



رُبْعُ قَرْنٍ.. تَنْمِيَّةٌ وَأَمَانٌ



بنك الاستثمار الفلسطيني
PALESTINE INVESTMENT BANK

Annual Report 2019

☎ 1800 888 888
🌐 www.pibbank.com
📌 Palestine Investment Bank



بنك الاستثمار الفلسطيني
PALESTINE INVESTMENT BANK
تنمية وأمان

2019

Results and Achievements in 2019

The Twenty-Fifth Annual Report



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About Palestinian Investment Bank

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

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

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

Members of the Board of Directors as of December 31, 2019



Mr. Abed Dayeh

Chairman



Mr. Khalil Nasr

Vice-Chairman



Dr. Adnan Steitieh

Non-executive Director



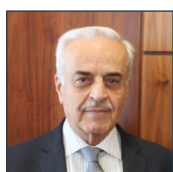
Mr. Yousef Bazian

Non-executive Director



Mr. Sami Al Sayid

Non-executive Director



Mr. Jamil Al-Muti

Non-executive Director



Yazan Abdul Aziz

Non-executive Director



Mr. Walid Al-Najjar

Non-executive Director



Dr. Tareq Al-Haj

Non-executive Director



Mr. Hanna (Johny) Abuaitah

Non-executive Director



Mr. Basem Abed Al Halim

Non-executive Director

Senior Executive Management as of December 31, 2019

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

Advisors as of December 31, 2019

- 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

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

Commercial Services

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

Treasury and Investment Services

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

Chairman's Message

Dear Shareholders,

On behalf of the Board of Directors and myself, it is my pleasure to present to you the bank's 25th Annual Report for the year 2019, which includes the consolidated financial statements and achievements for the financial year ended 31/12/2019.

The growth of the Palestinian GDP in 2019 increased by 1.2% compared to the year 2018, despite the financial crisis and complications in the income sources of the Palestinian National Authority, and the continued decline in grants and foreign aid. As a result, GDP declined in the first and second quarters of 2019, recording a slight increase in the third quarter and a noticeable increase of 3.6% in the fourth quarter, while the pace of growth of the main economic activities improved. The slowdown in the growth of the local economy is expected to continue to in 2020 .

As for global growth, it fell to 2.4% in 2019 in light of weak and unstable trade and investment, recording the lowest rate before the global economic crisis ten years ago. The uplifting of trade barriers has affected business and activity globally, and more pressure added due to the vulnerabilities of the large emerging market countries. The World Bank has indicated expectations for growth to increase to 2.5% in 2020 and to remain 2.4% in the Middle East, with an increased investment and improvement in the business environment. However, these expectations will differ due to the economic recession that afflicts the various sectors of the world.

The bank ended its twenty-fifth year and celebrated its silver jubilee with pride, continuing its path steadily and consolidating its position in the Palestinian banking sector, as the first national bank to obtain a license to practice banking in Palestine after the 1994 peace agreement, and the first bank to establish a branch abroad, in the Kingdom of Bahrain. The bank has followed with confidence in the implementation of its strategic plan, which aims to achieve steady growth in its business and the development of the various operations of the bank while maintaining and focusing on the quality of assets and indicators of public safety and sustainability, which enabled the bank to achieve good growth rates and positive indicators despite what the Palestinian economy went through during the past year. In recognition of its excellence, the bank received the Award for Excellence and Banking Achievement from the Union of Arab Banks, being the strongest bank in terms of encouraging investment in Palestine.

On the financial level, the bank achieved during the year 2019 a remarkable growth by 20% in customer deposits, good growth in the size of the budget by 10.4%, net direct credit facilities increased by 3.64%, and the paid-up capital increased by 4%, Ownership increased by 2.2% as well. As for income activity, operating income grew by 12.2%, enabling the bank to achieve a growth of 5.4% in net profit after tax.



The bank has continued its pioneering activity and its constant endeavor to keep pace with technological developments in banking services and enhance access ports. In the field of developing services, products, electronic solutions and payment systems to enhance competitive advantages, it launched the first electronic wallet application in Palestine in addition to launching the mobile banking service and the system of opening accounts online remotely. The bank also launched competitive successful banking products in the retail sector in addition to strengthening the products of the small projects sector, and within the endeavor of the bank to expand its customer base, it opened new branches in Tulkarm, Nablus and Beit Our, and will continue to develop access ports and branch networks, by targeting marginalized with no banking services and electronic wallet service.

In the current exceptional circumstances that the world is going through due to the outbreak of the Covid 19 epidemic, the bank's administration gives its utmost efforts to maintain the security and safety of its employees and clients by providing the utmost comfortably and safety procedures. The administration also develops strategies and action plans to deal with the epidemic consequences and damages on the national and global economy, and we are confident in our ability to get through this phase by the good planning and strategies that we constantly develop and update through your support and your trust.

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

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

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

We ask God that the crisis will soon end and this hardship will disappear for our people, our beloved country, and the peoples of the world.

