بنك الاستثمار الفلسطيني
PALESTINE INVESTMENT BANK

ANNIVERSARY

25 YEARS

1994-2019

رُبعُ قَرنٍ..تَنمِيَةٌ وَأَمانٌ

Annual Report 2018

بنك الاستثمار الفلسطيني
PALESTINE INVESTMENT BANK
تنمية وأمان

2018 The Twenty-Fourth Annual Report

Results and Achievements in 2018

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Contents

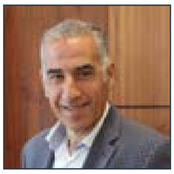
Members of the Board of Directors as of December 31, 2018

Mr. Abed Dayeh

Chairman

Mr. Khalil Nasr

Vice-Chairman

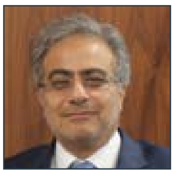


Dr. Adnan Steitieh

Non-executive Director

Mr. Yousef Bazian

Non-executive Director

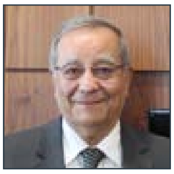


Mr. Sami Al Sayid

Non-executive Director

Mr. Jamil Al-Muti

Non-executive Director



Mr. Marwan Abdul-Hameed

Non-executive Director

Mr. Walid Al-Najjar

Non-executive Director

Mr. Tareq Al-Haj

Non-executive Director

Mr. Hanna (Johny) Abuaitah

Non-executive Director

Mr. Fadi Hamra

Non-executive Director

Senior Executive Management as of December 31, 2018

Mr. Samih Sbieh	Acting 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, 2018

- **Advisor**

  Mr. Diaa' Abd El Fattah

- **Legal**

  Mr. Hussam Al Atira
  Mr. Malik Al Auri
  Mr. Sharhabeel Al Zaim

- **External Auditors**

  Price Waterhouse Coopers - Palestine

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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.

PIB’s Products and Services

Financial Services

Commercial Services

Treasury and Investment Services

PIB's Products and Services

Financial Services

- Provide all types of current and savings accounts
- Accept all forms of deposits with different currencies
- Offer Personal Revolving overdrafts, 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
- SWIFT services
- Online banking services (electronic banking services and SMS services)

Commercial Services

- Letters of Credit
- Issuing all kinds of bank guarantees
- Execute all kinds of local and external transfers
- Accept all types of 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

Chairman's Message

Dear Shareholders,

On behalf of the Board of Directors and myself, it is my pleasure to present to you the bank's 24th Annual Report for the year 2018, which includes the consolidated financial statements and achievements for the financial year ended 31/12/2018.

We are confident that our efforts will continue to meet current and future challenges, which will lead to the achievement of our ultimate goal of ensuring sustainability, profitability, and success. We are keen to keep a close eye on the Bank's continuous development since its establishment in 1994.

Palestine Investment Bank (PIB) continued prospering during the past year, maintaining its performance, based on the quality of its assets and the plans approved by the Board of Directors, which are in line with the future vision to satisfy all stakeholders.

The growth of the Palestinian GDP in 2018 slowed to 0.7% compared to 3% in 2017. The slowdown in the growth of the local economy is expected to continue to reach 0.5% in 2019.

On the financial level, the bank achieved an increase in net profit after tax by 10.8% and a 2.23% increase in the volume of deposits compared to the year 2017. Credit facilities rose by 3.53% in 2018 compared to the previous year, and an increase of 7.3% in net equity in 2018 compared to the year 2017.

Based on our belief that human capital is our most important asset, the Bank continued to implement policies and procedures aimed at developing employees through specialized training programs and courses and will continue to do so in the coming years.

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

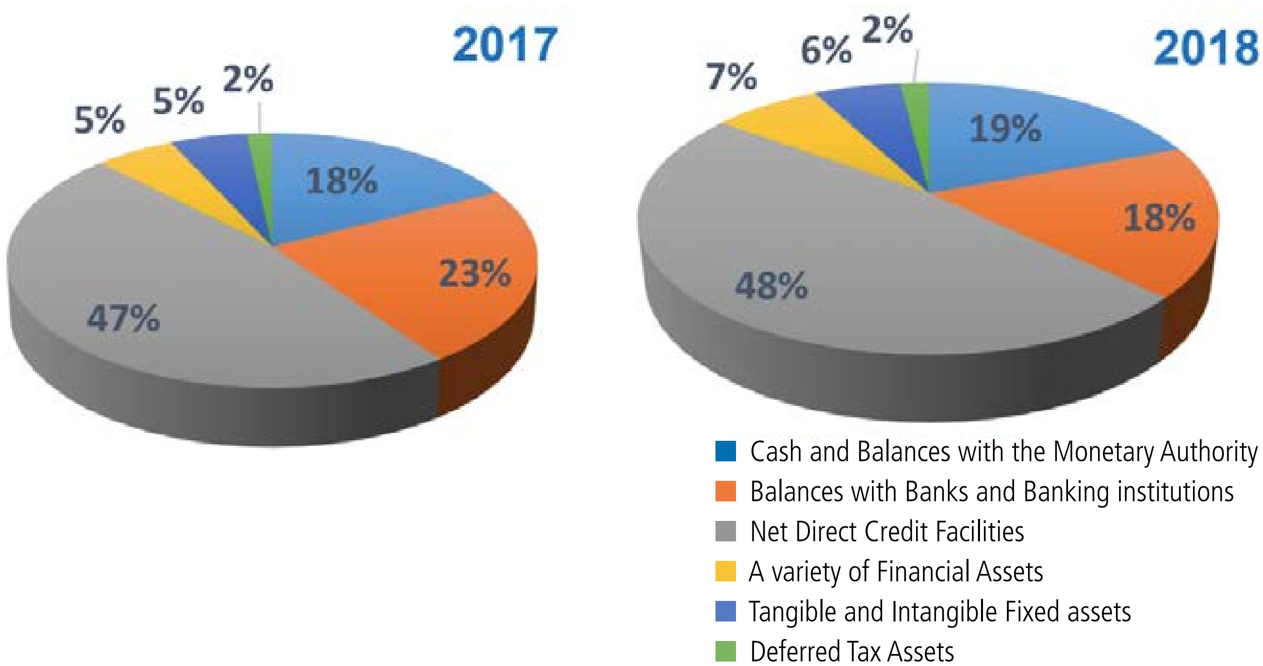
I would also like to express my thanks and appreciation to our clients for their trust in the bank and also to the Palestinian regulatory authorities, for their continuous efforts and care aimed at improving the financial and banking sector in Palestine.
I extend my sincere thanks to all employees and executives of the Bank for their dedicated efforts at all levels.

Abed Dayeh
Chairman of the Board

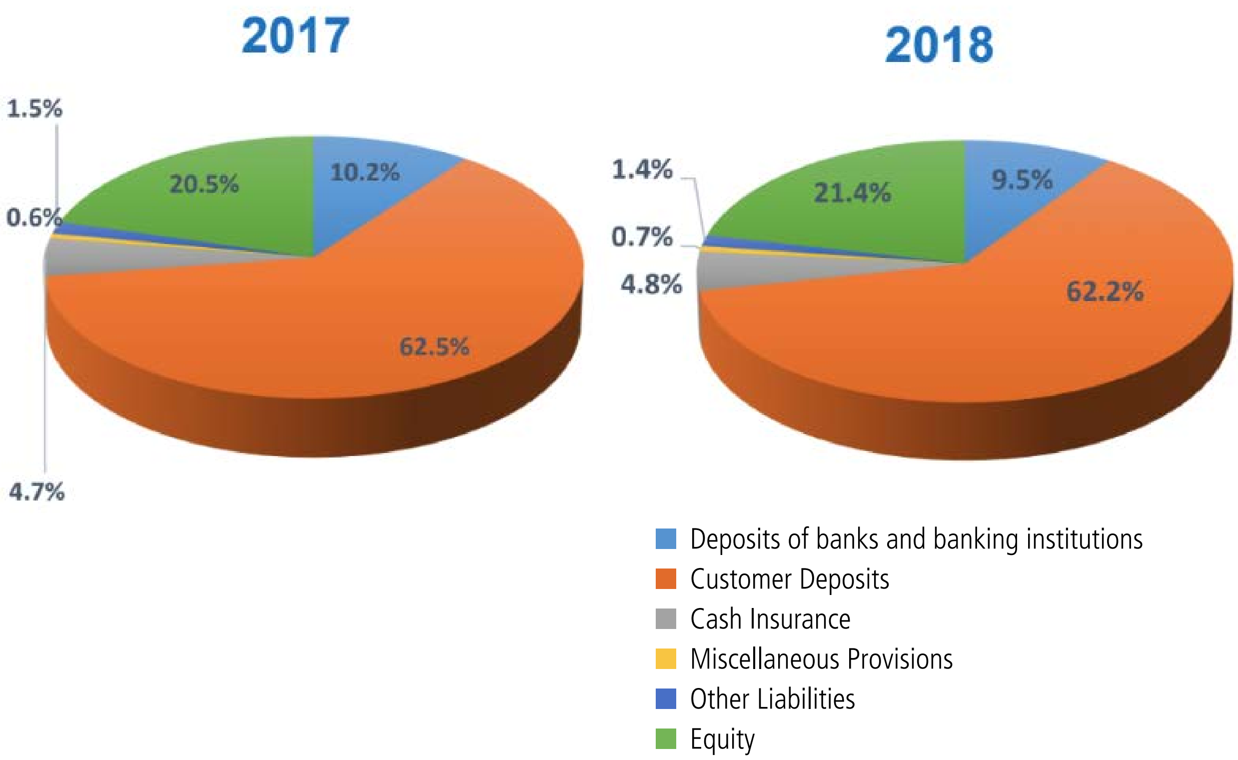
Analysis of the Financial Position and Results of Operations in 2018

The Bank's management continued the growth in shareholders' equity and maintained a balance between profitability and safe investments, and avoided high-risk investments. 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.

The Financial Position of the Bank				
	US$ Million		%	
Assets	2018	2017	2018	2017
Cash and Balances with the Monetary Authority	87.15	77.93	19.16	17.58
Balances with Banks and Banking institutions	82.00	100.05	18.03	22.57
Net Direct Credit Facilities	218.08	210.58	47.95	47.50
A Variety of Financial Assets	32.58	24.03	7.16	5.42
Tangible and Intangible Fixed assets	26.15	23.09	5.75	5.21
Deferred Tax Assets	8.83	7.62	1.95	1.72
Total Assets	454.79	443.30	100	100



Liabilities and Equity				
	US$ Million		%	
	2018	2017	2018	2017
Deposits of Banks and Banking Institutions	43.35	45.35	9.53	10.23
Customer Deposits	282.69	276.84	62.16	62.45
Cash Insurance	21.87	20.82	4.81	4.70
Miscellaneous Provisions	3.11	2.72	0.68	0.61
Other Liabilities	6.22	6.66	1.37	1.50
Equity	97.55	90.90	21.45	20.51
Total Liabilities and Equity	454.79	443.29	100	100



Direct Credit Facilities

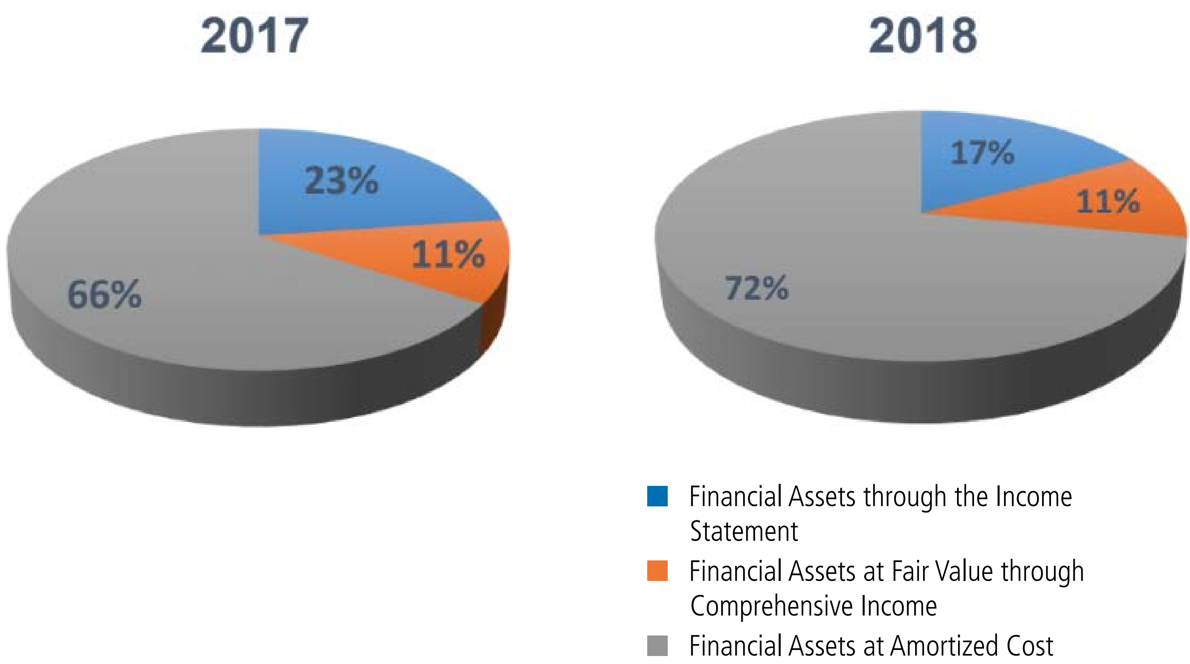
Over the year of 2018, the Bank's management continued working on the development of the Bank's credit facilities portfolio by following a balanced and cautious credit policy in light of the situation in Palestine and changes in interest rates and expected returns on credit facilities. Under the supervision 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 the continuity of risk allocation and management of available funds effectively and efficiently.

Portfolio of Financial Assets

Balance of the investment portfolio was at $32.28 million in 2018, compared to $24.03 million in the year 2017, due to the increase of financial assets used for investments.

Diversified Financial Assets				
	US$ Million		%	
	2018	2017	2018	2017
Financial Assets through the Income Statement	5.54	5.49	17.00	22.85
Financial Assets at Fair Value through Comprehensive Income	3.60	2.69	11.05	11.19
Financial Assets at Amortized Cost	23.44	15.85	71.95	65.96
Total	32.58	24.03	100	100

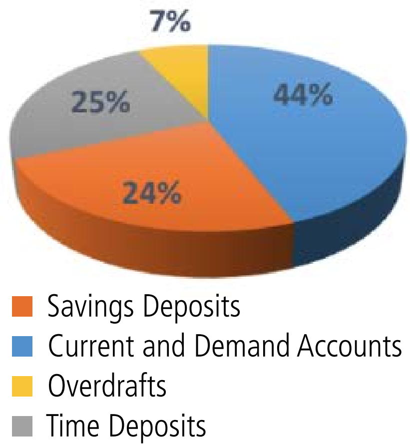


Customer's Deposits

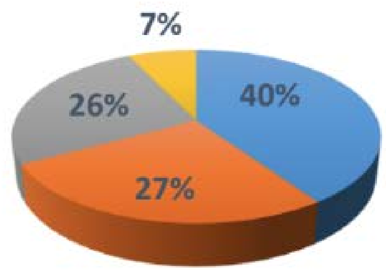
Deposits grew during 2018 by 2.32% compared to the previous year.

Components of Customer Deposits				
	US$ Million		%	
	2018	2017	2018	2017
Current and Demand Accounts	123.07	131.19	40.4	44.1
Savings Deposits	81.06	72.57	26.6	24.4
Time Deposits	78.56	73.09	25.8	24.6
Overdrafts	21.87	20.82	7.2	7
Total Deposits	304.56	297.67	100	100

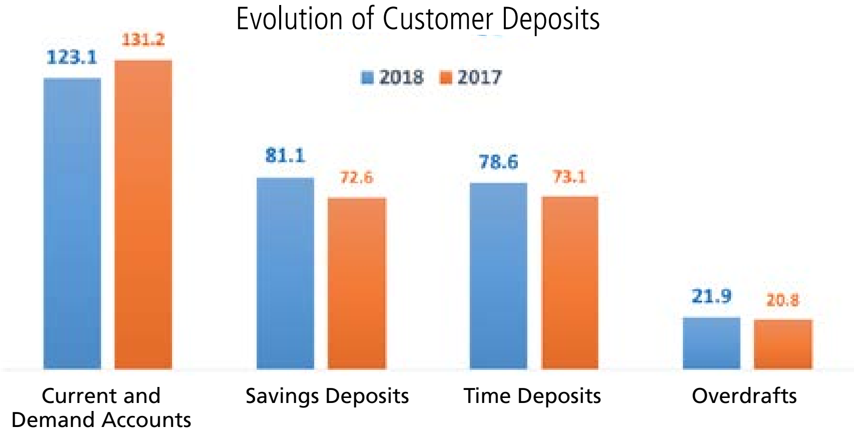
Customer's Deposits Structure 2017



Customer's Deposits Structure 2018



Evolution of Customer Deposits



Shareholder's Equity

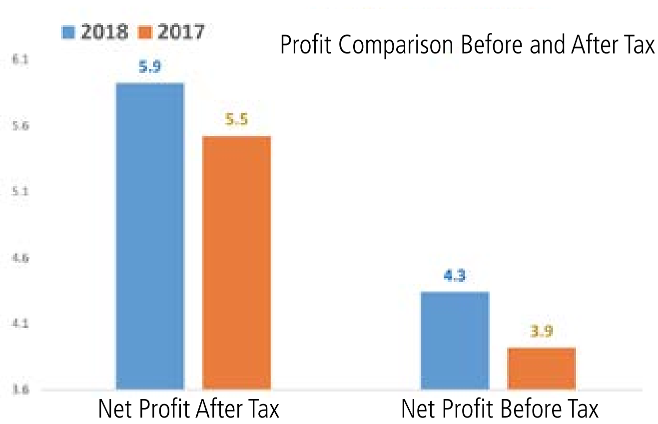
Capital Adequacy:

The capital adequacy ratio equated to 28.95% in 2018 versus 26.92% in 2017. 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 27.37% in 2018, compared with 26.61% in 2017.

Bank's Operations Results

Net profit before tax reached $5.92 million in 2018 compared with $5.52 million in 2017, a total increase of 7.25%, and after tax, net profit reached $4.34 million in 2018 compared with $3.92 million in 2017, an increase of 10.71%.

