field of foreign currency trading resulting in \$1.44 million in revenue for the bank.



Global Securities Co. (GSC)

Global Securities is a financial company engaged in financial intermediation for its own account and for the account of others. It is based in the city of Nablus, registered with the Companies Controller in Palestine in December, 1996 under registration No.563119148. The company commenced its operations in January 1998. The company's capital is \$3,526,093 fully paid.

The company is wholly owned subsidiary of Palestine Investment Bank, PLC, which owns 99.64% of its capital. The Bank's Board of Directors is keen on providing new investment services in the field of financial intermediation through "Global Securities", its subsidiary. The services, which are provided by the company, include the sale and purchase of shares. It also acts as an intermediary on commission basis in the Palestine Stock Exchange. In addition, it acts as a financial consultant for investment in financial securities, it also acts as a mediator in buying or selling for the Bank's own portfolio.

The Company provides periodic reports on the shares of companies that are traded on the Palestine Stock Exchange. It also provides traders who work with it with these reports. The Company also provides customers with access to their accounts through the Company's website.



The Bank's Development Policies

Since its inception to the present day, the Bank is constantly evolving; evidenced by the volume of operating assets, and the size of profits realized since the beginning of the bank till 31/12/2020.

In order for the Bank to occupy a leading position in the Palestinian banking industry, the vision of the Bank's Board is clear. It aims at keeping up with the continuing global developments in the field of banking services, in order to provide quality services to existing customers, and attract new customers.

The strategic vision for development policies that is pursued by Bank's Executive Management, put in several stages, are as follows:

- Continue to follow-up and analyze the Bank's results and compare them with other local banks.
- Assessment of banking competition in the Palestinian market from time to time.
- Develop goals constantly in light of the results achieved and the services provided to the Bank's customers.
- Improve products and follow up with the development of strategic plans and organizational structures and technology used in the Bank to achieve the desired results.
- Constantly work with the available means for the progress and prosperity of the Bank.



- Continue to achieve a lasting and rising growth in profitability, assets, and shareholders' equity and manage them efficiently to strengthen the competitive and financial position of the Bank in the Palestinian market and maintain the financial ratios of the Bank within the regulatory requirements in Palestine.
- Increase the level of productive efficiency and the rationalization of non-productive expenditure in order to maximize revenue.
- Continue to develop products, services, and programs offered by the Bank for its clients based on their needs and in line with the Palestinian economic situation. In addition, to focus on the retail sector through the creation and development of special products for individuals and to provide the financing needs of the small and medium-sized institutions and manufacturers.
- To do a follow-up of the network of branching of the Bank and making sure of its constant readiness to provide the best services to customers and in line with business requirements. In addition, to increase the Bank's presence in the Palestinian population centers by pursuing deliberate strategies for branching enhanced by the competitive capabilities regarding other the banks.
- Consolidating the marketing effort in various branches and offices of the Bank through organization and development of a distinctive and stimulating marketing campaign. In addition, organizing advertisements and media campaigns regarding the programs and services of the Bank in order to maintain the existing customer base by satisfying their needs to attract new customers in order to increase the Bank's market share in the banking market.
- Expansion of depositors' base in various currencies at reasonable interest rates and incentives with the optimum usage of these deposits in various areas of investment permitted.
- Promote a positive image for the Bank and its brand among all segments of society and its excellence in the banking market. This is done through continued interaction with the local community and through continuing to provide support for social projects and services whether educational or environmental.
- Provide private and personal investment services to the investment portfolios of clients that keep pace with global developments in the capital markets and invest to achieve attractive returns.
- Taking care of the Bank's employees by working towards raising their competence and abilities through training and rewarding the outstanding ones, in addition to encouraging them to work as a team, and to develop policies and business systems to keep pace with developments in the global banking sector.
- Maintaining liquidity at high rates to meet the needs of the Bank's at all times.
- Work to increase the size of indirect credit facilities provided such as letters of credit, guarantees and banking services such as money transfers because of their importance maximizing the Bank's revenues from commissions.
- Develop and diversify services in order to maintain the Bank's competitive advantage over other banks in Palestine by advancing the Bank's technology.
- Reduce all types of risk through the supervision system and self-assessment of the risks.
- Continue to work to achieve customers' satisfaction, since it is one of the Bank's core values, to increase the size of shareholders' equity, and to achieve a good return to shareholders.

Governance:

The Bank's Board of Directors continued to work on the promotion and development of corporate governance based on the principles of transparency, accountability, and responsibility.

This is done in order to increase depositors, shareholders, and other related authorities in their confidence in the Bank. In addition to ensure continuous monitoring that the Bank is complying with policies and limits approved and that they are compatible with the Bank's objectives set out in general. This comes from the commitment to the highest professional standards of performance, on all the Bank's activities that are in line with the regulatory authority instructions in Palestine, and with the best international practices.

Management is working to apply the principles of corporate governance issued by regulatory bodies in line with the guidance issued in order to avoid any discrepancies or deviations between these principles and the application. Based on the Bank's keenness on corporate governance, several specialized committees formed from the Board of Directors each with its own private and specific objectives and powers in working in an integrated manner with the Board to achieve the Bank's objectives.

1	The Investment and Facilities Committee	Abed Dayeh	Chairman	- Adopt the credit and investment policy and follow-up the extent of compliance with it. - Follow-up the performance of the credit and investment portfolios and their compatibility with the adopted policies. - Ensure obtaining a good return within acceptable risk and compatibility with legislation and in accordance with the designated policies.
		Hanna Abuaitah	Member	
		Sami Al-Sayid	Member	
2	Audit and Review Committee	Yousef Bazian	Chairman	- The nomination of the external auditor and determination of his fees. - Evaluation of the independence of the external auditor and the scope of his work. - Review of the accounting and financial practices. - A review of interim and annual financial statements. - To make recommendations regarding the selection and appointment and removal of the internal audit manager and the work of monitoring compliance and the extent of the administration's response to the recommendations and results of the Committee. - Assess the efficiency of employees in the Internal Audit Department. - Review the reports prepared by the Internal Audit Department and monitor compliance and the comprehensiveness of its work. - Follow up the anti-money laundry unit and ensure its independence.
		Walid Al-Najjar	Member	
		Yazan Abdul Aziz	Member	

3	Risk Committee	Khalil Nasr	Chairman	- Identify the risks associated with the Bank's business and develop a comprehensive strategy on the extent of the degree of tolerance for risk. - Exchange of liaison with the Department of Risk Management. - Provide the Governing Council with periodic reports on the risks faced by or exposed to the bank, as well as to ensure the presence of an appropriate risk management environment.
		Walid Al Najjar	Member	
		Yazan Abdul Aziz	Member	
4	Governance and Compensation Committee	Khalil Nasr	Chairman	- Supervising the implementation of the framework of governance policy. - The preparation of rewards and incentives policy and the periodical evaluation of its adequacy and effectiveness. - The preparation of standards to be adopted by the Board to the conditions and qualifications that the members of the Board of Directors should have. - Overseeing the human resources policy in general.
		Dr. Adnan Steitieh	Member	
		Dr. Tareq Al-Haj	Member	

The Board of Directors also formed several executive committees within the Executive Management of Bank. These committees were composed of senior bank executives and employees according to the requirements and necessities of the work, which are:

- Credit Facilities Committee.
- Human Resources Committee
- Supplies and Purchases Committee.
- Assets and Liabilities Management Committee
- Policies and Procedures committee

Transparency and Disclosure

In accordance with international standards in the field of disclosure, which is one of the third pillars of the Basel Convention requirements Part II, as the basis of the conviction of the Board of Directors to the principle of transparency and disclosure. It is the basic rule in the banking business and the way to earn the public's trust, regulators and investors. For that reason, the Board of Directors has adopted the disclosure policy to meet these requirements.

Rewards and Incentives

In order for the Board of Directors to apply the principles of corporate governance, a system of rewards and incentives has been provided by the bank. The Governance and Compensation Committee was formed by the Board of Directors to achieve these goals.

The Practices of the Board of Directors & Conflicts of Interest

The Board of Directors shall exercise its responsibilities in the planning and approving regulations that is followed by the Bank in its internal and external relations. The Board also oversees the safety of the Bank's business, and the production of the Executive Management represented by the General Manager. There is no conflict of interest in the practice of the Bank's activities within members of the Board, where governance is applied in all functions.

Disclosures to Shareholders



The Board of Directors follows different ways to deliver data to the Bank's shareholders. This is done through publications on the Bank's website, Palestine Stock Exchange, and the Palestine Capital Market. In addition, distribution of annual reports to shareholders by mail and the publication in local newspapers and advertisements in the Bank's Head Office, branches, and offices and through its subsidiaries in the cities and Palestinian communities.

Strategic Investors with Shares More Than 10%

Name	Number of Shares as of 31/12/2020	Percent of Shares
Al-Yazan Co. for Real Estate & Financial Investments	13,757,611	17.64
Aswaq Investments	19,984,156	25.62
Palestine Pension Agency	8,174,885	10.48

Shares Owned by Board Members

Name	Position	Number of Shares as of 31/12/2020	Percent of Shares %
Mr. Abed Dayeh	Chairman of Board of Directors	4,855,596	6.22
Mr. Khalil Nasr	Vice Chairman of Board of Directors	13,456	0.02
Al-Yazan Co. for Real Estate & Financial Investments	Member	13,757,611	17.64
Mr. Yousef Bazian	Member	12,233	0.02
Mr. Sami Sayed	Member	16,820	0.02
Mr. Yazan Abdul Aziz	Member	753,176	0.96
Mr. Waleed Al-Najar	Member	144,366	0.18
Mr. Basem Abed Al Halim	Member	10,400	0.01
Palestinian Pension Agency	Member	8,174,885	10.48
A.Y. Consultants	Member	1,737,487	2.27
Uni Brothers LMTD	Member	6,008,402	7.70

The company's stock trading on the Palestine Exchange in 2020

Item	2020	2019
Highest Price	1.25	1.33
Lowest price	1.06	1.00
Opening price	1.27	1.21
Closing price	1.18	1.27

Number of Traded Shares	Number of Transactions	Value in Dollars
889,374	119	1,030,118



The generally accepted principles of corporate governance applied to the Bank's various activities have been continually implemented throughout the year 2020.

Board Meetings:

The Board of Directors held six meetings during the year 2020.

#	Name	Number of the Meetings of the Board of Directors	
		Actual	Percent of Attendance %
1	Mr. Abed Dayeh	6	100
2	Mr. Khalil Nasr	6	100
3	Mr. Sami Al-Sayid	6	100
4	Dr. Adnan Steitieh	6	100
5	Dr. Tareq Al Haj	6	100
6	Mr. Jameel Al-Mu'ti	6	100
7	Mr. Yousef Bazian	6	100
8	Mr. Waleed Al-Najar	6	100
9	Mr. Hanna Abuaitah	6	100
10	Mr. Yazan Abdul Aziz	6	100
11	Mr. Basem Abed Al Halim	6	100



The Company's Policy of Social Responsibility

According to its policy of social responsibility and donations approved by the Board of Directors, in order to achieve the goals set out in the policy, the Bank has continued its activities during the year 2020 to turn towards social responsibility anxious to interact with the various activities of the Palestinian society. In addition, the Bank extended its role in the social service of the environment in Palestine through sponsoring and care of many of the social, charitable, and sports activities. Financial support is being provided for many of the students, associations, charities, volunteers, and national support programs that aim at the best interest of our nation's young people. The Higher Committee, formed for this paper, has agreed to allocate the amount of \$168,874 for various activities.

Academic Degrees held by the Members of the Board of Directors:

- Two members hold Doctorate Degrees.
- Six members hold Master Degrees.
- Three members hold Bachelor Degrees.

Board of Directors' Remuneration:

During the year 2020, remunerations were dispersed to the members of the Board of Directors. These include membership allowance, allowance for attending board meetings and additional allowance detailed in the following table. None of the members of the Board of Directors receives a salary.

Name	2019 (In US\$)	2020 (In US\$)
Mr. Abed Dayeh	59,000	12,000
Mr. Khalil Nasr	35,000	12,000
Mr. Jameel Al-Muti	8,000	12,000
Dr. Adnan Steitieh	14,000	12,000
Mr. Sami Al-Sayid	35,000	12,000
Mr. Yazan Dayeh	12,000	12,000
Mr. Yousef Bazian	21,000	12,000
Mr. Waleed Al-Najar	10,000	12,000
Mr. Basem Abed El Halim	6,000	12,000
Mr. Hanna Abuaitah	10,000	12,000
Dr. Tareq El Haj	10,000	12,000
Total	220,000	132,000

Academic Degrees held by Bank Employees:

- 14 employees hold Master Degrees.
- 231 employees hold Bachelor Degrees.
- 23 employees hold Diploma qualifications.
- 3 employees hold High School Degrees.
- 16 employees hold qualifications below a High School Degree.

Global Securities Co. (GSC)
**Financial intermediaries for buying
and selling stocks**

Headquarters and Central Administration
Nablus
Hamdi Kanaan St. (Branches out of Palestine St.)

Nablus, PO Box 1776
Tel: +970 (9) 2387880/1
Fax: +970 (9) 2385060

PALESTINE INVESTMENT BANK
(PUBLIC SHAREHOLDING COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020



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

Opinion

We have audited the consolidated financial statements of Palestine Investment Bank and its subsidiaries (collectively the "Bank"), which comprise of the consolidated statement of financial position as at December 31, 2020, consolidated income statement, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Other Matters

The consolidated financial statements as of December 31, 2019 were audited by another auditor who issued their qualified report on May 3, 2020, before the adjustments indicated in (note 48).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated financial statements for the current year. These matters were addressed in the context of our audit of the consolidated 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 Consolidated 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 consolidated 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 consolidated financial statements.

Key Audit Matter	Audit Procedures
Expected Credit Losses "ECL" allowances: The estimation process of the expected credit losses of credit facilities, balances at banks and financial institutions, and financial assets at amortized cost in accordance with IFRS (9) is important and complex as it requires significant judgement. IFRS (9) requires the use of the ECL model, which requires the Bank's management to use various assumptions and estimates to determine both the time and value of ECL in addition to applying judgment in determining the inputs within the impairment measurement process, including collaterals and default date. The Coronavirus (COVID-19) pandemic has affected the expected credit losses calculation process. During the year, the bank revised its macroeconomic indicators and allocated more weight to the worst-case scenarios. In addition to studying the impact of the pandemic on the customers' economic sectors. Given the importance of the provisions applied in IFRS (9) and the credit exposures that form a major part of the bank's assets, ECL calculation is considered a significant audit risk. Net credit facilities, balances at banks and financial institutions and financial assets at amortized cost amounted to U.S. \$ 427,917,268 as at December 31, 2020 which represents 67% of the bank's total assets. The related ECL amounted to U.S. \$ 5,250,359 as at December 31, 2020. Accounting policies, estimates, significant accounting judgments, disclosures of the ECL, and credit risk management are detailed in notes (3, 5, 7, 9, 41 and 49) to the consolidated financial statements.	Our audit procedures included assessing the controls on procedures for granting, recording and monitoring credit facilities, and the process of measuring ECL, including the requirements of the Palestine Monetary Authority (PMA) to verify the effectiveness of the main controls are in place, which determine the impairment in credit facilities, balances at banks and financial institutions, financial assets at amortized cost and the required provisions against them. Our procedures for testing controls also included assessing whether key controls, in the aforementioned processes had been designed, applied and effectively implemented; in addition to performing the following assessment procedures: - The Bank's policies related to the ECL provision in accordance with IFRS (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 Bank's staging. - The appropriateness of determining Exposure at Default (EAD), including the consideration of the cash flows repayments and the resultant arithmetical calculations. - The appropriateness of the Probability of Defaults (PD), Exposure at Default (EAD) and Loss Given Defaults (LGD) used for different exposures at different stages. - The accuracy and appropriateness of ECL calculation process - Credit facilities transferred between stages, and the determination basis of significant increase in credit facilities and financing risk in regard to timely identification with a significant deterioration in credit quality. - ECL calculation for credit facilities determined to be individually impaired. We also obtained an understanding of the latest developments in estimated future cash flows, current financial position and any rescheduling or restructuring agreements. - Procedures followed for collaterals valuation in accordance with the evaluation policies of the Bank. - Assessed the adequacy of the disclosures to the consolidated financial statements to ensure compliance with IFRS (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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, 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 ISA 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatements of the consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated 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

Saeed Abdallah

Ernst + Young

Sa'ed Abdallah
License # 105/2003

June 7, 2021
Ramallah - Palestine

Consolidated Statement of Financial Position

As at December 31, 2020

	Note	December 31, 2020 U.S. \$	December 31, 2019 U.S. \$ Adjusted Note (48)	January 1, 2019 U.S. \$ Adjusted Note (48)
ASSETS				
Cash and balances with Palestine Monetary Authority	4	156,335,367	84,589,336	87,147,234
Balances at banks and financial institutions	5	119,080,453	105,582,441	82,000,186
Financial assets at fair value through profit or loss	6	17,414,016	24,935,594	8,911,468
Direct credit facilities	7	294,907,755	226,029,632	218,082,858
Financial assets at fair value through other comprehensive income	8	44,134	116,920	231,280
Financial assets at amortized cost	9	13,929,060	18,162,991	23,441,949
Property, Plant and equipment	10	25,970,557	26,847,421	24,997,359
Right of use assets	11	1,684,976	1,913,541	-
Intangible Assets	12	1,380,951	1,230,991	1,164,836
Deferred Tax Assets	13	912,117	988,172	815,917
Other assets	14	9,523,912	11,237,714	7,903,022
Total Assets		641,183,298	501,634,753	454,696,109
LIABILITIES AND EQUITY				
Liabilities				
Istidama loans from Palestine Monetary Authority	15	750,000	-	-
Banks and financial institutions' deposits	16	22,589,057	22,762,922	43,350,610
Customers' deposits	17	475,203,603	339,070,311	282,689,956
Cash margins	18	27,456,340	25,841,280	21,868,716
Subsidiary Loan	19	1,000,000	1,000,000	-
Sundry Provisions	20	3,996,201	3,657,409	3,110,005
Leases Liabilities	21	1,759,429	1,739,118	-
Taxes Provisions	22	1,109,573	1,705,560	1,284,083
Other liabilities	23	8,465,732	7,557,111	6,247,448
Total Liabilities		542,329,935	403,333,711	358,550,818
Equity				
Paid-in share capital	1	78,000,000	78,000,000	75,000,000
Statutory reserve	25	9,695,787	9,295,295	8,838,821
General banking risks reserve	25	3,357,489	2,481,489	2,481,489
Pro-cyclicality reserve	25	1,824,766	1,723,266	4,723,266
Fair value reserve	8	(33,278)	(29,975)	(112,942)
Assets revaluation Surplus	26	3,212,555	3,212,555	3,212,555
Retained earnings		2,796,044	3,618,412	2,002,102
Total Equity		98,853,363	98,301,042	96,145,291
Total Liabilities and Equity		641,183,298	501,634,753	454,696,109