Abed Dayeh

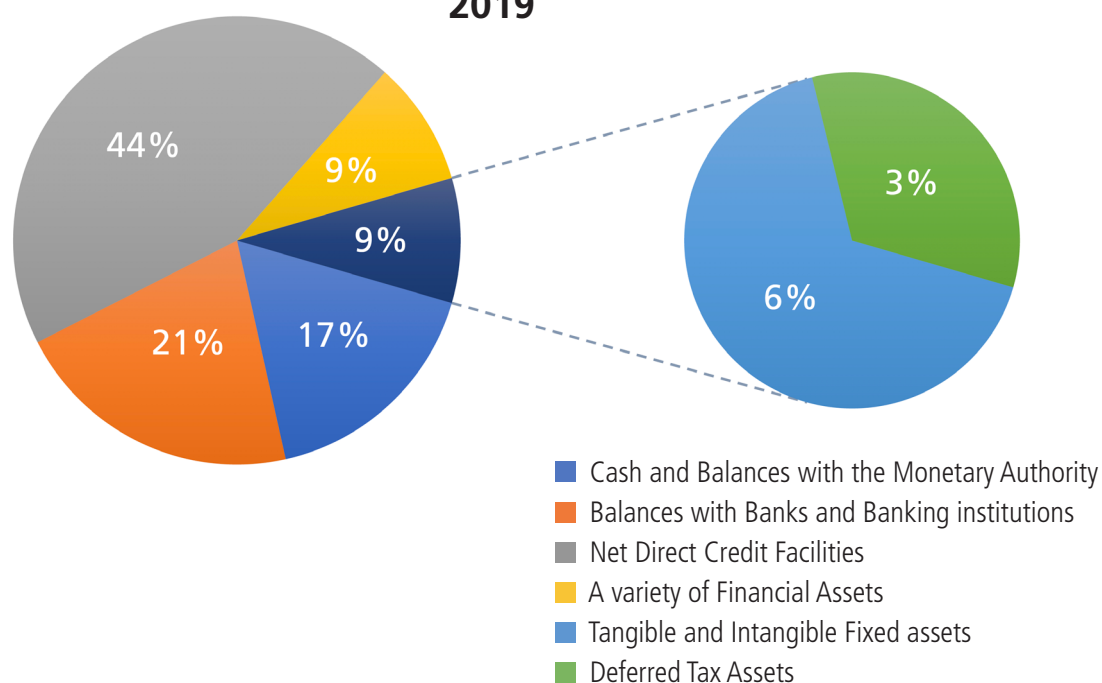
Chairman of the Board

Analysis of the Financial Position and Results of Operations in 2019

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

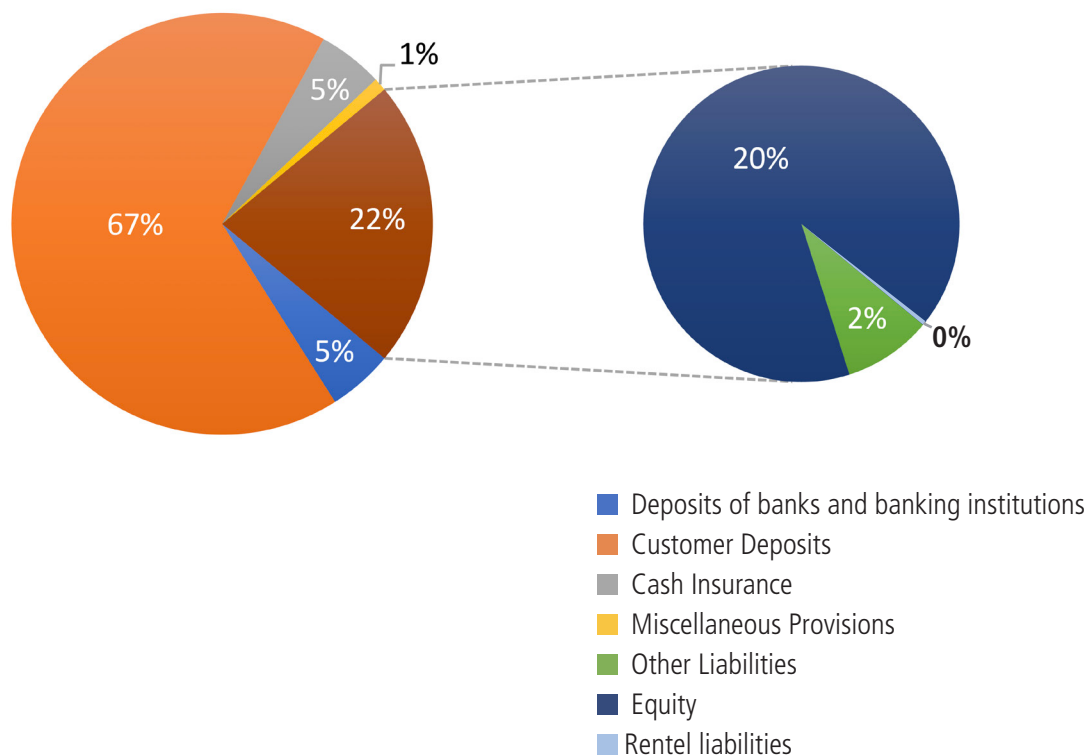
Relative Importance of the Elements of the Financial Position of the Bank				
	US\$ Million		%	
Assets	2019	2018	2019	2018
Cash and Balances with the Monetary Authority	84.589	87.150	17	19
Balances with Banks and Banking institutions	103.479	82.000	21	18
Net Direct Credit Facilities	226.030	218.083	44	48
A Variety of Financial Assets	45.303	32.580	9	7
Tangible and Intangible Fixed assets	28.078	26.150	6	6
Deferred Tax Assets	14.425	8.830	3	2
Total Assets	501.904	454.812	100%	100%