Net Profit Before and After Tax			
	US$ Million		
	2018	2017	Change %
Net Profit Before Tax	5.92	5.52	7.25
Tax Expenses	(1.58)	(1.61)	1.68
Net Profit After Tax	4.34	3.92	10.71

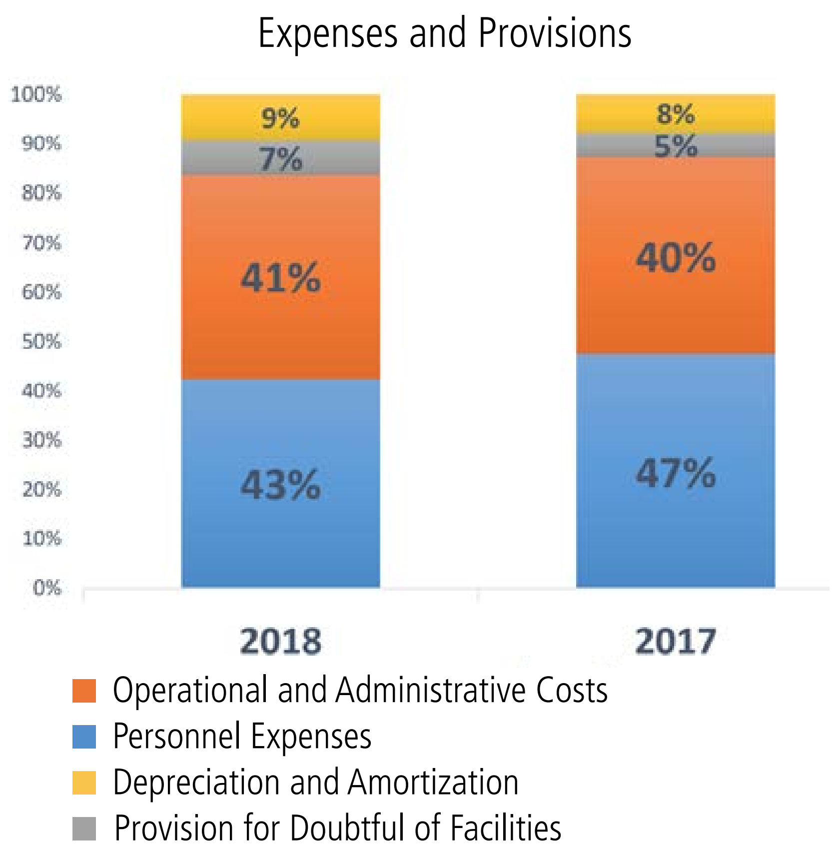


Total Revenue				
	US$ Million		%	
	2018	2017	2018	2017
Net Interest Received	15.61	13.24	71.87	68.78
Net Commission Income	4.34	4.14	19.98	21.50
Profits of Financial Assets	(0.14)	0.18	(0.64)	0.94
Foreign Exchange Gains	1.03	1.04	4.74	5.40
Other	0.88	0.65	4.05	3.38
Total	21.72	19.25	100	100

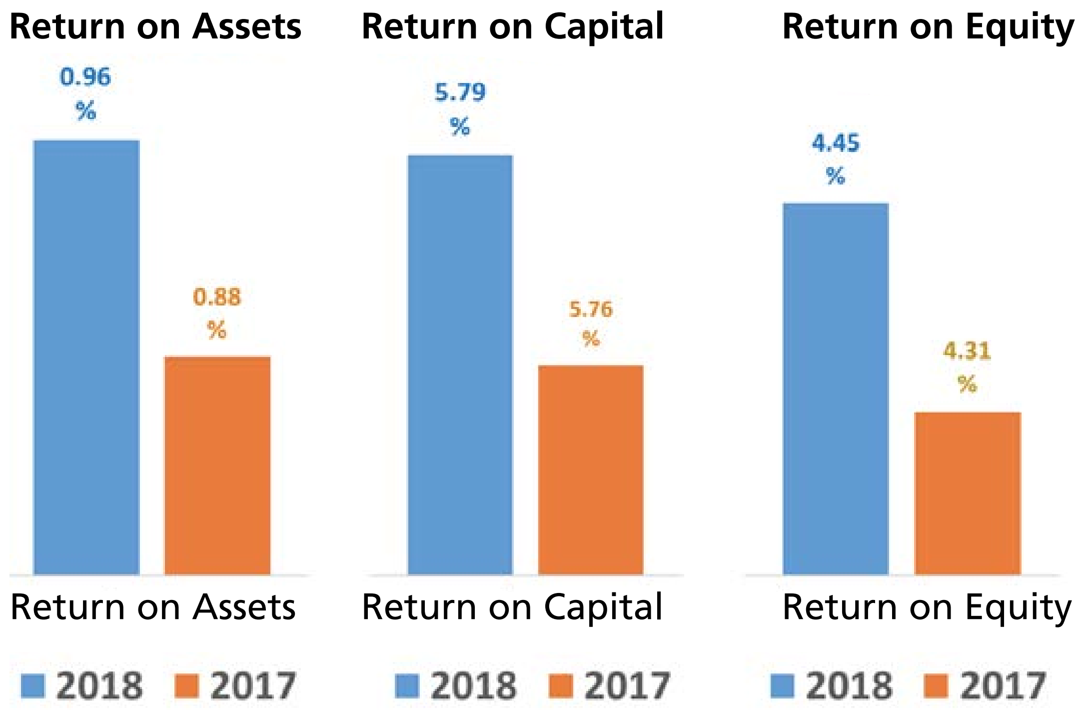
Expenses and Provisions

Total expenses and provisions reached $15.90 million in 2018 compared with $13.73 million in 2017, with an increase of $2.17 million, representing about 15.80%.

Expenses, Provisions, and their Ratios				
	US$ Million		%	
	2018	2017	2018	2017
Personnel Expenses	6.73	6.51	42.33	47.41
Operating and Administrative Expenses	6.47	5.53	40.69	40.28
Provision for Doubtful Facilities	1.26	0.64	7.92	4.66
Depreciation and Amortization	1.44	1.05	9.06	7.65
Total	15.90	13.73	100	100



Key Financial Ratios for 2018 Compared with 2017		
	2018	2017
Return on Equity	4.45%	4.31%
Return on Capital	5.79	5.76
Return on Assets	0.95	0.88
Facilities to Deposits	71.58	70.74
Facilities to Assets	47.95	47.50
Total Equity to Assets	21.45	20.51
Earnings Per Share	5.79	5.76



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 subsiding 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 and controls various risks and analyzes them for early recognition of the nature of the 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 of 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 ban, such as credit risk, market risk, liquidity risk, operational risk and any others.
- Reviewing the policy periodically.
- Viewing the results of the Risk Management Committee, besides its recommendations regarding the various activities.
- Using auto-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 ratios.

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

In mid 2018, the bank's executive management prepared for the launch of two new branches in the cities of Tolkarem and Nablus. The branches are expected to be fully operational in the beginning of 2019.

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 2018, 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 and labor productivity.

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:

* Developing a new look for BANKS.
* Operating the bank mobile system to allow clients in using e-banking services on smartphones.
* Pioneering the opening of accounts through tablets, allowing the client to open an account without physical appearance at the bank.
* Enhancing the data network via operating control systems like Qradar and Guardium.
* Enhancing the bank infrastructure through smart network IWAN.

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, the Management 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, 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 the Bank's customers and to keep up on the developments and changes in the banking industry.

The Executive Management has been keen on taking care of the Bank's staff in response to the effort of each employee. The 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 arranged for 266 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. Treasury activities contributed to a strong performance for the year of 2018, similar to that of 2017 in the field of foreign currency trading resulting in $1.03 million in revenue for the bank.

Subsidiaries

* Global Securities Co. (GSC)

Global Securities is a financial company engaged in financial intermediation for the account of the clients. 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 services 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.

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 31/12/2018.

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 peers.
- 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.

The Objectives of the Plan for 2019

- 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 productivity and efficiency.
- 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 follow-up 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 and desires and to attract new customers in order to increase the Bank's market share in the banking market.
- 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.
- Develop and diversify the performance of service in order to maintain the Bank's competitive advantage regarding other banks in Palestine by employing banking technology to strengthen the Bank's capacity.
- 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 to ensure continuous monitoring that the Bank's operations is complying with policies and limits approved and that they are compatible with the Bank's objectives. 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. Based on the Bank's keenness on corporate governance, several specialized committees formed from the Board of Directors each with its own 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 their fees. - Evaluation of the independence of the external auditor and the scope of their 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.
		Walid Al-Najja	Member	
		Faeq El-Ayla	Member	

3	Risk Management 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. - 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.
		Marwan Abdul Hamid	Member	
		Jamil Muti	Member	
4	Governance and Compensation Committee	Dr. Adnan Steitieh	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.
		Yousef Bazian	Member	
		Khalil Nasr	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.

Transparency and Disclosure

In accordance with international standards in the field of disclosure, which is one of the three 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.

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, publication in local newspapers, and advertisements in the Bank's Head Office, branches, offices, and through its subsidiaries in the cities and communities Palestine.

Strategic Investors with Shares More Than 10%

Name	Number of Shares as of 31/12/2018	Percent of Shares
Al-Yazan Co. for Real Estate & Financial Investments	13,228,473	17.64
Aswaq Investments	17,605,454	23.47
Palestine Pension Agency	7,860,467	10.48

Shares Owned by Board Members

Name	Position	Number of Shares as of 31/12/2018	Percent of Shares
Mr. Abed Dayeh	Chairman of Board of Directors	4,668,843	6.22
Mr. Khalil Nasr	Vice Chairman of Board of Directors	12,939	0.02
Dr. Adnan Steitieh	Member	23,390	0.03
Al-Yazan Co. for Real Estate & Financial Investments	Member	13,228,473	17.64
Mr. Yousef Bazian	Member	11,763	0.02
Mr. Sami Sayed	Member	16,174	0.02
Mr. Jameel Al-Muti	Member	678,488	0.91
Mr. Waleed Al-Najar	Member	11,763	0.02
Mr. Marwan Abdul Hameed	Member	86,580	0.12
A.Y. Consultants	Member	1,670,661	2.23
Uni Brothers LMTD	Member	5,777,310	7.70

The company's stock trading on the Palestine Exchange in 2018

Item	2018	2017
Highest Price	1.43	1.28
Lowest price	1.21	0.95
Opening price	1.28	1.05
Closing price	1.21	1.28

Number of Traded Shares	Number of Transactions	Value in Dollars
14,880,317	1290	19,689,000

Transactions with Related Parties

- Indirect facilities provided to related parties as of Dec. 31st, 2018 amounted to $1,000,000.

Duties of the Board of Directors to the Shareholders and Corporate Governance

The generally accepted principles of corporate governance applied to the Bank's various activities have been continually implemented throughout the year 2018.

Board Meetings

The Board of Directors held six meetings during the year 2018.

#	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. Marwan Abdul Hameed	6	100
4	Mr. Faeq El-Ayla	5	83.3
5	Mr. Yousef Bazian	5	83.3
6	Mr. Waleed Al-Najar	6	100
7	Mr. Sami Al-Sayid	6	100
8	Dr. Adnan Steitieh	6	100
9	Mr. Jameel Al-Mu`ti	5	83.3
10	Dr. Fadi Hamra	6	100
11	Mr. Hanna Abuaitah	5	83.3
12	Mr. Tareq Al Haj	1	16.7

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 2018 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 $65,839 for various activities.

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

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

Board of Directors' Remuneration:

During the year 2018, 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 received a salary.

Name	2017 (in US$)	2018 (in US$)
Mr. Abed Dayeh	59,000	10,000
Mr. Khalil Nasr	25,000	10,000
Mr. Marwan Abdul Hameed	6,000	8,000
Mr. Yousef Bazian	8,000	10,000
Mr. Waleed Al-Najar	21,000	10,000
Mr. Sami Al-Sayid	8,000	8,000
Dr. Adnan Steitieh	6,000	10,000
Mr. Jameel Al-Muti	6,000	8,000
Mr.Faeq El-Ayla	6,000	10,000
Dr. Fadi Hamra*	15,000	10,000
Mr. Hanna Abuaitah*	6,000	8,000
Mr. Tareq El Haj	-	2,000
Total	166,000	104,000

Academic Degrees held by Bank Employees:

- 11 employees hold Master Degrees.
- 230 employees hold Bachelor Degrees.
- 15 employees hold Diploma qualifications.
- 1 employee holds High School Degree.
- 19 employees hold qualifications below a High School Degree.

Global Securities Co. (GSC)
Financial intermediary 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, 2018

pwc

Independent Auditor's Report to the Shareholders of Palestine Investment Bank – Public Shareholding Company, Ltd.

Our Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Palestine Investment Bank - Public Shareholding Company, Ltd and its subsidiaries. (hereinafter referred to as the "Bank") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards IFRS.

What we have audited

The Bank's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with IESBA Code.

Independent Auditor's Report to the Shareholders of Palestine Investment Bank – Public Shareholding Company, Ltd. (Continued)

Our audit approach

Overview

Key Audit Matters	Measurement of expected credit losses on credit facilities

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

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 of the current period. 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.

Independent Auditor's Report to the Shareholders of Palestine Investment Bank – Public Shareholding Company, Ltd. (Continued)

Key Audit Matters (continued)

Key Audit Matters	How our audit addressed the Key audit matters
<u>Measurement of expected credit losses on credit facilities</u> As stated in Accounting Policy 2.2 and 2.7 and Note 4, "Basis and estimates", the management determines the provision for impairment of direct credit facilities in accordance with accounting policy (2.7) and (2.13) and In accordance with the relevent instructions of the Palestinian Monetary Authority, the Bank applied the requirements of IFRS 9 "Financial instruments" to measure the impairment of financial assets since the beginning of 2018. This standard requires the use of the forward-looking model (expected credit loss) instead of the incurred loss model. As described in note (2.2), the Bank recognised the effect of applying the Standard to the opening balances of the general banking risk reserve in the consolidated statement of changes in equity as at 1 January 2018 rather than reissuing the consolidated financial statements for the year ended 31 December 2017. The impact of the application is described in full in Note 2.2 to the consolidated financial statements. The Bank applies the expected credit loss model to all its financial instruments measured at amortised cost and debt instruments measured at fair value through comprehensive income and direct and indirect credit facilities.	Below are the procedures we followed to evaluate the appropriateness of the management's judgement of the measurements of expected credit loss: • Understand the nature of the credit facilities portfolio. • Evaluate the management's approach used to determine how the debtor is classified. • Evaluate the Bank's assumptions in determining the factors leading to an increase in credit risk and recognition of credit exposures within different stages. • Use our specialised internal experts to assess the following aspects: 1. The conceptual framework used in the development of the Bank's impairment policy in the context of its compliance with the requirements of IFRS 9. 2. The methodology of the expected credit loss model and the factors used to determine the probability of default (PD) and loss given default (LGD) and exposure at default (EAD) of the Bank's different categories of financial instruments. 3. The reasonableness of the assumptions used in preparing the model framework, including the assumptions used to assess future scenarios and the significant increase in credit risk.

Independent Auditor's Report to the Shareholders of Palestine Investment Bank – Public Shareholding Company, Ltd. (Continued)

Key Audit Matters (continued)

Key Audit Matters	How our audit addressed the Key audit matters
The use of the expected credit loss model requires the use of significant estimates and the development of multiple assumptions in the calculation of the possibility of default, Loss given default, and exposure at default for both funded and unfunded exposures, forward-looking information, and classification criteria of stages. Due to the significance of such estimates and assumptions, they are considered as one of the important risks which may lead to a material misstatement in the consolidated financial statements, which may arise from the inaccurate application of estimates or assumption to determine the provision value. As shown in note (7) to the consolidated financial statements, the management estimated the value of the loss impairment allowance for direct credit facilities at USD 2,981,426, and the net direct credit facilities amounted to USD 218,082,858, i.e. 48% of the total assets of the Bank as at December 31, 2018.	4. The management's approach for the determination of provision value as at December 31, 2018, and compare them with the requirements of IFRS 9. 5. The assumptions used in the application of the expected credit loss model (ECL) and compare them with the requirements of IFRS 9. 6. Examination of a sample of management's estimates of the recoverable amount upon selling the asset to evaluate the resonability of those estimates. • Examine certain relevant internal control procedures adopted by the management. • Examine the Bank's information systems related to the automatic classification of loans. • Examine a sample of clients to assess the validity of the classification of these customers according to the credit rating system used by the Bank as per the different stages. • Ensure that customers' information regarding the calculation of the ECL model is complete. • Recalculation of impairment provision for the direct credit facilities for a sample of customers in accordance with the relevant instructions of the Palestine Monetary Authority and IFRS 9. • Evaluate the adequacy of the disclosure about the impairment allowance for credit facilities, and the application of IFRS 9.

Independent Auditor's Report to the Shareholders of Palestine Investment Bank – Public Shareholding Company, Ltd. (Continued)

Other information

Management is responsible for the other information. The other information comprises all information stated in the annual report 2018 of the Bank but the does not include the consolidated financial statements and the independent auditor's report. We were not provided with the other information up to the date of our report, as it is expected to be provided with it after this date.

Our opinion on the consolidated financial statements does not cover the other information, and we do 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 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.

When we read the annual report 2018, which is not provided to us, and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and the applicable laws and regulations of Palestine, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement 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.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Independent Auditor's Report to the Shareholders of Palestine Investment Bank – Public Shareholding Company, Ltd. (Continued)

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 misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement 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 the 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 estimate 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.

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Independent Auditor's Report to the Shareholders of Palestine Investment Bank – Public Shareholding Company, Ltd. (Cont.)

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

- 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 and 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 Bank's audit, and we remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period 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.

For PricewaterhouseCoopers Palestine

Hazem Sababa
License number 115/2003
Ramallah, Palestine
April 4, 2019

Consolidated statement of financial position
(All amounts are in USD)

	Note	As at December 31, 2018	2017
Assets			
Cash and balances at Palestine Monetary Authority	(5)	87,147,234	77,930,593
Balances with banks and financial institutions	(6)	82,000,186	100,048,382
Direct credit facilities	(7)	218,082,858	210,578,198
Financial assets at fair value through the statement of income	(8)	5,545,496	5,488,791
Financial assets at fair value through statement of comprehensive income	(9)	3,597,252	2,690,391
Financial assets at amortised cost	(10)	23,441,949	15,850,074
Property, plant and equipment	(11)	24,997,359	21,855,386
Deferred tax assets	(12)	815,917	808,199
Intangible assets	(13)	1,164,836	1,232,648
Other assets	(14)	8,018,939	6,808,449
Total assets		**454,812,026**	**443,291,111**
Liabilities and equity			
Liabilities			
Banks and financial institutions deposits	(15)	43,350,610	45,347,030
Customers' deposits	(16)	282,689,956	276,844,431
Cash margins	(17)	21,868,716	20,819,529
Miscellaneous provisions	(18)	3,110,005	2,722,142
Other liabilities	(20)	6,247,448	6,658,621
Total liabilities		**357,266,735**	**352,391,753**
Equity			
Paid in capital	(23)	75,000,000	68,000,000
Statutory reserve	(21)	8,978,821	8,544,589
General banking risks reserve	(21)	2,481,489	3,011,000
Pro-cyclicality reserve	(21)	3,788,055	2,918,681
External branch reserve	(21)	935,211	935,211
Fair value reserve	(9)	(165,611)	(70,948)
Excess from assets revaluation		3,212,555	3,212,555
Retained earnings		3,314,771	4,348,270
Net equity		**97,545,291**	**90,899,358**
Total liabilities and equity		**454,812,026**	**443,291,111**

- The accompanying notes from note 1 to note 44 form an integral part of these consolidated financial statements.

The consolidated financial statements on pages 9 to 73 were approved and authorized for issuance by the Board of Directors on January 30, 2019 and were signed on its behalf.

Mr. Abdul Aziz Abu Diyah
Chairman of the Board

Palestine Investment Bank (Public Shareholding Company)
Consolidated financial statements for the year ended December 31, 2018

Consolidated statement of income

(All amounts are in USD)

	Note	For the year ended December 31, 2018	2017
Interests revenues	(24)	18,159,314	15,727,796
Interests expenses	(25)	(2,548,200)	(2,484,052)
Net interest income		**15,611,114**	**13,243,744**
Net commissions income	(26)	4,340,496	4,138,260
Net interest and commissions income		**19,951,610**	**17,382,004**
Net foreign currency exchange gains		1,029,460	1,040,328
Dividends income		26,581	31,954
Net recovery of impairment provision		704,964	381,520
(Losses) gains on financial assets	(27)	(161,504)	145,033
Other revenues	(28)	300,547	273,108
Total income		**21,851,658**	**19,253,947**
Expenses			
Employees' expenses	(29)	6,728,090	6,512,202
Other operating expenses	(30)	6,474,335	5,520,889
Direct credit facilities impairment allowance	(7)	1,258,350	644,497
Depreciation and amortisation	(11,13)	1,443,252	1,056,216
Net losses (gains) on foreign currency		23,968	(9,371)
Palestine Monetary Authority's fines	(31)	-	5,643
Total expenses		**15,927,995**	**13,730,076**
Profit for the year before tax		**5,923,663**	**5,523,871**
Tax expense	(19)	(1,581,339)	(1,604,613)
Profit for the year		**4,342,324**	**3,919,258**
Basic and diluted earnings per share for the year	(33)	**0.058**	**0.059**

- The accompanying notes from note 1 to note 44 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

(All amounts are in USD)

	For the year ended December 31,	
	2018	**2017**
Profit for the year	4,342,324	3,919,258
Other comprehensive income items:		
Items may not be reclassified to the consolidated statement of income in subsequent periods:		
Change in fair value of financial assets at fair value through statement of comprehensive income	(94,663)	(58,899)
Other comprehensive income for the year	**(94,663)**	**(58,899)**
Net comprehensive income for the year	**4,247,661**	**3,860,359**

- The accompanying notes from note 1 to note 44 form an integral part of these consolidated financial statements.

Palestine Investment Bank (Public Shareholding Company)
Consolidated financial statements for the year ended December 31, 2018

Consolidated statement of changes in equity
(All amounts are in USD)

		Reserves							
	Paid-in capital	Statutory	General banking risks reserve	Pro-cyclicality	External branches	Fair value	Excess from assets revaluation	Retained earnings	Net equity
December 31, 2018									
Balance as of January 1, 2018 -before restatement	**68,000,000**	**8,544,589**	**3,011,000**	**2,918,681**	**935,211**	**(70,948)**	**3,212,555**	**4,348,270**	**90,899,358**
Impact of the adoption of IFRS 9	-	-	(1,302,660)	-	-	-	-	-	**(1,302,660)**
Restated balance as at January 1, 2018	**68,000,000**	**8,544,589**	**1,708,340**	**2,918,681**	**935,211**	**(70,948)**	**3,212,555**	**4,348,270**	**89,596,698**
Profit for the year	-	-	-	-	-	-	-	4,342,324	**4,342,324**
Other comprehensive income for the year	-	-	-	-	-	(94,663)	-	-	**(94,663)**
Net comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(94,663)**	**-**	**4,342,324**	**4,247,661**
Share capital increase (Note 22)	7,000,000	-		-	-	-	-	(3,299,068)	**3,700,932**
Transferred to reserves*	-	434,232	773,149	869,374	-	-	-	(2,076,755)	**-**
Balance at end of the year	**75,000,000**	**8,978,821**	**2,481,489**	**3,788,055**	**935,211**	**(165,611)**	**3,212,555**	**3,314,771**	**97,545,291**
December 31, 2017									
Balance at beginning of the year	**59,600,000**	**8,152,663**	**2,861,000**	**2,336,393**	**-**	**(304,074)**	**3,212,555**	**4,180,462**	**80,038,999**
Profit for the year	-	-	-	-	-	-	-	3,919,258	**3,919,258**
Other comprehensive income for the year	-	-	-	-	-	(58,899)	-	-	**(58,899)**
Net comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(58,899)**	**-**	**3,919,258**	**3,860,359**
Losses on sale of financial assets recognised directly in retained earnings (Note 9)	-	-	-	-	-	292,025	-	(292,025)	**-**
Share capital increase (Note 22)	8,400,000	-	-	-	-	-	-	(1,400,000)	**7,000,000**
Transferred to reserves	-	391,926	150,000	582,288	935,211	-	-	(2,059,425)	**-**
Balance at end of the year	**68,000,000**	**8,544,589**	**3,011,000**	**2,918,681**	**935,211**	**(70,948)**	**3,212,555**	**4,348,270**	**90,899,358**

* The Bank obtained the approval of the Palestinian Monetary Authority (PMA) to recognize 50% from the actual pro-cyclicality reserve to be booked in accordance with the instructions of Plestine Monetary Authority No. (1/2018) for the year 2018. This approval was obtained through PMA letter No. D4- 1156/02/2019 dated February 11, 2019 .