Consolidated Income Statement

For the year ended December 31, 2020

		2020	2019
	Note	U.S. \$	U.S. \$
			Adjusted note (48)
Interest income	27	20,166,982	20,322,461
Interest expense	28	(4,070,501)	(3,057,262)
Net interest income		16,096,481	17,265,199
Net commissions	29	3,785,315	4,163,133
Net interest and commissions income		19,881,796	21,428,332
Foreign currencies gains		1,352,865	1,119,579
Gain from currency revaluation		88,211	43,371
Gains from financial assets	30	1,191,010	1,146,795
Other revenues	31	151,609	325,285
Gross profit		22,665,491	24,063,362
Expenses			
Personnel expenses	32	6,863,509	7,014,214
Other operating expenses	33	6,759,552	7,896,879
Provisions for expected credit losses, net	34	1,733,796	653,470
Depreciation and amortization	10,11,12	2,221,127	1,966,133
Finance cost related to lease contracts	21	56,327	57,137
Palestine Monetary Authority's fines	35	5,000	-
Total expenses		17,639,311	17,587,833
Profit before taxes		5,026,180	6,475,529
Taxes expense	22	(1,350,878)	(1,602,745)
Profit for the year		3,675,302	4,872,784
Basic and diluted earnings per share	36	0.047	0.062

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2020

		2020	2019
	Notes	U.S. \$	U.S. \$
			Adjusted note (48)
Profit for the year		3,675,302	4,872,784
Other comprehensive income items			
items not to be reclassified to the consolidated income statement in subsequent periods:			
Change in the fair value of financial assets	8	(2,981)	282,967
Total other comprehensive income		(2,981)	282,967
Net comprehensive income for the year		<u>3,672,321</u>	<u>5,155,751</u>

For the year ended December 31, 2020

[illegible]

Consolidated Statement of Cash Flows

For the year ended December 31, 2020

	Notes	2020 U.S. \$	2019 U.S. \$ Adjusted note (48)
Operating activities			
Profit for the year before taxes		5,026,180	6,475,529
Adjustments for:			
Provision for expected credit losses, net	34	1,733,796	653,470
Depreciation and amortization		2,221,127	1,966,133
Gains from sale of financial assets at amortized cost		(156,945)	(194,666)
Gains from sale of financial assets at fair value through profit or loss		(5,097)	(194,369)
Net revaluation gains from financial assets at fair value through Other comprehensive income	30	(434,611)	(282,259)
Finance costs on lease liabilities	21	56,327	57,137
Sundry provisions		1,045,342	1,659,391
Dividends revenue		-	(123,401)
Other non-cash items		15,484	15,297
		9,501,603	10,032,262
Changes in assets and liabilities:			
Statutory cash reserve		(7,021,000)	(3,365,844)
Direct credit facilities		(70,785,974)	(8,641,272)
Other assets		1,713,802	(3,596,420)
Customers' deposits		136,133,292	56,380,355
Cash margins		1,615,060	3,972,564
Other liabilities		715,843	1,029,813
Net cash from operating activities before taxes and paid provisions		71,872,626	55,811,458
Taxes paid		(1,883,765)	(1,366,043)
Sundry provisions paid		(709,106)	(1,114,764)
Net cash from operating activities		69,279,755	53,330,651
Investing activities:			
Sale of financial assets at fair value through other comprehensive income		69,805	1,797,327
Purchase of financial assets at fair value through other comprehensive income		-	(19,329,098)
Financial assets at amortized cost		3,370,321	8,568,336
Purchase of financial assets at amortized cost		(980,892)	(7,270,815)
Sale of financial assets at amortized cost		2,126,316	4,232,934
Purchase of financial assets at fair value through profit or loss		(2,003,000)	(192,757)
Sale of financial assets at fair value through profit or loss statement		9,964,286	2,590,357
Purchase of property, plant and equipment		(544,919)	(3,238,396)
Purchase of Intangible assets		(443,880)	(315,855)
Cash dividends received		-	123,401
Net cash from (used in) investing activities		11,558,037	(13,034,566)
Financing activities:			
Payments of long-term Lease liabilities		(312,875)	(454,584)
Cash dividends paid		(2,915,232)	(2,581,163)
Istidama loans from Palestine Monetary Authority		750,000	-
Subsidiary Loan		-	1,000,000
Net cash used in financing activities		(2,478,107)	(2,035,747)
Increase in cash and cash equivalents		78,359,685	38,260,338
Cash and cash equivalents, beginning of the year		143,854,936	105,594,598
Cash and cash equivalents, end of the year	37	222,214,621	143,854,936
Interest revenue received		19,509,642	19,575,919
Interest expense paid		3,880,330	2,910,950

Notes to the Consolidated Financial Statements

December 31, 2020

1. General

Palestine Investment Bank P.L.C (the Bank) was established in Palestine in August 10, 1994 in accordance with Companies' Law of 1964 under registration no, (563200864) with a share capital amounted to U.S. \$ 20 million. Following the decision of the extraordinary general assembly during its meeting held on May 13, 2010, the Bank's authorized capital was increased to 100 million shares at U.S. \$ 1 par value for each share. The Bank's paid in share capital as at December 31, 2020 amounted to U.S. \$ 78 million based on 78 million shares at U.S. \$ 1 par value each.

The Bank carries out all of its banking activities through the head quarter in Ramallah and its eleven branches and ten offices located in Palestine in addition to Bahrain branch with Bank's personnel of (276) employee. The Bank carries out all of its banking activities which include opening current accounts as at December 31, 2020, accepting deposits, lending money, payment services, money transfer, buy and sell currencies, Bill and commercial papers discount, and other activities according to approvals from competent authorities.

The consolidated financial statements were authorized for issuance by the Bank's Board of Directors during their meeting held on February 25, 2021.

2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of Palestine Investment Bank (the Bank) and its subsidiaries and its investments that have been consolidated with the bank as at December 31, 2020. The Bank's ownership in the subsidiaries' share capital was as follows:

Company name	Main activity	Ownership percentage		Subscribed capital	
		2020	2019	2020	2019
Global Securities Company	Brokerage firm	100%	100%	3,526,093	3,526,093
Horizon Real Estate Private Shareholding Limited Co.	Real Estate management	100%	100%	5,000,000	5,000,000

Investment name	Main activity	Investment percentage		Value of the investment	
		2020	2019	2020	2019
German Diversified Income Fund*	Investment fund	49.97%	100%	-	21,080,500

* During 2019, the Bank invested in a fund with an investment rate of 100% which was consolidated with the Bank's financial statements in accordance with IFRSs during 2020 by correcting the accounting treatment for this investment retroactively (note 48). Also, during the year 2020, the bank sold a large part of this investment, which led to losing control over the fund. Due to that, the Bank didn't consolidate the financial statements of the fund with the Bank's financial statements and the remaining owned shares were classified as financial assets at fair value through profit or loss. Subsequent to the financial statements date, the Bank sold the remaining part of the investment on May 28, 2021.

The financial year of the subsidiaries are the same as the financial year of the Bank and, where necessary, the bank makes adjustment to align the policies of the subsidiaries with the accounting policies of the Bank.

The financial statements of the subsidiaries are consolidated with the Bank's financial statements based on the consolidation of a line-by-line basis of assets, liabilities and result of operations of the Bank with the assets, liabilities, and results of operations of subsidiaries after eliminating all intercompany balances and transactions between the Bank and its subsidiaries.

The Bank and its subsidiaries operate in the Palestinian Authority areas and Bahrain, and the German Diversified Income Fund operates in Germany.

3. Accounting Policies

3.1 Basis of consolidation of financial statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at December 31, 2020. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Bank controls an investee if, and only if, the Bank has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

The Bank re-assesses whether or not it controls investees if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of subsidiaries begins when the Bank obtains control over the subsidiaries and ceases when the Bank loses control of the subsidiaries. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Bank gains control until the date the Bank ceases to control the subsidiary. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

All intra-bank balances, transactions, unrealized gains and losses resulting from intra-bank transactions and dividends are eliminated in full.

In the event that the bank loses control over its subsidiaries, the assets (including goodwill) and the liabilities of the subsidiary in addition to the book value of non-controlling interests are excluded. The surplus or deficit from disposal is recorded in the consolidated income statement. Any remaining investments are recorded at fair value.

3.2 Basis of preparation

The consolidated financial statements of the bank have been prepared in accordance with the International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), and in conformity with PMA regulations.

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income that have been measured at fair value at the date of the consolidated financial statements.

The consolidated financial statements have been presented in US Dollar, which is the functional currency of the Bank.

3.3 Changes in accounting policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2019, except for the adoption of new amendments effective as at 1 January 2020 shown below:

Amendments to IFRS (3): “Definition of a Business”

The IASB issued amendments to the definition of “business” in IFRS (3) – “Business Combinations” to assist enterprises determine whether the group of activities and assets acquired meet the definition of “business” or not. These amendments clarify the minimum business requirements, remove the assessment of whether market participants are able to replace any non-existent business elements, and add guidelines to help entities assess whether the acquired operation is material, determine business definitions and outputs, and add an optional fair value concentration test.

The amendments have been applied to transactions that are either a business merger or the 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.

The applied amendments did not impact the Bank's consolidated 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 consolidated financial statements of the bank.

Amendments to IFRS (7) and IFRS (9) Interest Rate Benchmark Reform

Amendments to the interest rate standards of IFRS (9) and IFRS (7) include a number of reliefs that apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if it gives rise to uncertainty about the timing and / or amount of benchmark-based cash flows of the hedged item or hedging instrument. During the period prior to replacing the current interest rate standard with a risk-free rate (RFR). This may lead to uncertainty as to whether the prospective trade is likely and whether the future hedging relationship is effective.

The amendments are effective for financial periods beginning on or after January 1, 2020. The amendment must be done retrospectively. However, any hedging relationships that were previously canceled cannot be reinstated upon the request, and no hedging relationships can be assigned based on past experience.

After completing the first phase, the IASB shifts its focus to matters that may affect financial reporting when replacing the current interest rate standard with an RFR. This is referred to as the second phase of the IASB project.

The applied amendments did not impact the Bank's consolidated financial statements, and it is not expected that there will be any future impact on the Bank.

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.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. These amendments had no impact on the consolidated financial statements of the Bank.

Standards and amendments issued but not effective

The standards and amendments that are issued but not yet effective, up to the date of issuance of the Bank's consolidated financial statements are disclosed below. The Bank intends to adopt these standards and amendments, if applicable, when they become effective.

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 consolidated financial statements of 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 recognizes the proceeds from selling such items, and the costs of producing those items, in profit and loss statement.

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 consolidated financial statements of 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 consolidated financial statements of 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.

The bank 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 amendments are not expected to have a material impact on the consolidated financial statements of 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 interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest 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 interest 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 interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans 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.

3.4 Summary of Significant Accounting Policies

Revenue's recognition

The effective interest rate method

According to IFRS (9) Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost, financial instruments designated at Fair value through profit or loss (FVTPL). Interest income on interest bearing financial assets measured at Fair value through other comprehensive income (FVOCI). The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (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 EIR. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the consolidated statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortized through interest and similar income in the consolidated other comprehensive income statement.

Interest and similar income and expense

For all financial instruments measured at amortized cost, financial instruments designated at FVOCI and FVTPL, interest income or expense is recorded using the EIR.

The calculation takes into account all of the contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

When the recorded value of a financial asset or a bank of similar financial assets has been reduced by an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income

Fee's income can be divided into the following two categories:

- Fee's 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.
- 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 loans that are likely to be drawn down and other credit related fees.

Dividend income

Profits or losses from trading investments in financial assets are realized upon completion of the trading process, and dividends from investee companies are recognized when the right to receive the dividends is established.

Service and rent revenues

Leases in which the risks and rewards of ownership are not transferred from the lessor to the lessee are classified as operating leases. The cost incurred in operating leases contracts is added to the carrying value of the leased asset and is recognized as rental income over the period of the lease contract.

Credit Facilities

Credit facilities are stated net of provision for expected credit losses and suspended interest.

Interest and commissions are suspended on non-performing credit facilities granted to clients in accordance with the instructions of the Palestine Monetary Authority, and the calculation of interest and commissions on credit facilities for which legal measures have been taken are suspended.

The credit facilities for which a provision is prepared shall be written off in the event that the measures taken to collect them are ineffective by deducting them from the provision in accordance with the instructions of the Palestine Monetary Authority, and any surplus in the provision is transferred to the consolidated statement of income, and the collection of the previously written off debts is added to the revenues

The facilities that have been in default of more than six years, the related suspended interest and provisions are excluded from the bank's consolidated financial statements in accordance with the instructions of the Palestine Monetary Authority

Financial Assets and liabilities

Investment in financial assets

Purchases and sales of financial assets are recorded on the date of the operation, which is the date of the commitment to buy or sell the financial assets. Regular purchases and sales of financial assets are those in which the financial assets are transferred within the specified period in accordance with the laws or what is generally accepted in the market regulations. Financial assets are recorded at fair value upon purchase, and direct acquisition expenses are added, except for financial assets at fair value through income statement, which are initially recorded at fair value. All financial assets are subsequently recorded at amortized cost or fair value

Financial assets at amortized cost

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

- The debt instrument is held within a business model with the objective to hold the assets in order to collect contractual cash flows.
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Debt instruments that meet the two previous conditions are initially measured at fair value plus acquisition expenses (except if the bank chooses to classify these assets through the income statement as shown below). Subsequently, it is measured at amortized cost using the effective interest rate method after deducting the impairment. Interest income is recognized using the effective interest method.

The effective interest rate is the interest rate that is used to discount the future cash flows over the life of the debt instrument, or a shorter period in certain cases, to equal the book value at the date of initial recognition.

Upon initial recognition, the bank can irrevocably classify a debt instrument that met the amortized cost conditions mentioned above as financial assets at fair value through the statement of profit or loss if this leads to the removal or significant mitigation of the accounting mismatch as a result of classifying the financial instrument at amortized cost.

Financial assets at fair value through profit or loss

These financial assets represent debt instruments that do not meet the amortized cost conditions or financial instruments that meet the amortized cost conditions, but the bank chose to classify them at fair value through the income statement upon initial recognition. The Bank has not classified any debt instrument that fulfills the terms of debt instruments at amortized cost as financial assets at fair value through consolidated statement of profit or loss.

Upon initial recognition, the bank classifies the equity instruments at fair value as financial assets at FVTPL, except for investments not held for trading, where these assets can be classified at fair value through other comprehensive income.

Financial assets are measured at fair value through the income statement, and any gain or loss resulting from the change in its fair value is recorded in the consolidated income statement.

The dividends income on investing in financial instruments from the investee companies are recognized when the right to receive them is established.

Financial assets at fair value through other comprehensive income

At initial recognition, the bank makes an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to the consolidated income statement but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognized in the consolidated income statement when the bank's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Debt instruments can be classified as financial assets at FVTOCI if the following two conditions are met

- The debt instrument is held within a business model that aims to hold the asset to obtain contractual cash flows and sell them.
- The contractual terms of the instrument grant, on specific dates, the right to benefit from cash flows that represent payments from the principal and interest on the outstanding balance.

Reclassification of financial assets and liabilities

The bank does not reclassify its financial assets after the date of initial recognition, except in cases where the bank acquires or abolishes a business sector. Financial liabilities are never reclassified.

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage (1) for ECL measurement purposes.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition.

Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than for substantial modification

A. Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a bank of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Bank also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

Or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. The bank measures the collaterals through asset book value and through the amount that could be paid by the Bank.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Assets Derecognition

Financial assets are derecognized only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the bank recognizes its retained interest in the asset and an associated liability for 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 of financial instruments

The fair value of financial assets and liabilities appearing in the statement of financial position and whose fair value cannot be obtained from active financial markets are determined through appropriate valuation methods that include discounted expected cash flows. Valuation inputs are obtained through observable markets if possible, and when it is not appropriate to rely on these inputs, a degree of estimates and assumptions are adopted to determine the fair value. These assumptions include factors specific to the inputs that are relied upon in determining fair value, such as liquidity risk, credit risk and other volatility. Changes in assumptions may affect the fair value amounts of financial assets shown in the financial statements.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages banks 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 interest 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 interest 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 interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Financial guarantees, letters of credit and unutilized facilities ceilings

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees (and its provisions) are initially recognized in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the consolidated income statement as provision for expected credit losses.