Analysis of the Financial Position and Results of Operations
2019



Liabilities and Equity				
	US\$ Million		%	
	2019	2018	2019	2018
Deposits of Banks and Banking Institutions	22.763	43.351	5	10
Customer Deposits	339.070	282.690	67	62
Cash Insurance	25.841	21.869	5	5
Miscellaneous Provisions	3.963	3.110	1	1
Rentel liabilities	1.868	0.000	0	0
Other Liabilities	8.698	6.247	2	1
Equity	99.701	97.545	20	21
Total Liabilities and Equity	501.904	454.812	100	100

Liabilities and Equity
2019



Direct Credit Facilities

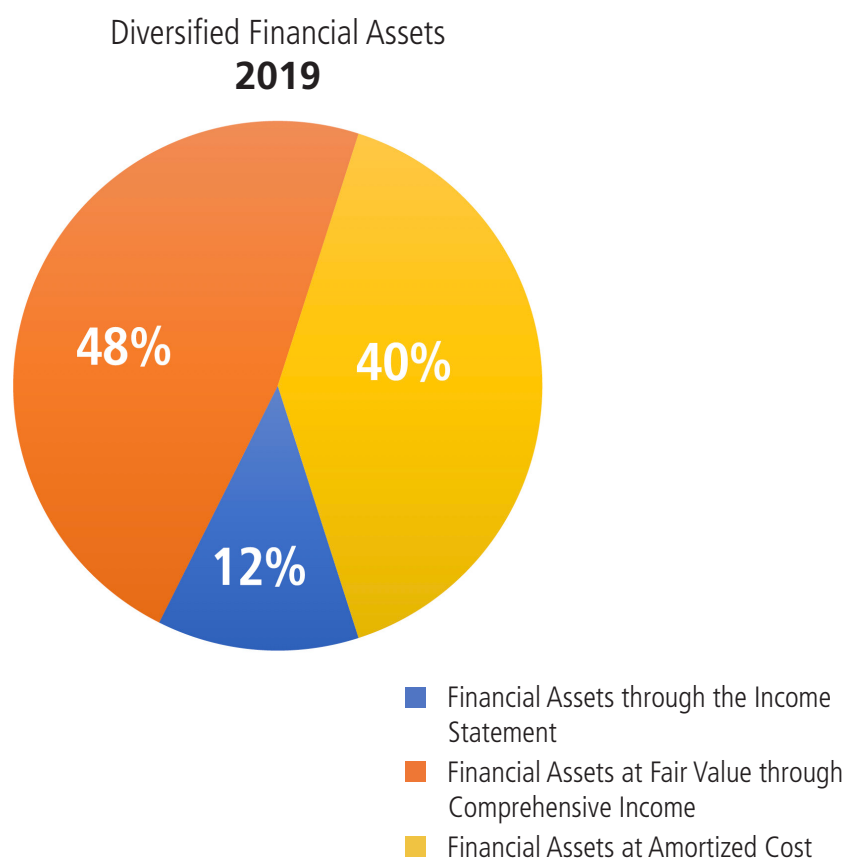
Over the year of 2019, the Bank's management continued working on the development of the Bank's credit facilities portfolio by following a balanced and cautious credit policy in light of the situation in Palestine and changes in interest rates and expected returns on credit facilities. Under the supervision of the Executive Committee, the Bank strives to maintain the quality of the credit portfolio after studying the market and credit risk as well as working on collecting outstanding loans.

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

Portfolio of Financial Assets

Balance of the investment portfolio was at \$45.30 million in 2019, compared to \$32.58 million in the year 2018, due to the increase of financial assets.

Diversified Financial Assets				
	USD\$ Million		%	
	2019	2018	2019	2018
Financial Assets through the Income Statement	5.590	7.511	12.34	23.05
Financial Assets at Fair Value through Comprehensive Income	21.550	1.631	47.52	5.01
Financial Assets at Amortized Cost	18.163	23.442	40.09	71.94
Total	45.303	32.584	100	100