- The accompanying notes from note 1 to note 44 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
(All amounts are in USD)

	Note	For the year ended December 31, 2018	2017
Operating activities			
Profit before tax for the year		5,923,663	5,523,871
Adjustments:			
Impairment allowance on direct credit facilities	(7)	1,258,350	644,497
Depreciations and amortisations	(11,13)	1,443,252	1,056,216
(Gain) loss on sale of financial assets at fair value through statement of income	(27)	(4,888)	62,400
Net loss (gain) on revaluation of financial assets at fair value through the statement of income	(27)	166,392	(207,433)
Net recovery of impairment provision		(704,964)	(381,520)
Profit on sale of property, plant, and equipment		(61,102)	-
Miscellaneous provisions	(18)	836,639	468,774
Dividends income		(26,581)	(31,954)
Bonds interests	(24)	(1,287,418)	(1,231,941)
Other non-cash items		86,330	(20,673)
		7,629,673	**5,882,237**
Change in assets and liabilities			
Direct credit facilities	(7)	(9,172,097)	(29,365,906)
Statutory reserve	(5)	4,402,802	(3,939,715)
Other assets	(14)	(1,201,783)	(1,032,986)
Customers' deposits	(16)	5,845,525	49,570,243
Cash margins	(17)	1,049,187	3,300,930
Other liabilities	(20)	(411,173)	1,598,562
Net cash generated from operating activities before provisions and tax payments		**8,142,134**	**26,013,365**
Miscellaneous provisions paid	(18)	(446,228)	(401,380)
Taxes paid	(19)	(1,840,768)	(1,683,631)
Net cash generated from operating activities		**5,855,138**	**23,928,354**
Investing activities			
Sale of financial assets at fair value through the statement of comprehensive income		-	1,160,686
Purchase of financial assets at fair value through the statement of comprehensive income		(1,001,524)	(1,017,117)
Sale of financial assets at fair value through the statement of income		134,084	1,687,928
Purchase of financial assets at fair value through the statement of income		(367,087)	(44,411)
Purchase of financial assets at amortised cost		(11,884,578)	(3,268,222)
Maturity of financial assets at amortised cost		4,002,765	3,827,172
Purchase of property, plant and equipment	(11)	(4,405,019)	(2,193,761)
Sale of property, plant and equipment		102,694	-
Purchase of intangible assets	(13)	(153,986)	(493,581)
Dividends income received		26,581	31,954
Bonds' interests received		1,592,443	1,231,941
Net cash (used in) generated from investing activities		**(11,953,627)**	**922,589**
Financing activities			
Capital increase	(22)	3,700,932	7,000,000
(Decrease) increase in cash and cash equivalents		**(2,397,557)**	**31,850,943**
Cash and cash equivalents, beginning of the year		107,992,155	76,141,212
Cash and cash equivalents, end of the year	(32)	**105,594,598**	**107,992,155**

- The accompanying notes from note 1 to note 44 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
(All amounts are in USD)

Note (1) General
Palestine Investment Bank (the Bank) was founded on August 10, 1994 as a Public Shareholding Limited Company in Palestine in accordance with the effective Companies' Law of 1929 under registration No. (563200864). Starting capital was USD 20 million which was increased during the years from 2006 to 2011 to USD 53 million with a par value of USD 1 per share. During 2014 and 2015, the Bank distributed stock dividends to the shareholders in the amount of USD 2 million and USD 1.3 million respectively, and the capital reached USD 56.3. Based on the resolution of the Extraordinary General Assembly in its meeting held on May 13, 2010 to increase the authorized share capital to 100 million shares with a par value of USD 1 per share. As at December 31, 2018, the Bank's capital was increased to USD 75 million with a par value of USD 1 per share as set out in Note 22.

The Bank started its activities in March 1995. The Bank carries out all of its Banking and financial activities through its headquarter in Al-Bireh in addition to its ten branches and nine operating offices in Palestine, in addition to Al Bahrain's branch.

The Bank is subject to the Banks Law and the regulations of Palestine Monetary Authority.

Palestine Investment Bank is a Public Shareholding Company listed in Palestine Securities Exchange.

The Bank aims to offer all banking services which include opening current accounts and credits, accepting deposits and trusteeships and lending money. The total number of employees of the Bank and its subsidiaries as at December 31, 2018 and 2017 was (276) and (246) employee respectively.

The accompanying consolidated financial statements were approved by the Bank's board of directors in its session held on January 30, 2019.

Note (2) Summary of significant accounting policies
The significant accounting policies applied by the Bank in the preparation of these consolidated financial statements are set out below.

2.1 Basis of preparation of the consolidated financial statements
The consolidated financial statements of the Bank and its subsidiaries as of December 31, 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as issued by the International Accounting Standards Board (IASB) and in accordance with the regulations of Palestine Monetary Authority.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through the statement of income, financial assets at fair value through the statement of comprehensive income, and land at fair value at the consolidated financial statements date. In addition, the financial assets and financial liabilities that have been hedged for changes in fair value are shown at fair value.

The consolidated financial statements are presented in United States Dollar, which is the functional and presentation currency of the Bank.

The accounting policies used in the preparation of the Bank's consolidated financial statements for the year ended December 31, 2018 were consistent with the accounting policies adopted for the preparation of the consolidated financial statements for the year ended December 31, 2017 except as described in note (2.2).

Notes to the consolidated financial statements
(All amounts are in USD)

2.2 Changes in accounting policies and disclosures
The accounting policies used in the preparation of these consolidated financial statements are consistent with the accounting policies adopted for the preparation of the consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards and amendments to existing standards as mentioned below.

(a) New and amended standards and interpretations adopted by the Bank for the first time and effective for the financial year starting on January 1, 2018, and have no significant impact on the Bank's consolidated financial statements.

- Recognition of deferred tax assets for unrealisable losses -amendments to IAS 12 "Income taxes".
- Improvements of disclosures - amendments to IAS 7, 'Statement of cash flows'.
- Transfers of investment properties - amendments to IAS 40 "Investment properties".
- Annual amendments to IFRSs – 2012-2014 Cycle.

IFRS 15, 'Revenue from contracts with customers'

Nature of change: The International Accounting Standards Board (IASB) issued new standard for recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. According to the new standard, revenue is recognised when control of a commodity or service is transferred to the customer. The standard permits a full retrospective approach or a modified retrospective approach.

Effect of application of IFRS 15: The Bank's management evaluated the impact of IFRS 15. It concluded that the application of this standard has no material impact on the consolidated financial statements of the Bank as most of the Bank's revenues are derived from sources not subject to this Standard.

(b) New and amended standards and interpretations adopted by the Bank for the first time and effective for the financial year starting on January 1, 2018, and have significant impact on the Bank's consolidated financial statements.

IFRS 9 "Financial instruments"
The nature of the change: The standard addresses the classification, measurement and de-recognition of financial assets and liabilities and introduces new rules for hedge accounting. The standard introduces the new impairment model for the recognition of impairment provisions.

Effect of the application of IFRS (9): The Bank adopted IFRS 9 as of January 1, 2018. Accordingly, the Bank was guided by relevant instructions of the Palestine Monetary Authority to conduct an impact assessment as at January 1, 2018 based on the requirements of the standard. The adoption of IFRS 9 resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly adjusts other standards that deal with financial instruments such as IFRS 7 "Financial instruments: Disclosures". The following are the most important aspects of the application:

a. Classification and measurement of financial assets:

- The Bank early adopted the first phase of IFRS 9 as of January 1, 2012 based on the instructions of Palestine Monetary Authority.

- The Bank did not reclassify financial instruments between the categories determined under IFRS 9 at amortised cost, fair value through consolidated statement of income and fair value through the consolidated statement of comprehensive income.

Notes to the consolidated financial statements
(All amounts are in USD)

b. Classification and measurement of financial liabilities:
IFRS 9 retained the requirements contained in IAS 39 regarding the classification of financial liabilities. As regards measurement of fair value, IAS 39 requires recognition of the differences in the assessment of financial liabilities classified as financial liabilities at fair value in the consolidated statement of income, while IFRS 9 requires:

- Differences in the assessment of financial liabilities classified as financial liabilities at fair value through consolidated statement of income and resulting from changes in credit risk are recognised in the consolidated statement of comprehensive income.

- The remaining amount of differences of fair value valuation is recognised in the consolidated statement of income.

c. Hedge accounting:
In applying IFRS 9, the Bank elected to continue using the hedge accounting policy in accordance with IAS 39 rather than IFRS 9.

d. Impairment of financial assets:
IFRS 9 replaces the "incurred loss" model used in IAS 39 to calculate the impairment of financial assets compared to the forward-looking model "expected credit losses", which requires the use of estimates and judgments to estimate the economic factors affecting impairment value based on the new model. This model was applied to all financial assets - debt instruments classified at amortised cost or at fair value through the statement of comprehensive income whereas debt instruments classified in the financial instruments portfolio at fair value through the statement of income are not usually subject to the measurement of expected credit loss.

The Bank's management applies a three-stage approach to measuring expected credit losses in accordance with the requirements of IFRS 9 based on the change in credit quality since initial application.

<u>Stage 1: Expected credit loss within 12 months – not credit impaired</u>
Stage 1 includes financial assets at initial recognition and which were not exposed to a significant increase in credit risk since initial recognition or which have low credit risk. For these assets, the expected credit losses are recognised in accordance with the gross carrying amount of the financial instrument on the basis of expected credit losses arising from possible defaults within 12 months following the date of the report. Interest is calculated based on the gross carrying amount of the asset.

<u>Stage 2: Lifetime expected credit losses - not credit impaired</u>
Stage 2 includes financial assets with a significant increase in credit risk since initial recognition but there is no objective evidence of impairment. For these assets, expected credit losses are recognised over the lifetime of the debt, but interest is calculated based on the gross carrying amount of the financial instrument.

The lifetime expected credit losses are the expected credit losses arising from all possible defaults over the expected lifetime of the financial instrument. The expected credit loss is the weighted average of credit losses with the probability of default over the lifetime of the debt.

<u>Stage 3: Lifetime expected credit losses -credit impaired</u>
Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, the expected credit losses are recognised over the lifetime of the debt in accordance with the requirements of IFRS 9 and under the instructions of the Palestine Monetary Authority.

The mechanism of the calculation of the expected credit loss depends on the Probability of Default (PD) which is calculated based on credit risk and future economic factors; Loss Given Default (LGD) which is based on the carrying amount of existing collaterals; and Exposure at Default (ED).

Notes to the consolidated financial statements
(All amounts are in USD)

e. Disclosures:
IFRS 9 requires several detailed disclosures, particularly with regard to hedge accounting, credit risk and expected credit losses.

f. Adoption:
The Bank recognised the effect of applying the standard to the opening balances of the general banking risk reserve according to the instructions of Palestine Monetary Authority as at January 1, 2018 and provisions rather than reissuing the consolidated financial statements for the year ended December 31, 2017 and earlier.

- The following table shows the opening balance of credit lossprovisions after applying IFRS 9 as at January 1, 2018:

Exposure to credit risk relating to assets included in the consolidated statement of financial position:	**The first stage**	**The second stage**	**The third stage**	**Total**
Balances with banks and financial institutions	352,687	-	-	**352,687**
Direct credit facilities	779,728	66,118	-	**845,846**
Financial assets at amortised cost	93,164	-	-	**93,164**
Indirect credit facilities	10,963	-	-	**10,963**
Total	**1,236,542**	**66,118**	-	**1,302,660**

- The following table shows the adjustment of the opening balances as at January 1, 2018:

	Balance as of December 31, 2017	**The effect of application**	**Balance as of January 1, 2018**
Balances with banks and financial institutions	100,048,382	(352,687)	99,695,695
Direct credit facilities	210,578,198	(845,846)	209,732,352
Financial assets at amortised cost	15,850,074	(93,164)	15,756,910
Other Liabilities	6,658,621	10,963	6,669,584
General banking risks reserve	3,011,000	(1,302,660)	1,708,340

- The following table represents a comparison of the change in the value of financial instruments between IAS 39 and IFRS 9 as at January 1, 2018:

	Balance as per IAS 39	**IFRS 9**
Balances with banks and financial institutions	97,934,158	97,581,471
Direct credit facilities	210,578,198	209,732,352
Financial assets at amortised cost	15,850,074	15,756,910
Other Liabilities	5,785,851	5,796,814
General banking risks reserve	3,011,000	1,708,340

Notes to the consolidated financial statements
(All amounts are in USD)

- The following table shows the opening balance of provisions after applying IFRS 9 as at January 1, 2018:

	Balance as at December 31, 2017	The effect of application	Restated balance as at January 1, 2018
Balances with banks and financial institutions	-	352,687	352,687
Direct credit facilities	2,381,201	845,846	3,227,047
Financial assets at amortised cost	-	93,164	93,164
Other liabilities	-	10,963	10,963
	2,381,201	**1,302,660**	**3,683,861**

- The following table shows the expected credit losses for the financial period subsequent to the adoption of IFRS 9 and as at December 31, 2018:

	The first stage	The second stage	The third stage	Total
Balances with banks and financial institutions	34,776	-	-	**34,776**
Direct credit facilities	856,447	116,951	2,008,028	**2,981,426**
Financial assets at amortised cost	118,784	93,614	-	**212,398**
Other liabilities	23,177	-	-	**23,177**
Total	**1,033,184**	**210,565**	**2,008,028**	**3,251,777**

Notes to the consolidated financial statements
(All amounts are in USD)

(c) New standards and interpretations, which are not mandatory for the financial year beginning on January 1, 2018, which were not adopted early by the Bank:

– **IFRS 16, 'Leases'**

Nature of change: IFRS 16 was issued in January 2016. The standard will recognise all leases in the consolidated statement of financial position, where the distinction between operating and financing leases is removed. Under this standard, "the right to use" the asset and the financial liability for lease payments will be recognised except for short-term and low-value leases. With respect to accounting of lessors, there is no significant change.

Effect: The standard will mainly affect the accounting of operating leases. The Bank is currently assessing the impact of this standard and it is not practicable to measure the potential impact of this standard at the date of approval of these consolidated financial statements.

Mandatory date of application: For financial years beginning on or after January 1, 2019. At this stage, the Bank does not intend to adopt the standard before its date. The management intends to apply the simplified transition approach where comparative amounts for the previous year will not be disclosed when applied for the first time.

2.3 Descriptive disclosures (IFRS 9)

Functions and responsibilities of the Board of Directors (and related committees):

- To provide the appropriate governance structure to ensure the proper application of IFRS 9, including:
  - Define the roles of the Board of Directors, committees, departments and working units of the Bank, ensure the integrity of their work and provide the appropriate infrastructure.
  - Verify and implement appropriate credit risk management policies.
  - Verify the existence and application of effective internal control systems, internal credit rating systems, automated systems that calculate expected credit losses, and the appropriate examination and verification procedures so that the system can derive the results within adequate hedging against expected credit risk.
- Ensure that there is an independent body that has the power to decide on the exception or amendment and to present these cases to the Board of Directors or its relevant committees at its first meeting and to obtain its approval.
- Adopt the objectives and bases of acquisition and classification of financial instruments, and ensuring integration with other business requirements.
- Ensure that the Bank's control units, specifically the departments of risk management and internal audit, conduct all necessary work to verify the validity and integrity of the methodologies and systems used in the application of IFRS 9 and to provide the necessary support to these supervisory units.
- The Audit Committee verifies the adequacy of the expected credit loss (impairment loss) made by the Bank.

The Bank's internal credit rating and mechanism:

The Bank is developing the rating system for customers and companies and is now in the trial phase.

Notes to the consolidated financial statements
(All amounts are in USD)

General framework for the application of the requirements of IFRS 9:

Based on the Bank's commitment to comply with IFRSs particularly IFRS 9 and based on the PMA's instructions regarding the application of IFRS 9, the Bank applied the standard in the following areas:

1. Engaging with a specialised company to provide necessary consultations on the application of the standard.
2. Purchasing an automated system specialised to apply the standard requirements.
3. Recognising (classifying) all credit exposures/ debt instruments that are subject to the measurements and calculation of ECL within one of the following stages:

- Stage 1: The ECL is weighted by the probability of default of the credit/ debt instrument within the next 12 months. Credit exposures / debt instruments that were not significantly affected by their credit risk since the initial recognition of the exposure/ instrument or have a low credit risk at the time of the preparation of the consolidated financial statements have been put under this stage. Credit risk is considered to be low if the conditions based on the standard requirements are met. Examples of these indicators are as follows:

• Low default risk.
• The debtor is highly able in the short term to meet obligations.

- Stage 2: This stage includes credit exposure/ debt instruments, which had a significant increase in credit risk since their initial recognition, but have not yet reached a default stage due to the lack of objective evidence to establish default. The expected credit loss for the entire lifetime of the credit exposure/ debt instrument is calculated as the ECL resulting from all PDs over the remaining time period of the credit exposure/ debt instrument.

The Bank is taking into account the indicators included in the instructions of the PMA and derived from the requirements of the standard relative to the classification of credit exposures/ debt instruments within this stage.

- Stage 3: This stage includes debt instruments that have evidence that they have become defaulted. In this case, the ECL for the entire lifetime of the credit exposure / debt instrument is calculated as the interest/ yield on the accounts included in this stage is suspended and the Bank continues to suspend it as long as accounts remain within this stage.

The Bank is taking into account the indicators included in the instructions of the PMA and derived from the requirements of the standard relative to the classification of credit exposures/ debt instruments within this stage. Examples of these indicators are as follows:

• Non-compliance with contractual conditions such as the presence of past dues equal to or exceeding 90 days.
• There are clear indications that the debtor is about to enter into bankruptcy.
• In addition to the indicators received in the instructions of Palestine Monetary Authority No. 1/2008.

4. The mechanism adopted to calculate the ECL on financial instruments for each item separately:

- The calculation of ECL depends on the PD, which is calculated according to credit risk and economic factors, and the LGD ratio, which is based on the collectible value of the collateral and EAD. Accordingly, the Bank adopted the following mathematical model to calculate the ECL in accordance with IFRS No. (9). The following equation applies to all exposures as follows:

$$ECL = PD\% \times EAD\ (USD) \times LGD\%$$

ECL: Expected Credit Loss
PD: Probability of Default
EAD: Exposure at Default
LGD: Loss Given Default

Notes to the consolidated financial statements
(All amounts are in USD)

– Scope of application/ expected credit loss

In accordance with the requirements of IFRS 9, the expected credit loss measurement model is applied within the following framework (except as measured at fair value through the consolidated statement of income):

- Loans and credit facilities (direct and indirect)
- Debt instruments carried at amortised cost
- Debt instruments carries at fair value through the consolidated statement of comprehensive income
- Financial guarantees as stated in the requirements of IFRS 9.
- Credit exposures to banks and financial institutions (excluding current balances used to cover bank transactions such as remittances, guarantees and credits over a very short period of time (days)).

5. Calculation of the PD: The Bank calculates the PD according to the following data:

– Economic indicators and macroeconomic factors (GDP, unemployment and inflation, real interest rates to be used in calculating ECL (PD)) were taken into account.

– In the case of customers not classified, a rolling rate methodology was used to calculate the percentage of future loss at default. The Bank's historical data was relied on by taking into account the analysis of the methodology results on a collective basis of credit exposures that have similar credit characteristics that consider a number of factors, mainly:

- Type of product
- Type of collaterals
- Segment

6. Calculation of (EAD): The Bank has taken the following data into consideration when calculating EAD:

- Type of credit exposure
- Balance of credit exposure
- Credit Conversion Factor – (CCF)

7. Calculation of LGD: The Bank calculated the data by analysing the historical data of the Bank’s recovery rates after taking into consideration a number of factors, the most important of which is the nature of the collateral, products and the classification of the customer. Accordingly, LGD ratios have been developed either individually for customers classified through the credit rating system or on a collective basis for exposures with similar characteristics to customers not classified on the credit rating system.