The premium received is recognized in the consolidated income statement net of fees and commission income on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are subsequently measured at the higher of the amount of the ECL and the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

Impairment of financial assets

Overview of the ECL principles

The implementation of International Financial Reporting Standard No. (9) has fundamentally changed the method of calculating the impairment loss of facilities for the bank through the approach of the expected credit loss method with a future outlook instead of recognizing the loss when the loss is incurred according to International Accounting Standard No. (39) as of January 1, 2019.

The Bank recorded the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts (financial instruments).

Equity instruments are not subject to impairment test under IFRS (9).

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

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 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 financial assets into stage (1), stage (2) and stage (3), as described below:

- | | |
|-----------|---|
| Stage (1) | When financial assets that its credit risk haven't increased dramatically since initial recognition, the Bank recognizes an allowance based on 12mECLs. |
| Stage (2) | When a financial asset has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. |
| Stage (3) | Financial assets considered credit impaired. The Bank records an allowance for the LTECLs. |

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:

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|-----|--|
| 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, if the facility has not been previously derecognized and is still in the portfolio. |
| 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 interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest 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, best and worst). Each of these is associated with different percentages of PDs, EADs and LGDs.

The mechanics of the ECL method are summarized below:

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|--|--|
| (1) Stage | 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. |
| (2) Stage | When a financial asset 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. |
| (3) Stage | For financial assets considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. 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. |
| Loan commitments and letters of credit | When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan 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 financial asset 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 on the commitment. |

Bad debt not previously provided for and written off

The facilities and Islamic financing that its borrower passed away and do not have sufficient collaterals are written-off in accordance with PMA instructions.

Credit cards and other revolving facilities

The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead, calculated ECL over a period that reflects the Bank's expectations of the customers' behavior, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products.

The interest rate used to discount the ECLs for credit cards is the effective interest rate.

Expected credit losses is calculated, including the expected period for the exposure and the discounted rate, on an individual basis.

Forward looking information

In its ECL model, 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 and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS (9) is the same as it was under IAS (39) and PMA instructions.

Collateral, unless repossessed, is not recorded on the Bank's consolidated 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 appropriate methods. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers.

Collaterals repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold taking into consideration the relevant PMA instructions. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are categorized as 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 consolidated statement of financial position.

Write-offs

The accounting policies used by the bank in relation to debt write-off according to International Financial Reporting Standard No. (9) do not differ compared to International Accounting Standard No. (39) and the instructions of the Palestine Monetary Authority.

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 deducted from expected credit loss expense.

Modified facilities

The Bank sometimes makes modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to the otherwise enforce collection of collateral. Modifications may include extension of payments or agreeing to new financing terms. It is the Bank's policy to monitor the scheduled facilities to help ensure that future payments continue to occur. Classification decisions between Stage (2) and Stage (3) are determined on a case-by-case basis.

Fair value measurement

The Bank measures some of its financial instruments, and non-financial assets such as investment properties, at fair value at the consolidated financial statements date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available.

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.

Certified external appraisers participate in the valuation of material assets. After discussions with the appraisers, the Bank selects the methods and inputs to be used for the valuation in each case.

For the purpose of disclosing the fair value, 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.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of 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. Lands are not depreciated. All other costs are recognized in the consolidated income statement as incurred.

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

	Useful life (Years)
Real estate	50
Furniture and equipment	6 - 17
Leasehold improvements	5 – 11
Computers	4 – 10
Vehicles	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 consolidated 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.

The bank measures the land within real estate, plant and equipment at fair value in accordance with the revaluation model, whereby the revaluation difference is recorded in the consolidated statement of comprehensive income.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or infinite.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Intangible assets with finites lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The amortization expense on intangible assets with finite lives is recognised in the consolidated income statement.

Intangible assets include computer systems and programs, and the bank's management estimates the time life so that computer systems and programs are amortized using the straight-line method over the expected useful life of ten years.

Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other banks' assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples quoted share prices for publicly traded companies or other available fair value indicators.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal 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.

Provisions

Provisions are recognized when the Bank has an 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 provision

The Bank provides for income tax in accordance with IAS (12) and Palestinian Income Tax Law. IAS (12) requires recognizing the temporary differences, at the consolidated statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, as deferred tax assets or liabilities. Deferred tax is provided on temporary differences at the consolidated statement of financial position between the tax bases of assets and the liabilities and their carrying amounts for financial reporting purposes. The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Income tax expense represents the accrued income tax, which is calculated based on the taxable income. Taxable income may differ from accounting income as the later includes non-taxable revenues or non-deductible expenses, such income/expense might be taxable/deductible in the following years.

A reconciliation is made between deferred tax assets and deferred tax liabilities and the net amount is recognized in the consolidated financial statements only when the legally binding rights are available and when they are settled on a settlement basis or the asset is realized, and the liability settled simultaneously.

Provision for end of service indemnity

Provision is made for employees' end of service indemnity is estimated in accordance with the Labor Law effective in Palestine and the Bank's personnel policy. The Palestinian Social Security Law (the law) was expected to be implemented during 2018, but it was suspended in accordance with a presidential decree dated January 28, 2019. The dialogue with the relevant parties will continue in order to reach a national consensus on the provisions of the law and its date of entry into force. The law requires employers to settle the end of service benefits for the periods preceding the application of the provisions of the Law.

Foreign currencies

Transactions in foreign currencies during the year are recorded at the exchange rates prevailing on the date of the transactions.

Monetary assets and liabilities are converted at foreign exchange rates prevailing at the date of the consolidated statement of financial position.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are reconverted into US dollars on the date that the fair value was determined.

Gains and losses arising from converting foreign currencies into US dollars are recorded in the consolidated income statement.

Earnings per share

Basic earnings per share is calculated by dividing 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 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 less treasury shares.

Derivatives recorded at fair value through profit or loss

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 interest 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 interest 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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with PMA, balances with banks and financial institutions, less balances with banks and financial institutions maturing after three months and banks and financial institutions' deposits.

Right of use assets

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

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

Lease liabilities

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

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

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

Short-term leases and leases of low-value assets

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

Segment's 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 an economic environment exposed to risks and returns different from those of other segments working in other economic environments.

Use of estimates

The preparation of the financial statements requires the Bank's management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These estimates and assumptions also affect the revenues, expenses and the resultant provisions. Considerable judgment is especially required by management in the estimation of the amount and timing of future cash flows. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes in such provisions.

Following are the most important estimates and judgments used:

- Tax provisions are calculated annually based on prevailing tax laws and the accounting standards that the Bank follows.
- Employees' indemnity expense is recorded in accordance with the Palestinian Labor Law and in accordance with applicable accounting standards.
- Management reviews periodically the useful lives of the tangible and intangible assets in order to assess the depreciation and amortization for the year based on the assets' conditions and useful lives and future economic benefits, any impairment is recognized in the income statement.
- Management reviews, on a regular basis, the financial assets that are stated at cost to estimate impairments, if any. Impairment losses (if any) are recognized in the income statement.
- Legal cases provision is established to provide for any legal obligations, if any, based on the opinion of the Bank's lawyer.
- Determine the lease term for contracts with options for renewal and termination.

Provision for expected credit losses (ECL)

The provision for ECL is reviewed in accordance with the principles established by the Palestine Monetary Authority and IFRS (9). The determination of provision for ECL expected from management requires judgments and judgments to be made to estimate the amounts and timing of future cash flows, as well as to estimate any significant increase in the credit risk of financial assets after initial recognition, taking into consideration future measurement information for ECL.

The Bank has calculated the provision for ECL for financial assets in accordance with international reporting standards and is consistent with the instructions of the PMA.

The Bank's policy of identifying the common elements to measure credit risk and ECL on an individual basis is based on:

- Retail portfolio: individual basis at facility/ country level (overdraft, overdrawn, and loans)
- Corporate portfolio: individual basis at facility /customer level
- Deposits at Financial Institutions and PMA: individual basis at facility / bank level
- Debt instruments measured at amortized cost (bonds): individual basis at instrument level.

Inputs, assumptions and techniques used for ECL calculation – IFRS (9) methodology

Key concepts 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)**
 - Significant increase in credit risk is assessed on a proportional basis. 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. This evaluation is used to classify clients and portfolios for the credit rating stages, stage 1 (initial recognition), stage 2 (credit quality decline) and stage 3 (credit impairment).
 - In accordance with International Financial Reporting Standard No. (9), credit facilities must be transferred from phase 1 to phase 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 continues to assess borrowers for other indications of unwillingness to pay, keeping in mind consideration of the underlying cause of any financial difficulty and whether it is likely temporary because of Covid-19 or in the long term. In response to the Palestine Monetary Authority No. (23/2020) instructions, the bank started during the year 2020 a payment relief program to support its affected customers by postponing the interest/principal loan outstanding for a period of 4 months to 6 months. These waivers are considered as short-term liquidity to address the borrower's cash flow issues. The Bank believes that the extension of payment waivers 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 clients, the Bank continues to consider the severity and potential impact of Covid-19 on the economic sector, future outlook, cash flows, financial strength, mobility and change in risk profile, and past history in identifying a material increase in credit risk.
- **Macroeconomic factors, forward looking information 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.

The probability of default, the assumed default loss, the effect on default, and the inputs used in stage 1 and stage 2 for provision for expected credit losses are designed based on changing economic factors (or change in macroeconomic factors) that are directly related to the credit risk related to the portfolio. Each of the macroeconomic scenarios used in calculating the expected credit loss is associated with various macroeconomic factors.

Although the extent and duration of the effects of Covid-19 remain unclear and depends on future developments that cannot be accurately predicted at present, during the year 2020, the Bank adjusted the macroeconomic factors in addition to changing the likely possibilities of macroeconomic scenarios by taking greater weights for the low scenario, which negatively affected the calculation of the expected credit loss allowance.

- **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 credit facilities 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.

4. Cash and balances at Palestine Monetary Authority

This item comprises the following:

	2020	2019
	U.S. \$	U.S. \$
Cash in the treasury	98,749,434	48,089,336
Balances with Palestine Monetary Authority:		
Current and demand accounts	26,962,101	12,897,168
Statutory cash reserve requirements	30,623,832	23,602,832
	156,335,367	84,589,336

- According to PMA circular number (67/2010), the Bank shall maintain statutory cash reserves with PMA at 9% of customers' deposits. PMA does not pay interest on statutory cash reserves. According to PMA circular number (2/2012), the outstanding balance of credit facilities granted in Jerusalem for some sectors are deducted before the statutory reserve is calculated.
- PMA does not pay interest on current accounts.

5. 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	8,940	128,433
Deposits maturing within 3 months or less	5,122,880	33,449,982
	5,131,820	33,578,415
Foreign banks and financial institutions:		
Current and demand accounts	77,016,698	48,855,073
Deposits maturing within 3 months or less	36,943,625	23,197,866
	113,960,323	72,052,939
	119,092,143	105,631,354
Provision for expected credit losses	(11,690)	(48,913)
	119,080,453	105,582,441

- Non-interest or profits bearing balances at banks and financial institutions as at December 31, 2020 and 2019 amounted to U.S. \$ 77,025,638 and U.S. \$ 48,983,506, respectively.
- Restricted balances at banks and financial institutions as at December 31, 2020 and 2019 amounted to U.S. \$ 4,474,934 and U.S. \$ 4,201,441, respectively.

The movement on the gross carrying amount of the balances at banks and financial institutions is as follows:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	105,631,354	-	-	105,631,354
Net change during the year	13,460,789	-	-	13,460,789
Balance, end of the year	119,092,143	-	-	119,092,143

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	82,034,962	-	-	82,034,962
Net change during the year	23,596,392	-	-	23,596,392
Balance, end of the year	105,631,354	-	-	105,631,354

The movement on the provision for expected credit losses on balances at banks and financial institutions is as follows:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	48,913	-	-	48,913
Net change during the year	(37,223)	-	-	(37,223)
Balance, end of the year	11,690	-	-	11,690

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	34,776	-	-	34,776
Net change during the year	14,137	-	-	14,137
Balance, end of the year	48,913	-	-	48,913

6. Financial assets at fair value through profit or loss

This item comprises the following:

	2020	2019
	U.S. \$	U.S. \$
Quoted stocks in global stock markets	17,414,016	22,750,434
Quoted bonds in global stock markets	-	2,185,160
	<u>17,414,016</u>	<u>24,935,594</u>

7. Direct credit facilities

	2020	2019
	U.S. \$	U.S. \$
<u>Retail</u>		
Current overdrafts	20,077,791	20,594,706
Loans and promissory notes	99,298,744	85,125,893
Credit cards	2,175,700	2,109,444
<u>Corporate and institutions</u>		
Current overdrafts	18,675,193	18,025,849
Loans and promissory notes	101,281,939	85,996,948
<u>Governmental and Public sector</u>		
	59,766,366	18,560,383
	<u>301,275,733</u>	<u>230,413,223</u>
Suspended interests and commissions	(1,160,006)	(698,810)
Provision for expected credit losses	<u>(5,207,972)</u>	<u>(3,684,781)</u>
	<u>294,907,755</u>	<u>226,029,632</u>

- The total non-performing credit facilities classified, according to PMA instructions, after deducting the suspended interest as at December 31, 2020 and 2019 amounted to U.S. \$ 15,366,065 and U.S. \$ 14,741,527, representing 5.50% and 6.42% of the direct credit facilities balance net of suspended interest, respectively.
- The defaulted credit facilities classified, according to PMA instructions and after deducting the suspended interest as at December 31, 2020 and 2019 amounted to U.S. \$ 14,618,477 and U.S. \$ 8,958,028, representing 4.87% and 3.90% of the direct credit facilities balance net of suspended interest, respectively.
- According to PMA instructions number (1/2008), the defaulted credit facilities for more than 6 years were excluded from the consolidated financial statements. These defaulted facilities amounted to U.S. \$ 5,997,057 as at December 31, 2020, and the balance of provision and suspended interest for defaulted accounts amounted to U.S. \$ 4,583,652 and U.S. \$ 1,413,405, respectively.
- Credit facilities granted to Palestine National Authority amounted to U.S. \$ 59,766,366, representing 20% of gross direct credit facilities after deducting suspended interests as at December 31, 2020, for an amount of U.S. \$ 18,560,383, representing 8% of direct credit facilities' balance after deducting suspended interests as at December 31, 2019.
- Credit facilities granted to non-residents amounted to U.S. \$ 654,433 and U.S. \$ 198,378 as at December 31, 2020 and 2019, respectively.
- The fair value of collaterals obtained against direct credit facilities amounted to U.S. \$ 141,828,817 and U.S. \$ 146,205,677 as at December 31, 2020 and 2019, respectively.

Suspended interests and commissions

A summary of the movement on the suspended interests during the year was as follows:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	698,810	512,812
Suspended interest during the year	674,669	281,225
Suspended interest transferred to revenues during the year	(13,716)	(10,676)
Suspended interest written off	(88,798)	(4,067)
Write off	(110,959)	(80,484)
Balance, end of the year	1,160,006	698,810

A summary of the movement on gross carrying amount of direct credit facilities was as follows:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	188,684,555	26,288,331	15,440,337	230,413,223
Net change during the year	74,946,822	(4,698,207)	1,130,794	71,379,409
Transferred to stage (1)	10,156,677	(10,108,148)	(48,529)	-
Transferred to stage (2)	(15,581,023)	15,582,523	(1,500)	-
Transferred to stage (3)	(774,884)	(874,652)	1,649,536	-
Write off	-	-	(516,899)	(516,899)
Balance, end of the year	257,432,147	26,189,847	17,653,739	301,275,733

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	188,080,658	24,872,749	8,623,689	221,577,096
Net change during the year	17,762,117	(14,345,095)	(1,626,050)	1,790,972
Transferred to stage (1)	1,679,317	(1,498,654)	(180,663)	-
Transferred to stage (2)	(17,753,930)	17,753,930	-	-
Transferred to stage (3)	(3,958,650)	(4,960,211)	8,918,861	-
Off-balance sheet written off	-	-	(144,766)	(144,766)
Adjustments	2,875,043	4,465,612	(150,734)	7,189,921
Balance, end of the year	188,684,555	26,288,331	15,440,337	230,413,223

Provision for expected credit losses

The movement on the provision for expected credit losses of direct credit facilities was as follows:

2020				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	731,967	216,521	2,736,293	3,684,781
Net change during the year	219,046	27,014	1,661,791	1,907,851
Transferred to stage (1)	128,785	(128,785)	-	-
Transferred to stage (2)	(37,398)	37,398	-	-
Transferred to stage (3)	(2,704)	(5,267)	7,971	-
Write off	-	-	(516,899)	(516,899)
Currency exchange differences	-	-	136,135	136,135
Adjustments	(3,896)	-	-	(3,896)
Balance, end of the year	1,035,800	146,881	4,025,291	5,207,972

2019				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	856,447	116,951	2,008,028	2,981,426
Net change during the year	263,541	(1,312)	450,250	712,479
Transferred to stage (1)	6,333	(6,247)	(86)	-
Transferred to stage (2)	(239,645)	239,645	-	-
Transferred to stage (3)	(150,871)	(140,965)	291,836	-
Write off	-	-	(144,766)	(144,766)
Adjustments	(3,838)	8,449	131,031	135,642
Balance, end of the year	731,967	216,521	2,736,293	3,684,781

A summary of the movement on gross carrying amount of direct credit facilities for government and public sector were as follows:

	Stage (1)	Stage (2)	Stage (3)	2020
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	18,560,383	-	-	18,560,383
Net change during the year	41,205,983	-	-	41,205,983
Balance, end of the year	59,766,366	-	-	59,766,366

A summary of the movement on the provision for expected credit losses for government and public sector were as follows:

	Stage (1)	Stage (2)	Stage (3)	2020
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	89,841	-	-	89,841
Net change during the year	213,960	-	-	213,960
Balance, end of the year	303,801	-	-	303,801

A summary of the movement on gross carrying amount of direct credit facilities for Corporates was as follows:

	Stage (1)	Stage (2)	Stage (3)	2020
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	83,446,903	14,310,939	6,264,955	104,022,797
Net change during the year	19,300,216	(2,091,029)	(1,274,852)	15,934,335
Transferred to stage (1)	6,794,820	(6,435,083)	(359,737)	-
Transferred to stage (2)	(10,481,232)	10,481,232	-	-
Transferred to stage (3)	(396,993)	(4,898)	401,891	-
Balance, end of the year	98,663,714	16,261,161	5,032,257	119,957,132

A summary of the movement on the provision for expected credit losses for Corporates was as follows:

	Stage (1)	Stage (2)	Stage (3)	2020
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	219,345	76,717	827,121	1,123,183
Net change during the year	26,166	11,136	350,205	387,507
Transferred to stage (1)	45,557	(45,557)	-	-
Transferred to stage (2)	(12,996)	12,996	-	-
Transferred to stage (3)	(523)	(49)	1,257	685
Write off	-	-	(183,736)	(183,736)
Currency exchange differences	-	-	34,583	34,583
Adjustments	-	-	33,218	33,218
Balance, end of the year	277,549	55,243	1,062,648	1,395,440

A summary of the movement on gross carrying amount of direct credit facilities for retails was as follows:

	Stage (1)	Stage (2)	Stage (3)	2020
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	86,677,269	11,977,392	9,175,382	107,830,043
Net change during the year	14,440,623	(2,607,178)	1,888,747	13,722,192
Transferred to stage (1)	3,361,857	(3,673,065)	311,208	-
Transferred to stage (2)	(5,099,791)	5,101,291	(1,500)	-
Transferred to stage (3)	(377,891)	(869,754)	1,247,645	-
Balance, end of the year	99,002,067	9,928,686	12,621,482	121,552,235

A summary of the movement on the provision for expected credit losses for retails was as follows:

	Stage (1)	Stage (2)	Stage (3)	2020
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	422,781	139,804	1,909,172	2,471,757
Net change during the year	(21,080)	15,878	1,311,586	1,306,384
Transferred to stage (1)	83,228	(83,228)	-	-
Transferred to stage (2)	(24,402)	24,402	-	-
Transferred to stage (3)	(2,181)	(5,218)	6,714	(685)
Write off	-	-	(333,163)	(333,163)
Currency exchange differences	-	-	101,552	101,552
Adjustments	(3,896)	-	(33,218)	(37,114)
Balance, end of the year	454,450	91,638	2,962,643	3,508,731

The movement on the provision for expected credit losses for direct credit facilities that have been defaulted for more than 6 years was as follows:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	3,933,771	3,702,148
Additions	516,899	144,766
Recoveries	(173)	(47,149)
Written off	(1,507)	(4,388)
Currency exchange differences	134,662	138,394
Balance, end of the year	4,583,652	3,933,771

The movement on the suspended interests that have been defaulted for more than 6 years was as follows:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	1,247,848	1,106,595
Additions	110,959	80,484
Suspended transferred to revenues	-	(1,330)
Suspended written off	(8,368)	(13,240)
Currency exchange differences	63,011	75,339
Balance, end of the year	1,413,450	1,247,848

Following is the distribution of credit facilities net of suspended interests by economic sector:

	2020	2019
	U.S. \$	U.S. \$
Manufacturing and mining		
Manufacturing	25,514,653	24,735,572
Tourism, restaurants, and other hotels		
Restaurants	3,852,157	4,200,251
Financial services	3,500,000	3,500,000
Public services		
Telecommunications	3,492,155	358,890
Health	4,318,331	3,630,452
Education	2,882,605	2,150,897
Public facilities	7,119,253	7,745,880
Professionals	12,814,877	10,310,789
Agricultural and livestock sector		
Agricultural	5,614,755	5,070,437
Livestock	2,591,020	2,197,364
General trading		
Internal Trade	49,285,268	40,690,840
External Trade	27,062,411	25,165,881
Real estate and construction		
Construction	27,821,971	25,913,532
Housing	6,945,410	7,282,589
Real estates	9,639,710	8,136,217
Lands	13,536,812	8,136,216
Transportation		
Trade and shipping	13,725,654	13,884,614
Purchase of cars and private vehicles financing	10,388,925	9,076,585
Others in Consumer commodities financing		
Credit cards	4,011,877	2,868,811
Financial instruments and stocks investment financing		
Financial companies	-	1,090,148
Other	181,546	220,641
Other in private sector	6,049,971	4,787,424
Public sector		
Palestine National Authority	59,766,366	18,560,383
	<u>300,115,727</u>	<u>229,714,413</u>

8. Financial assets at fair value through other comprehensive income

	2020	2019
	U.S. \$	U.S. \$
Shares quoted in Amman Stock Exchange	44,134	116,920
	44,134	116,920

Movement on the fair value reserve during the year was as follows:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	(29,975)	(112,942)
Change in fair value	(2,981)	282,967
Gains from sale of financial assets recognized in retained earnings	(322)	(200,000)
Balance, end of the year	(33,278)	(29,975)

9. Financial assets at amortized cost

	2020	2019
	U.S. \$	U.S. \$
Foreign governmental bonds*	4,999,179	5,006,084
Local governmental treasury bills**	980,892	3,376,410
Quoted bonds***	1,979,686	3,936,064
Unquoted bonds****	6,000,000	6,000,000
	13,959,757	18,318,558
Provision for expected credit losses	(30,697)	(155,567)
	13,929,060	18,162,991

* This item represents the bank's investment in financial bonds issued by the Jordanian government, Moroccan government and Bahraini government with a maturity period of three to ten years. The interest rates on these bonds range between 4.25% to 6.13%.

** This item represents the bank's investment in government treasury bills, as per Palestine Monetary Authority Circular No. (64/2016), according to which the upper limit of the discount price of treasury bills in the shekel currency is 8% and on treasury bills in the dollar currency is 3% plus 6 months LIBOR. The interest rate on these bonds ranged from 6% to 8% and are due within a year.

*** This item represents the bank's investment in quoted bonds in global financial markets with a maturity period of three to six years. The interest rate on these bonds ranges between 4.62% to 6.95%.

**** This item represents the bank's investment in local unquoted bonds with a maturity period of five years. The interest rate on these bonds is 5.01%.

The movement on the gross carrying amount of 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, beginning of the year	17,318,558	1,000,000	-	18,318,558
Net change during the year	(4,358,801)	-	-	(4,358,801)
Balance, end of the year	12,959,757	1,000,000	-	13,959,757

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	19,633,622	4,020,725	-	23,654,347
Net change during the year	(3,315,064)	(2,020,725)	-	(5,335,789)
Transferred to stage (1)	2,000,000	(2,000,000)	-	-
Transferred to stage (2)	(1,000,000)	1,000,000	-	-
Balance, end of the year	17,318,558	1,000,000	-	18,318,558

The movement on provision for expected credit loss of financial assets at amortized cost was as follows:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	152,745	2,822	-	155,567
Net change during the year	(142,953)	18,083	-	(124,870)
Balance, end of the year	9,792	20,905	-	30,697

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	118,784	93,614	-	212,398
Net change during the year	30,444	(87,275)	-	(56,831)
Transferred to stage (1)	6,338	(6,338)	-	-
Transferred to stage (2)	(2,821)	2,821	-	-
Balance, end of the year	152,745	2,822	-	155,567

10. Property, Plant and Equipment

Below is a summary of the movement on the property, plant and equipment account during the year:

	Land	Real estate	Furniture and equipment	Computers	Leasehold improvements	Vehicles	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
December 31, 2020							
Cost:							
Balance, beginning of the year	5,769,225	16,308,269	5,298,380	5,553,471	1,624,762	661,051	35,215,158
Additions	-	199,039	99,285	245,389	1,206	-	544,919
Balance, end of the year	5,769,225	16,507,308	5,397,665	5,798,860	1,625,968	661,051	35,760,077
Accumulated Depreciation:							
Balance, beginning of the year	-	765,381	3,693,172	2,557,505	965,821	385,858	8,367,737
Depreciation for the year	-	271,368	364,320	547,892	113,806	124,397	1,421,783
Balance, end of the year	-	1,036,749	4,057,492	3,105,397	1,079,627	510,255	9,789,520
Net book value							
As at December 31, 2020	5,769,225	15,470,559	1,340,173	2,693,463	546,341	150,796	25,970,557

Property, plant and equipment include U.S. \$ 3,650,903 of fully depreciated assets that are still used in bank's operations and its subsidiaries as at December 31, 2020.

11. Right-of-use assets

The movement details on right of use assets is as follows:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	1,913,541	-
Impact of IFRS (16) implementation	-	2,241,640
Balance, beginning of the year (adjusted)	1,913,541	2,241,640
Additions	276,859	-
Amortization	(505,424)	(328,099)
Balance, end of the year	1,684,976	1,913,541

12. Intangible assets

	Computer systems and software
	U.S. \$
<u>Cost:</u>	
Balance, beginning of the year	2,704,947
Additions	443,880
Balance, end of the year	3,148,827
<u>Amortization:</u>	
Balance, beginning of the year	1,473,956
Additions	293,920
Balance, end of the year	1,767,876
<u>Net book value</u>	
As at December 31, 2020	1,380,951
As at December 31, 2019	1,230,991

13. Deferred tax assets

The movement details on Deferred tax assets is as follows:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	988,172	815,917
Additions	-	172,255
Amortization	(76,055)	-
Balance, end of the year	912,117	988,172

14. Other Assets

	2020	2019
	U.S. \$	U.S. \$
Clearing checks	3,522,011	7,201,745
Accrued and unreceived interests	1,462,759	1,180,026
Account's receivable	1,260,552	1,005,649
Precious metals	1,093,894	-
Prepaid expenses	858,651	935,647
Advances to suppliers	511,998	484,784
Refundable cash margins	202,312	202,298
Financial derivatives receivable	149,783	23,741
Prepaid interests	40,363	40,647
Others	421,589	163,177
	9,523,912	11,237,714

15. Istidama loans from Palestine Monetary Authority

This item represents PMA's deposits as per PMA instructions No. (22/2020) to mitigate the economic impacts of Coronavirus crisis (Covid-19) on the economic activities and projects, especially small and medium enterprises, PMA charges an interest of 0.5% on the credit facilities granted and the bank earns a declining interest at a maximum rate of 3%.

16. Banks' and financial institutions' Deposits

	2020	2019
	U.S. \$	U.S. \$
Banks and financial institutions inside Palestine:		
Current and demand accounts	41,312	411,696
Deposits maturing within 3 months	22,547,745	22,351,226
	<u>22,589,057</u>	<u>22,762,922</u>

17. Customers' deposits

	2020	2019
	U.S. \$	U.S. \$
Current and demand accounts	192,296,385	151,015,348
Saving deposits	129,501,673	100,924,389
Time deposits subject to notice	153,405,545	87,130,574
	<u>475,203,603</u>	<u>339,070,311</u>

- Public sector's deposits amounted to U.S. \$ 3,620,936 and U.S. \$ 4,521,640 representing 0.76% and 1.3% of total deposits as at December 31, 2020 and 2019, respectively.
- Non-interest deposits amounted to U.S. \$ 191,788,811 and U.S. \$ 148,547,196 representing 40.36% and 43.8% of total deposits as at December 31, 2020 and 2019, respectively.
- Dormant deposits amounted to U.S. \$ 7,901,114 and U.S. \$ 8,457,214 representing 1.66% and 2.5% of total deposits as at December 31, 2020 and 2019, respectively.

18. Cash margins

This item represents cash margins against:

	2020	2019
	U.S. \$	U.S. \$
Direct credit facilities	23,780,946	21,950,688
Indirect credit facilities	3,675,394	3,890,592
	<u>27,456,340</u>	<u>25,841,280</u>

19. Subsidiary Loan

During the year 2018, Horizons Real Estate Company, a wholly owned subsidiary of the Bank, signed a loan agreement in the amount of one million US dollar with The National Bank. The balance of these facilities is entitled to an annual declining interest at an average rate of 4.5%. The total utilized balance of these facilities amounted to \$1,000,000 as at December 31, 2020 and 2019. This loan is due in one payment on January 23, 2021. During the year 2020, the company rescheduled the loan to be due in one payment on December 23, 2022.

20. Sundry provisions

The summary of movement on Sundry provisions during the year was as follows:

	Balance, beginning of the year U.S. \$	Additions U.S. \$	Paid during the year U.S. \$	Currency exchange differences U.S. \$	Balance, end of the year U.S. \$
2020					
Employees' end of service provision	3,418,985	383,862	(339,422)	-	3,463,425
Lawsuits provision	238,424	550,000	(369,684)	2,556	421,296
Other	-	111,480	-	-	111,480
	<u>3,657,409</u>	<u>1,045,342</u>	<u>(709,106)</u>	<u>2,556</u>	<u>3,996,201</u>
2019					
Employees' end of service provision	3,078,645	465,846	(125,506)	-	3,418,985
Lawsuit's provision	31,360	1,193,545	(989,258)	2,777	238,424
	<u>3,110,005</u>	<u>1,659,391</u>	<u>(1,114,764)</u>	<u>2,777</u>	<u>3,657,409</u>

21. Lease liabilities

Following is the movement on lease liabilities:

	2020 U.S. \$	2019 U.S. \$
Balance, beginning of the year - before adjustment	1,739,118	-
Impact of IFRS (16) implementation	-	2,136,565
Balance, beginning of the year (adjusted)	1,739,118	2,136,565
Additions during the year	276,859	-
Lease payments	(312,875)	(454,584)
Finance costs	56,327	57,137
Balance, end of the year	<u>1,759,429</u>	<u>1,739,118</u>

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 amount of fines for terminating the lease contracts, if the entity intends to implement the termination option as per the terms of the contracts.

The following table represents the classification of terms of leased contract obligations:

	2020 U.S. \$	2019 U.S. \$
Short-term lease liabilities	332,949	369,684
Long-term lease liabilities	1,426,480	1,369,434
	<u>1,759,429</u>	<u>1,739,118</u>

22. Tax provisions

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year - before adjustment	1,705,560	(115,917)
Adjustments (Note 48)	-	1,400,000
Balance, beginning of the year – after adjustment	1,705,560	1,284,083
Addition during the year	1,274,823	1,775,000
Paid taxes during the year	(1,883,738)	(1,366,043)
Currency exchange differences	12,928	12,520
Balance, end of the year	1,109,573	1,705,560

The bank didn't reach a final settlement with both the Income Tax and Value Added Tax departments on their results of operations for the years ended 2014, 2017, 2018 and 2019. For the years 2020 and 2019, income tax and value added tax rates were %15 and %16, respectively. 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.

Global Securities company and Horizons Real Estate Company Limited (subsidiaries companies) have reached a final settlement with the Income Tax Department on the results of their business since its establishment until 2018. As of the date of these consolidated financial statements, these companies didn't reach a final settlement with the Income Tax Department on their result of operations for the year ended 2019.

Taxes reported in consolidated income statement represents the following:

	2020	2019
	U.S. \$	U.S. \$
Provision for the current year	1,274,823	1,775,000
Amortizations (Additions) deferred tax assets (Note 13)	76,055	(172,255)
Tax expense for the year	1,350,878	1,602,745

Reconciliation between accounting income and taxable income for the Bank is as follows:

	2020	2019
	U.S. \$	U.S. \$
Accounting profit for the bank	5,026,180	6,475,529
Profit subject to value added tax	4,243,841	6,168,469
Profit subject to income tax	2,252,091	3,189,851
Value Added Tax on profit for the year	585,357	743,966
Income tax on profit	405,896	779,674
Tax provisions from prior years	-	251,360
Taxes for the year	991,253	1,775,000
Tax provision	1,274,823	1,775,000
Effective tax rate	25.36%	27.41%

23. Other liabilities

	2020	2019
	U.S. \$	U.S. \$
Accounts payable and temporary deposits	2,815,788	2,941,552
Unearned interest and commission income	1,234,489	1,227,211
Accrued and unpaid interests	1,054,732	864,561
Checks under collection	914,186	1,052,864
Financial derivatives payable	699,361	26,418
Dividends payable	623,605	418,837
Deferred tax liabilities (Note 26)	566,921	566,921
Board of Directors bonuses	170,000	225,000
Accrued expenses	116,275	78,476
Provision for expected credit losses on indirect credit facilities	12,881	24,843
Others	257,494	130,428
	<u>8,465,732</u>	<u>7,557,111</u>

24. Cash and Stocks dividends

The Bank's General Assembly, during its meeting held on May 20, 2020 decided to distribute 4% of the total paid in share capital in the amount of U.S \$ 3,120,000.

The general assembly during its meeting held on April 23, 2019 decided to transfer an amount of U.S. \$ three million from the pro-cyclicality reserve and distribute it as a free stock dividends to the shareholders, making the Bank's total paid in share capital U.S. \$ 78 million as at December 31, 2019. In addition, the general assembly decided in the same meeting a cash dividend distribution of 4% of the par value of its stocks for an amount of U.S. \$ 3,000,000.

25. Reserves

- Statutory reserve

As required by the Companies' and Banking Law, the Bank shall deduct and transfer 10% of net profit to the statutory reserve until the reserve equals the paid-in share capital. The reserve is not to be utilized nor available for distribution to shareholders without PMA's prior approval.

- General banking risks reserve

The 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 credit facilities after deducting impairment allowance for credit facilities and suspended interest and 0.5% of indirect credit facilities. In accordance with PMA's circulation number (53/2013), no general banking risk reserve is created against the direct credit facilities granted to small and medium enterprises if the conditions mentioned in the circular are met. During 2019, the Bank applied IFRS (9) and utilized this reserve for the ECL of stage (1) and 2 in accordance with PMA instructions No. (2/2018). The reserve will not to be utilized or reduced without PMA's prior approval.