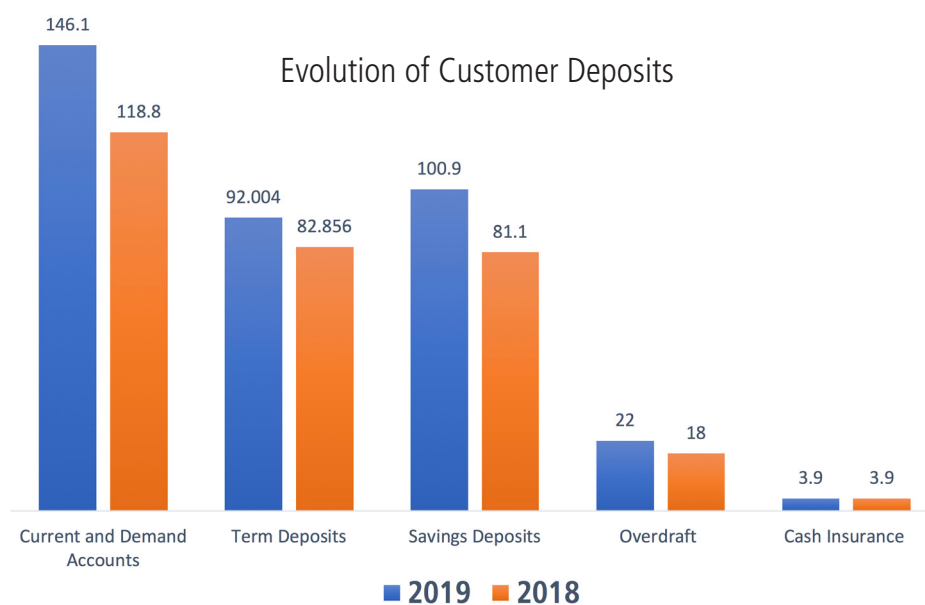
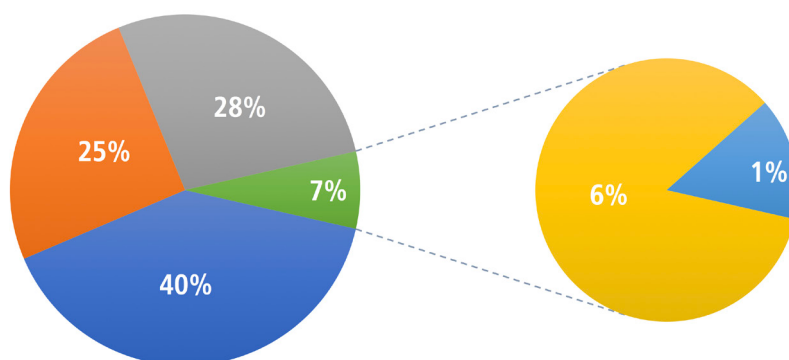
Customer's Deposits

Deposits grew in 2019 by 19.82% compared to the previous year.

Components of Customer Deposits				
	US\$ Million		%	
	2019	2018	2019	2018
Current and Demand Accounts	146.142	118.769	40.05	39.00
Term Deposits	92.004	82.856	25.21	27.21
Savings Deposits	100.925	81.065	27.65	26.62
Overdraft	21.951	17.985	6.02	5.90
Cash Insurance	3.891	3.883	1.07	1.28
Total Deposits	364.912	304.558	100	100

Customer's Deposits Structure 2019

- Current and demand accounts
- Term Deposits
- Saving deposits
- Overdraft
- Cash insurance



Shareholder's Equity

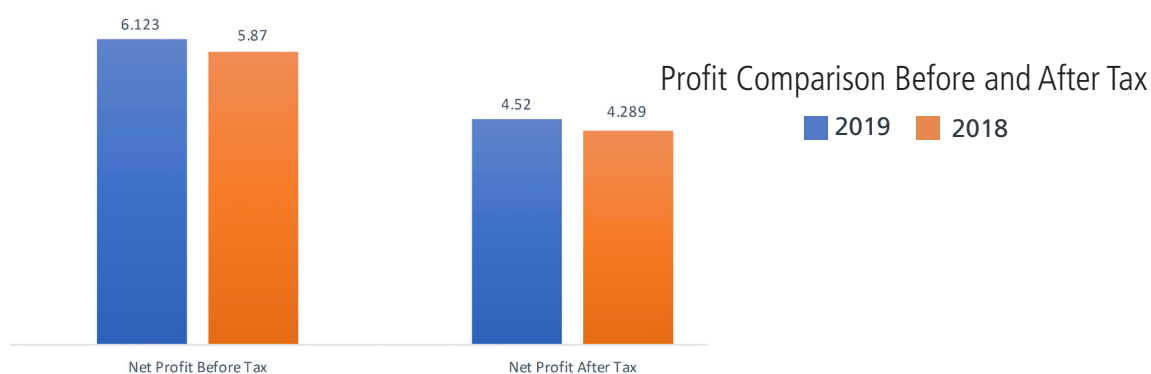
Capital Adequacy:

The capital adequacy ratio equated to 33.88% in 2019 versus 28.95% in 2018. 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 32.09% in 2019, compared with 27.37% in 2018.

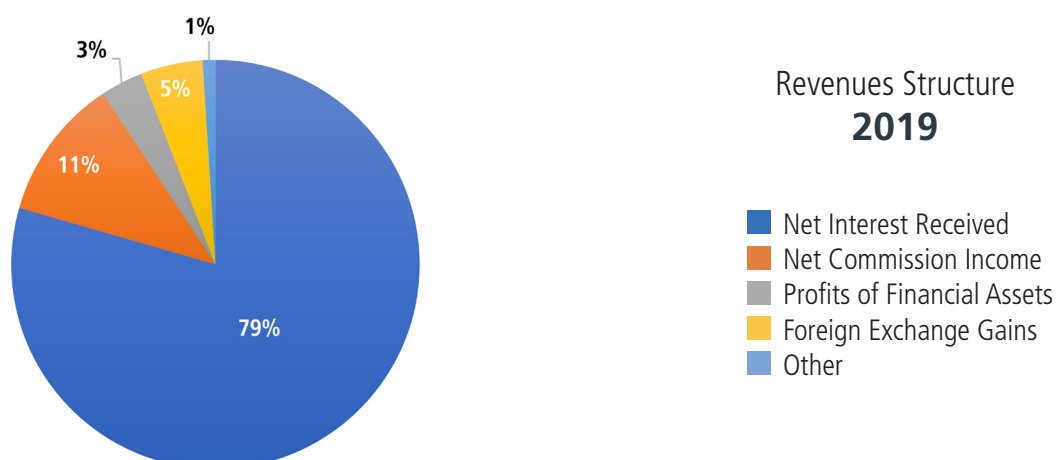
Bank's Operations Results

Net profit before tax reached \$6.123 million in 2019 compared with \$5.870 million in 2018, a total increase of 4.31%, and after deduction of tax, net profit reached \$4.52 million in 2019 compared with \$4.289 million in 2018, an increase of 5.39%.