Notes to the consolidated financial statements
(All amounts are in USD)

2.4 Basis of consolidation of financial statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries: “International Financial Securities Private Shareholding Limited Company” and “Horizon Real Estate Private Shareholding Limited Company” that is wholly owned and controlled by the Bank as at December 31, 2018. The Bank controls the subsidiaries when the Bank is able to manage the main activities of the subsidiaries, and when the Bank is exposed to or has rights to, variable returns from its investment in the subsidiaries, and is able to affect these returns through its control over the subsidiaries. However, transactions, balances, revenues and expenses between the Bank and subsidiaries and between the subsidiaries shall be eliminated.

These consolidated financial statements comprise the Bank and its following subsidiaries as of December 31, 2018:

Company name	Paid-in share capital (USD)	Percentage of Bank's ownership	Company's activity nature	Company's headquarter	Date of acquisition
International Financial Securities Private Shareholding Limited Company	3,526,093	100%	Financial brokerage	Nablus	1996
Horizon Real Estate Private Shareholding Limited Co.*	5,000,000	100%	Owning and management of real estates	Ramallah	2017

The Bank established Horizon Real Estate Private Shareholding Limited Co., which is incorporated as a private limited shareholding company in Palestine under the Companies Law No. 12 of 1964 under No. (562565002) with an authorised capital of USD 5 million as at December 31, 2018. The Company started its operations in 2018. The main objectives of the Company are owning properties and managing real estates owned by Palestine Investment Bank, which includes the sale, rental, lease and management of real estate and buildings on behalf of the Palestine Investment Bank.

The financial statements of the subsidiaries are prepared for the same reporting year as for the Bank, using consistent accounting policies. If the accounting policies adopted by the subsidiaries are different, the required adjustments are made on the financial statements of the subsidiary to be consistent with the accounting policies used by the Bank.

The Bank revaluates its ability to control the investee if there is any change in facts or circumstances indicate of any change in the three factors of control. Consolidation of the financial statements of the subsidiaries commences when the Bank has the ability to control, and ends when it loses control over its subsidiary. The subsidiary’s results are recognised in the consolidated statement of income as of the date of obtaining control until its loss. The change's effect in the percentage of ownership of the subsidiaries (without losing control thereon) is recognised as transactions between owners.

2.5 Segment 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.

Notes to the consolidated financial statements
(All amounts are in USD)

2.6 Financial assets at fair value through the statement of income

They are the financial assets purchased by the Bank for selling purposes in the near future and achieving profits from fluctuations in short-term market prices or trading profits margin.

These assets are recognised at fair value upon purchase (acquisition expenses are recognised in the consolidated statement of income upon purchase) and subsequently revalued at fair value. Change in fair value is recognised in the consolidated statement of income. When these assets or part thereof is disposed, the resulting gains or losses are recognised in the consolidated statement of income.

The distributed dividends or realised interests are recognised in the consolidated statement of income.

No financial assets may be reclassified from/ to this item except in cases as determined by the International Financial Reporting Standards.

No financial assets with no prices in active market and transactions may be classified in this item.

Debt instruments within this portfolio are not usually subject to the measurement of ECL.

2.7 Credit Facilities

Financial assets with fixed or determined payments provided mainly by the Bank or have been acquired with no quoted market price in active markets.

Credit facilities are presented net of allowance for impairment of credit facilities and suspended interests.

Allowance for direct credit facilities is made if collection of amounts due to the Bank was not possible and when there is an objective evidence that a certain event has negatively affected future cash flows for direct credit facilities and when such impairment can be measured, the impairment value is recorded in the consolidated statement of income. Interest and commission on the defaulted credit facilities, which are classified credit facilities granted to customers, are suspended in accordance with the instructions of Plestine Monetary Authority.

Credit facilities, for which specific provisions have been made (after taking the required approvals), are written off in the event of the futility of procedures taken for recovery by discounting it from the provision, in accordance with the instructions of Palestine Monetary Authority. Any surplus in the aggregate provision, if any, is taken to the consolidated statement of income, while the proceeds from the previous written off debts are added to income.

According to PMA instructions, direct credit facilities defaulted for more than 6 years along with the related suspended interest and allowances are excluded from the Bank's consolidated financial statements.

2.8 Financial assets at fair value through statement of comprehensive income

Those financial assets represent the investments in equity instruments held for long term.
These assets are recognised at fair value plus acquisition costs on acquisition and subsequently revalued at fair value. The change in fair value is reflected in the consolidated statement of comprehensive income and in the consolidated statement of equity. In the event of the sale of the asset or part thereof, the resulting gain or loss is taken to the consolidated statement of comprehensive income and within the consolidated statement of equity. The balance of the reserve for valuation of financial assets sold is transferred directly to retained earnings and losses rather than through the consolidated statement of income.

Equity instruments are not subject to impairment testing.

The distributed dividends are recognised in the consolidated statement of income.

Debt instruments within this portfolio are subject to the calculation of impairment (ECL) as stated in the requirements of IFRS 9 application and in accordance with these instructions, as the ECL is recognised in the consolidated statement of income.

Due to the fact that debt instruments are recorded at fair value and are subject to the ECL, there should be a reconciliation between the change in fair value and the ECL, so that impairment (ECL) will have priority in recognition/ recording.

Notes to the consolidated financial statements
(All amounts are in USD)

2.9 Financial assets at amortised cost

The financial assets on which the Bank's management intends according to its business model to hold for the purpose of collecting the contractual cash flows which comprise the payments of principal and interest on the principal outstanding balance.

Financial assets are recorded at cost upon acquisition plus acquisition expenses. Moreover, the issue premium/ discount is amortised using the effective interest rate method, and recorded to interest account. Provisions arising from impairment lead to the inability to recover the asset or part thereof are deducted. Any impairment is recorded in the consolidated statement of income and should be presented subsequently at amortised cost less any impairment losses.

The amount of the impairment in financial assets carried at amortised cost is the difference between the amount recognised in the records and the present value of estimated cash flows discounted at the original effective interest rate.

It is not allowed to reclassify any financial assets from/ to this category except for certain cases specified in the International Financial Reporting Standards (and in the case of selling those assets before its maturity date, the results should be recorded in a separate item in the consolidated statement of income, disclosures should be made in accordance to the requirements of International Financial Reporting Standards).

Debt instruments within this portfolio are subject to the calculation of impairment (ECL) as stated in the requirements of IFRS 9 application and the measured ECL is recognised in the consolidated statement of income.

2.10 Fair values

The closing market prices (acquisition of assets/ sale of liabilities) on the date of financial statements in active markets represent fair value of financial instruments and derivatives that have a quoted market price. In case the declared market prices do not exist, active trading of some financial instruments and derivatives is not available, or the market is inactive, fair value is estimated by several methods including the following:

- Comparison of the fair value with the current market value of a substantially similar financial instrument.
- Analysis of the future cash flows and discount expected cash flows at rate used in a similar financial instrument.

Evaluation of long term financial assets and liabilities that bears no interest is done using the discounted cash flows method and according to the effective interest rate. Any discount/ premium is amortised and recognised in the statement of income, under received/ paid interest income.

The evaluation methods aim to provide a fair value reflecting the expectations of the market, and take into consideration market factors, risks or expected benefits, at the time of evaluation of the financial instruments. In case the fair value of financial instruments cannot be measured reliably, it is stated at cost less any impairment.

2.11 Impairment of financial assets

The Bank reviews stated values of financial assets at the date of the consolidated statement of financial position to determine whether indications of their impairment exist, individually or in the aggregate. If such indications exist, recoverable amount is estimated to determine impairment.
Impairment amount is determined as follows:

Impairment of financial assets carried at amortised cost represents the difference between the carrying amount of the asset and the present value of the expected cash flows discounted at the original effective interest rate.

Impairment is recognised in the consolidated statement of income and any surplus in the subsequent period resulting from the previous impairment of the debt instruments is recognised in the consolidated statement of income and of the equity instruments through the consolidated statement of comprehensive income.

Notes to the consolidated financial statements
(All amounts are in USD)

2.12 Property, plant and equipment

Except for land, which is stated at fair value, property, plant and equipment are stated at cost less accumulated depreciation and any impairment. Property, plant and equipment (except land) are depreciated, when they are ready for use, on a straight-line basis over the estimated useful life of the asset as follows:

	Useful life (years)
Buildings and real estate	50
Furniture and Equipment	6-17
Computer hardware	4 - 10
Leasehold improvements	5-11
Motor vehicles	5

Where the recoverable amount of any property, plant and equipment is less than its carrying amount, its value is reduced to its recoverable amount and the impairment loss is recognised in the consolidated statement of income

The useful lives of property, plant and equipment are reviewed at the end of each year. In case the expected useful life is different from previous estimates, the change in estimate for subsequent years is considered to be a change in estimates.

Property, plant and equipment are de-recognised when disposed of or when there is no expected future benefits from their use or disposal.

2.13 Provisions

Provisions are recognised when the Bank has obligations at the date of the consolidated financial statements arising from past events and these obligations can be paid and reliably measured.

2.14 End of service indemnity provision

Provision for the Bank's obligations for employees' end of service is made according to the effective labour law in Palestine. Amounts that should be annually deducted are recorded in the account of consolidated income and compensations paid to employees who leave the service are recorded in the end of service indemnity provision account.

2.15 Tax provision

The Bank deducts tax provisions in accordance with Income Tax Law in force in Palestine, and IAS 12 which requires recognising the temporary differences, at the consolidated financial statements date, as deferred taxes.

Due taxes expenses are calculated based on taxable profits. Taxable profit differs from the stated profits in the consolidated financial statements because the stated profits include non-taxable profits or non-deductible expenses in the financial year, but in later years or accumulated losses are taxable or non-taxable and non-deductible items.

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

Notes to the consolidated financial statements
(All amounts are in USD)

2.16 Offsetting

Financial assets and liabilities are offset and net amounts are reported in the consolidated statement of financial position, only when legally enforceable rights are established and when such amounts are settled on a net basis, and when assets and liabilities are settled simultaneously.

2.17 Revenue and expenses recognition

Interest income is realised by using the effective interest method, except for interest and commission on non-performing loans which are not recognised as revenue but recorded as suspended interest and commission in suspense account.

Expenses are recognised on the accrual basis.

Commissions are recognised as revenues when providing related services.

Dividends are recorded when realised (approved by the General Assembly of Shareholders).

2.18 Assets reverted to the Bank against settlement of due debts

Assets reverted to the Bank are recognised in the consolidated statement of financial position within the "other assets" item at the lower of the value reverted to the Bank or the fair value, and are revaluated at the consolidated financial statements date in the fair value separately. Any impairment is recorded as a loss in the consolidated statement of income and the increase is not recognised as revenue. Subsequent increase is included in the consolidated statement of income to the extent that impairment value does not exceed the previously recorded value.

In accordance with PMA instructions, lands and assets reverted to the Bank against settlement of due debts should be disposed of during a maximum period of 5 years from the acquisition date. The period where such assets can be kept was extended by PMA according to the banking law and related instructions.

2.19 Intangible assets

Intangible assets that are acquired through the merger are stated at fair value at the date of acquisition. The intangible assets that are obtained by a method other than the merger are stated at cost.

Intangible assets are to be classified on the basis of either definite or indefinite useful life. Intangible assets with definite useful economic lives are amortised over their useful lives and recorded in the consolidated statement of income. Intangible assets with indefinite lives are reviewed for impairment as of the consolidated financial statements date, and impairment loss is recorded in the consolidated statement of income.

Any indications of impairment in the value of intangible assets on the consolidated financial statements date are reviewed. Furthermore, the estimated useful life of those assets is reviewed, and any adjustment is made in the subsequent periods.

Intangible assets include computer software and systems. The Bank's management estimates the useful lives of items of intangible assets. Intangible assets are amortised on a straight line method.

Notes to the consolidated financial statements
(All amounts are in USD)

2.20 Foreign currencies

- Transactions dominated in foreign currencies occurring during the year are recorded at the prevailing exchange rates at the date of the transactions.
- Balances of monetary assets and liabilities dominated in foreign currencies are translated at the prevailing exchange rate at the consolidated statement of financial position.
- Non-financial assets and liabilities measured at fair value and dominated in a foreign currency are translated at the date when the fair value is determined.
- Foreign currency exchange gains or losses are recognised in the consolidated statement of income.

2.21 Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with maturity of 3 months. It includes cash and balances at Palestine Monetary Authority and balances at banks and financial institutions net of banks' and financial institutions' deposits with maturity of 3 months and restricted balances.

2.22 Derecognition of financial assets

The financial assets are de-recognised when the contractual rights to the cash flows from the asset expire, or when the financial assets and substantially all the risks and rewards of ownership of the asset are substantially transferred to another entity. If the Bank does not transfer substantially all of risks and rewards and continues to control part of the transferred assets, the Bank's share of the controlled portion of the asset is recognised and the liabilities are recorded at the amounts expected to be paid. If the Bank retains all the risks and rewards of ownership of the transferred financial assets, the Bank continues to record the financial assets.

Note (3) Risk management

The Bank discloses information to help the consolidated financial statements users asses the nature and level of risk the Bank is exposed to as of the date of the consolidated financial statements as follows:

Risk Management Framework

Risks related ot the Bank's activities are measured and monitored continuously to keep within acceptable limits. Due to sensitivity of risk management on the Bank results of operations, risk management roles and controls activities are distributed among the Bank's personnel.

Risk Management Process

The board of directors and the risk management committee are responsible for identifying and controlling risks; in addition, there are several parties that are responsible for managing and monitoring risks in the area in which the Bank operates.

Risk measurement and reporting systems

Monitoring and controlling risks are primarily performed based on limits allowed for each risk type. These limits reflect the Bank’s business strategy and different market factors as well as the accepted level of risk. Information is collected from different departments and analysed for early identification of expected risk resulting. This information is presented to the Bank's board of directors and the executive departments responsible for risk management.

Risks

The Bank follows different policies in managing various risks as part of determined strategies. The Bank's risks departments monitor and control risks and optimize strategic diversification of financial assets and financial liabilities. Risks include credit risk, market risk (interest rate risk, foreign currency risk, equity price risk) and liquidity risk.

Notes to the consolidated financial statements
(All amounts are in USD)

First: Credit risk:

Credit risks are those risks resulting from the default of counterparties to the financial instruments to meet their obligations to the Bank which results in losses. The Bank manages credit risk by preparing a financing study which includes the concentration on cash flows and payment, and setting limits to the financing amounts (individual or corporate) to each sector and geographical area. The Bank also monitors credit risks and continuously evaluates the credit standing of customers. The Bank also obtains appropriate collaterals from customers.

Exposures to credit risk

	2018	2017
Consolidated statement of financial position items		
Balances at Palestne Monetary Authority	28,824,355	27,820,954
Balances with banks and financial institutions	82,000,186	97,934,158
Direct credit facilities:		
Individuals	96,651,162	69,337,078
Corporates	111,191,143	127,383,853
Public sector facilities	10,240,553	13,857,267
Financial assets at fair value through the statement of income	3,917,720	4,170,650
Financial assets at amortised cost	23,441,949	15,850,074
Other assets	5,950,874	3,744,602
	362,217,942	**360,098,636**
Items off the consolidated statement of financial position		
Guarantees	18,168,401	17,470,409
Letters of credits	771,273	1,770,817
Acceptances	3,461,389	1,852,068
Unutilised direct credit facilities limits	7,121,253	6,632,035
	29,522,316	**27,725,329**

Palestine Investment Bank (Public Shareholding Company)
Consolidated financial statements for the year ended December 31, 2018

Notes to the consolidated financial statements
(All amounts are in USD)

The distribution of credit exposures on the financial position items is as follows:

Bank's internal rating grade	Category of rating	Gross amount of exposure	ECL	PD	Credit rating	EAD	LGD%
Balances with banks and financial institutions				0.0196			
	Low risk	110,859,317	34,776		A1/BB/UNRATED	110,824,154	45%
	Acceptable risk	-	-		A1/BB/UNRATED	-	45%
Direct credit facilities							
Corporates	Low risk	83,134,045	240,143	0.0237	-	83,803,770	43%
	Acceptable risk	14,411,410	48,427		-	14,468,845	43%
	Non-performing	3,232,053	686,796		-	853,240	-
Individual	Low risk	60,131,788	372,528	0.0306	-	61,369,296	57%
	Acceptable risk	7,480,512	47,804		-	7,481,386	57%
	Non-performing	4,874,310	1,303,724		-	1,752,200	-
Small and medium enterprises	Low risk	34,454,345	155,822	0.0296	-	35,264,284	60%
	Acceptable risk	2,922,100	20,720		-	2,922,519	60%
	Non-performing	517,325	17,508		-	43,432	-
Government and public sector				0.0320			
	Low risk	10,419,208	87,954		-	10,419,208	37%
	Acceptable risk	-	-		-	-	37%
	Total direct facilities	221,577,096					
Indirect credit facilities				0.0264			
	Low risk	22,401,054	23,177		-	22,401,063	49%
	Acceptable risk	-	-		-	-	49%
Debt instrument at amortised cost				0.0255			
	Low risk	19,654,347	118,784		A3/BBB-/UNRATED	19,610,252	45%
	Acceptable risk	4,000,000	93,614		A3/BBB-/UNRATED	4,000,000	45%

Notes to the consolidated financial statements
(All amounts are in USD)

Credit risk exposure for each risk rating

Direct credit facilities based on the risk rating are distributed as follows:

	Individuals	Corporate	Government and public sector	Total
December 31, 2018				
Low risk	59,022,561	69,328,346	10,328,507	138,679,414
Acceptable risk	35,435,380	39,008,696	-	74,444,076
Watch list	187,953	249,147	-	437,100
Non-performing				
Substandard	1,425,835	1,890,060	-	3,315,895
Doubtful	2,021,263	2,679,348	-	4,700,611
Total	**98,092,992**	**113,155,597**	**10,328,507**	**221,577,096**
Suspended interest and commissions	(220,509)	(292,303)	-	(512,812)
Impairment allowance for facilities	(1,221,321)	(1,672,151)	(87,954)	(2,981,426)
	96,651,162	**111,191,143**	**10,240,553**	**218,082,858**

	Individuals	Corporate	Government and public sector	Total
December 31, 2017				
Low risk	44,064,461	78,830,024	13,857,267	136,751,752
Acceptable risk	25,138,764	45,083,658	-	70,222,422
Watch list	216,933	202,628	-	419,561
Non-performing:				
Substandard	773,550	1,751,104	-	2,524,654
Doubtful	1,367,382	2,056,742	-	3,424,124
Total	**71,561,090**	**127,924,156**	**13,857,267**	**213,342,513**
Suspended interest and commissions	(280,181)	(102,933)	-	(383,114)
Impairment allowance for facilities	(1,943,831)	(437,370)	-	(2,381,201)
	69,337,078	**127,383,853**	**13,857,267**	**210,578,198**

Notes to the consolidated financial statements
(All amounts are in USD)

Distribution of collaterals fair value against credit facilities is as follows:

	Individuals	Corporate	Total
December 31, 2018			
Collateral against:			
Low risk	37,053,049	50,668,496	87,721,545
Acceptable risk	30,625,025	33,177,110	63,802,135
Watch list	254,114	-	254,114
Non-performing:			
Substandard	155,441	100,004	255,445
Doubtful	852,424	-	852,424
Total	**68,940,053**	**83,945,610**	**152,885,663**
Comprising:			
Cash margins	13,421,230	8,447,486	21,868,716
Quoted shares	6,302,198	4,379,494	10,681,692
Vehicles and equipment	11,312,136	4,620,450	15,932,586
Real estate	37,904,489	66,498,180	104,402,669
	68,940,053	**83,945,610**	**152,885,663**

	Individuals	Corporate	Total
December 31, 2017			
Collateral against:			
Low risk	45,219,119	52,726,380	97,945,499
Acceptable risk	28,374,569	31,992,206	60,366,775
Watch list	123,824	-	123,824
Non-performing:			
Substandard	341,904	137,218	479,122
Doubtful	587,746	486,361	1,074,107
Total	**74,647,162**	**85,342,165**	**159,989,327**
Comprising of:			
Cash margins	10,941,432	9,878,097	20,819,529
Quoted shares	6,494,380	8,790,432	15,284,812
Vehicles and equipment	5,809,447	11,231,735	17,041,182
Real estate	51,401,903	55,441,901	106,843,804
	74,647,162	**85,342,165**	**159,989,327**

Notes to the consolidated financial statements
(All amounts are in USD)

Credit exposures are distributed based on the geographical area as follows:

	Domestic	Jordan	Israel	Europe	USA	Others	Total
2018							
Balances with Palestine Monetary Authority	28,824,355	-	-	-	-	-	28,824,355
Balances with banks and financial institutions	41,785,788	15,026,192	8,453,077	9,190,630	4,321,578	3,222,921	82,000,186
Direct credit facilities	217,952,388	130,470	-	-	-	-	218,082,858
Financial assets at fair value through the statement of income	-	-	-	-	-	3,917,720	3,917,720
Financial assets at amortised cost	-	-	-	23,441,949	-	-	23,441,949
Other assets	5,950,874	-	-	-	-	-	5,950,874
Total as at December 31, 2018	**294,513,405**	**15,156,662**	**8,453,077**	**32,632,579**	**4,321,578**	**7,140,641**	**362,217,942**
Total as at December 31, 2017	**260,361,391**	**40,241,103**	**22,091,744**	**20,036,707**	**9,764,749**	**7,602,942**	**360,098,636**
Off the statement of financial position items:							
Guarantees	18,168,401	-	-	-	-	-	18,168,401
Letters of credits	-	562,712	208,561	-	-	-	771,273
Acceptances	3,461,389	-	-	-	-	-	3,461,389
Unutilised direct credit facilities limits	7,121,253	-	-	-	-	-	7,121,253
Total as at December 31, 2018	**28,751,043**	**562,712**	**208,561**	-	-	-	**29,522,316**
Total as at December 31, 2017	**24,954,512**	**630,703**	**1,140,114**	-	-	-	**26,725,329**

Credit exposures are distributed based on the economic sector as follows:

	Financial	Industrial and tourism	Trade	Real estate	Securities	Government and public sector	Others	Total
2018								
Balances with Palestine Monetary Authority	28,824,355	-	-	-	-	-	-	28,824,355
Balances with banks and financial institutions	82,000,186	-	-	-	-	-	-	82,000,186
Direct credit facilities	3,785,770	28,069,696	70,153,168	47,391,459	803,645	10,328,507	57,550,613	218,082,858
Financial assets at fair value through the statement of income	3,917,720	-	-	-	-	-	-	3,917,720
Financial assets at amortised cost	23,441,949	-	-	-	-	-	-	23,441,949
Other assets	5,950,874	-	-	-	-	-	-	5,950,874
Total as at December 31, 2018	**147,920,854**	**28,069,696**	**70,153,168**	**47,391,459**	**803,645**	**10,328,507**	**57,550,613**	**362,217,942**
Total as at December 31, 2017	**154,277,976**	**29,287,036**	**71,694,064**	**47,026,397**	**1,731,553**	**13,857,267**	**42,224,343**	**360,098,636**

Notes to the consolidated financial statements
(All amounts are in USD)

Second: Market risk

Market risk arises from fluctuations in interest rates, exchange rates and equity prices. The Board of Directors sets limits on the value of acceptable risks and is monitored periodically by the Bank's management.