- Pro-cyclicality reserve

The item represents the amount of deductions made in accordance with PMA's instructions No. (6/2015) and at a rate of 15% of the net profits after taxes to support the Banks' capital against banking risks, as the bank stopped deducting this percentage and adding it to the reserve item according to Instructions No. (01/2018) which specified 0.57% of risk-weighted assets as a source of capital that is counter-cyclical, and the instructions have allowed banks to exploit the amounts included in Pro-cyclicality reserve for the purposes of this buffer. The banks are required to comply with the requirements of disclosure of the capital source counter to periodic fluctuations as of March 31, 2023. The reserve is not to be utilized or reduced for any purposes without PMA's prior approval.

26. Assets revaluation surplus

During the year 2015, the bank changed the accounting policy related to the treatment of the land item within property, plant and equipment, so the land to be reported at fair value at the date of the financial statements. The revaluation surplus amounted to U.S. \$ 3,122,555 as at December 31, 2020. The revaluation surplus was recognized in the consolidated other comprehensive income items in the amount of US \$ 3,122,555 after deducting the required deferred taxes in the amount of U.S. \$ 566,921 (note 23). According to management estimates, the fair value of the land as at December 31, 2020 is not materially different from its fair value as at December 31, 2019.

27. Interest income

This item comprises interest revenues earned on the following accounts:

	2020	2019
	U.S. \$	U.S. \$
Interest on Loans	11,584,899	11,389,971
Overdraft accounts	4,403,983	5,172,604
Government and public sector	2,183,806	1,076,711
Financial assets at amortized cost	852,729	977,178
Balances at banks and financial institutions	766,958	1,121,938
Credit cards	374,607	376,137
Financial assets at fair value through profit or loss	-	207,922
	<u>20,166,982</u>	<u>20,322,461</u>

28. Interest expense

This item comprises interest incurred on the following accounts:

	2020	2019
	U.S. \$	U.S. \$
Interests on customers' deposits:		
Current and demand accounts	43,952	70,417
Saving deposits	7,213	14,629
Time deposits and subject to notice	3,646,646	2,626,542
Cash margins	160,100	80,954
Interests on banks and financial institutions' deposits	95,400	219,045
Interests paid to PMA	117,190	45,675
	<u>4,070,501</u>	<u>3,057,262</u>

29. Net commissions

	2020	2019
	U.S. \$	U.S. \$
Direct credit facilities	1,295,690	1,536,061
Indirect credit facilities	410,378	524,002
Returned Checks	701,800	814,901
Accounts' management	611,329	564,241
Bank transfers	448,165	388,906
Other commissions	913,099	883,707
	<u>4,380,461</u>	<u>4,711,818</u>
Less: commissions paid	<u>(595,146)</u>	<u>(548,685)</u>
Net commissions	<u>3,785,315</u>	<u>4,163,133</u>

30. Gains form financial assets

	2020	2019
	U.S. \$	U.S. \$
Gains from revaluation of financial assets at fair value through profit or loss	434,611	634,359
Dividends revenue	531,849	123,401
Gains from sale of financial assets at amortized cost	156,946	194,666
Gains from revaluation of gold	62,507	-
Gains from sale of financial assets at fair value through profit or loss	5,097	194,369
	<u>1,191,010</u>	<u>1,146,795</u>

31. Other revenues

	2020	2019
	U.S. \$	U.S. \$
Checks books	105,516	66,844
Telegrams and transfers	9,595	9,527
Safe boxes rental	5,888	5,525
Swift and ATMs	478	1,164
Others	30,132	242,225
	<u>151,609</u>	<u>325,285</u>

32. Personnel expenses

	2020	2019
	U.S. \$	U.S. \$
Salaries and related benefits	5,124,971	5,136,937
VAT on salaries	725,568	743,966
Provision for employees' end of service	384,682	456,095
Medical expenses	312,991	344,595
Bank's contribution to provident fund*	229,904	220,641
Employees' vacations	49,231	60,552
Training expenses	18,693	33,948
Others	17,469	17,480
	<u>6,863,509</u>	<u>7,014,214</u>

* The bank monthly deducts 5% from each employee's basic salary, and the bank contributes 10% from the employee's basic salary.

33. Other operating expenses

	2020	2019
	U.S. \$	U.S. \$
Fees, Licenses, and Subscriptions	859,623	936,422
Postage, fax and telephone	775,281	771,348
Maintenance	746,278	881,627
Palestine Deposit Insurance Corporation fees*	600,000	814,614
Litigations provision	550,000	1,193,545
Cleaning expenses	395,683	332,437
Cash shipping expense	391,652	314,652
Professional and consulting fees	386,641	253,186
Advertisements and marketing	334,839	414,454
Board of Directors bonuses and remunerations	302,400	352,163
Travel and seminars	294,896	355,885
Utilities	247,979	265,317
Stationery and printing	188,862	166,525
Donations and charitable work**	168,875	90,629
Rent	122,817	162,414
Insurance	63,178	52,524
Hospitality	44,415	76,664
Fuel and Cars expenses	43,648	32,236
Saving accounts prizes	1,270	239,547
Others	241,215	190,690
	<u>6,759,552</u>	<u>7,896,879</u>

* The Banks must accrue an annual subscription fee for Palestine Deposit Insurance Corporation at 0.3% of total deposit balance specified under this law No. (7) for the year 2013. On December 1, 2019, the Palestine Deposit Insurance Corporation (PDIC) issued a circular No. (3/2019) regarding reducing the minimum subscription fee to (0.2%-0.8%), where at January 1, 2020 the subscription fee percentage will be calculated at 0.2% of the average total deposit instead of 0.3% of the average total deposit. On November 27, 2020, PDIC issued a circular No. (2/2020) regarding reducing the minimum subscription fee to (0.1%-0.8%), and as at October 1, 2020 the subscription fee percentage will be calculated at 0.1% of the average total deposit instead of 0.2% of the average total deposit.

** The Bank provides donations to local authorities, as a part of the bank's policy to build trust between the different parts of society. The percentage of donations from the net profit was 4.59% for the year of 2020 compared to 1.86% for the year of 2019.

34. Provision for expected credit losses, Net

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

	2020			Total U.S. \$
	Stage (1)	Stage (2)	Stage (3)	
	U.S. \$	U.S. \$	U.S. \$	
Balances at banks and financial institutions	(37,223)	-	-	(37,223)
Direct credit facilities	219,046	27,014	1,661,791	1,907,851
Financial assets at amortized cost	(142,953)	18,083	-	(124,870)
Indirect credit facilities	(8,937)	(3,025)	-	(11,962)
	<u>29,933</u>	<u>42,072</u>	<u>1,661,791</u>	<u>1,733,796</u>

	2019			Total U.S. \$
	Stage (1)	Stage (2)	Stage (3)	
	U.S. \$	U.S. \$	U.S. \$	
Balances at banks and financial institutions	14,137	-	-	14,137
Direct credit facilities	263,541	(1,312)	450,250	712,479
Financial assets at amortized cost	30,444	(87,275)	-	(56,831)
Indirect credit facilities	(16,315)	-	-	(16,315)
	<u>291,807</u>	<u>(88,587)</u>	<u>450,250</u>	<u>653,470</u>

35. Palestine Monetary Authority's fines

This item represents fines imposed by Palestine Monetary Authority due to the bank's failure to comply with Instructions No. 6/2018 regarding security and safety for ATMs.

36. Basic and diluted earnings per share

	2020	2019
	U.S. \$	U.S. \$
Profit for the year	<u>3,675,302</u>	<u>4,872,784</u>
Shares		
Weighted average number of subscribed shares	<u>78,000,000</u>	<u>78,000,000</u>
U.S. \$		
Basic and diluted earnings per share from the profit of the year	<u>0.047</u>	<u>0.062</u>

37. Cash and cash equivalent

	2020	2019
	U.S. \$	U.S. \$
Cash and balances with Palestine Monetary Authority	156,335,367	84,589,336
Add: Balances at banks and financial institutions due within 3 months	119,092,143	105,631,354
Less: Deposits at banks and financial institutions due within 3 months	(22,589,057)	(22,762,922)
Statutory cash reserve requirements	(30,623,832)	(23,602,832)
	<u>222,214,621</u>	<u>143,854,936</u>

38. Related party transactions

Related parties represent major shareholders, the Board of Directors, key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Balances as at December 31, 2020 and transactions with related parties during the year represented as follows:

		2020 U.S. \$	2019 U.S. \$
<u>consolidated statement of financial position items:</u>			
	Nature of relationship		
Direct credit facilities	Executive management and Board of directors	4,969,868	4,213,047
Direct credit facilities	Shareholders	12,476,936	16,663,633
Deposits	Executive management and shareholders	290,711	164,910
Accrued BOD's bonuses	Board of directors	170,000	225,000
<u>Commitments and contingencies</u>			
Unutilized limits	Top management	22,390	17,312
<u>Consolidated income statement items:</u>			
Received interests	Top management	21,373	16,502
Received interests	Shareholders	519,850	1,038,000
Paid interests	Top management	8,400	36,540
Rent expenses	Board of directors	54,189	54,000
BOD's bonuses and remunerations	Board of directors	302,400	352,163
Top management's share in salaries and related expenses	Top management	737,730	668,474
Top management's share in End-of-service indemnity	Top management	55,662	55,706

- Direct credit facilities granted to related parties as at December 31, 2020 and 2019 represent 5.92% and 9.24%, respectively, of the net direct credit facilities.
- Direct credit facilities granted to related parties as at December 31, 2020 and 2019 represent 20.33% and 21.07%, respectively, of the bank's capital base.
- Interest rates on direct credit facilities granted to related parties on U.S. \$ and JOD range between 2% to 18%.
- Interest rates on U.S. \$ deposits ranges between 2% to 3.25%.
- Interest rates on Euro deposits range between 1.75% and 2.5%.

* This item includes Board of Directors (BoD) bonuses and allowances for the BoD meetings attendance. Following are the details of Board of Director's allowances for the BoD meetings attendance for years 2020 and 2019:

	2020	2019
	U.S. \$	U.S. \$
Abd Al Azeez Abu Dayeh	12,000	12,000
Khaleel Naser	12,000	12,000
Jameel Al Mouty	12,000	12,000
Adnan Stetieh	12,000	12,000
Sami Ismael Alsied	12,000	12,000
Yazan Abu Dayeh	12,000	8,000
Marwan Abdulhameed	-	4,000
Yousef Bazyan	12,000	12,000
Waleed Al njjar	12,000	12,000
Basem Abdulhaleem	12,000	4,000
Fadi Issa Hamra	-	4,000
Hanna Nechola Atyba	12,000	12,000
Tariq Al Haj	12,000	12,000
	<u>132,000</u>	<u>128,000</u>

Based on article no. (52), paragraph (B) of the Bank's internal bylaw, 5% of the Banks' annual net income shall be provided for as bonus for the BoD members. BoD Bonuses have not been distributed yet.

39. Fair value measurement

The following table provides the fair value measurement hierarchy of the Bank's assets and liabilities. Following are the quantitative disclosures for the fair value and hierarchy for the assets as at December 31, 2020 and 2019:

		Measurement of fair value by			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant non-observable inputs (Level 3)
		U.S. \$	U.S. \$	U.S. \$	U.S. \$
December 31, 2020					
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 6):					
Listed-Global markets	December 31,2020	17,414,016	17,414,016	-	-
Financial assets at fair value through other comprehensive income (note 8):					
Listed	December 31,2020	44,134	44,134	-	-
		Measurement of fair value by			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant non-observable inputs (Level 3)
		U.S. \$	U.S. \$	U.S. \$	U.S. \$
December 31, 2019					
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 6):					
Listed	December 31,2019	24,935,594	24,935,594	-	-
Financial assets at fair value through other comprehensive income (note 8):					
Listed	December 31,2019	116,920	116,920	-	-

The bank did not make any transfers between the above levels during the years 2020 and 2019.

Fair value of financial assets and liabilities

The table below represents a comparison between the carrying amounts and fair values of financial instruments as at December 31, 2020 and 2019:

	Book value		Fair value	
	2020	2019	2020	2019
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Financial assets				
Cash and balances at PMA	156,335,367	84,589,336	156,335,367	84,589,336
Balances at banks and financial institutions	119,080,453	105,582,441	119,080,453	105,582,441
Financial assets at fair value through profit or loss	17,414,016	24,935,594	17,414,016	24,935,594
Direct credit facilities	294,907,755	226,029,632	294,907,755	226,029,632
Financial assets at fair value through other comprehensive income	44,134	116,920	44,134	116,920
Financial assets at amortized cost	13,929,060	18,162,991	13,929,060	18,162,991
Other financial assets	5,876,457	9,387,420	5,876,457	9,387,420
Total assets	607,587,242	468,804,334	607,587,242	468,804,334
Financial liabilities				
Banks and financial institutions' deposits	22,589,057	22,762,922	22,589,057	22,762,922
Istidama loans from Palestine Monetary Authority	750,000	-	750,000	-
Customers' deposits	475,203,603	339,070,311	475,203,603	339,070,311
Cash margins	27,456,340	25,841,280	27,456,340	25,841,280
Subsidiary loan	1,000,000	1,000,000	1,000,000	1,000,000
Lease liabilities	1,759,429	1,739,118	1,759,429	1,739,118
Other financial liabilities	5,408,311	5,277,814	5,408,311	5,277,814
Total liabilities	534,166,740	395,691,445	534,166,740	395,691,445

Fair values of cash and balances at PMA, balances at banks and financial institutions, other financial assets, banks and financial institutions' deposits, Istidama loans from Palestine Monetary Authority, customers' deposits, cash margins, lease liability and other financial liabilities 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 and financial asset at amortized cost that are actively traded in active financial markets is determined by reference to quoted prices at the date of the consolidated financial statements.

Unlisted financial assets at amortized cost are recognized by discounting the expected cash flows using the prevailing interest rates in the financial markets as at the date of the consolidated financial statements.

Fair value of credit facilities, lease liabilities and subsidiary loan was determined through the study of different variables such as interest rates, risk factors and the debtor's solvency. The fair value of credit facilities approximates their carrying amounts as at December 31, 2020.

40. Concentration of Assets and Liabilities

	2020					
	Inside Palestine U.S. \$	Jordan U.S. \$	Europe U.S. \$	USA U.S. \$	Others U.S. \$	Total U.S. \$
Cash and balances at PMA	156,335,367	-	-	-	-	156,335,367
Balances at banks and financial institutions	5,131,820	23,683,122	31,792,561	24,985,237	33,487,713	119,080,453
Financial assets at fair value through profit or loss	-	-	17,414,016	-	-	17,414,016
Direct credit facilities	278,857,885	200,000	-	-	15,849,870	294,907,755
Financial assets at fair value through other comprehensive income	-	44,134	-	-	-	44,134
Financial assets at amortized cost	6,979,673	2,000,000	1,000,000	-	3,949,387	13,929,060
Property, plant and equipment	25,970,557	-	-	-	-	25,970,557
Right of use assets	1,684,976	-	-	-	-	1,684,976
Intangible assets	1,380,951	-	-	-	-	1,380,951
Deferred tax assets	912,117	-	-	-	-	912,117
Other assets	9,523,912	-	-	-	-	9,523,912
Total assets	486,777,258	25,927,256	50,206,577	24,985,237	53,286,970	641,183,298
Istidama loans from Palestine Monetary Authority	750,000	-	-	-	-	750,000
Banks' and financial institutions' deposits	22,589,057	-	-	-	-	22,589,057
Customers' deposits	464,011,949	11,191,654	-	-	-	475,203,603
Cash margins	27,456,340	-	-	-	-	27,456,340
Subsidiary loan	1,000,000	-	-	-	-	1,000,000
Sundry provisions	3,996,201	-	-	-	-	3,996,201
Lease liabilities	1,759,429	-	-	-	-	1,759,429
Taxes provisions	1,109,573	-	-	-	-	1,109,573
Other liabilities	8,465,732	-	-	-	-	8,465,732
Total liabilities	531,138,281	11,191,654	-	-	-	542,329,935
Paid-in share capital	78,000,000	-	-	-	-	78,000,000
Statutory reserve	9,695,787	-	-	-	-	9,695,787
General banking risks reserve	3,357,489	-	-	-	-	3,357,489
Pro-cyclicality reserve	1,824,766	-	-	-	-	1,824,766
Fair value reserve	(33,278)	-	-	-	-	(33,278)
Asset revaluation surplus	3,212,555	-	-	-	-	3,212,555
Retained earnings	2,796,044	-	-	-	-	2,796,044
Total Equity	98,853,363	-	-	-	-	98,853,363
Total Liabilities and Equity	629,991,644	11,191,654	-	-	-	641,183,298
Off-consolidated balance sheet items:						
Letters of guarantee	13,053,725	-	-	-	-	13,053,725
Letters of credit	1,539,968	-	-	-	-	1,539,968
Acceptances	2,133,975	-	-	-	-	2,133,975
Unutilized direct credit facilities limits	15,124,430	-	-	-	-	15,124,430
	31,852,098	-	-	-	-	31,852,098

	2019					
	Inside Palestine	Jordan	Europe	USA	Others	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Cash and balances at PMA	84,589,336	-	-	-	-	84,589,336
Balances at banks and financial institutions	33,578,415	14,538,985	17,601,772	5,991,621	33,871,648	105,582,441
Financial assets at fair value through profit or loss	19,345,098	-	5,590,496	-	-	24,935,594
Direct credit facilities	224,175,486	1,854,146	-	-	-	226,029,632
Financial assets at fair value through other comprehensive income	-	116,920	-	-	-	116,920
Financial assets at amortized cost	9,276,012	2,000,000	1,962,048	-	4,924,931	18,162,991
Property, plant, and equipment	26,847,421	-	-	-	-	26,847,421
Right of use assets	1,913,541	-	-	-	-	1,913,541
Intangible assets	1,230,991	-	-	-	-	1,230,991
Deferred tax assets	988,172	-	-	-	-	988,172
Other assets	11,237,714	-	-	-	-	11,237,714
Total assets	413,182,186	18,510,051	25,154,316	5,991,621	38,796,579	501,634,753
Banks' and financial institutions' deposits	22,762,922	-	-	-	-	22,762,922
Customers' deposits	327,569,892	11,500,419	-	-	-	339,070,311
Cash margins	25,841,280	-	-	-	-	25,841,280
Subsidiary loan	1,000,000	-	-	-	-	1,000,000
Sundry provisions	3,657,409	-	-	-	-	3,657,409
Lease liabilities	1,739,118	-	-	-	-	1,739,118
Taxes provisions	1,705,560	-	-	-	-	1,705,560
Other liabilities	7,557,111	-	-	-	-	7,557,111
Total liabilities	391,833,292	11,500,419	-	-	-	403,333,711
Paid-in share capital	78,000,000	-	-	-	-	78,000,000
Statutory reserve	9,295,295	-	-	-	-	9,295,295
General banking risks reserve	2,481,489	-	-	-	-	2,481,489
Pro-cyclicality reserve	1,723,266	-	-	-	-	1,723,266
Fair value reserve	(29,975)	-	-	-	-	(29,975)
Asset revaluation surplus	3,212,555	-	-	-	-	3,212,555
Retained earnings	3,618,412	-	-	-	-	3,618,412
Total Liabilities and Equity	98,301,042	-	-	-	-	98,301,042
Off-consolidated balance sheet items:						
Letters of guarantee	16,005,568	-	-	-	-	16,005,568
Letters of credit	2,859,518	-	-	-	-	2,859,518
Acceptances	3,277,845	-	-	-	-	3,277,845
Unutilized direct credit facilities limits	16,557,943	-	-	-	-	16,557,943
	38,700,874	-	-	-	-	38,700,874

41. Risks management

The Risk Management Committee, consisting of members from the Board of Directors and the Executive Management, oversees the general framework for risk management for the Bank, which aims to measure, monitor and control credit, operational, liquidity and market risks and any other risks that the Bank may be exposed to in the future. The Bank is working on developing risk management in terms of programs and systems of measurement, control and oversight.