Net Profit Before and After Tax			
	US\$ Million		
	2019	2018	Change %
Net Profit Before Tax	6.123	5.870	4.31
Tax Expenses	(1.603)	(1.581)	1.32
Net Profit After Tax	4.520	4.289	5.39



Total Revenue				
	US\$ Million		%	
	2019	2018	2019	2018
Net Interest Received	18.770	17.470	79.16	82.91
Net Commission Income	2.658	2.481	11.21	11.78
Profits of Financial Assets	0.795	0.188	3.35	0.89
Foreign Exchange Gains	1.163	1.005	4.90	4.77
Other	0.325	0.301	1.38	1.43
Total	23.711	21.070	100	100

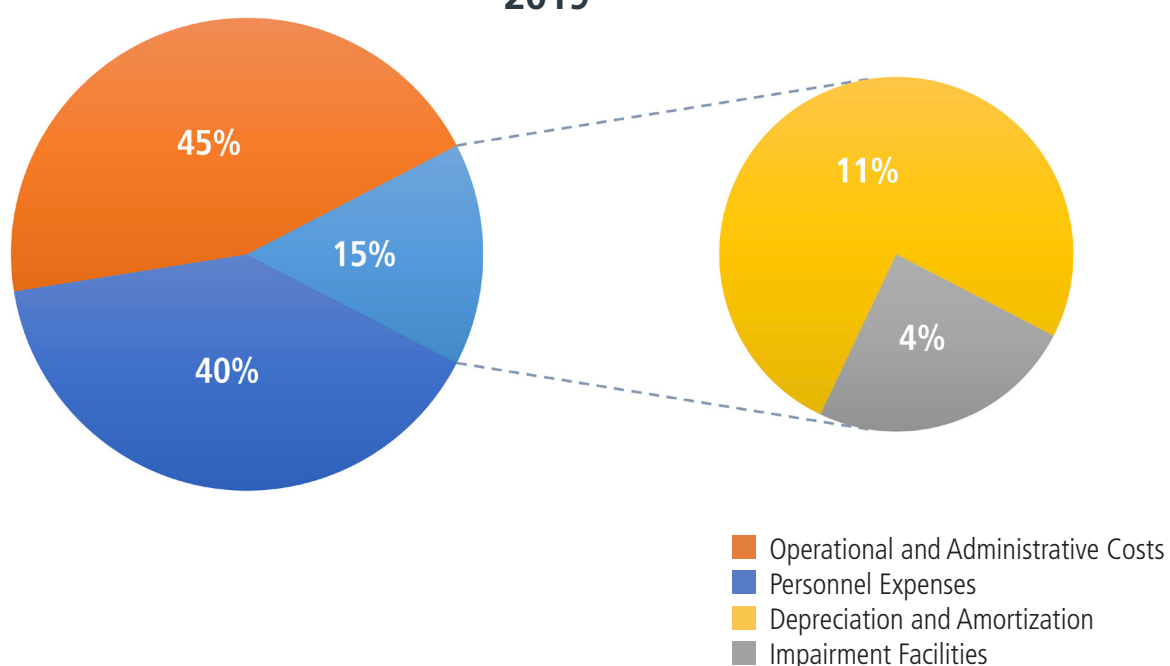


Expenses and Provisions

Total expenses and provisions reached \$17.588 million in 2019 compared with \$15.199 million in 2018, with an increase of \$2.389 million, representing about 15.72%.

Expenses, Provisions, and their Relative Importance				
	US\$ Million		%	
	2019	2018	2019	2018
Personnel Expenses	7.014	6.728	39.88	44.27
Operating and Administrative Expenses	7.897	6.474	44.90	42.60
Impairment Facilities	0.653	0.554	3.72	3.63
Depreciation and Amortization	2.023	1.443	11.50	9.50
Total	17.588	15.199	100	100

Expenses and Provisions
2019



Key Financial Ratios for 2019 Compared with 2018		
	2019	2018
Return on Equity	4.40	4.53
Return on Capital	5.80	5.72
Return on Assets	0.90	0.94
Facilities to Deposits	61.94	71.61
Facilities to Assets	45.03	47.95
Total Equity to Assets	19.86	21.45
Basic Quota Share of Profit for the Year	5.80	5.72



• • • • • Internal Audit

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

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

• • • • • Risk Management

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

• • • • • Methodologies and the Process of Risk Management

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

Risk Management Works within the Following Framework:

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

• • • • • Anti-Money Laundering

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

• • • • • External Audit

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

Branches

In mid 2019, 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 2020.

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 2019, major efforts have been put in to place in upgrading and developing internal policies and procedures for all branches and offices in order to fully maximize performance, efficiency, labor productivity, and technological breakthroughs in order to ensure a higher standard of customer service across all branches and offices.