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 certain periods. The Bank manages this risk 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 expected decrease effect of the interest rate is equal and opposite to the increase shown below:

	2018		2017	
	Increase in the interest rate	Interest income sensitivity (Consolidated statement of income)	Increase in the interest rate	Interest income sensitivity (Consolidated statement of income)
Currency	Basis point		Basis point	
USD	10 +	45,636	10+	16,152
JOD	10 +	(9,924)	10+	(382)
ILS	10+	(46,813)	10+	1,326
Euro	10 +	2,697	10+	(270)
Other currencies	10 +	69	10+	2

Notes to the consolidated financial statements
(All amounts are in USD)

Interest re-pricing gap

	Interest re-pricing gap						
	Less than 1 month	**From 1 month to 3 months**	**From 3 month to 6 months**	**From 6 months to 1 year**	**More than 1 year**	**Non-interest bearing items**	**Total**
December 31, 2018							
Assets							
Cash and balances with Palestine Monetary Authority	28,824,355	-	-	-	-	58,322,879	87,147,234
Balances with banks and financial institutions	80,448,096	1,552,090	-	-	-	-	82,000,186
Direct credit facilities	49,766,594	6,504,251	21,751,733	22,291,610	117,768,670	-	218,082,858
Financial assets at fair value through the statement of income	-	-	-	-	3,917,720	1,627,776	5,545,496
Financial assets at fair value through statement of comprehensive income	-	-	-	-	-	3,597,252	3,597,252
Financial assets at amortised cost	-	-	-	-	23,441,949	-	23,441,949
Property, plant and equipment	-	-	-	-	-	24,997,359	24,997,359
Deferred tax assets	-	-	-	-	-	815,917	815,917
Intangible assets	-	-	-	-	-	1,164,836	1,164,836
Other assets	-	-	-	-	-	8,018,939	8,018,939
Total assets	**159,039,045**	**8,056,341**	**21,751,733**	**22,291,610**	**145,128,339**	**98,544,958**	**454,812,026**
Liabilities							
Banks and financial institutions deposits	40,692,378	2,658,232	-	-	-	-	43,350,610
Customers' deposits	225,116,174	17,636,309	19,581,233	20,356,240	-	-	282,689,956
Cash margins	9,562,817	2,000,044	3,250,233	7,055,622	-	-	21,868,716
Miscellaneous provisions	-	-	-	-	-	3,110,005	3,110,005
Other liabilities	-	-	-	-	-	6,247,448	6,247,448
Total liabilities	**275,371,369**	**22,294,585**	**22,831,466**	**27,411,862**	**-**	**9,357,453**	**357,266,735**
Equity							
Paid-in share capital	-	-	-	-	-	75,000,000	75,000,000
Statutory reserve	-	-	-	-	-	8,978,821	8,978,821
General banking risks reserve	-	-	-	-	-	2,481,489	2,481,489
Pro-cyclicality reserve	-	-	-	-	-	3,788,055	3,788,055
External branch reserve	-	-	-	-	-	935,211	935,211
Excess from revaluation of financial assets	-	-	-	-	-	3,212,555	3,212,555
Fair value reserve	-	-	-	-	-	(165,611)	(165,611)
Retained earnings	-	-	-	-	-	3,314,771	3,314,771
Net equity	**-**	**-**	**-**	**-**	**-**	**97,545,291**	**97,545,291**
Total liabilities and equity	**275,371,369**	**22,294,585**	**22,831,466**	**27,411,862**	**-**	**106,902,744**	**454,812,026**
Interest rate re-pricing gap	**(116,332,324)**	**(14,238,244)**	**(1,079,733)**	**(5,120,252)**	**145,128,339**	**(8,357,786)**	**-**
Cumulative Gap	**(116,332,324)**	**(130,570,568)**	**(131,650,301)**	**(136,770,553)**	**8,357,786**	**-**	**-**

Notes to the consolidated financial statements
(All amounts are in USD)

	Interest rate re-pricing gap						
	Less than 1 month	From 1 month to 3 months	From 3 month to 6 months	From 6 months to 1 year	More than 1 year	Non-interest bearing items	Total
December 31, 2017							
Assets							
Cash and balances at Palestine Monetary Authority	27,820,954	-	-	-	-	50,109,639	77,930,593
Balances with banks and financial institutions	39,729,939	60,318,443	-	-	-	-	100,048,382
Direct credit facilities	17,441,445	8,105,441	12,968,551	54,327,527	117,735,234	-	210,578,198
Financial assets at fair value through the statement of income	-	-	-	-	4,299,846	1,188,945	5,488,791
Financial assets at fair value through statement of comprehensive income	-	-	-	-	-	2,690,391	2,690,391
Financial assets at amortised cost	-	-	-	-	15,850,074	-	15,850,074
Property, plant and equipment	-	-	-	-	-	21,855,386	21,855,386
Deferred tax assets	-	-	-	-	-	808,199	808,199
Intangible assets	-	-	-	-	-	1,232,648	1,232,648
Other assets	-	-	-	-	-	6,808,449	6,808,449
Total assets	**84,992,338**	**68,423,884**	**12,968,551**	**54,327,527**	**137,885,154**	**84,693,657**	**443,291,111**
Liabilities							
Banks and financial institutions deposits	12,116,695	33,230,335	-	-	-	-	45,347,030
Customers' deposits	199,241,949	25,442,889	29,446,108	22,451,639	261,846	-	276,844,431
Cash margins	-	5,044,144	5,410,214	3,841,012	5,558,747	965,412	20,819,529
Miscellaneous provisions	-	-	-	-	-	2,722,142	2,722,142
Other liabilities	-	-	-	-	-	6,658,621	6,658,621
Total liabilities	**211,358,644**	**63,717,368**	**34,856,322**	**26,292,651**	**5,820,593**	**10,346,175**	**352,391,753**
Equity							
Paid-in share capital	-	-	-	-	-	68,000,000	68,000,000
Statutory reserve	-	-	-	-	-	8,544,589	8,544,589
General banking risks reserve	-	-	-	-	-	3,011,000	3,011,000
Pro-cyclicality reserve	-	-	-	-	-	2,918,681	2,918,681
External branch reserve	-	-	-	-	-	935,211	935,211
Fair value reserve	-	-	-	-	-	(70,948)	(70,948)
Excess from revaluation of assets	-	-	-	-	-	3,212,555	3,212,555
Retained earnings	-	-	-	-	-	4,348,270	4,348,270
Net equity	**-**	**-**	**-**	**-**	**-**	**90,899,358**	**90,899,358**
Total liabilities and equity	**211,358,644**	**63,717,368**	**34,856,322**	**26,292,651**	**5,820,593**	**101,245,533**	**443,291,111**
Interest rate re-pricing gap	**(126,366,306)**	**4,706,516**	**(21,887,771)**	**28,034,876**	**132,064,561**	**(16,551,876)**	**-**
Cumulative Gap	**(126,366,306)**	**(121,659,790)**	**(143,547,561)**	**(115,512,685)**	**16,551,876**	**-**	**-**

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments changes as a result of changes in foreign currency exchange rates. The USD is the functional currency of the Bank. The Board of Directors determines the currencies accepted for taking positions and sets the limit for each currency at the Bank annually, and position of foreign currencies is monitored on a daily basis, so as to verify there is no excess in these positions that may lead the Bank to assume risks higher than the acceptable level. Hedging strategies are also followed to ensure that the foreign currencies position is maintained within the approved limits.

The Jordanian Dinar (JOD) exchange rate is pegged to the USD, thus the risk of changes in the JOD exchange rate is not material to the consolidated financial statements of the Bank.

The expected decrease effect of the exchange rate is equal and opposite to the increase shown below:

	2018		2017	
Currency	Increase in the exchange rate (%)	Effect on Consolidated statement of income	Increase in the exchange rate (%)	Effect on Consolidated statement of income
Euro	10+	343,585	10+	(10,358)
ILS	10+	(263,949)	10+	(199,891)
Other currencies	10+	6,848	10+	(1,580)

Following is the foreign currencies position of the Bank:

	JOD	Euro	ILS	Others	Total
December 31, 2018					
Assets					
Cash and balances at Palestine Monetary Authority	11,443,619	1,403,291	52,088,603	-	64,935,513
Balances with banks and financial institutions	11,551,762	4,481,077	48,406,693	398,529	64,838,061
Direct credit facilities	16,676,528	5,488,023	67,982,087	-	90,146,638
Other assets	3,122,000	-	4,189,073	-	7,311,073
Total assets	**42,793,909**	**11,372,391**	**172,666,456**	**398,529**	**227,231,285**
Liabilities					
Banks and financial institutions deposits	4,231,314	1,143,600	26,595,060	-	31,969,974
Customers' deposits	33,921,059	6,128,415	136,606,621	329,100	176,985,195
Cash margins	2,439,377	577,552	10,637,590	-	13,654,519
Other liabilities	983,846	86,974	1,466,673	958	2,538,451
Total liabilities	**41,575,596**	**7,936,541**	**175,305,944**	**330,058**	**225,148,139**
Net concentration in financial position	**1,218,313**	**3,435,850**	**(2,639,488)**	**68,471**	**2,083,146**
Contingent liabilities outside the financial position	**17,431,162**	**232,894**	**131,755,904**	**-**	**149,419,960**

	JOD	Euro	ILS	Others	Total
December 31, 2017					
Total assets	**31,388,897**	**7,650,407**	**75,438,235**	**96,580**	**114,574,119**
Total liabilities	**30,098,226**	**7,753,989**	**77,437,141**	**112,384**	**115,401,740**
Net concentration in financial position	**1,290,671**	**(103,582)**	**(1,998,906)**	**(15,804)**	**(827,621)**
Contingent liabilities outside the financial position	**152,722**	**4,918,222**	**4,622,122**	**82,611**	**9,775,677**

Notes to the consolidated financial statements
(All amounts are in USD)

Equity and bonds price risk
Equity price risk arises from changes in the fair value of shares and bond investments. The effect of the expected shortfall in shares and bond prices is equal and opposite to the effect of the increase shown below:

		2018		2017	
Indicator	Increase in indicator (%)	Effect on Consolidated statement of income	Effect on Equity	Effect on Consolidated statement of income	Effect on Equity
Foreign markets	10	554,550	219,725	535,960	129,039
Local markets	10	35,461	140,000	12,920	140,000
		590,011	**359,725**	**548,880**	**269,039**

Third: Liquidity risk
Liquidity risk is the risk that the Bank will not be able to provide the necessary funding to perform its liabilities in due dates. To mitigate this risk, management diversifies sources of finances, manages assets and liabilities and adapts its maturities, and maintains an adequate level of cash and cash equivalents.

The following are details of the assets and liabilities of the Bank based on the remaining period to maturity dates as at December 31, 2018 and 2017:

Palestine Investment Bank (Public Shareholding Company)
Consolidated financial statements for the year ended December 31, 2018

Notes to the consolidated financial statements
(All amounts are in USD)

December 31, 2018	Less than 1 month	From 1 month to 3 months	3 to 6 months	from 6 months to 1 year	from 1 year to 3 years	More than 3 years	Without Maturity	Total
Assets:								
Cash and balances at Palestine Monetary Authority	28,824,355	-	-	-	-	-	58,322,879	87,147,234
Balances with banks and financial institutions	80,448,483	1,551,703	-	-	-	-	-	82,000,186
Direct credit facilities	49,766,594	6,504,251	21,751,733	21,995,885	49,303,864	68,760,531	-	218,082,858
Financial assets at fair value through the statement of income	-	-	-	-	-	3,917,720	1,627,776	5,545,496
Financial assets at fair value through statement of comprehensive income	-	-	-	-	-	-	3,597,252	3,597,252
Financial assets at amortised cost	-	-	4,610,252	-	-	18,831,697	-	23,441,949
Property, plant and equipment	-	-	-	-	-	-	24,997,359	24,997,359
Deferred tax assets	-	-	-	-	-	-	815,917	815,917
Intangible assets	-	-	-	-	-	-	1,164,836	1,164,836
Other assets	-	-	-	-	-	-	8,018,939	8,018,939
Total assets	**159,039,432**	**8,055,954**	**26,361,985**	**21,995,885**	**49,303,864**	**91,509,948**	**98,544,958**	**454,812,026**
Liabilities:								
Banks and financial institutions deposits	40,692,378	2,658,232	-	-	-	-	-	43,350,610
Customers' deposits	219,463,794	17,636,309	19,581,850	20,356,240	5,651,763	-	-	282,689,956
Cash margins	4,662,498	2,000,044	3,250,233	4,900,319	7,055,622	-	-	21,868,716
Miscellaneous provisions	-	-	-	-	-	-	3,110,005	3,110,005
Other liabilities	-	-	-	-	-	-	6,247,448	6,247,448
Total liabilities	**264,818,670**	**22,294,585**	**22,832,083**	**25,256,559**	**12,707,385**	**-**	**9,357,453**	**357,266,735**
Equity:								
Paid-in capital	-	-	-	-	-	-	75,000,000	75,000,000
Statutory reserve	-	-	-	-	-	-	8,978,821	8,978,821
General banking risks reserve	-	-	-	-	-	-	2,481,489	2,481,489
Pro-cyclicality reserve	-	-	-	-	-	-	3,788,055	3,788,055
External branch reserve	-	-	-	-	-	-	935,211	935,211
Excess from revaluation of assets	-	-	-	-	-	-	3,212,555	3,212,555
Fair value reserve	-	-	-	-	-	-	(165,611)	(165,611)
Retained earnings	-	-	-	-	-	-	3,314,771	3,314,771
Total equity	-	-	-	-	-	-	**97,545,291**	**97,545,291**
Total liabilities and equity	**264,818,670**	**22,294,585**	**22,832,083**	**25,256,559**	**12,707,385**	-	**106,902,744**	**454,812,026**
Maturity gap	**(105,779,238)**	**(14,238,631)**	**3,529,902**	**(3,260,674)**	**36,596,479**	**91,509,948**	**(8,357,786)**	-
Cumulative Gap	**(105,779,238)**	**(120,017,869)**	**(116,487,967)**	**(119,748,641)**	**(83,152,162)**	**8,357,786**	-	-

Palestine Investment Bank (Public Shareholding Company)
Consolidated financial statements for the year ended December 31, 2018

Notes to the consolidated financial statements
(All amounts are in USD)

December 31, 2017	Less than 1 month	From 1 month to 3 months	3 to 6 months	from 6 months to 1 year	from 1 year to 3 years	More than 1 than 3 years	Without Maturity	Total
Assets:								
Cash and balances with Palestine Monetary Authority	27,820,954	-	-	-	-	-	50,109,639	77,930,593
Balances with banks and financial institutions	37,615,715	62,432,667	-	-	-	-	-	100,048,382
Direct credit facilities	17,441,445	8,105,441	12,968,551	54,303,158	117,759,603	-	-	210,578,198
Financial assets at fair value through the statement of income	-	-	-	-	4,170,650	-	1,318,141	5,488,791
Financial assets at fair value through statement of comprehensive income	-	-	-	-	-	-	2,690,391	2,690,391
Financial assets at amortised cost	755,270	-	-	-	-	15,094,804	-	15,850,074
Property, plant and equipment	-	-	-	-	-	-	21,855,386	21,855,386
Deferred tax assets	-	-	-	-	-	-	808,199	808,199
Intangible assets	-	-	-	-	-	-	1,232,648	1,232,648
Other assets	-	-	-	-	-	-	6,808,449	6,808,449
Total assets	**83,633,384**	**70,538,108**	**12,968,551**	**54,303,158**	**121,930,253**	**15,094,804**	**84,822,853**	**443,291,111**
Liabilities:								
Banks and financial institutions deposits	12,116,695	33,230,335	-	-	-	-	-	45,347,030
Customers' deposits	199,241,949	25,442,889	29,446,108	22,451,441	262,044	-	-	276,844,431
Cash margins	-	-	-	15,862,973	4,956,556	-	-	20,819,529
Miscellaneous provisions	-	-	-	-	-	-	2,722,142	2,722,142
Other liabilities	6,091,700	-	-	-	-	-	566,921	6,658,621
Total liabilities	**217,450,344**	**58,673,224**	**29,446,108**	**38,314,414**	**5,218,600**	**-**	**3,289,063**	**352,391,753**
Equity:								
Paid-in capital	-	-	-	-	-	-	68,000,000	68,000,000
Statutory reserve	-	-	-	-	-	-	8,544,589	8,544,589
General banking risks reserve	-	-	-	-	-	-	3,011,000	3,011,000
Pro-cyclicality reserve	-	-	-	-	-	-	2,918,681	2,918,681
External branch reserve	-	-	-	-	-	-	935,211	935,211
Fair value reserve	-	-	-	-	-	-	(70,948)	(70,948)
Excess from revaluation of assets	-	-	-	-	-	-	3,212,555	3,212,555
Retained earnings	-	-	-	-	-	-	4,348,270	4,348,270
Total equity	-	-	-	-	-	-	**90,899,358**	**90,899,358**
Total liabilities and equity	**217,450,344**	**58,673,224**	**29,446,108**	**38,314,414**	**5,218,600**	**-**	**94,188,421**	**443,291,111**
Maturity gap	**(133,816,960)**	**11,864,884**	**(16,477,557)**	**15,988,744**	**116,711,653**	**15,094,804**	**(9,365,568)**	**-**
Cumulative Gap	**(133,816,960)**	**(121,952,076)**	**(138,429,633)**	**(122,440,889)**	**(5,729,236)**	**9,365,568**	**-**	**-**

Notes to the consolidated financial statements

(All amounts are in USD)

Liquidity coverage ratio

In 2018, Palestine Monetary Authority issued instructions No. 4/2018 regarding the application of the liquidity coverage ratio, which is considered as one of the quantitative reform tools established by the Basel Committee for Banking Supervision. This percentage should not be less than 100%. The liquidity coverage ratio aims to enhanc the ability of banks to meet liquidity risks in the short term by ensuring that there is sufficient stock of high quality liquid assets to meet the liquidity requirements that may arise according to the stress scenario for 30 days. It also aims that the Bank will continue to provide its services during the mentioned period since the date of stress testing until the Bank takes the necessary procedures to resolve the problem in a systematic manner.

The table below shows the liquidity coverage ratio of total high quality assets in relation to the net cash flows expected to be used within 30 days after applying the discount rate on different items as instructed by the Monetary Authority.