The risks are summarized as follows:

First: Credit Risk

Credit risks are those risks resulting from the default or inability of counterparties to the financial instrument to repay their commitment to the Bank which leads to incurring losses. The Bank manages credit risk by setting ceilings for direct credit facilities (retail or corporate) and total loans 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.

1. Exposures to credit risk

	2020	2019
	U.S. \$	U.S. \$
<u>Consolidated statement of financial position items</u>		
Balances with Palestine Monetary Authority	57,585,933	36,500,000
Balances at banks and financial institutions	119,080,453	105,582,441
Direct credit facilities		
Retail	117,068,738	104,823,593
Corporates	118,376,452	102,735,488
Public sector	59,462,565	18,470,542
Financial assets at fair value through profit or loss	17,414,016	24,935,594
Financial assets at amortized cost	13,929,060	18,162,991
Other assets	9,523,912	11,237,714
	<u>512,441,129</u>	<u>422,448,363</u>
<u>Off-Consolidated statement of financial position items</u>		
Letters of guarantees	13,053,725	16,005,568
Letters of credit	1,539,968	2,859,518
Acceptances	2,133,975	3,277,845
Unutilized direct credit facilities limits	15,124,430	16,557,943
	<u>31,852,098</u>	<u>38,700,874</u>

2. Credit risk exposure for each risk rating is distributed as follows:

<u>December 31,2020</u>	Retails	Corporates	Government and public sector	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Low risks	99,002,067	98,663,714	59,766,366	257,432,147
Acceptable risks	9,928,686	16,261,161	-	26,189,847
Watch list	191,358	1,683,898	-	1,875,256
Non-performing:				
Substandard	2,007,205	380,994	-	2,388,199
Doubtful	2,290,170	296,650	-	2,586,820
loss	8,132,749	2,670,715	-	10,803,464
Total	121,552,235	119,957,132	59,766,366	301,275,733
Suspended interests and commissions	(974,766)	(185,240)	-	(1,160,006)
Expected credit losses provision	(3,508,731)	(1,395,440)	(303,801)	(5,207,972)
	<u>117,068,738</u>	<u>118,376,452</u>	<u>59,462,565</u>	<u>294,907,755</u>
<u>December 31,2019</u>			Government and public sector	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Low risks	86,677,269	83,446,903	18,560,383	188,684,555
Acceptable risks	11,977,392	14,310,939	-	26,288,331
Watch list	2,125,363	3,658,136	-	5,783,499
Non-performing:			-	
Substandard	2,566,762	617,791	-	3,184,553
Doubtful	4,483,257	260,081	-	4,743,338
Loss	-	1,728,947	-	1,728,947
Total	107,830,043	104,022,797	18,560,383	230,413,223
Suspended interests and commissions	(534,693)	(164,117)	-	(698,810)
Expected credit losses provision	(2,471,757)	(1,123,183)	(89,841)	(3,684,781)
	<u>104,823,593</u>	<u>102,735,497</u>	<u>18,470,542</u>	<u>226,029,632</u>

3. Following is the fair value of collaterals obtained against credit facilities:

<u>December 31, 2020</u>	<u>Retails</u>	<u>Corporates</u>	<u>Total</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
Collaterals against:			
Low risks	48,553,152	68,946,447	117,499,599
Acceptable risks	6,151,063	8,231,937	14,383,000
Watch list	409,711	35,749	445,460
Non-performing:			
Substandard	1,688,555	20,149	1,708,704
Doubtful	2,463,313	438,200	2,901,513
Loss	4,702,406	188,135	4,890,541
Total	63,968,200	77,860,617	141,828,817
Include:			
Cash margins	19,254,959	8,201,381	27,456,340
Real estate	32,561,056	45,518,623	78,079,679
Quoted stocks	1,915,608	22,578,041	24,493,649
Vehicles and equipment	10,236,577	1,562,572	11,799,149
	63,968,200	77,860,617	141,828,817
<u>December 31, 2019</u>	<u>Retails</u>	<u>Corporates</u>	<u>Total</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
Collaterals against:			
Low risks	55,671,339	62,701,030	118,372,369
Acceptable risks	13,864,518	7,302,027	21,166,545
Watch list	377,797	238,547	616,344
Non-performing:			
Substandard	92,896	108,658	201,554
Doubtful	988,569	525,625	1,514,194
Loss	1,769,793	2,564,878	4,334,671
Total	72,764,912	73,440,765	146,205,677
Include:			
Cash margins	10,416,726	15,424,554	25,841,280
Vehicles and equipment	7,587,451	8,760,852	16,348,303
Real estate	47,604,839	45,738,399	93,343,238
Quoted stocks	7,155,896	3,516,960	10,672,856
	72,764,912	73,440,765	146,205,677

4. Following is the fair value of collaterals obtained against gross credit exposures as at December 31, 2020 and 2019:

		Fair value of collaterals						Net Exposure after collaterals	ECL
		Gross credit risk exposure	Cash margins	Real estate	Quoted stocks	Vehicles and equipment	Gross collaterals		
		U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
2020									
Credit exposures relating to items on consolidated statement of financial position:									
Balances at Palestine Monetary Authority		57,585,933	-	-	-	-	-	57,585,933	-
Balances at banks and financial institutions		119,080,453	-	-	-	-	-	119,080,453	11,690
Direct credit facilities:									
Retails		121,552,235	19,254,959	32,561,056	1,915,608	10,236,577	63,968,200	57,584,035	3,508,731
Corporates		119,957,132	8,201,381	45,518,623	22,578,041	1,562,572	77,860,617	42,096,515	1,395,440
Government and public sector		59,766,366	-	-	-	-	-	59,766,366	303,801
Financial assets at amortized cost		13,959,757	-	-	-	-	-	13,959,757	30,697
Other financial assets		9,523,912	-	-	-	-	-	9,523,912	-
Total		501,425,788	27,456,340	78,079,679	24,493,649	11,799,149	141,828,817	359,596,971	5,250,359
Credit exposures of off consolidated balance-sheet items:									
		31,852,098	-	-	-	-	-	31,852,098	12,881
		31,852,098	-	-	-	-	-	31,852,098	12,881
2019									
Credit exposures relating to items on consolidated statement of financial position:									
Balances at Palestine Monetary Authority		36,500,000	-	-	-	-	-	36,500,000	-
Balances at banks and financial institutions		105,582,441	-	-	-	-	-	105,582,441	48,913
Direct credit facilities:									
Retails		107,830,043	10,416,726	47,604,839	7,155,896	7,587,451	72,764,912	35,065,131	2,471,757
Corporates		104,022,797	15,424,554	45,738,399	3,516,960	8,760,852	73,440,765	30,582,032	1,123,183
Government and public sector		18,560,383	-	-	-	-	-	18,560,383	89,841
Financial assets at amortized cost		18,318,558	-	-	-	-	-	18,318,558	155,567
Other financial assets		11,237,714	-	-	-	-	-	11,237,714	-
Total		402,051,936	25,841,280	93,343,238	10,672,856	16,348,303	146,205,677	255,846,259	3,889,261
Credit exposures relating to items on consolidated statement of financial position:									
		38,700,874	-	-	-	-	-	38,700,874	24,843
		38,700,874	-	-	-	-	-	38,700,874	24,843

5. Fair value of collaterals obtained against Stage (3) for credit exposures as at December 31, 2020 and 2019 is as follows:

	Fair value of collaterals									
						Net Exposure				
	Gross exposure U.S. \$	Cash margins U.S. \$	Accepted bank guarantees U.S. \$	Real estate U.S. \$	Quoted stocks U.S. \$	Vehicles and equipment U.S. \$	Others U.S. \$	Total gross collaterals U.S. \$	after collaterals U.S. \$	ECL U.S. \$
2020										
Credit exposures relating to items on consolidated statement of financial position:										
Retail	11,646,716	794,011	-	5,954,960	1,411	883,159	-	7,633,541	4,013,175	2,962,643
Corporate	4,868,140	520,084	-	1,650,659	-	124,917	-	2,295,660	2,572,480	1,062,648
Total	16,514,856	1,314,095	-	7,605,619	1,411	1,008,076	-	9,929,201	6,585,655	4,025,291
	Fair value of collaterals									
2019										
Credit exposures relating to items on consolidated statement of financial position:										
Retail	8,640,689	654,459	-	5,191,159	1,410	796,182	-	6,643,210	1,997,479	1,909,172
Corporate	6,100,838	493,349	-	972,758	-	104,464	-	1,570,571	4,530,267	827,121
Total	14,741,527	1,147,808	-	6,163,917	1,410	900,646	-	8,213,781	6,527,746	2,736,293

6. Concentration in risk exposures according to the geographical area is as follows:

	Inside Palestine	Jordan	Israel	Europe	USA	Others	Gross
2020	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balances with Palestine Monetary Authority	57,585,933	-	-	-	-	-	57,585,933
Balances at banks and financial institutions	5,131,820	23,683,122	29,182,172	31,792,561	24,985,237	4,305,541	119,080,453
Direct credit facilities	278,857,885	200,000	-	-	-	15,849,870	294,907,755
Financial assets at fair value through profit or loss	-	-	-	17,414,016	-	-	17,414,016
Financial assets at amortized cost	6,979,673	2,000,000	-	1,000,000	-	3,949,387	13,929,060
Other financial assets	9,523,912	-	-	-	-	-	9,523,912
Total as at December 31, 2020	358,079,223	25,883,122	29,182,172	50,206,577	24,985,237	24,104,798	512,441,129
Off consolidated statement of financial position items:							
Letters of guarantee	13,053,725	-	-	-	-	-	13,053,725
Letters of credit	1,539,968	-	-	-	-	-	1,539,968
Acceptances	2,133,975	-	-	-	-	-	2,133,975
Unutilized direct credit facilities limits	15,124,430	-	-	-	-	-	15,124,430
Total as at December 31, 2020	31,852,098	-	-	-	-	-	31,852,098

	Inside Palestine U.S. \$	Jordan U.S. \$	Israel U.S. \$	Europe U.S. \$	USA U.S. \$	Others U.S. \$	Gross U.S. \$
2019							
Balances with Palestine Monetary Authority	36,500,000	-	-	-	-	-	36,500,000
Balances at banks and financial institutions	33,578,415	14,538,985	24,017,356	17,601,772	5,991,621	9,854,292	105,582,441
Direct credit facilities	225,831,253	198,379	-	-	-	-	226,029,623
Financial assets at fair value through profit or loss	-	-	-	24,935,594	-	-	24,935,594
Financial assets at amortized cost	9,376,410	2,000,000	-	1,962,048	-	4,824,533	18,162,991
Other financial assets	11,237,714	-	-	-	-	-	11,237,714
Total as at December 31, 2019	316,523,792	16,737,364	24,017,356	44,499,414	5,991,621	14,678,825	422,448,372
Off consolidated statement of financial position items:							
Letters of guarantee	7,701,245	-	425,445	-	-	7,878,878	16,005,568
Letters of credit	-	-	-	-	-	2,859,518	2,859,518
Acceptances	-	-	-	-	-	3,277,845	3,277,845
Unutilized direct credit facilities limits	16,557,943	-	-	-	-	-	16,557,943
Total as at December 31, 2020	24,259,188	-	425,445	-	-	14,016,241	38,700,874

7. Concentration of risk exposures according to IFRS (9) Stages is as follows:

2020				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Inside Palestine	317,428,714	27,022,061	13,628,448	358,079,223
Jordan	25,883,122	-	-	25,883,122
Europe	50,206,577	-	-	50,206,577
USA	24,985,237	-	-	24,985,237
Israel	29,182,172	-	-	29,182,172
Others	23,104,798	-	-	23,104,798
Total	471,790,620	27,022,061	13,628,448	512,441,129

2019				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Palestine	276,750,760	27,068,988	12,704,044	316,523,792
Arab countries	16,737,364	-	-	16,737,364
Europe	44,499,414	-	-	44,499,414
USA	5,991,621	-	-	5,991,621
Israel	24,017,356	-	-	24,017,356
Others	14,678,825	-	-	14,678,825
Total	382,675,340	27,068,988	12,704,044	422,448,372

8. Concentration of risk exposures according to economic sector is as follows:

	2020							
	Financial U.S. \$	Industrial and tourism U.S. \$	Commercial U.S. \$	Real estate U.S. \$	Securities U.S. \$	Government and Public Sector U.S. \$	Others U.S. \$	Total U.S. \$
Balances with Palestine Monetary Authority	57,585,933	-	-	-	-	-	-	57,585,933
Balances at banks and financial institutions	119,080,453	-	-	-	-	-	-	119,080,453
Direct credit facilities	3,500,000	28,133,906	80,573,333	44,881,340	181,546	59,766,366	77,871,264	294,907,755
Financial assets at fair value through profit or loss	-	-	-	-	17,414,016	-	-	17,414,016
Financial assets at amortized cost	9,979,673	-	-	-	-	3,949,387	-	13,929,060
Other financial assets	6,078,664	-	-	-	-	-	3,445,248	9,523,912
Total as at December 31, 2020	196,224,723	28,133,906	80,573,333	44,881,340	17,595,562	63,715,753	81,316,512	512,441,129

	2019							
	Financial U.S. \$	Industrial and tourism U.S. \$	Commercial U.S. \$	Real estate U.S. \$	Securities U.S. \$	Government and Public Sector U.S. \$	Others U.S. \$	Total U.S. \$
Balances with Palestine Monetary Authority	36,500,000	-	-	-	-	-	-	36,500,000
Balances at banks and financial institutions	105,582,441	-	-	-	-	-	-	105,582,441
Direct credit facilities	17,812,255	28,145,263	68,856,721	44,332,338	1,310,789	18,514,083	47,058,183	226,029,632
Financial assets at fair value through profit or loss	24,935,594	-	-	-	-	-	-	24,935,594
Financial assets at amortized cost	9,780,497	-	-	-	-	8,382,494	-	18,162,991
Other financial assets	10,914,708	-	-	-	-	-	323,006	11,237,714
Total as at December 31, 2019	205,525,495	28,145,263	68,856,721	44,332,338	1,310,789	26,896,577	47,381,189	422,448,372

9. Distribution of risk exposures according to IFRS (9) Stages as at December 31, 2020 and 2019 is as follows:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Financial	196,224,723	-	-	196,224,723
Securities	17,595,562	-	-	17,595,562
Real estate	38,105,462	5,422,016	1,353,862	44,881,340
Industrial and tourism	22,579,937	4,892,458	661,511	28,133,906
Commercial	66,087,543	6,620,548	7,865,242	80,573,333
Public sector	63,715,753	-	-	63,715,753
Others	68,359,117	10,133,966	2,823,429	81,316,512
Total	472,668,097	27,068,988	12,704,044	512,441,129

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Financial	204,525,486	1,000,000	-	205,525,495
Securities	1,310,789	-	-	1,310,789
Real estate	36,254,255	6,792,131	1,285,952	44,332,338
Industrial and tourism	23,879,254	3,697,464	568,545	28,145,263
Commercial	59,538,424	4,825,892	4,492,405	68,856,721
Public sector	26,896,577	-	-	26,896,577
Others	30,270,546	10,753,501	6,357,142	47,381,189
Total	382,675,331	27,068,988	12,704,044	422,448,372

10. Macroeconomic Factors, Forward Looking Information and Multiple Scenarios:

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

Following are the macroeconomic factors impact on the forward-looking information based on multiple scenarios as at December 31, 2020:

Macro-economic variables	Scenario used	Assigned weight for each scenario (%)	Percentage change in macro-economic variables (%) January 1, 2020
<u>GDP</u>	Base case	50	(0.05)
	Best case	10	0.77
	Worst case	40	(0.87)
<u>Unemployment rates</u>	Base case	50	0.67
	Best case	10	1.21
	Worst case	40	0.12

Following is the macroeconomic factors impact on the forward-looking information based on multiple scenarios as at December 31, 2019:

Macro-economic variables	Scenario used	Assigned weight for each scenario	Percentage change in macro-economic variables (%)
		(%)	December 31, 2020
<u>GDP</u>	Base case	80	(0.10)
	Best case	10	0.07
	Worst-case	10	(0.26)
<u>Unemployment rates</u>			
	Base case	80	1.52
	Best case	10	2.02
	Worst-case	10	1.03

Second: Market risk

Market risk arises from changes in interest rate risk, equity price risk and foreign currency risk. The Bank's board of Directors sets the limits for acceptable risks. This is periodically monitored by the Bank's management.