Technological Development and Information Systems

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

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

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

Human Resources

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

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

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

Foreign Banking Services and Various Treasury Activities

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

This is done through deliberate and cautious policy in order to achieve an appropriate and reasonable return on those resources. The Bank has maintained its advanced ranking in the fields of treasury and banking services and trading in foreign currencies as the Bank continues to issue money orders, cashier's checks and the sale and purchase of foreign currencies through a correspondent bank network with banks financial institutions spread all over the world. Treasury activities contributed to a strong performance for the year of 2019, similar to that of 2018 in the field of foreign currency trading resulting in \$1.16 million in revenue for the bank.

* Global Securities Co. (GSC)

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

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

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

The Bank's Development Policies

Since its inception to the present day, the Bank is constantly evolving; evidenced by the volume of operating assets, and the size of profits realized since the beginning of the bank till 31/12/2019.

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

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

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

The Objectives of 2020

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

Governance:

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

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

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

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

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

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

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



Transparency and Disclosure

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

Rewards and Incentives

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

The Practices of the Board of Directors & Conflicts of Interest

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

Disclosures to Shareholders

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

Strategic Investors with Shares More Than 10%

Name	Number of Shares as of 31/12/2019	Percent of Shares
Al-Yazan Co. for Real Estate & Financial Investments	13,757,611	17.64
Aswaq Investments	19,612,733	25.14
Palestine Pension Agency	8,174,885	10.48

Shares Owned by Board Members

Name	Position	Number of Shares as of 31/12/2019	Percent of Shares %
Mr. Abed Dayeh	Chairman of Board of Directors	4,855,596	6.22
Mr. Khalil Nasr	Vice Chairman of Board of Directors	13,456	0.02
Al-Yazan Co. for Real Estate & Financial Investments	Member	13,757,611	17.64
Mr. Yousef Bazian	Member	12,233	0.02
Mr. Sami Sayed	Member	16,820	0.02
Mr. Yazan Abdul Aziz	Member	753,176	0.96
Mr. Waleed Al-Najar	Member	12,233	0.02
Mr. Basem Abed Al Halim	Member	10,400	0.01
Palestinian Pension Agency	Member	8,174,885	10.48
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 2019

Item	2019	2018
Highest Price	1.33	1.43
Lowest price	1.00	1.21
Opening price	1.21	1.28
Closing price	1.27	1.21

Number of Traded Shares	Number of Transactions	Value in Dollars
3,769,472	662	4,292,340

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 2019.

Board Meetings:

The Board of Directors held six meetings during the year 2019.

#	Name	Number of the Meetings of the Board of Directors	
		Actual	Percent of Attendance %
1	Mr. Abed Dayeh	6	100
2	Mr. Khalil Nasr	6	100
3	Mr. Sami Al-Sayid	6	100
4	Dr. Adnan Steitieh	6	100
5	Dr. Tareq Al Haj	6	100
6	Mr. Jameel Al-Mu'ti	6	100
7	Mr. Yousef Bazian	6	100
8	Mr. Waleed Al-Najar	6	100
9	Mr. Hanna Abuaitah	6	100
10	Mr. Yazan Abdul Aziz	4	67
11	Mr. Basem Abed Al Halim	2	33

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 2019 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 \$90,629 for various activities.

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

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

Board of Directors' Remuneration:

During the year 2019, remunerations were dispersed to the members of the Board of Directors. These include membership allowance, allowance for attending board meetings and additional allowance detailed in the following table. None of the members of the Board of Directors receives a salary.

Name	2018 (In US\$)	2019 (In US\$)
Mr. Abed Dayeh	49,000	12,000
Mr. Khalil Nasr	32,500	12,000
Mr. Jameel Al-Muti	8,000	12,000
Dr. Adnan Steitieh	10,000	12,000
Mr. Sami Al-Sayid	32,500	12,000
Mr. Marwan Abdul Hameed	3,000	4,000
Mr. Yousef Bazian	12,500	12,000
Mr. Waleed Al-Najar	10,000	12,000
Dr. Fadi Hamra*	17,000	4,000
Mr. Hanna Abuaithah*	10,000	12,000
Dr. Tareq El Haj	12,500	12,000
Total	197,000	128,000

* His membership in the board expired on April 23, 2019

Academic Degrees held by Bank Employees:

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

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

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

Nablus, PO Box 1776

Tel: +970 (9) 2387880/1

Fax: +970 (9) 2385060

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PALESTINE INVESTMENT BANK
(PUBLIC SHAREHOLDING COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019



Independent auditor's report to the shareholders of Palestine Investment Bank - Public Shareholding Company

Our qualified opinion

In our opinion, except for the possible effects of the matter described in the *Basis for our qualified opinion* section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Palestine Investment Bank - Public Shareholding Company and its subsidiaries (hereinafter referred to as the "Bank") as at December 31, 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the Palestine Monetary Authority

What we have audited

The Bank's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2019;
- 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 our qualified opinion

As explained in note 2, during the year the Bank invested in a German Diversified Income Fund ("the Fund") and, since the Bank was the sole investor, it is considered to have had control over the Fund since that date. The Bank has not consolidated the financial position of the Fund as at 31 December 2019 or its financial performance for the year then ended as required by IFRS 10 "Consolidated financial statements". Instead, the investment in this Fund has been reflected in the accompanying consolidated financial statements as at 31 December 2019, contrary to the requirements of IFRS, as a financial asset at fair value through other comprehensive income ("FVOCI") at a carrying amount of USD 21,432,600, with the corresponding cumulative fair value changes for the year ended 31 December 2019 shown as a related fair value reserve of USD 352,100.