	Item	Value before applying the discount ratio/ flows (average)	Value after applying the discount ratio/ flows (average)
High quality liquidity stocks			
1	**Total high quality assets**		174,885,908
Cash outflows			
2	**Retail deposits including small enterprises:**		
3	A. Stable deposits	84,156,831	79,948,989
4	B. Less stable deposits	52,247,457	45,558,407
5	**Deposits and unsecured forms of financing for non-retail and small enterprises:**		6,345,208
6	A. Operating deposits	31,183,215	6,345,208
7	B. Non-operating deposits	288,092,233	
8	**Deposits and guaranteed financing**		30,321,586
9	**Cash outflows resulting from derivative contracts:**		
10	A. Outflows related to net exposures of derivatives		
11	B. Outflows related to the requirements of guarantee of such contracts		
12	**Assets-backed securities, covered bonds and other structures financing instruments**		
13	**Assets-backed securities, funds of investment securities and other similar financing instruments**	31,998,626	25,407,921
14	**Credit lines, Irrevocable committed liquidity and revocable lines within a 30-day period**	218,378,583	173,251,154
15	**Any other contractual cash outflows**		
16	**Total cash outflows**		
Cash inflows:			
17	**Guaranteed lending**		217,614,574
18	**Cash inflows from performing loans**		2,309,892
19	**Any other contractual cash inflows**		
20	**Total cash inflows**		
			Amount after adjustments
21	**Total high quality assets**		**174,885,908**
22	**Net cash outflows**		**46,991,279**
23	**Liquidity coverage ratio (%)**		**372%**

Notes to the consolidated financial statements
(All amounts are in USD)

Net stable financing ratio

In 2018, Palestine Monetary Authority issued instructions (5/2018) regarding the application of the net stable financing ratio. This ratio should not be less than 100% in all cases. The ratio of net stable financing aims to enhance the management of liquidity risk at banks through maintaining more stable sources of funding to align asset entitlements on- and off-the balance sheet, reduce banks' reliance on short-term and unstable financing sources to fund their assets.
The ratio of net stable financing, which is the sum of dividing the total stable financing available by the total required stable financing, was 148%. The following table shows the total values of the various items after applying the stable financing transactions:

	Amount before applying the discount	Amount after applying the discount
Regulatory capital	92,173,164	92,173,164
Retail deposits and small enterprises (stable)	84,156,831	79,948,989
Retail deposits and small enterprises (less stable)	52,247,457	45,558,407
Guaranteed and non-guarateed financing (deposits)	36,666,795	18,333,398
Other financing and deposits:	43,350,610	-
Classes of other obligations (not included within the above classes)	-	-
Total stable financing available	**308,594,858**	**236,013,958**
Non-collateralised high liquid assets of level 1	169,968,441	159,518,307
Non-collateralised high liquid assets of level 2/ class (a)	64,396,876	965,953
Non-collateralised high liquid assets of level 2/ class (b)	10,078,592	5,039,296
Loans		
Debt instruments issued or guaranteed by financial institutions and banks	-	-
Unquoted investments other than those mentioned above	-	-
Quoted investments other than those mentioned above	-	-
Non-performing loans	8,980,055	5,837,036
All other assets	31,441,728	31,441,728
Credit facilities and conditional irrevocable and revocable conditional liquidity	173,251,154	173,251,154
Other potential future financing commitments	4,128,695	206,435
Total stable financing required	**426,919,867**	**159,592,345**
Net stable financing ratio	**-**	**148%**

Notes to the consolidated financial statements
(All amounts are in USD)

Fair value measurement

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

- Level 1: using quoted (unadjusted) prices for similar financial instruments in active financial instruments markets.
- Level 2: using inputs that are directly or indirectly observable other than quoted prices.
- Level 3: using inputs that are not based on observable market data.
- The following table describes the hierarchy used to measure the fair value of financial assets as at December 31, 2018 and 2017:

2018		**Fair value measurement using**		
	Total	**Level1:**	**Level 2**	**Level 3**
Assets at fair value:				
Financial assets at fair value through the statement of income (note 8):				
Quoted	**5,545,496**	5,545,496	-	-
Financial assets at fair value through the statement of comprehensive income (note 9):				
Quoted	**2,197,252**	2,197,252	-	-
Unquoted	**1,400,000**	-	-	1,400,000
Property, plant, and equipment at fair value (note 11):	**5,769,225**	-	-	5,769,225

		Fair value measurement using		
	Total	**Level1:**	**Level 2**	**Level 3**
2017				
Assets at fair value:				
Financial assets at fair value through the statement of income (note 8):				
Quoted	**5,488,791**	5,488,791	-	-
Financial assets at fair value through the statement of comprehensive income (note9):				
Quoted	**1,290,391**	1,290,391	-	-
Unquoted	**1,400,000**	-	-	1,400,000
Property, plant, and equipment at fair value (note 11):	**5,769,225**	-	-	5,769,225

Notes to the consolidated financial statements
(All amounts are in USD)

The following table presents a comparison between the carrying amounts and fair values of financial instruments as at December 31, 2018 and 2017:

	Carrying amount		Fair value	
	2018	2017	2018	2017
Financial assets				
Balances at Palestine Monetary Authority	28,824,355	27,820,954	28,824,355	27,820,954
Balances with banks and financial institutions	82,000,186	100,048,382	82,000,186	100,048,382
Direct credit facilities	218,082,858	210,578,198	218,082,858	210,578,198
Financial assets through the statement of income	5,545,496	5,488,791	5,545,496	5,488,791
Financial assets at fair value through the statement of comprehensive income:				
- Quoted equities	2,197,252	1,290,391	2,197,252	1,290,391
- Unquoted equities	1,400,000	1,400,000	1,400,000	1,400,000
Financial assets at amortised cost	23,441,949	15,850,074	23,441,949	16,435,370
Other financial assets	5,950,874	3,313,529	5,950,874	3,313,529
Total assets	**367,442,970**	**365,790,319**	**367,442,970**	**366,375,615**
Financial liabilities				
Banks and financial institutions deposits	43,350,610	45,347,030	43,350,610	45,347,030
Customers' deposits	282,689,956	276,844,431	282,689,956	276,844,431
Cash margins	21,868,716	20,819,529	21,868,716	20,819,529
Other Financial Liabilities	4,654,691	4,382,003	4,654,691	4,382,003
Total liabilities	**352,563,973**	**347,392,993**	**352,563,973**	**347,392,993**

- The fair values of financial assets and liabilities are stated in accordance with the values that could be used for the exchange between the concerned parties, except for compulsory sales or liquidation.
- The fair values of balances at Palestine Monetary Authority, balances at banks and financial institutions, other financial assets, banks and financial institutions deposits, customers deposits, cash margins, and other financial liabilities approximate their carrying value as these instruments have short term repayment or collection periods.
- The fair value of financial assets at fair value is determined through the statement of income and the financial assets at fair value through the statement of comprehensive income, which have a quoted market price according to their trading prices on the date of the consolidated financial statements.

- The fair value of financial assets at amortised cost that have a quoted market price is determined according to their trading prices on the date of the consolidated financial statements.
- The fair value of credit facilities was determined by examining various variables such as interest rates, risk factors and the debtor's ability. The carrying amount of the credit facilities is not different from their fair value as at December 31, 2018.

Notes to the consolidated financial statements
(All amounts are in USD)

Note (4) Basis and estimates

The preparation of the consolidated financial statements and application of accounting policies requires the Bank's management to make estimates and judgements that affect the amounts of financial assets and liabilities and disclosure of contingent liabilities. These estimates and judgments also affect income, expenses and provisions as well as other comprehensive income items. In particular, the Bank's management is required to make judgments necessary to estimate the amounts and timing of future cash flows. The mentioned estimates are necessarily based on multiple assumptions and factors involving varying degrees of judgment and uncertainty and that actual results may differ from the estimates as a result of changes resulting from the conditions and circumstances of those estimates in the future.

- A provision is set against the lawsuits raised against the Bank. This provision is subject to an adequate legal study prepared by the Bank's advisors. Moreover, the study highlights potential risks that the Bank may encounter in the future. Such legal assessments are reviewed periodically.

- Provision is made for credit facilities based on the principles and assumptions approved by the Bank's management to estimate the provision to be made in accordance with the requirements of IFRS. The results of these bases and assumptions are compared with the allowance to be made under the PMA's instructions. The results are approved in accordance with International Financial Reporting Standards .

- Acquired assets impairment is recorded based on recent properties evaluations approved by certified evaluators, and such impairment is reviewed periodically.

- The management reassesses the useful lives of tangible and intangible assets on a regular basis for the purpose of calculating the annual depreciations and amortisations depending on the general condition of these assets and estimates of the expected useful lives in the future, and impairment loss (if any) is stated in the consolidated statement of income.

- Management reviews the financial assets to estimate any impairment. This impairment is recognised in the consolidated statement of income for the year. The management estimates impairment in fair value when market prices reach a certain level that is considered an indicator of impairment loss and in a manner that will not be in conflict with the instructions of the regulatory authorities and IFRSs.

- Fair value levels: The Bank determines and discloses fair value levels, and fair value measurements are segregated in accordance with the levels set out in IFRSs. The difference between Level 2 and Level 3 of fair value measurements is an assessment of whether information or inputs are observable and the extent of the significance of information that is not observable, which requires that the inputs used to measure the fair value be accurately evaluated and analysed, including all factors relating to the asset or liability.

The management believes that the estimates used in the preparation of the consolidated financial statements are reasonable and appropriate.

Notes to the consolidated financial statements
(All amounts are in USD)

Note (5) Cash and balances at Palestine Monetary Authority
Item details

	2018	2017
Cash on hand	58,322,879	50,109,639
Balances at Palestine Monetary Authority:		
Current and demand accounts	8,587,367	3,181,164
Statutory cash reserves requirements	20,236,988	24,639,790
	87,147,234	**77,930,593**

According to PMA circular No. (67/2010), the Bank shall maintain statutory cash reserves with PMA at a percentage of total customers' deposits. Statutory reserves are calculated by the Bank at the end of each month. According to PMA circular No. (2/2012), the outstanding balance of credit facilities granted in Jerusalem for some sectors are deducted from statutory reserve is calculated. The statutory reserve percentage is 9%.

- PMA doesn't pay interest on these statutory cash reserves and current and demand accounts.
- Time and capital deposits at PMA are interest bearing deposits with interest rates based on current market interest rates less PMA's commission of 0.025%.

Note (6) Balances at banks and financial institutions
Item details

	2018	2017
Banks and financial institutions inside Palestine:		
Current accounts	39,079	2,114,224
Deposits maturing with in 3 months and less	44,567,969	24,665,790
	44,607,048	**26,780,014**
Banks and financial institutions outside Palestine:		
Current accounts	19,800,767	37,615,714
Deposits maturing with in 3 months and less	17,627,147	35,652,654
Provision for balances with banks and financial institutions in accordance with IFRS No. 9 *	(34,776)	-
	37,393,138	**73,268,368**
	82,000,186	**100,048,382**

* The following is a summary of the movement in the provision for balances with banks and financial institutions resulting from the application of IFRS 9 during the year:

	2018
Balance at the beginning of the year	-
Impact of IFRS 9 application on the opening balances	352,687
Balance at the beginning of the year (restated)	**352,687**
Recoveries during the year	(317,911)
Balance at the end of the year	**34,776**

- Restricted balances as at December 31, 2018 and as at December 31, 2017 amounted to USD 3,580,084 and USD 1,438,333, respectively.

- Non-interest bearing balances with banks and financial institutions as at December 31, 2018 and December 31, 2017 amounted to USD 19,839,846 and USD 39,729,938 respectively.

Notes to the consolidated financial statements
(All amounts are in USD)

The distribution of balances with banks and financial institutions according to the Bank's internal rating categories is as follows:

	The first stage	The second stage	The third stage	2018	2017
Low risk/ performing	19,839,846	-	-	19,839,846	39,729,938
Acceptable risk/ performing	62,195,116	-	-	62,195,116	60,318,444
Total	**82,034,962**	**-**	**-**	**82,034,962**	**100,048,382**

The movement on the balances of cash with banks and financial institutions:

	The first stage	The second stage	The third stage	Total
Total balance as at the beginning of the year	100,048,382	-	-	100,048,382
New balances during the year	18,625,680	30,728	-	18,656,408
Balances repaid	(36,667,676)	(2,152)	-	(36,669,828)
Transferred to the first stage	28,576	(28,576)	-	-
Total	**82,034,962**	**-**	**-**	**82,034,962**

Movement on the expected credit loss provision for balances with banks and financial institutions:

	The first stage	The second stage	The third stage	Total
Total balance as at the beginning of the year resulting from IFRS 9 application	352,687	-	-	352,687
Impairment loss on new balances and deposits during the year	-	-	-	-
Recoveries from impairment loss on repaid balances and deposits	(317,911)	-	-	(317,911)
Transferred to the first stage	-	-	-	-
Amendments resulting from changes in currency exchange	-	-	-	-
Total	**34,776**	**-**	**-**	**34,776**

Notes to the consolidated financial statements
(All amounts are in USD)

Note (7) Direct credit facilities
Item details

	2018	2017
Retail		
Loans and discounted bills	77,169,188	61,496,763
Current accounts receivable	18,820,683	8,231,585
Credit cards	2,103,121	1,832,742
Corporates		
Loans and discounted bills	87,580,238	86,651,278
Current accounts receivable	25,575,359	41,272,878
Government and public sector	10,328,507	13,857,267
	221,577,096	**213,342,513**
Suspended interest and commissions	(512,812)	(383,114)
Provision for impairment of direct credit facilities	(2,981,426)	(2,381,201)
	218,082,858	**210,578,198**

- Credit facilities rated, net of suspended interests, according to PMA regulations as at December 31, 2018 amounted to USD 7,940,794 representing 3.58% of the total credit facilities (compared to USD 5,985,225 representing 2.81% of the total credit facilities as at December 31, 2017).

- defaulted direct credit facilities net of suspended interests according to PMA regulations as at December 31, 2018 amounted to USD 7,503,694 representing 3.38% of the total credit facilities (compared to USD 5,565,664 representing 2.61% of the total credit facilities as at December 31, 2017).

- Credit facilities granted to the Palestinian National Authority and by its guarantee amounted to USD 10,328,507 representing 4.66% of total direct credit facilities at December 31, 2018 (compared to USD 13,857,267 representing 6.5% as at December 31, 2017).

- Credit facilities granted to non-residents amounted to USD 245,879 as at December 31, 2018 (against USD 175,718 as at December 31, 2017).

- The fair value of guarantees provided against credit facilities amounted to USD 152,885,663 and USD 159,989,327 as at December 31, 2018 and 2017, respectively.

Suspended interests and commissions
The following is a summary of movement on the suspended interests and commissions:

	2018	2017
Balance at the beginning of the year	**383,114**	**802,735**
Suspended interests during the year	273,157	218,348
Suspended interests transferred to revenues	(68,527)	(8,736)
Suspended interests written off	(4,418)	(153,297)
Disposal of suspended interests on credit facilities that have been defaulted for over 6 years	(70,514)	(475,936)
Balance at the end of the year	**512,812**	**383,114**

Notes to the consolidated financial statements
(All amounts are in USD)

Impairment allowance for credit facilities

The following is a summary of the movement of the impairment allowance for credit facilities:

	2018	2017
Balance at the beginning of the year	**2,381,201**	**3,007,748**
Impact of IFRS application *	845,846	-
Additions during the year	1,258,350	644,497
Recoverable provisions	(445,930)	(379,520)
Disposal of impairment allowance for direct credit facilities that have been defaulted for over 6 years:	(965,596)	(1,056,004)
Currency variances	(92,445)	164,480
Balance at the end of the year	**2,981,426**	**2,381,201**

* The following is a summary of the movement in the provision for impairment of direct credit facilities resulting from the application of IFRS 9 during the year:

	2018
Balance at the beginning of the year	-
Impact of IFRS 9 application on the opening balances	845,846
Balance at the beginning of the year (restated)	**845,846**

The following are the details of the provision for impairment of direct credit facilities according to IFRS 9 as at December 31, 2018:

	2018
The first stage	856,447
The second stage	116,951
The third stage	2,008,028
	2,981,426

The distribution of the total direct credit facilities according to the Bank's internal credit rating categories is as follows:

	The first stage	The second stage	The third stage	2018	2017
Low risk	138,679,414	-	-	138,679,414	136,751,752
Acceptable risk	49,401,244	24,872,749	170,083	74,444,076	70,222,422
Watch list	-	-	437,100	437,100	419,561
Non-performing:					
Substandard	-	-	3,315,895	3,315,895	2,524,654
Doubtful	-	-	4,700,611	4,700,611	3,424,124
Balance at the end of the year	**188,080,658**	**24,872,749**	**8,623,689**	**221,577,096**	**213,342,513**

Notes to the consolidated financial statements
(All amounts are in USD)

Movement in the total direct credit facilities is as follows:

	Retail	Corporate	Small and medium enterprises	Government and public sector	Total
Total balance as at the beginning of the year	71,276,060	91,154,017	37,055,169	13,857,267	213,342,513
New balances during the year	32,511,343	57,936,645	24,961,374	-	115,409,362
Balances repaid	(4,749,393)	(74,101,290)	(23,829,740)	(3,528,760)	(106,209,183)
Bad balances	(945,018)	(20,578)	-	-	(965,596)
Balance at the end of the year	**98,092,992**	**74,968,794**	**38,186,803**	**10,328,507**	**221,577,096**

Movement in the total direct credit facilities is as follows:

	The first stage	The second stage	The third stage	Total
Total balance as at the beginning of the year	190,894,691	15,683,795	6,764,027	213,342,513
New balances during the year	105,223,154	8,829,621	1,356,587	115,409,362
Balances repaid	(103,739,741)	(2,023,512)	(445,930)	(106,209,183)
Transferred to the first stage	5,267,585	(5,267,585)	-	-
Transferred to the second stage	(9,188,955)	9,188,955	-	-
Transferred to the third stage	(376,076)	(1,538,525)	1,914,601	-
Bad balances	-	-	(965,596)	(965,596)
Balance at the end of the year	**188,080,658**	**24,872,749**	**8,623,689**	**221,577,096**

Movement on the expected credit loss provision for direct credit facilities:

	Retail	Corporate	Small and medium enterprises	Government and public sector	Total
Balance at the beginning of the year	1,929,879	406,878	44,444	-	2,381,201
Impact of IFRS 9 application	233,399	245,152	122,772	162,781	764,104
Additions during the year (stage one)	97,680	97,421	38,187	(74,827)	158,461
Additions during the year (stage two)	7,876	27,375	15,582	-	50,833
Additions during the year (stage three)	549,780	285,316	295,702	-	1,130,798
Recoveries during the year	(205,211)	(115,573)	(125,146)	-	(445,930)
Disposal of impairment provision for direct credit facilities that are past due for more than 6 years:	(945,018)	(20,578)	-	-	(965,596)
Currency variances	(49,991)	(26,557)	(15,897)	-	(92,445)
Balance at the end of the year	**1,618,394**	**899,434**	**375,644**	**87,954**	**2,981,426**

Movement on the expected credit loss provision for direct credit facilities

Notes to the consolidated financial statements
(All amounts are in USD)

Following is a summary of movement on the impairment allowance for direct credit facilities and

	The first stage	The second stage	The third stage	Total
Total balance as at the beginning of the year	790,667	66,118	2,381,201	3,237,986
New balances during the year	3,114,605	261,356	92,445	3,468,406
Balances repaid/ due	(3,149,763)	(109,585)	(630,820)	(3,890,168)
Transferred to the first stage	151,771	(151,771)	-	-
Transferred to the second stage	(50,833)	50,833	-	-
Transferred to the third stage	-	-	1,130,798	1,130,798
Bad balances	-	-	(965,596)	(965,596)
Balance at the beginning of the period (restated)	**856,447**	**116,951**	**2,008,028**	**2,981,426**

suspended interests that have been defaulted for over 6 years:

	Credit facilities Impairment provision		Suspended Interest	
	2018	2017	2018	2017
Balance at the beginning of the year	**2,922,628**	**1,792,837**	**1,098,578**	**586,174**
Additions	965,596	1,056,004	70,514	475,936
Recovery	(72,571)	(2,000)	-	-
Suspended interests written off	(1,705)	-	-	-
Currency variances	(111,800)	75,787	(62,497)	36,468
Balance at the end of the year	**3,702,148**	**2,922,628**	**1,106,595**	**1,098,578**

In accordance with the instructions of Palestine Monetary Authority No. (1/2008), direct credit facilities that are past due for more than 6 years are excluded from the consolidated financial statements of the Bank. The total direct credit facilities excluded from the consolidated financial statements as at December 31, 2018 and 2017 amounted to USD 4,808,743 and USD 4,021,206, respectively.