1. Interest rate risk

Interest rate risk arises from the effects of changes in interest rates on the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatch or the existence of a gap between assets and liabilities according to their maturities, or re-pricing interest rates in a certain period. The Bank manages those risks by reviewing the interest rate on assets and liabilities through its strategy on risk management.

Interest rates on assets and liabilities are reviewed periodically and the Bank regularly follows up the actual cost of funds and takes appropriate decisions regarding pricing based on the prevailing prices.

The effect of decreases in interest rate is expected to be equal and opposite to the effect of the increase shown below:

Currency	2020		2019	
	Increase in interest rate (basis point)	Interest income sensitivity (consolidated income statement)	Increase in interest rate (basis point)	Interest income sensitivity (consolidated income statement)
U.S. \$	10	60,238	10+	141,513
JOD	10	(17,964)	10+	(6,944)
ILS	10	(115,780)	10+	(44,754)
Euro	10	986	10+	381
Other currencies	10	52	10+	20

Interest rate re-pricing sensitivity gap

December 31, 2020

December 31, 2020	Interest rate re-pricing sensitivity gap						Total U.S. \$
	less than a month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than a year	Non-interest- bearing items	
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	
Assets							
Cash and balances with PMA	-	-	-	-	-	156,335,367	156,335,367
Balances at banks and financial institutions	-	-	42,066,505	-	-	77,013,948	119,080,453
Financial assets at fair value through profit or loss	-	-	-	-	-	17,414,016	17,414,016
Direct credit facilities	56,410,221	10,225,441	28,410,225	29,585,887	148,410,256	21,865,725	294,907,755
Financial assets at fair value through other comprehensive income	-	-	-	-	-	44,134	44,134
Financial assets at amortized cost	-	-	980,892	-	12,948,168	-	13,929,060
Property, plant and equipment	-	-	-	-	-	25,970,557	25,970,557
Right of use assets	-	-	-	-	-	1,684,976	1,684,976
Intangible assets	-	-	-	-	-	1,380,951	1,380,951
Deferred tax assets	-	-	-	-	-	912,117	912,117
Other assets	-	-	-	-	-	9,523,912	9,523,912
Total Assets	56,410,221	10,225,441	71,457,622	29,585,887	161,358,424	312,145,703	641,183,298
Liabilities							
Banks and financial institutions' deposits	-	22,547,745	-	-	-	41,312	22,589,057
Istidama loans from Palestine Monetary Authority	-	-	-	-	750,000	-	750,000
Customers' deposits	129,501,673	18,450,997	16,512,489	118,442,059	-	192,296,385	475,203,603
Cash margins	7,810,224	8,015,882	2,671,961	6,410,987	2,410,963	136,323	27,456,340
Subsidiary Loan	-	-	-	1,000,000	-	-	1,000,000
Sundry Provisions	-	-	-	-	-	3,996,201	3,996,201
Taxes provisions	-	-	-	-	-	1,109,573	1,109,573
Lease liabilities	-	-	155,583	177,366	1,426,480	-	1,759,429
Other liabilities	-	-	-	-	-	8,465,732	8,465,732
Total Liabilities	137,311,897	49,014,624	19,340,033	126,030,412	4,587,443	206,045,526	542,329,935
Equity							
Paid-in share capital	-	-	-	-	-	78,000,000	78,000,000
Statutory reserve	-	-	-	-	-	9,695,787	9,695,787
General banking risks reserve	-	-	-	-	-	3,357,489	3,357,489
Pro-cyclicality reserve	-	-	-	-	-	1,824,766	1,824,766
Fair value reserve	-	-	-	-	-	(33,278)	(33,278)
Assets revaluation Surplus	-	-	-	-	-	3,212,555	3,212,555
Retained earnings	-	-	-	-	-	2,796,044	2,796,044
Total Equity	-	-	-	-	-	98,853,363	98,853,363
Total liabilities and equity	137,311,897	49,014,624	19,340,033	126,030,412	4,587,443	304,898,889	641,183,298
Interest rate re-pricing sensitivity gap	(80,901,676)	(38,789,183)	52,117,589	(96,444,525)	156,770,981	7,246,814	-
Cumulative gap	(80,901,676)	(119,690,859)	(67,573,270)	(164,017,795)	(7,246,814)	-	-

December 31, 2019

December 31, 2019	Interest rate re-pricing sensitivity gap						
	less than a month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than a year	Non-interest-bearing items	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Assets							
Cash and balances with PMA	-	-	-	-	-	84,589,336	84,589,336
Balances at banks and financial institutions	-	-	56,598,763	-	-	48,983,678	105,582,441
Financial assets at fair value through profit or loss	-	-	-	-	2,185,160	22,750,434	24,935,594
Direct credit facilities	51,534,345	8,713,015	25,051,038	26,476,421	84,376,792	29,878,021	226,029,632
Financial assets at fair value through other comprehensive income	-	-	-	-	-	116,920	116,920
Financial assets at amortized cost	-	-	-	3,376,410	14,786,581	-	18,162,991
Property, plant and equipment	-	-	-	-	-	26,847,421	26,847,421
Right of use assets	-	-	-	-	-	1,913,541	1,913,541
Intangible assets	-	-	-	-	-	1,230,991	1,230,991
Deferred tax assets	-	-	-	-	-	988,172	988,172
Other assets	-	-	-	-	-	11,237,714	11,237,714
Total Assets	51,534,345	8,713,015	81,649,801	29,852,831	101,348,533	228,536,228	501,634,753
Liabilities							
Banks and financial institutions' deposits	-	22,351,226	-	-	-	411,696	22,762,922
Customers' deposits	100,924,389	13,764,338	11,842,976	61,523,260	-	151,015,348	339,070,311
Cash margins	6,322,434	6,050,565	2,276,435	5,240,977	5,620,834	330,035	25,841,280
Subsidiary Loan	-	-	-	-	1,000,000	-	1,000,000
Sundry provisions	-	-	-	-	-	3,657,409	3,657,409
Taxes provisions	-	-	-	-	-	1,705,560	1,705,560
Lease liabilities	-	-	-	369,684	1,369,434	-	1,739,118
Other liabilities	-	-	-	-	-	7,557,111	7,557,111
Total Liabilities	107,246,823	42,166,129	14,119,411	67,133,921	7,990,268	164,677,159	403,333,711
Equity							
Paid-in share capital	-	-	-	-	-	78,000,000	78,000,000
Statutory reserve	-	-	-	-	-	9,295,295	9,295,295
General banking risks reserve	-	-	-	-	-	2,481,489	2,481,489
Pro-cyclicality reserve	-	-	-	-	-	1,723,266	1,723,266
Fair value reserve	-	-	-	-	-	(29,975)	(29,975)
Assets revaluation Surplus	-	-	-	-	-	3,212,555	3,212,555
Retained earnings	-	-	-	-	-	3,618,412	3,618,412
Total Equity	-	-	-	-	-	98,301,042	98,301,042
Total liabilities and equity	107,246,823	42,166,129	14,119,411	67,133,921	7,990,268	262,978,201	501,634,753
Interest rate re-pricing sensitivity gap	(55,712,478)	(33,453,114)	67,530,390	(37,281,090)	93,358,265	(34,441,973)	-
Cumulative gap	(55,712,478)	(89,165,592)	(21,635,202)	(58,916,292)	34,441,973	-	-

2. Equity price change 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:

Index	2020			2019		
	Increase in index	Effect on income statement	Effect on equity	Increase in index	Effect on income statement	Effect on equity
	(%)	U.S. \$	U.S. \$	(%)	U.S. \$	U.S. \$
Foreign markets	10	1,741,402	-	10+	2,493,559	2,154,952

3. Foreign currency risk

These are the risks of the change in value of financial instruments resulting from the change in foreign exchange rates. The U.S. \$ is the functional currency of the Bank. The Bank's Board of Directors annually sets the acceptable currencies that can take a position in and the limits of the financial position for each currency. And such position is monitored on a daily basis to ensure maintaining the foreign currency position within the established limits, and hedging strategies are used to ensure maintaining the foreign currency position within the set limits.

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

The effect of the decrease in currency rates is expected to be equal and opposite to the effect of the increase stated below:

Currency	2020	Effect on consolidated income statement		2019
	Increase in currency rate (%)	U.S. \$	Increase in currency rate (%)	U.S. \$
ILS	10+	45,464	10+	(173,223)
Euro	10+	1,952	10+	65,372
JOD	10+	(4,657)	10+	7,949
Other currencies	10+	14,149	10+	1,938

Following is the net foreign currencies position of the Bank:

	JOD U.S. \$	Euro U.S. \$	ILS U.S. \$	Others U.S. \$	Total U.S. \$
December 31, 2020					
Assets					
Cash and balances with PMA	13,300,557	1,147,600	101,001,164	1,031,386	116,480,707
Balances at banks and financial institutions	23,374,901	4,819,017	38,240,634	1,293,884	67,728,436
Direct credit facilities	18,117,038	5,558,112	138,021,878	-	161,697,028
Other assets	389,364	34,123	3,169,904	-	3,593,391
Total Assets	55,181,860	11,558,852	280,433,580	2,325,270	349,499,562
Liabilities					
Banks and financial institutions' deposits	5,000,000	87,344	15,492,799	-	20,580,143
Customers' deposits	51,181,305	8,738,405	203,658,425	14,072,345	277,650,480
Cash margins	3,175,637	766,977	13,942,048	76,254	17,960,916
Other liabilities	482,298	14,423	1,876,744	-	2,373,465
Total Liabilities	59,839,240	9,607,149	234,970,016	14,148,599	318,565,004
Net concentration inside the statement of financial position	(4,657,380)	1,951,703	45,463,564	(11,823,329)	30,934,558
Commitments and contingencies outside the statement of financial position	231,100	1,371,021	5,999,632	-	7,601,753
December 31, 2019					
Total Assets	38,726,355	7,363,713	81,498,718	293,393	127,882,179
Total Liabilities	38,646,864	6,709,992	83,230,946	274,018	128,861,820
Net concentration inside the statement of financial position	79,491	653,721	(1,732,228)	19,375	(979,641)
Commitments and contingencies outside the statement of financial position	340,075	2,702,257	5,597,556	-	8,639,888

Third: 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 has arranged diversified funding sources, manages assets and liabilities with liquidity in mind, and monitors future cash flows and liquidity and maintains sufficient amount of cash and cash equivalents and liquid financial assets.

Liquidity management policy at the Bank aims to maximize sources of liquidity at the lowest possible cost. Liquidity management aims to maintain stable sources of funding that is considered reliable with an appropriate cost.

Liquidity is measured, controlled and managed on the basis of normal and emergency conditions. This includes the use of analysis of the maturities of the assets and liabilities and various financial ratios.

The table below summarizes the allocation of liabilities (undiscounted) on the basis of the remaining contractual liability as at the consolidated financial statements date:

	less than a Month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	from 1 year to 3 years	More than 3 years	Without maturity	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
December 31, 2020								
Liabilities:								
Banks and financial institutions' deposits	-	22,622,904	-	-	-	-	41,312	22,664,216
Customers' deposits	321,798,053	18,562,963	16,612,687	119,879,467	-	-	-	476,853,170
Cash margins	7,792,395	8,064,522	2,688,174	6,488,791	-	2,440,222	-	27,474,104
Istidama loans from Palestine Monetary Authority	-	-	-	-	761,250	-	-	761,250
Subsidiary Loan	-	-	-	-	1,045,000	-	-	1,045,000
Sundry provisions	-	-	-	-	-	-	3,996,201	3,996,201
Tax provisions	-	-	-	-	-	-	1,109,573	1,109,573
Lease liabilities	-	-	181,800	264,223	1,212,703	468,573	-	2,127,299
Other liabilities	-	-	-	-	-	7,935,354	530,378	8,465,732
Total liabilities	329,590,448	49,250,389	19,482,661	126,632,481	3,018,953	10,844,149	5,677,464	544,496,545
	less than a Month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	from 1 year to 3 years	More than 3 years	Without maturity	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
December 31, 2019								
Liabilities:								
Banks and financial institutions' deposits	-	22,351,226	-	-	-	-	411,696	22,762,922
Customers' deposits	98,519,056	13,874,750	11,937,977	62,510,304	-	154,343,469	-	341,185,556
Cash margins	6,322,434	6,099,101	2,298,707	5,325,060	5,711,011	340,625	-	26,096,938
Sundry provisions	-	-	-	-	-	-	3,535,994	3,535,994
Tax provisions	-	-	-	-	-	-	1,704,340	1,704,340
Lease liabilities	-	-	-	369,919	344,294	1,113,305	-	1,827,518
Other liabilities	-	-	-	-	-	-	7,207,905	7,207,905
Total liabilities	104,841,490	42,325,077	14,236,684	68,205,283	6,055,305	155,797,399	12,859,935	404,321,173

Liquidity Coverage Ratio (LCR)

During 2019, PMA issued instructions No. (4/2019) in regard to Liquidity Coverage Ratio (LCR) which is considered one of the quantitative corrective tools issued by Basel Committee. LCR should not be lower than 100% in any case, LCR objective is to promote the short-term resilience of the liquidity risk profile of the Bank by ensuring that they have sufficient High-quality liquid assets to survive a significant stress scenario lasting 30 calendar days, and to keep the Bank services from the day of the stress until the Bank initiates corrective procedures in an organized way.

The table below shows the calculation of the liquidity coverage ratio as at December 31, 2020:

Item	Value before discount rates / flows (average) U.S. \$	Value after discount rates / flows (average) U.S. \$
High quality liquid stock		303,125,449
Total cash outflows for High quality liquid assets		
Retail deposits including small corporates:		
A- Stable deposits	92,732,540	4,179,250
B- Less stable deposits	204,543,457	13,079,460
Deposits and other unguaranteed facilities for companies without retail and small business customers:		
Operating deposits and Non-operating deposits	8,153,967	390,037
Non-cancelled credit lines and required liquidity within 30 days	80,057,682	4,089,753
Total high-quality liquid assets	-	197,526,517
Net cash outflows	-	72,792,367
Liquidity Coverage Ratio (%)	-	271%

The table below shows the calculation of the liquidity coverage ratio as at December 31, 2019:

Item	Amount before discount rates / flows (average) U.S. \$	Amount after discount rates / flows (average) U.S. \$
High quality liquid stock		181,008,473
Total cash outflows for High quality liquid assets		
Retail deposits including small corporates:		
A- Stable deposits	83,584,999	4,179,250
B- Less stable deposits	130,794,599	13,079,460
Deposits and other unguaranteed facilities for companies without retail and small business customers:		
Operating deposits and Non-operating deposits	7,800,743	390,037
Non-cancelled credit lines and required liquidity within 30 days	81,795,056	4,089,753
Total high-quality liquid assets		181,008,473
Net cash outflows		46,504,625
Liquidity Coverage Ratio (%)		389%

Net Stable Funding Ratio (NSFR)

PMA issued instructions No. (5/2019) in regard of applying Net Stable Funding Ratio (NSFR), which is considered one of key reforms to promote a more resilient banking sector. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability.

The table below shows the calculation of the mentioned ratio as at December 31, 2020 and 2019:

	2020	2019
	U.S. \$	U.S. \$
Item		
Regulatory capital	76,767,306	137,449,000
Retail deposits and small institutions (stable)	424,146,918	90,653,100
Retail deposits and small institutions (less stable)	73,743,377	468,828,000
Secured and unsecured financing (deposits)	4,370,439	118,531,500
Other funding and deposits	-	10,850,500
Other liabilities categories (which are not included in the categories above)	-	132,371,000
Gross stable funding available	579,028,040	958,683,100
Claims on central banks	3,003,098	-
Quoted	98,797	-
High quality liquid assets of the second level / category (A) not mortgaged	2,757,387	5,208,450
High quality liquid assets of the second level / category (B) not mortgaged	12,513,207	5,582,000
Loans	146,161,221	502,941,000
Deposits with other financial institutions (authorized to accept deposits) for operational reasons	60,976,443	-
20% of derivatives on the liability side (which is the negative replacement cost amounts) before subtracting the value guarantee margin	2,999,100	-
Obligations related to trade finance operations (includes guarantees and letters of credit)	216,455	-
Cash, securities, and other assets provided as a margin for the initial value guarantee of derivative contracts and cash or other assets provided as a contribute to the default fund of a central counterparty	786,505	-
Financial assets issued or guaranteed by banks and financial institutions	-	25,287,000
Non-performing loans	16,061,950	52,918,000
Other total assets	13,857,155	47,442,000
Credit and liquidity financing not subject to cancellation and subject to conditional cancellation	431,716	-
Off balance sheet exposures not included in the previous categories	1,326,031	2,271,000
Future obligations	-	48,012,500
Gross stable financing required	261,189,065	689,661,950
Net Stable Funding Ratio	222%	139%

42. Information on the Bank's business segments

A. Information on the Bank's activities

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

- **Retails banking:** Includes handling individual customers' deposits, and providing consumer type loans, overdrafts, credit cards facilities and other services.
- **Corporates and institutions:** Include handling corporates' deposits, loans, credit facilities and other financial services for corporate and institutional customers.
- **Treasury:** includes providing trading and treasury services and managing Bank's funds and investments.
- **Other segments:** this contains other items not mentioned above (such as other revenues and legal fees).