Had the Fund been consolidated, the investments of the Fund would have been classified as at fair value through profit or loss ("FVTPL") with the fair value changes reflected in the consolidated statement of comprehensive income for the year ended 31 December 2019 and the cumulative changes in fair value related to the investment of the fund would have been reflected in consolidated retained earnings as at 31 December 2019, amongst other changes in individual line items in the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of comprehensive income for the year then ended, respectively. As further explained in note 2, the audited data of the fund was not available, and therefore we were unable to obtain sufficient, reliable audit evidence about these disclosed amounts and hence whether any adjustments to these amounts might be necessary.

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 qualified opinion.



Independent auditor's report to the shareholders of Palestine Investment Bank - Public Shareholding Company (continued)

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 the IESBA Code.

Our audit approach

Overview

Key Audit Matter	• Measurement of Expected Credit Loss on direct credit facilities
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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 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.



Independent auditor's report to the shareholders of Palestine Investment Bank - Public Shareholding Company (continued)

Our audit approach (continued)

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. In addition to the matter described in the *Basis for our qualified opinion* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key Audit Matters	How our audit addressed the Key Audit Matter
<u>Measurement of Expected Credit Loss on direct credit facilities</u> As shown in note (9) to the consolidated financial statements, management estimated the value of the loss impairment allowance for direct credit facilities at USD 3,684,781, and net direct credit facilities at USD 226,029,632, representing 45.03% of the total assets of the Bank as at December 31, 2019. We considered the measurement of expected credit loss on direct credit facilities as a key audit matter as the determination of Expected Credit Loss (ECL) involves significant estimates and requires various assumptions which has a material impact on the consolidated financial statements of the Bank. The key areas of estimates and assumptions used are those used in the calculation of probability of default, loss given default and exposure at default, forward looking information factors and factors used in the categorization of direct credit facilities in Stages. <i>Refer to the summary of significant accounting policies notes 2.5 b and 2.11 to the consolidated financial statements for the impairment of financial assets and significant accounting policy relating to the measurement of expected credit loss, in addition to note (4) which contains the critical accounting judgment, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the</i>	We performed the following procedures to evaluate the appropriateness of management's judgement of the measurements of expected credit loss: 1. Understand the nature of the credit facilities portfolio. 2. Understand management's approach used to determine how the debtor is classified. 3. We checked the completeness of data underlying the ECL calculation as of December 31, 2019. 4. Use our specialized internal experts to assess the following aspects: - 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. - 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 direct credit facilities. - The Bank's assumptions in determining the factors leading to a significant increase in credit risk and recognition of credit exposures within different stages. - 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 and compare them with the requirements of IFRS 9 as adopted by the Palestine Monetary Authority. 5. Examine relevant internal control procedures adopted by the Bank.



<i>Bank, and note (9) which contains the impairment against direct credit facilities and note (3) for details of credit quality analysis and key assumptions and factors considered in determination of Expected Credit Loss (ECL) on direct credit facilities.</i>	6. Examine a sample of customers, to assess: - The input data applied by the Bank's management to assign specific rating for each customer. - The accuracy of the ECL calculation based on the relevant instructions of Palestine Monetary Authority and IFRS 9. - The Bank's information systems relating to the automatic calculation of Days Past Due of direct credit facilities; 7. Evaluate the sufficiency of disclosures included relating to the impairment of direct credit facilities in accordance with International Financial Reporting Standard 9.
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Independent auditor's report to the shareholders of Palestine Investment Bank - Public Shareholding Company (continued)

Other information

Management is responsible for the other information. The other information comprises all the information included in the Annual Report of the Bank for 2019 (but does not include the consolidated financial statements and our auditor's report thereon). We have not been provided with the other information and it is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information, and we will not express any form of assurance conclusion thereon.

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

When we read the other information identified above, 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 International Financial Reporting Standards as adopted by Palestine Monetary Authority (PMA), 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.

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 risks 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.



Independent auditor's report to the shareholders of Palestine Investment Bank - Public Shareholding Company (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient 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 and on behalf of PricewaterhouseCoopers Palestine


Hazem Sababa

License number 115/2003

Ramallah, Palestine

May 3, 2020

Palestine Investment Bank (Public Shareholding Company)
Consolidated financial statements for the year ended December 31, 2019
(All amounts are presented in USD unless otherwise stated)