Palestine Investment Bank (Public Shareholding Company)
Consolidated financial statements for the year ended December 31, 2018

Notes to the consolidated financial statements
(All amounts are in USD)

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

	2018	2017
Manufacturing and mining		
Manufacturing	22,949,285	23,766,865
	22,949,285	**23,766,865**
Tourism, Restaurants, Hotels, and Others		
Restaurants	5,120,411	5,520,171
	5,120,411	**5,520,171**
Financial services	3,704,028	4,757,538
	3,704,028	**4,757,538**
Public sector		
Communications	220,750	1,833,972
Health	390,487	280,544
Education	1,624,870	1,734,128
Public utility	2,590,821	2,697,014
Professionals	3,486,899	2,148,132
	8,313,827	**8,693,790**
Agriculture and livestock		
Agriculture	4,121,577	2,756,595
Livestock	1,580,992	1,932,781
	5,702,569	**4,689,376**
General trade		
Internal trade	42,806,450	41,317,366
Foreign trade	27,346,718	30,376,698
	70,153,168	**71,694,064**
Real estate and construction		
Construction	18,881,023	27,071,017
Residence	9,834,443	9,799,388
Real estate	18,675,993	10,155,992
	47,391,459	**47,026,397**
Transportation		
Trade and shipping	13,158,227	5,075,602
	13,158,227	**5,075,602**
Others in consumer goods financing		
Others	2,884,418	2,130,602
	2,884,418	**2,130,602**
Financing of investment in shares and financial instruments		
Financial companies	598,224	1,500,000
Others	205,421	231,553
	803,645	**1,731,553**
Others in the public sector	**30,554,740**	**24,016,174**
Public sector		
Palestinian National Authority	10,328,507	13,857,267
	10,328,507	**13,857,267**
	221,064,284	**212,959,399**

Notes to the consolidated financial statements
(All amounts are in USD)

Note (8) Financial assets at fair value through statement of income
Item details

	2018			2017		
	Local	Foreign	Total	Local	Foreign	Total
Quoted securities in financial markets	354,611	1,273,165	**1,627,776**	129,196	1,188,945	**1,318,141**
Quoted financial bonds in international markets	-	3,917,720	**3,917,720**	-	4,170,650	**4,170,650**
	354,611	**5,190,885**	**5,545,496**	**129,196**	**5,359,595**	**5,488,791**

Geographical distribution of financial assets at fair value through the statement of income is as follows:

	Palestine	Republic of China	Turkey	Gulf	Others (investment funds)	Total
2018						
Quoted securities in financial markets	354,611	-	-	-	1,273,165	1,627,776
Quoted financial bonds in international markets		2,069,100	865,190	983,430	-	3,917,720
Total as at December 31, 2018	**354,611**	**2,069,100**	**865,190**	**983,430**	**1,273,165**	**5,545,496**
2017						
Quoted securities in financial markets	129,196	-	-	-	1,188,945	1,318,141
Quoted financial bonds in international markets	-	2,136,100	1,019,200	1,015,350	-	4,170,650
Total as at December 31, 2017	**129,196**	**2,136,100**	**1,019,200**	**1,015,350**	**1,188,945**	**5,488,791**

Note (9) Financial assets at fair value through statement of comprehensive income
Item details

	2018	2017
Quoted securities in financial markets (equity instruments)	2,197,252	1,290,391
Unquoted securities (equity instruments)	1,400,000	1,400,000
	3,597,252	**2,690,391**

The movement on the fair value reserve account during the year is as follows:

	2018	2017
Balance at the beginning of the year	**(70,948)**	**(304,074)**
Change in fair value	(94,663)	(58,899)
Losses on sale of financial assets at fair value through the statement of comprehensive income recognised in retained earnings (equity instruments)	-	292,025
Balance at the end of the year	**(165,611)**	**(70,948)**

Geographical distribution of financial assets at fair value through the statement of comprehensive income is as follows:

	Palestine	Others (Investment funds)	Total
2018			
Securities in financial markets	1,400,000	2,197,252	3,597,252
Total as at December 31, 2018	**1,400,000**	**2,197,252**	**3,597,252**
2017			
Securities in financial markets	1,400,000	1,290,391	2,690,391
Total as at December 31, 2017	**1,400,000**	**1,290,391**	**2,690,391**

Notes to the consolidated financial statements
(All amounts are in USD)

Note (10) Financial assets at amortized cost
Item details

	2018	2017
Foreign government financial bonds*	5,998,010	5,999,517
Local government payment bills**	4,610,252	755,270
Quoted financial bonds***	13,046,085	9,095,287
	23,654,347	**15,850,074**
The provision for financial assets at amortised cost resulting from the application of IFRS 9 ****	(212,398)	-
	23,441,949	**15,850,074**

* This item represents the Bank's investment in bonds and treasury bills issued by the Jordanian government and the Moroccan government. These bonds have a maturity period that ranges from 5 to 10 years. Interest rate on bonds and treasury bills varies between 4.25% and 6.13%.

** This item represents the Bank's investment in government payment bills issued by the Palestinian Ministry of Finance with a maturity period of 6 months and an interest rate of no more than 8%.

*** This item represents the Bank's investment in bonds listed in financial markets with a maturity period of 3 to 6 years. Interest rate on bonds varies between 4.62% and 6.95%.

**** The following is a summary of the movement in the provision for financial assets at amortised cost resulting from the application of IFRS 9 during the year:

	2018
Balance at the beginning of the year	-
Impact of IFRS 9 application on the opening balances	93,164
Balance at the beginning of the year (restated)	**93,164**
Additions during the year	119,234
Balance at the end of the year	**212,398**

The distribution of financial assets at amortised cost according to the Bank's internal rating categories is as follows:

	The first stage	The second stage	The third stage	2018	2017
Low risk/ performing	19,633,622	-	-	19,633,622	15,850,074
Acceptable risk/ performing		4,020,725	-	4,020,725	-
Balance at end of the year	**19,633,622**	**4,020,725**	**-**	**23,654,347**	**15,850,074**

Movement on financial assets at amortised cost is as follows:

	The first stage	The second stage	The third stage	Total
Total balance as at the beginning of the year	15,850,074	-	-	15,850,074
New balances during the year	1,009,264	10,857,023	-	11,866,287
Balances repaid/ due	(1,825,383)	(2,236,631)	-	(4,062,014)
Transferred to the first stage	5,672,589	(5,672,589)	-	-
Transferred to the second stage	(1,072,922)	1,072,922	-	-
Balance at the end of the year	**19,633,622**	**4,020,725**	**-**	**23,654,347**

Notes to the consolidated financial statements
(All amounts are in USD)

Movement on the provision of expected credit loss for financial assets at amortised cost is as follows:

	The first stage	The second stage	The third stage	Total
Total balance as at the beginning of the year resulting from IFRS 9 application	93,164	-	-	93,164
Impairment loss on new balances and deposits during the year	88,372	34,627	-	122,999
Recoveries from impairment loss on repaid balances and deposits	(2,083)	(1,682)		(3,765)
Transferred to the first stage	32,945	(32,945)	-	-
Transferred to the second stage	(93,614)	93,614		-
Balance at the end of the year	**118,784**	**93,614**	**-**	**212,398**

Credit exposures are distributed based on the geographical area as follows:

	Palestine	Jordan	Mexico	Gulf	Europe	Russia	West African countries	Total
2018								
Foreign government financial bonds	-	3,000,000	-	2,000,000	-	-	998,010	5,998,010
Local government payment bills	4,610,252	-	-	-	-	-	-	4,610,252
Quoted financial bonds	6,000,000	-	957,400	-	2,051,160	3,038,025	999,500	13,046,085
Total as at December 31, 2018	**10,610,252**	**3,000,000**	**957,400**	**2,000,000**	**2,051,160**	**3,038,025**	**1,997,510**	**23,654,347**
2017								
Foreign government financial bonds	-	3,001,507	-	2,000,000	-	-	998,010	5,999,517
Local government payment bills	755,270	-	-	-	-	-	-	755,270
Quoted financial bonds	-	-	-	3,006,475	3,059,783	2,029,529	999,500	9,095,287
Total as at December 31, 2017	**755,270**	**3,001,507**	**-**	**5,006,475**	**3,059,783**	**2,029,529**	**1,997,510**	**15,850,074**

Notes to the consolidated financial statements
(All amounts are in USD)

Note (11) – property, plant and equipment
Item details

	Land	Buildings and real estate	Furniture and equipment	Computer Hardware	Leasehold Improvements	Motor Vehicles	Total
December 31, 2018							
Cost or valuation price							
Balance at beginning of the year	5,769,225	10,538,600	5,283,046	4,161,777	1,496,846	562,590	**27,812,084**
Additions	-	3,562,081	-	557,144	10,791	275,003	**4,405,019**
Disposals	-	-	-	-	-	(237,542)	**(237,542)**
Transfers	-	-	(4,403)	4,403	-	-	-
Balance at end of the year	**5,769,225**	**14,100,681**	**5,278,643**	**4,723,324**	**1,507,637**	**600,051**	**31,979,561**
Accumulated depreciation:							
Balance at beginning of the year	-	308,809	1,916,144	2,677,446	732,793	321,506	**5,956,698**
Depreciation for the year	-	180,241	366,650	431,799	118,011	124,753	**1,221,454**
Disposals	-	-	-	-	-	(195,950)	**(195,950)**
Balance at the end of the year	-	**489,050**	**2,282,794**	**3,109,245**	**850,804**	**250,309**	**6,982,202**
Net book value	**5,769,225**	**13,611,631**	**2,995,849**	**1,614,079**	**656,833**	**349,742**	**24,997,359**

Notes to the consolidated financial statements
(All amounts are in USD)

	Land	Buildings and real estate	Furniture and equipment	Computer Hardware	Leasehold Improvements	Motor Vehicles	Project in progress	Total
December 31, 2017								
Cost or valuation price								
Balance at beginning of the year	5,769,225	1,250,990	5,588,185	3,081,661	1,367,907	456,190	8,172,523	**25,686,681**
Additions	-	-	141,999	681,676	148,599	106,400	1,115,087	**2,193,761**
Disposals	-	-	(48,698)	-	(19,660)	-	-	**(68,358)**
Transfers	-	9,287,610	(398,440)	398,440	-	-	(9,287,610)	**-**
Balance at the end of the year	**5,769,225**	**10,538,600**	**5,283,046**	**4,161,777**	**1,496,846**	**562,590**	-	**27,812,084**
Accumulated depreciation:								
Balance at beginning of the year	-	210,302	1,684,281	2,403,475	640,290	235,454	-	**5,173,802**
Depreciation for the year	-	98,507	280,561	273,971	112,163	86,052	-	**851,254**
Disposals	-	-	(48,698)	-	(19,660)	-	-	**(68,358)**
Balance at the end of the year	-	**308,809**	**1,916,144**	**2,677,446**	**732,793**	**321,506**	-	**5,956,698**
Net book value	**5,769,225**	**10,229,791**	**3,366,902**	**1,484,331**	**764,053**	**241,084**	-	**21,855,386**

Notes to the consolidated financial statements
(All amounts are in USD)

Note (12) Deferred tax assets
Deferred tax assets are calculated on the temporary timing differences between the assets and liabilities and the value based on which tax profit is calculated, such as the provision for end of service indemnity and vacations and the provision for cases, which the management of the Bank expects to be recovered in the future. Deferred taxes are calculated based on the tax rates that are expected to be applied when these deferred tax assets are realised.

Note (13) Intangible assets
Intangible assets comprise computer systems. Below is the movement of intangible assets during the year:

	2018	2017
Balance at the beginning of the year	1,232,648	**944,029**
Additions	153,986	493,581
Amortisations	(221,798)	(204,962)
Balance at the end of the year	**1,164,836**	**1,232,648**

Note (14) Other assets
Item details

	2018	2017
Checks under collection	4,240,477	2,707,564
Prepaid expenses	1,440,391	1,452,414
Assets whose ownership was transferred to the Bank to pay due debts*	-	900,000
Due Interests	818,849	885,029
Accounts receivable	848,829	576,499
Advance payments for purchase of software and establishment of branches	457,504	116,744
Interests received in advance	54,253	106,706
Tax advances (note 19)	115,917	34,027
Others	42,719	29,466
	8,018,939	**6,808,449**

* This item represents three commercial shops whose ownership was transferred to the Bank to pay due debts. During the year, after obtaining approval from Palestine Monetary Authority, the Bank sold the shops to Horizons Real Estate Company, a subsidiary wholly owned by the Bank. The sale did not have any impact on the consolidated statement of income or equity. Transactions, balances, income and expenses are eliminated between the Bank and its subsidiaries.

Note (15) Banks and financial institutions deposits
Item details

	2018	2017
Current and held at call accounts	19,110	12,114,745
Deposits with maturities of three months or less	43,331,500	33,232,285
	43,350,610	**45,347,030**

Notes to the consolidated financial statements
(All amounts are in USD)

Note (16) customers' deposits
Item details

	2018	2017
Current and held at call accounts	118,768,666	127,359,804
Term and notice deposits	78,557,870	73,085,721
Saving deposits	81,065,057	72,564,509
Debit balances - temporary credit	4,298,363	3,834,397
	282,689,956	**276,844,431**

- Deposits of the public sector as at December 31, 2018 and 2017 amounted to USD 5,483,580 and USD 3,678,440, i.e. 1.90% and 1.33% of total deposits, respectively

Non-interest bearing deposits as at December 31, 2018 and 2017 amounted to USD 118,768,666 and USD 127,359,804 representing 42% and 46% of total deposits respectively.

Dormant deposits amounted to USD 7,410,689 and USD 6,101,205 as at December 31, 2018 and 2017 representing 2.59% and 2.20% of total deposits respectively.

Note (17) Cash margins
This item represents cash margins against:

	2018	2017
Direct credit facilities	17,985,445	16,942,917
Indirect credit facilities	3,883,271	3,876,612
	21,868,716	**20,819,529**

Note (18) Miscellaneous provisions
Item details

	Balance Beginning of the year	Provided for during the year	Payments during the year	Currency Variances	Balance End of the year
December 31, 2018					
End of service and vacations benefits	**2,688,234**	836,639	(446,228)	-	**3,078,645**
Legal cases against the Bank	**33,908**	-	-	(2,548)	**31,360**
	2,722,142	**836,639**	**(446,228)**	**(2,548)**	**3,110,005**

	Balance Beginning of the year	Provided for during the year	Payments during the year	Currency Variances	Balance End of the year
December 31, 2017					
End of service and vacations benefits	**2,620,840**	468,774	(401,380)	-	**2,688,234**
Legal cases against the Bank	**30,659**	-	-	3,249	**33,908**
	2,651,499	**468,774**	**(401,380)**	**3,249**	**2,722,142**

Notes to the consolidated financial statements
(All amounts are in USD)

Note (19) Tax provision
Below is the movement on the provisions for tax during the years ended December 31, 2018 and December 31,2017:

	2018	2017
Balance at the beginning of the year	**(34,027)**	**138,913**
Current year income tax	1,670,000	1,534,613
Payments during the year	(1,297,935)	(1,059,120)
Payments for previous years	(542,833)	(624,511)
Currency variances	88,878	(23,922)
Balance at the end of the year	**(115,917)**	**(34,027)**
Tax advances (note 14)	**115,917**	**34,027**
	-	-

Taxes as shown in the consolidated income statement comprise the followings:

	2018	2017
Provision for the year	1,670,000	1,534,613
Deferred taxes	(88,661)	70,000
	1,581,339	**1,604,613**

The income tax legal percentage is 15%, and the value added tax percentage is16% as at December 31, 2018. Based on the resolution provisions of law No. (4) of 2014 regarding the amendment of the resolution in law No. (8) of 2011 related to income tax, the income tax on profits resulting from financing small and medium enterprises is 10% of the profit.

Accounting profit settlement against tax profit is summarised as follows:

	2018	2017
Accounting profit of the Bank	5,923,663	5,523,871
Taxable income for VAT	6,229,734	5,572,116
Taxable income	3,410,670	3,410,783
VAT on profit for the year	652,732	583,829
Income tax on profit	945,716	945,747
Taxes for the year	**1,598,448**	**1,529,576**
Provisions	1,670,000	1,534,613
Percentage of actual tax	28.19%	27.78%

The Bank has not reached a final settlement with the Income Tax and Value Added Tax Departments on the results of its business for 2014. The Bank reached a final settlement with the Income Tax and Value Added Tax Departments on the results of its business for 2016 and 2015.

Notes to the consolidated financial statements
(All amounts are in USD)

Note (20) Other liabilities
Item details

	2018	2017
Accounts payable and temporary deposits	1,549,900	2,169,299
Certified issued checks	997,242	678,863
Deferred tax liabilities*	566,921	566,921
Accrued interest payable	718,249	608,465
Board of Directors remuneration	234,260	180,260
Unpaid accrued expenses	123,726	145,035
Commissions received in advance	1,389,300	1,235,209
Other credit balances	602,636	600,081
Creditors -subscriptions	-	433,213
Interests received in advance	42,037	41,275
Provision for impairment in indirect credit facilities resulting from the application of IFRS 9 **	23,177	-
	6,247,448	**6,658,621**

* This represents the deferred taxes on land revaluation surplus of 2015, with a revaluation surplus of USD 3,779,476. The revaluation surplus was recognised in the consolidated statement of comprehensive income of USD 3,212,555 after deducting the deferred taxes in the amount of USD 566,921.

** The following is the movement in the provision for the impairment of indirect credit facilities resulting from the application of IFRS 9 during the year:

	2018
Balance at the beginning of the year	-
Impact of IFRS 9 application on the opening balances	10,963
Balance at the beginning of the year (restated)	**10,963**
Additions during the year	12,214
Balance at the end of the year	**23,177**

Notes to the consolidated financial statements
(All amounts are in USD)

Note (21) Reserves

Statutory reserve

In accordance with the Companies Law and the Banking Law, 10% of the net profit after taxes is deducted annually to be allocated to the compulsory reserve account. This deduction may not be stopped before the cumulative amount of this account equals the capital of the Bank. Compulsory reserve will not be distributed to shareholders or transferred to abroad without the prior approval of Palestine Monetary Authority.

General banking risks reserve

This item represents general banking reserve deducted according to PMA's instructions No. (6/2015) in a percentage of 1.5% of direct credit facilities net of direct credit facilities impairment provision and suspended interests and 0.5% of indirect credit facilities net of checks under collection, accepted deposits, and accepted and guaranteed withdrawals related to the received credits. The reserve is not to be utilised or reduced without the prior approval of PMA.

Pro-cyclicality reserve

This item is intended to hedge the various types of risks that have been deducted according to Palestine Monetary Authority issued instructions (1/2018), which provides for the calculation of pro-cyclicality at 0.57% of risk weighted assets. These instructions supersede Article 10 regarding the calculation of the pro-cyclicality fluctuation reserve stated in Instructions No. 6 of 2015.

External branch reserve

The Bank opened a new branch in the Kingdom of Bahrain and obtained the approval of the Monetary Authority to commence operations at the branch on December 29, 2016. The Bank is committed to certain conditions, including capitalisation of USD 935,211 of distributable retained earnings to the account for external branch reserve and transfer of at least USD 2 million during the next three years to the account of the external branch reserve.

During the year 2017, the Bank transferred USD 935,211 of retained earnings to the external branch reserve as shown in the consolidated interim statement of changes in equity.

Notes to the consolidated financial statements
(All amounts are in USD)

Note (22) Increase in share capital and share dividends
At its meeting on May 13, 2010, the Extraordinary General Assembly decided to increase the Bank's authorised capital to 100 million shares at a nominal value of (1) one US dollar per share. During the year 2016, the paid-in share capital of the Bank was increased through a general secondary subscription of USD 3.3 million to USD 59.6 million.

At its meeting held on April 30, 2017, the General Assembly decided to increase the Bank's paid-in capital through the distribution of bonus shares to shareholders amounting to USD 1.4 million to USD 61 million. During the year 2017, the paid-in capital of the Bank was increased through a secondary subscription of USD 7 million. So, the Bank’s capital reached USD 68 million as at December 31, 2017.

During the year 2018, the paid-in capital of the Bank was increased through a general secondary offering in an amount of USD 3,700,932. At its meeting on April 24, 2018, the General Assembly approved the distribution of bonus shares to shareholders amounting to USD 3,299,068. So, the Bank’s paid-in capital reached USD 75,000,000 as at December 31, 2018.