Following is the Bank's business segments according to operations:

	Retail	Corporate	Treasury	Other	Total	
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	2020 U.S. \$	2019 U.S. \$
Gross revenues	10,353,845	11,234,584	3,237,157	1,822,195	26,647,781	27,077,253
Net ECL provisions	(1,306,384)	(552,282)	124,870	-	(1,733,796)	(653,470)
Segment results	9,047,461	10,682,302	3,362,027	1,822,195	24,913,985	26,423,783
Unallocated expenses					(19,887,805)	(19,948,254)
Profit before taxes					5,026,180	6,475,529
Taxes expense					(1,350,878)	(1,602,745)
Profit for the year					3,675,302	4,872,784
Other information						
Capital expenditures					988,799	3,554,251
Depreciation and amortization					2,221,127	1,966,133
Total segment assets	212,412,441	132,458,666	274,212,298	22,099,893	641,183,298	501,634,753
Total segment liabilities	233,414,541	114,552,994	172,451,551	21,910,849	542,329,935	403,333,711

B. Geographical distribution information

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

	Local		Foreign		Total	
	2020 U.S. \$	2019 U.S. \$	2020 U.S. \$	2019 U.S. \$	2020 U.S. \$	2019 U.S. \$
Gross revenues	24,998,108	24,303,595	1,649,673	2,773,658	26,647,781	27,077,253
Capital expenditures	988,799	3,554,251	-	-	988,799	3,554,251
Total assets	474,828,222	385,494,780	166,355,076	116,139,973	641,183,298	501,634,753

43. Maturity analysis of assets and liabilities

The following table depicts the analysis of assets and liabilities according to their maturities as at December 31, 2020:

December 31, 2020	less than a month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than a year	Non-interest-bearing items	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Assets							
Cash and balances with PMA	-	-	-	-	-	156,335,367	156,335,367
Balances at banks and financial institutions	-	-	42,066,505	-	-	77,013,948	119,080,453
Direct credit facilities	78,275,946	10,225,441	28,410,225	29,585,887	148,410,256	-	294,907,755
Financial assets at fair value through profit or loss	-	-	-	-	-	17,414,016	17,414,016
Financial assets at fair value through other comprehensive income	-	-	-	-	-	44,134	44,134
Financial assets at amortized cost	-	-	980,892	-	12,948,168	-	13,929,060
Property, plant and equipment	-	-	-	-	-	25,970,557	25,970,557
Right-of-use assets	-	-	-	-	-	1,684,976	1,684,976
Intangible assets	-	-	-	-	-	1,380,951	1,380,951
Deferred tax assets	-	-	-	-	-	912,117	912,117
Other assets	-	-	-	-	-	9,523,912	9,523,912
Total Assets	78,275,946	10,225,441	71,457,622	29,585,887	161,358,424	290,279,978	641,183,298
Liabilities							
Istidama loans from Palestine Monetary Authority	-	-	-	-	750,000	-	750,000
Banks' and financial institutions' deposits	-	22,547,745	-	-	-	41,312	22,589,057
Customers' deposits	129,501,673	18,450,997	16,512,489	118,442,059	-	192,296,385	475,203,603
Cash margins	7,810,224	8,015,882	2,671,961	6,410,987	2,410,963	136,323	27,456,340
Subsidiary loan	-	-	-	1,000,000	-	-	1,000,000
Sundry provisions	-	-	-	-	-	3,996,201	3,996,201
Lease liabilities	-	-	155,583	177,366	1,426,480	-	1,759,429
Taxes provisions	-	-	-	-	-	1,109,573	1,109,573
Other liabilities	-	-	-	-	-	8,465,732	8,465,732
Total Liabilities	137,311,897	49,014,624	19,340,033	126,030,412	4,587,443	206,045,526	542,329,935
Equity							
Paid-in share capital	-	-	-	-	-	78,000,000	78,000,000
Statutory reserve	-	-	-	-	-	9,695,787	9,695,787
General banking risks reserve	-	-	-	-	-	3,357,489	3,357,489
Pro-cyclicality reserve	-	-	-	-	-	1,824,766	1,824,766
Fair value reserve	-	-	-	-	-	(33,278)	(33,278)
Assets revaluation surplus	-	-	-	-	-	3,212,555	3,212,555
Retained earnings	-	-	-	-	-	2,796,044	2,796,044
Total Equity	-	-	-	-	-	98,853,363	98,853,363
Total liabilities and equity	137,311,897	49,014,624	19,340,033	126,030,412	4,587,443	304,898,889	641,183,298
Interest rate re-pricing sensitivity gap	(59,035,951)	(38,789,183)	52,117,589	(96,444,525)	156,770,981	(14,618,911)	-
Cumulative gap	(59,035,951)	(97,825,134)	(45,707,545)	(142,152,070)	14,618,911	-	-

The following table depicts the analysis of assets and liabilities according to their maturities as at December 31, 2019:

December 31, 2019	less than a month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than a year	Non-interest-bearing items	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Assets							
Cash and balances with PMA	-	-	-	-	-	84,589,336	84,589,336
Balances at banks and financial institutions	-	-	56,598,763	-	-	48,983,678	105,582,441
Direct credit facilities	51,534,345	8,713,015	25,051,038	26,476,421	84,376,792	29,878,021	226,029,632
Financial assets at fair value through profit or loss	-	-	-	-	2,185,160	22,750,434	24,935,594
Financial assets at fair value through other comprehensive income	-	-	-	-	-	116,920	116,920
Financial assets at amortized cost	-	-	-	3,376,410	14,786,581	-	18,162,991
Property, plant and equipment	-	-	-	-	-	26,847,421	26,847,421
Right-of-use assets	-	-	-	-	-	1,913,541	1,913,541
Intangible assets	-	-	-	-	-	1,230,991	1,230,991
Deferred tax assets	-	-	-	-	-	988,172	988,172
Other assets	-	-	-	-	-	11,237,714	11,237,714
Total Assets	51,534,345	8,713,015	81,649,801	29,852,831	101,348,533	228,536,228	501,634,753
Liabilities							
Banks and financial institutions' deposits	-	22,351,226	-	-	-	411,696	22,762,922
Customers' deposits	100,924,389	13,764,338	11,842,976	61,523,260	-	151,015,348	339,070,311
Cash margins	6,322,434	6,050,565	2,276,435	5,240,977	5,620,834	330,035	25,841,280
Subsidiary loan	-	-	-	-	1,000,000	-	1,000,000
Sundry provisions	-	-	-	-	-	3,657,409	3,657,409
Lease liabilities	-	-	-	369,684	1,369,434	-	1,739,118
Tax provisions	-	-	-	-	-	1,705,560	1,705,560
Other liabilities	-	-	-	-	-	7,557,111	7,557,111
Total Liabilities	107,246,823	42,166,129	14,119,411	67,133,921	7,990,268	164,677,159	403,333,711
Equity							
Paid-in share capital	-	-	-	-	-	78,000,000	78,000,000
Statutory reserve	-	-	-	-	-	9,295,295	9,295,295
General banking risks reserve	-	-	-	-	-	2,481,489	2,481,489
Pro-cyclicality reserve	-	-	-	-	-	1,723,266	1,723,266
Fair value reserve	-	-	-	-	-	(29,975)	(29,975)
Assets Revaluation surplus	-	-	-	-	-	3,212,555	3,212,555
Retained earnings	-	-	-	-	-	3,618,412	3,618,412
Total Equity	-	-	-	-	-	98,301,042	98,301,042
Total liabilities and equity	107,246,823	42,166,129	14,119,411	67,133,921	7,990,268	262,978,201	501,634,753
Interest rate re-pricing sensitivity gap	(55,712,478)	(33,453,114)	67,530,390	(37,281,090)	93,358,265	(34,441,973)	-
Cumulative gap	(55,712,478)	(89,165,592)	(21,635,202)	(58,916,292)	34,441,973	-	-

44. 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 makes adjustments to it in light of changes in business conditions. The Bank did not make any adjustments to the goals, policies, and actions concerning capital management for current year.

The capital adequacy ratio is computed in accordance with the PMA's instructions No. (8/2018) derived from Basel III committee regulations. Following are the capital adequacy rates for the year:

	2020			2019		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S. \$	%	%	U.S. \$	%	%
Basic capital	81,538,073	12.72	21.51	82,793,640	16.5	26.33
Regulatory capital	85,811,118	13.38	22.64	87,392,595	17.42	27.79

The bank manages the capital in a manner that ensures the continuity of its operations and achieves the highest possible return on shareholders' equity. The capital for the year 2020 is computed in accordance with PMA instructions No. (8/2018) based on Basel III guidelines, as shown in the following table:

	2020
	U.S. \$
Net common shares (CET 1)	81,538,073
Tier 1 of capital	81,538,073
Tier 2 of capital, net	4,273,045
Capital base	85,811,118
Credit risks	330,432,582
Market risks	6,812,472
Operational risks	41,849,797
Total risk weighted assets	379,094,851
	%
Percentage of common stocks (CET 1) to risk weighted assets	21.51
Percentage of Tier 1 of capital to risk weighted assets	21.51
Percentage of Tier 2 of capital to risk weighted assets, net	1.13
Percentage of Tier 1 to assets	12.72
Percentage of regulatory capital to assets	13.38
Capital adequacy ratio	22.64

45. Commitments and contingent liabilities

The total outstanding commitments and contingent liabilities as at the consolidated financial statements date are as follows:

	2020	2019
	U.S. \$	U.S. \$
Letters of guarantees	13,053,725	16,005,568
Letters of credit	1,539,968	2,859,518
Acceptances	2,133,975	3,277,845
Unutilized credit facilities limits	15,124,430	16,557,943
Gross commitments and contingent liabilities	31,852,098	38,700,874
ECL provision	(12,881)	(24,843)
Net commitments and contingent liabilities	31,839,217	38,676,031

The summary of the movement on the gross carrying amount of commitments and contingent liabilities is as follows:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	36,548,359	2,040,914	111,601	38,700,874
Net change during the year	(7,849,120)	1,111,945	(111,601)	(6,848,776)
Balance end of the year	28,699,239	3,152,859	-	31,852,098

The movement of the provision for expected credit losses on commitments and contingent liabilities is as follows:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	19,948	4,895	-	24,843
Net change during the year	(8,937)	(3,025)	-	(11,962)
Balance end of the year	11,011	1,870	-	12,881

The Bank's forward contracts for the sale and purchase of currencies to existing clients as at December 31, 2020 and December 31, 2019 amounted to U.S. \$ 83,116,060 and U.S. \$ 6,266,090, respectively, and they are not disclosed in the commitments and contingent liabilities due to the bank's coverage of the risks of these contracts by concluding corresponding contracts with other banks, in addition to reserving cash margins at a rate of 10% to cover any deviations in prices or failure of the customer to abide by the contract. The value of the futures contracts for the sale and purchase of precious metals as on December 31, 2020 and December 31, 2019 amounted to U.S. \$ 89,100 and U.S. \$ 179,017, respectively, and it is not disclosed within the commitments and contingent liabilities due to the bank covering the risks of these contracts by concluding corresponding contracts with other banks, in addition to reserving cash margins at a rate of 10% as a cash margin to cover any deviations in prices or failure of the customer to abide by the contract.

46. Lawsuits against the Bank

The number of lawsuits filed against the Bank as at December 31, 2020 and 2019 was U.S. \$ 7,476,373 and U.S. \$ 4,960,288, respectively, and it is within the normal course of business. The Bank's management and lawyer believe that no additional provision is required other than what was provided for these lawsuits.

During the year 2019, the Bank and as it was notified that a lawsuit filed against the Bank in the American courts by people demanding compensation based on allegations related to the years from 2000 to 2002, the Bank has taken all legal measures for the purpose of rejecting all the allegations against it, which it denies for many reasons, including that the American courts have no jurisdiction to hear the case in addition the allegations lack of legal and factual basis. During the year 2020, the American court accepted the Bank's lawyer's request to dismiss the lawsuit because the court did not have jurisdiction to hear the case. Then, during the year 2020, the litigant appealed the decision issued to request the case's dismissal, and the appeal is still pending by the court. The Bank's management and lawyer believe that, the Bank will not have any obligations for this case.

47. Concentration of risk in geographical area

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

48. Prior years adjustments

During the year, the Bank adjusted the consolidated financial statements for the year of 2019 retrospectively to properly adjust and classify the German Diversified Income Fund (the Fund) from financial assets at fair value through other comprehensive income items to consolidate it with the Bank's financial statements in accordance with international financial reporting standards, as the financial statements of the Fund were consolidated with the financial statements of the Bank, in addition to properly adjust the deficit in the tax provision for previous years.

The effect of these adjustments as at December 31,2019 are as follows:

	Before adjustment	Adjustment	After adjustment
	U.S. \$	U.S. \$	U.S. \$
Financial assets at fair value through profit or loss	5,590,496	19,345,098	24,935,594
Balances at banks and financial institutions	103,478,939	2,103,502	105,582,441
Other assets	11,230,744	6,970	11,237,714
Other liabilities	7,534,141	22,970	7,557,111
Financial assets at fair value through other comprehensive income	21,549,520	(21,432,600)	116,920
Consolidated net income	4,520,684	352,100	4,872,784
Fair value reserve	322,125	(352,100)	(29,975)
Taxes provisions	305,560	1,400,000	1,705,560
Statutory reserve	9,435,295	(140,000)	9,295,295
Retained earnings	4,878,412	(1,260,000)	3,618,412

The effect of these adjustments as at January 1 ,2019 are as follows:

	Before adjustment	Adjustment	After adjustment
	U.S. \$	U.S. \$	U.S. \$
Taxes provisions	(115,917)	1,400,000	1,284,083
Statutory reserve	8,978,821	(140,000)	8,838,821
Retained earnings	3,262,102	(1,260,000)	2,002,102

Certain numbers of the consolidated financial statements as at December 31, 2019 have been reclassified to conform with the presentation of the consolidated financial statements for the current year. These classifications do not affect previous year's profits or equity.

49. The impact of Coronavirus (Covid-19) on the calculation of expected credit losses allowance and the relevant instructions of the Palestine Monetary Authority

Expected credit loss allowance calculation

The determination of the ECL provision for credit facilities requires the Bank's management to use significant judgments and assumptions to estimate the amounts and timing of future cash flows, as well as to estimate any significant increase in the credit risk of financial assets after initial recognition, and to consider future measurement information for ECL.

According to IFRS (9), credit facilities and Islamic financing to be transferred from stage (1) to stage (2) if, and only if, there has been a significant increase in credit risk after initial recognition.

The bank evaluated its borrowers for other indications of unwillingness to pay, considering the underlying cause of any financial difficulty, and whether it is likely to be temporary as a consequence of the spread of COVID-19 or as a long-term financial difficulty.

During the year, the bank updated the macroeconomic factors according to the latest publications of the International Monetary Fund and the Palestinian Central Bureau of Statistic, in addition to changing the weights possibilities of macroeconomic scenarios by assigning higher weights for the worst-case scenario, which negatively affected the calculation of the expected credit loss provisions.

Relevant PMA instructions

As a result of the spread of Coronavirus (COVID-19), PMA issued instructions No. (4/2020) on March 15, 2020 related to the PMA's measures to mitigate the effects of the health crisis. The instructions included a set of decisions to instruct the banks to postpone customers installments for four months, and six months for the tourism sector. Banks were prohibited from collecting any additional fees, commissions or additional interest on the differed installments. In accordance with the instructions, the bank postponed installments of its customers. The instructions also included other measures taken by the Palestinian Government and PMA (which had an impact on the banking sector and the operations of the bank) such as not to classify customers with returned checks for financial reasons as defaulted and not to charge them with the related commissions.

On July 22, 2020, PMA issued instructions No. (27/2020) regarding mitigating the effects of the financial crisis and the Coronavirus crisis, under which the bank restructured and rescheduled the credit facilities.

During the year 2020, and in response to the instructions PMA No. (23/2020), the Bank, started a program to reduce payments to support the affected customers by postponing the deferred installments for a period of four to six months, by granting a grace period to pay the deferred installments. These payments reliefs are considered a short-term liquidity for the purpose of mitigating the borrower's cash flow issues. The Bank believes that payments extension does not automatically lead to a significant 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 potential impact of COVID-19 on the economic sector, future outlook, cash flows, financials strength, mobility and change in risk profile along with historical records in identifying a significant increase in credit risk.

Istidama Program Loans

The Bank granted loans through PMA support program, to support small and medium enterprises companies and to enable them to maintain their businesses and employees through financing program with an interest rate of 3% based on the instructions of PMA (Istidama Program).

50. Subsequent events

War on Gaza strip

Subsequent to the financial statements date, Gaza Strip was under war, which effected various economical activities in the Strip, and lead to total or partial destruction of establishments and real estate. It is expected that this event may have an effect on the operations of the Bank and its customers in Gaza Strip, in addition to the revenues and results of operations of the Bank. Management is studying the effects of this event on the financial position of the Bank including the revaluation of the Bank's investments, real estate collaterals, and the ability of the Bank's customers to pay.

Palestine Monetary authority instruction related to corona virus effect (COVID-19)

Subsequent to the financial statements date, on May 9, 2021, the Palestine Monetary Authority issue Instruction No. (9/2021) regarding the extension of the implementation of the instructions No. (27/2020), and allow to implement the above mentioned instructions to the expected premiums until 31 December 2021, and the obligations that will be due on affected customers as a result of the current economic conditions are dealt with through restructuring or rescheduling of funds, this aims to support operational challenges and finance short-term liquidity in accordance with the conditions mentioned above.