Note (23) Paid-in capital
Item details

	2018	2017
Authorised Capital	100,000,000	100,000,000
Subscribed and paid share capital	75,000,000	68,000,000

Note (24) Interests Revenues
Item details

	2018	2017
Loans	10,217,959	7,739,012
Current accounts	4,912,069	4,373,462
Government and public sector	783,152	1,167,322
Balances at banks and financial institutions	958,716	1,216,059
Financial assets at amortised cost	1,028,177	976,453
Financial assets at fair value through the statement of income	259,241	255,488
	18,159,314	**15,727,796**

Note (25) Interests expenses
Item details

	2018	2017
Interests on customers' deposits:		
Time and notice deposits	2,214,242	1,885,040
Saving deposits	34,308	31,964
Current and held at call accounts	87,861	-
	2,336,411	**1,917,004**
Interests on bank and financial institutions deposits	105,258	419,561
Interests paid to Palestine Monetary Authority	32,101	79,843
Cash margins	74,430	67,644
	2,548,200	**2,484,052**

Notes to the consolidated financial statements
(All amounts are in USD)

Note (26) Net commission income
Item details

	2018	2017
Direct credit facilities	1,841,526	1,553,085
Indirect credit facilities	471,022	457,607
Accounts management	523,848	492,904
Returned check	745,844	708,739
Transfers	333,728	377,847
Others	647,383	745,091
	4,563,351	**4,335,273**
Less: paid commissions	(222,855)	(197,013)
Net commissions income	**4,340,496**	**4,138,260**

Note (27) (Losses) gains on financial assets
Item details

	2018	2017
(Losses) gains on valuation of financial assets at fair value through the statement of income	(166,392)	207,433
Gains (losses) on sale of financial assets at fair value through the statement of income	4,888	(62,400)
	(161,504)	**145,033**

Note (28) Other revenues
Item details

	2018	2017
Checks books	190,096	172,068
SWIFT and ATM revenues	1,676	2,412
Post income and fax charges	10,014	10,882
Others	98,761	87,746
	300,547	**273,108**

Note (29) Personnel expenses
Item details

	2018	2017
Employees’ salaries, benefits and bonuses	4,740,133	4,870,908
VAT on payroll	677,440	670,638
Employees’ end of service indemnity	836,639	460,591
Medical expenses	235,557	255,158
Bank's contribution to the provident fund*	202,169	207,165
Staff training	20,803	39,559
Employees’ leaves	-	8,183
Bank’s contribution to the Social Security Corporation	15,349	-
	6,728,090	**6,512,202**

* The Bank deducts 5% of the basic salary on a monthly basis for each employee. The Bank also contributes to 10% of the employee's basic salary.

Notes to the consolidated financial statements
(All amounts are in USD)

Note (30) Other operating expenses
Item details

	2018	2017
Fees, licenses, and subscriptions	911,288	643,418
Postage, fax and telephone	742,341	629,415
Palestine Deposit Insurance Corporation fees	786,692	709,000
Rents	534,891	407,793
Maintenance	771,706	546,516
Professional Fees	390,358	331,542
Travel and seminars	363,235	603,596
Water, electricity and heating	260,938	285,219
Board of Directors' remuneration and fees	339,071	300,119
Advertisement and marketing	205,730	128,717
Stationery and printings	168,231	176,748
Money shipping fees	231,672	290,773
Cleaning expenses	312,850	236,863
Saving accounts promotional prizes	160,515	1,437
Insurance	63,152	50,975
Donations and charity*	78,333	93,949
Hospitality	55,041	53,486
Fuel and vehicle expenses	28,319	26,534
Others	69,972	4,789
	6,474,335	**5,520,889**

* The Bank provides donations in the social, sports and other fields as part of the Bank's policy to build trust between the different social strata. The percentage of donations from net profit was 1.8% as at December 31, 2018 compared to 2.40% as at December 31, 2017.

Note (31) Palestine Monetary Authority fines
This item represents a fine imposed by Palestine Monetary Authority on the Bank amounting to USD 5,643 during 2017 related to the failure to update the data of some customers in violation of Instructions No. 8/2009.

Note (32) Cash and cash equivalents
Cash and cash equivalents in the consolidated statement of cash flows comprise items presented in the consolidated statement of financial position as follows:

	2018	2017
Cash and balances with Palestine Monetary Authority	87,147,234	77,930,593
Add:		
Balances at banks and financial institutions with maturity of 3 months	82,034,962	100,048,382
Less:		
Banks and financial institutions deposits	(43,350,610)	(45,347,030)
Statutory reserve requirements	(20,236,988)	(24,639,790)
	105,594,598	**107,992,155**

Notes to the consolidated financial statements
(All amounts are in USD)

Note (33) Basic and diluted earnings per share

	2018	2017
Profit for the year	4,342,324	3,919,258
	Share	**Share**
Weighted average of shares subscribed during the year	74,267,948	66,982,401
Basic and diluted earnings per share for the year	**0.058**	**0.059**

Note (34) Related party transactions
The Bank’s related parties comprise the major shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled, or significantly influenced by such parties. Transactions with related parties during the year represented deposits and credit facilities are as follows:

	Nature of relationship	2018	2017
Items on the consolidated statement of financial position:			
Direct credit facilities	Key management personnel and board of directors	4,655,805	3,980,282
Direct credit facilities	Shareholders	20,085,000	-
Deposits	Key management personnel and shareholders	396,315	544,142
Board of directors' remuneration	Board of Directors	234,260	180,260
Provision for employees’ indemnity	Key management	24,907	-

	Nature of relationship	2018	2017
Consolidated statement of income items:			
Interests received	Key management	18,389	15,139
Interests received	Shareholders	903,006	-
Interests paid	Key management	37,315	58,665
Board of Directors' remuneration and fees	Board of Directors	339,071	300,119
Key management personnel share in salaries and related expenses	Key management	767,429	772,123
Key management personnel share in the end of service benefits	Key management	58,721	64,344

- Direct credit facilities granted to related parties as at December 2018 and December 31, 2017 represent a percentage of11.33% and 1.90% respectively of net direct credit facilities.
- Direct credit facilities granted to related parties as at December 31, 2018 and December 31, 2017 represent a percentage of30% and 5.06% respectively of the Bank's capital base.
- Interest rate on direct credit facilities in USD ranges between 3% to 3.5%.
- Interest rate on deposits in USD ranges between 1% to 1.75%.
- Interest rate on deposits in Euro ranges between 0.5% to 2%.

Notes to the consolidated financial statements

(All amounts are in USD)

Note (35) Concentration of assets and liabilities

Following is a breakdown of the Bank's assets, liabilities, and off the consolidated statement of financial position items by geographical area:

	2018						
Assets	**Domestic**	**Jordan**	**Israel**	**Europe**	**USA**	**Others**	**Total**
Cash and balances with Palestine Monetary Authority	87,147,234	-	-	-	-	-	87,147,234
Balances with banks and financial institutions	41,785,788	15,026,192	8,453,077	9,190,630	4,321,578	3,222,921	82,000,186
Direct credit facilities	217,836,979	245,879	-	-	-	-	218,082,858
Financial assets through the statement of income	-	-	-	5,545,496	-	-	5,545,496
Financial assets through comprehensive income:	1,400,000	-	-	2,197,252	-	-	3,597,252
Financial assets at amortised cost	10,551,687	-	-	12,890,262	-	-	23,441,949
Property, plant and equipment	24,997,359	-	-	-	-	-	24,997,359
Deferred tax assets	815,917	-	-	-	-	-	815,917
Intangible assets	1,164,836	-	-	-	-	-	1,164,836
Other assets	8,018,939	-	-	-	-	-	8,018,939
	393,718,739	**15,272,071**	**8,453,077**	**29,823,640**	**4,321,578**	**3,222,921**	**454,812,026**
Liabilities							
Banks and financial institutions deposits	43,350,610	-	-	-	-	-	43,350,610
Customers' deposits	274,666,489	8,023,467	-	-	-	-	282,689,956
Cash margins	21,868,716	-	-	-	-	-	21,868,716
Miscellaneous provisions	3,110,005	-	-	-	-	-	3,110,005
Other liabilities	6,247,448	-	-	-	-	-	6,247,448
	349,243,268	**8,023,467**	**-**	**-**	**-**	**-**	**357,266,735**
Items off the consolidated statement of financial position							
Guarantees	18,168,401	-	-	-	-	-	18,168,401
Letters of credits	771,273	-	-	-	-	-	771,273
Acceptances	3,461,389	-	-	-	-	-	3,461,389
Unutilised credit facilities limits	7,121,253	-	-	-	-	-	7,121,253
	29,522,316	**-**	**-**	**-**	**-**	**-**	**29,522,316**

Notes to the consolidated financial statements

(All amounts are in USD)

	2017						
Assets	**Domestic**	**Jordan**	**Israel**	**Europe**	**USA**	**Others**	**Total**
Cash and balances with Palestine Monetary Authority	77,930,593	-	-	-	-	-	77,930,593
Balances with banks and financial institutions	19,727,940	40,110,633	22,091,744	771,253	9,764,749	7,582,063	100,048,382
Direct credit facilities	210,426,849	130,470	-	-	-	20,879	210,578,198
Financial assets through the statement of income	129,196	-	-	5,359,595	-	-	5,488,791
Financial assets through comprehensive income	-	-	-	2,690,391	-	-	2,690,391
Financial assets at amortised cost	755,270	-	-	15,094,804	-	-	15,850,074
Property, plant and equipment	21,855,386	-	-	-	-	-	21,855,386
Deferred tax assets	808,199	-	-	-	-	-	808,199
Intangible assets	1,232,648	-	-	-	-	-	1,232,648
Other assets	6,808,449	-	-	-	-	-	6,808,449
	339,674,530	**40,241,103**	**22,091,744**	**23,916,043**	**9,764,749**	**7,602,942**	**443,291,111**
Liabilities							
Banks and financial institutions deposits	45,347,030	-	-	-	-	-	45,347,030
Customers' deposits	269,521,453	7,322,978	-	-	-	-	276,844,431
Cash margins	20,819,529	-	-	-	-	-	20,819,529
Miscellaneous provisions	2,722,142	-	-	-	-	-	2,722,142
Tax provision	-	-	-	-	-	-	-
Other liabilities	6,658,621	-	-	-	-	-	6,658,621
	345,068,775	**7,322,978**	**-**	**-**	**-**	**-**	**352,391,753**
Items off the consolidated statement of financial position							
Guarantees	16,470,409	-	-	-	-	-	16,470,409
Letters of credits	-	630,703	1,140,114	-	-	-	1,770,817
Acceptances	1,852,068	-	-	-	-	-	1,852,068
Unutilised credit facilities limits	6,632,035	-	-	-	-	-	6,632,035
	24,954,512	**630,703**	**1,140,114**	**-**	**-**	**-**	**26,725,329**

Notes to the consolidated financial statements
(All amounts are in USD)

Note (36) Segment analysis
Information on the Bank's business segments
For management purposes, the Banks' activities are organized into 3 major business sectors:

Retail accounts; Includes handling individual customers' deposits, and providing consumer type loans, credit cards facilities and other services.

Corporates' accounts: Includes handling deposits, credit facilities, and other banking services related to corporates' customers.

Treasury: Includes providing trading and treasury services and the management of the Bank's funds.

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

	Retail banking services	Corporate banking services	Treasury	Others	Total 2018	Total 2017
Total revenues	9,417,985	11,468,861	1,007,564	1,800,484	23,694,894	21,356,479
Recovery of provision for credit facilities	(322,334)	(231,052)	-	-	(553,386)	(262,977)
Segment results	9,095,651	11,237,809	1,007,564	1,800,484	**23,141,508**	**21,093,502**
Unallocated expenses					(17,217,845)	(15,569,631)
Profit before tax					5,923,663	5,523,871
Tax expense					(1,581,339)	(1,604,613)
Profit for the year					**4,342,324**	**3,919,258**
Other segment information						
Depreciations and amortisations					1,443,252	1,035,865
Capital expenditures					4,405,019	2,189,800
					2018	**2017**
Total segment assets	159,296,615	111,266,015	169,127,632	15,121,764	**454,812,026**	**442,998,232**
Total segment liabilities	242,998,570	61,921,538	43,349,973	8,996,654	**357,266,735**	**352,616,306**

Notes to the consolidated financial statements
(All amounts are in USD)

Geographical distribution information

This note represents the geographical distribution of the Bank's business. The Bank operates mainly in Palestine, which represents local businesses. The Bank also practices international activities which represent international business.

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

	Local		International		Total	
	2018	2017	2018	2017	2018	2017
Total revenues	21,628,362	18,689,730	2,066,532	2,454,156	**23,694,894**	**21,143,886**
Total assets	417,439,190	341,054,925	37,372,836	101,943,307	**454,812,026**	**442,998,232**
Total capital expenses	4,405,019	2,189,800	-	-	**4,405,019**	**2,189,800**

Notes to the consolidated financial statements
(All amounts are in USD)

Note (37) Analysis of maturities of assets and liabilities
The following table depicts the analysis of assets and liabilities according to their maturities:

	Up to 1 year	More than one year	Without maturity	Total
December 31, 2018				
Assets				
Cash and balances with Palestine Monetary Authority	28,823,455	-	58,323,779	87,147,234
Balances with banks and financial institutions	82,000,186	-	-	82,000,186
Direct credit facilities	67,128,818	150,954,040	-	218,082,858
Financial assets through the statement of income	-	5,545,496		5,545,496
Financial assets at fair value through the statement of comprehensive income	-	3,597,252	-	3,597,252
Financial assets at amortised cost	-	23,441,949	-	23,441,949
Property, plant and equipment	-	-	24,997,359	24,997,359
Deferred tax assets	-	-	815,917	815,917
Intangible assets	-	-	1,164,836	1,164,836
Other assets	-	-	8,018,939	8,018,939
Total assets	**177,952,459**	**183,538,737**	**93,320,830**	**454,812,026**
Liabilities				
Banks and financial institutions deposits	43,350,610	-	-	43,350,610
Customers' deposits	282,068,511	621,445	-	282,689,956
Cash margins	13,158,571	8,710,145	-	21,868,716
Miscellaneous provisions	-	-	3,110,005	3,110,005
Other liabilities	-	-	6,247,448	6,247,448
Total liabilities	**338,577,692**	**9,331,590**	**9,357,453**	**357,266,735**
Equity				
Paid-in share capital	-	-	75,000,000	75,000,000
Statutory reserve	-	-	8,978,821	8,978,821
General banking risks reserve	-	-	2,481,489	2,481,489
Pro-cyclicality reserve	-	-	3,788,055	3,788,055
External branch reserve	-	-	935,211	935,211
Excess from revaluation of assets	-	-	3,212,555	3,212,555
Fair value reserve	-	-	(165,611)	(165,611)
Retained earnings	-	-	3,314,771	3,314,771
Net equity	**-**	**-**	**97,545,291**	**97,545,291**
Total liabilities and equity	**338,577,692**	**9,331,590**	**106,902,744**	**454,812,026**
Maturity gap	**(160,625,233)**	**174,207,147**	**(13,581,914)**	**-**
Cumulative Gap	**(160,625,233)**	**13,581,914**	**-**	**-**

Notes to the consolidated financial statements
(All amounts are in USD)

	Up to 1 year	More than one year	Without maturity	Total
December 31, 2017				
Assets				
Cash and balances with Palestine Monetary Authority	27,820,954	-	50,109,639	77,930,593
Balances with banks and financial institutions	100,048,382	-	-	100,048,382
Direct credit facilities	92,818,595	117,759,603	-	210,578,198
Financial assets through the statement of income	-	4,170,650	1,318,141	5,488,791
Financial assets at fair value through the statement of comprehensive income	-	-	2,690,391	2,690,391
Financial assets at amortised cost	755,270	15,094,804	-	15,850,074
Property, plant and equipment	-	-	21,855,386	21,855,386
Deferred tax assets	-	-	808,199	808,199
Intangible assets	-	-	1,232,648	1,232,648
Other assets	-	-	6,808,449	6,808,449
Total assets	**221,443,201**	**137,025,057**	**84,822,853**	**443,291,111**
Liabilities				
Banks and financial institutions deposits	45,347,030	-	-	45,347,030
Customers' deposits	276,582,387	262,044	-	276,844,431
Cash margins	15,862,973	4,956,556	-	20,819,529
Miscellaneous provisions	-	-	2,722,142	2,722,142
Other liabilities	6,091,700	-	566,921	6,658,621
Total liabilities	**343,884,090**	**5,218,600**	**3,289,063**	**352,391,753**
Equity				
Paid in- share capital	-	-	68,000,000	68,000,000
Statutory reserve	-	-	8,544,589	8,544,589
General banking risks reserve	-	-	3,011,000	3,011,000
Pro-cyclicality reserve	-	-	2,918,681	2,918,681
External branch reserve	-	-	935,211	935,211
Fair value reserve	-	-	(70,948)	(70,948)
Excess from revaluation of assets	-	-	3,212,555	3,212,555
Retained earnings	-	-	4,348,270	4,348,270
Net equity	**-**	**-**	**90,899,358**	**90,899,358**
Total liabilities and equity	**343,884,090**	**5,218,600**	**94,188,421**	**443,291,111**
Maturity gap	**(122,440,889)**	**131,806,457**	**(9,365,568)**	**-**
Cumulative Gap	**(122,440,889)**	**9,365,568**	**-**	**-**

Note (38) Development policies

The Bank's policy mainly depends on an approach for ongoing research and development of all aspects for improving and diversifying banking services. Furthermore, the Bank continuously works on developing personnel cadres and providing new services for the customers in addition to continuing the policy of technology development.

Notes to the consolidated financial statements
(All amounts are in USD)

Note (39) 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 maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic and business conditions. No changes were made in the objectives, policies or processes regarding capital structure during the current year.

The capital adequacy ratio is calculated in accordance with PMA's instruction No. (6/2015) derived from Basel committee regulations. Following is the capital adequacy rates compared to the previous year:

	2018			2017		
	Amount	**Ratio to assets**	**Ratio to risk-weighted assets**	**Amount**	**Ratio to assets**	**Ratio to risk-weighted assets**
		%	%		%	%
Regulatory capital	82,247,071	18.08	27.37	79,557,638	17.95	26.92
Basic capital	87,002,276	19.13	28.96	78,627,081	17.74	26.61

Note (40) Commitments and contingent liabilities

As at the date of the consolidated financial statements, the Bank has contingent liabilities against the following:

	2018	2017
Guarantees	18,168,401	17,470,409
Letters of credits	771,273	1,770,817
Acceptances	3,461,389	1,852,068
Unutilised direct credit facilities limits	7,121,253	6,632,035
	29,522,316	**27,725,329**
Provision for impairment in indirect credit facilities resulting from the application of IFRS 9 *	(23,177)	-
Commitments and contingent liabilities -net	**29,499,139**	**27,725,329**

* The following is the movement in the provision for the impairment of indirect credit facilities resulting from the application of IFRS 9 during the year:

	2018
Balance at the beginning of the year	-
Impact of IFRS 9 application on the opening balances	10,963
Balance at the beginning of the year (restated)	**10,963**
Additions during the year	12,214
Balance at the end of the year	**23,177**

The distribution of the total of enhanced credits, guarantees and acceptances according to the Bank's internal classification categories is as follows:

	The first stage	**The second stage**	**The third stage**	**2018**	**2017**
Low risk/ performing	22,401,063	-	-	22,401,063	21,093,294
Acceptable risk/ performing	-	-	-	-	-
Balance at the end of the year	**22,401,063**	**-**	**-**	**22,401,063**	**21,093,294**

Notes to the consolidated financial statements
(All amounts are in USD)

Movement in the total of credits, letters of credit, guarantees and acceptances

	The first stage	The second stage	The third stage	Total
Total balance as at the beginning of the year	21,093,294	-	-	21,093,294
New balances during the year	2,615,538	480,547	-	3,096,085
Balances repaid	(1,788,316)	-		(1,788,316)
Transferred to the first stage	480,547	(480,547)	-	-
Balance at the end of the year	**22,401,063**	**-**	**-**	**22,401,063**

Movement on the provision of the indirect credit loss is as follows:

	The first stage	The second stage	The third stage	Total
Total balance as at the beginning of the year resulting from IFRS 9 application	**10,963**	-	-	10,963
Impairment loss on balances during the year	**18,485**	-	-	18,485
Recoveries from impairment loss on repaid balances	**(6,271)**	-	-	(6,271)
Balance at the end of the year	**23,177**	**-**	**-**	**23,177**

Note (41) Legal cases against the Bank
The number of cases filed against the Bank was (20) and (15) cases as at December 31, 2018 and 2017, respectively, within the normal activity of the Bank. The cases amounted to USD 6,933,386 and USD 6,839,787 as at December 31, 2018 and December 31, 2017, respectively.

The Bank's management and legal advisor believe that the Bank will have no commitments except for what has been allocated to face such lawsuits.

Note (42) Concentration of risk in geographical area
The Bank carries out its activities in Palestine. The instability of the political and economic situation in the area increases the risk of carrying out its business and could adversely affect its performance.

Note (43) Post events
The Palestinian Investment Bank, once notified, filed a suit in the US courts against a claim filed against the Bank by persons claiming damages based on allegations backdated from 2000 to 2002 to take all legal actions to respond to all allegations against it, which the Bank denied for various reasons, including lack of legal and factual claims.

The Palestine Investment Bank is committed to the laws, regulations and instructions that govern its operations and operates under Palestinian rules and regulations, the international financial system and best practices. It complies with local banking regulations to combat the financing of terrorism and regulatory requirements issued by local and international competent authorities.

The Board of Directors of the Bank recommended the distribution of bonus shares at 4% of the paid-in share capital in addition to cash dividend of 4% of the paid-in capital for the year ended December 31, 2018. These amounts are subject to approval by the Palestine Monetary Authority and the General Assembly of the Bank.

Note (44) Comparative figures
Certain figures of the consolidated financial statements have been reclassified as at December 31, 2017 to conform to the presentation of the consolidated financial statements for the current year. These reclassifications do not affect previous years' earnings or equity.

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