Consolidated statement of financial position

		As at December 31,	As at January,
	Note	2019	2018
			(Restated - Note 46)
			(Restated - Note 46)
Assets			
Cash and balances with Palestinian	(5)	84,589,336	87,147,234
Balances with banks and financial	(6)	103,478,939	82,000,186
Financial assets at fair value through			
the statement of income	(7)	5,590,496	7,511,468
Financial assets at fair value through			
other comprehensive income	(8)	21,549,520	1,631,280
Direct credit facilities - net	(9)	226,029,632	218,082,858
Financial assets at amortised cost	(10)	18,162,991	23,441,949
Other assets	(11)	11,433,042	8,018,939
Deferred tax assets	(18)	988,172	815,917
Right use of assets	(12)	2,003,410	-
Intangible assets	(13)	1,230,991	1,164,836
Property, plant and equipment	(14)	26,847,421	24,997,359
Total assets		501,903,950	454,812,026
Liabilities and equity			
Liabilities			
Deposits with banks and banking	(15)	22,762,922	43,350,610
Customers' deposits	(16)	339,070,311	282,689,956
Cash margins	(17)	25,841,280	21,868,716
Tax provision	(18)	305,560	-
Subsidiaries loans	(19)	1,000,000	-
Various provisions	(20)	3,657,409	3,110,005
Lease liabilities	(12)	1,867,662	-
Other liabilities	(21)	7,697,764	6,247,448
Total liabilities		402,202,908	357,266,735
Equity			
Paid-in capital	(22)	78,000,000	75,000,000
Statutory reserve	(23)	9,435,295	8,978,821
General banking risks reserve	(23)	2,481,489	2,481,489
Pro-cyclicality reserve	(23)	1,723,266	3,788,055
External branch reserve	(23)	-	935,211
Fair value reserve	(8)	322,125	(112,942)
Excess from revaluation of assets		3,212,555	3,212,555
Retained earnings	(24)	4,526,312	3,262,102
Total equity		99,701,042	97,545,291
Total liabilities and equity		501,903,950	454,812,026

The accompanying notes from (1 to 48) form an integral part of these consolidated financial statements.

-The consolidated financial statements on pages 8 to 97 were approved and authorized for issuance by the Board of Directors on February 5, 2020 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, 2019

(All amounts are presented in USD unless otherwise stated)

Consolidated statement of income

For the year ended December 31

	Note	2019	2018 (Restated -Note 46)
Revenue			
Interests payable	(25)	21,743,367	20,018,256
Interests receivable	(26)	(2,973,104)	(2,548,200)
Net interest income		18,770,263	17,470,056
Commissions received	(27)	2,964,886	2,723,934
Commissions paid	(27)	(306,817)	(242,380)
Net commissions income	(27)	2,658,069	2,481,554
Net interests and commissions income		21,428,332	19,951,610
Net foreign currency exchange gains	(28)	1,119,579	1,029,460
Dividends income		123,401	26,581
Gains (losses) on financial assets	(29)	671,294	(214,173)
Other income	(30)	325,285	300,547
Operating income		23,667,891	21,094,025
Expenses			
Employees' expenses	(31)	7,014,214	6,728,090
Other operating expenses	(32)	7,896,879	6,474,335
Impairment provision	(9)	653,470	553,386
Depreciation and amortisation		1,966,133	1,443,252
Finance costs for lease liabilities	(12)	57,137	-
Net (gains) losses on foreign currency valuation		(43,371)	23,968
Total expenses		17,544,462	15,223,031
Profit before tax for the year		6,123,429	5,870,994
VAT expense on profit	(18)	(743,966)	(635,623)
Income tax expense	(18)	(858,779)	(945,716)
Profit for the year		4,520,684	4,289,655
Basic and diluted earnings per share of the year profit	(33)	0.058	0.056

The accompanying notes from (1 to 48) form an integral part of these consolidated financial statements.

Palestine Investment Bank (Public Shareholding Company)

Consolidated financial statements for the year ended December 31, 2019

(All amounts are presented in USD unless otherwise stated)

Consolidated statement of comprehensive income

For the year ended December 31

	2019	2018 (Restated -Note 46)
Profit for the year	4,520,684	4,289,655
Other comprehensive income items:		
<i>Items may not be reclassified to the consolidated statement of income in subsequent periods:</i>		
Change in fair value of financial assets at fair value through other comprehensive income	635,067	(41,994)
Other comprehensive income (loss) for the year	635,067	(41,994)
Net comprehensive income for the year	5,155,751	4,247,661

The accompanying notes from (1 to 48) form an integral part of these consolidated financial statements.

Palestine Investment Bank (Public Shareholding Company)

Consolidated financial statements for the year ended December 31, 2019

(All amounts are presented in USD unless otherwise stated)

Consolidated statement of changes in equity

For the year ended December 31

	Paid-in capital	Reserves				Excess from revaluation of assets	Retained earnings	Total equity
		Statutory	General banking risks	Pro-cyclicality	External branches	Fair Value		
31 December 2019								
Balance as at January 1, 2019	75,000,000	8,978,821	2,481,489	3,788,055	935,211	(112,942)	3,262,102	97,545,291
Profit for the year	-	-	-	-	-	-	4,520,684	4,520,684
Other comprehensive income items for the year	-	-	-	-	-	635,067	-	635,067
Net comprehensive income for the year	-	-	-	-	-	635,067	-	-
Capital increase (Note 22)	3,000,000	-	-	(3,000,000)	-	-	4,520,684	5,155,751
Gains on sale of financial assets recognised directly in retained earnings	-	-	-	-	-	(200,000)	200,000	-
Cash dividends (Note 22)	-	-	-	-	-	-	(3,000,000)	(3,000,000)
Transferred to reserves	-	456,474	-	935,211	(935,211)	-	(456,474)	-
Balance at end of the year	78,000,000	9,435,295	2,481,489	1,723,266	-	322,125	4,526,312	99,701,042

31 December 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)	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)	4,348,270	89,596,698
Profit for the year (Restated -Note 46)	-	-	-	-	-	-	4,289,655	4,289,655
Other comprehensive income items for the year	-	-	-	-	-	(41,994)	-	(41,994)
Net comprehensive income for the year	-	-	-	-	-	(41,994)	-	-
Capital increase	-	-	-	-	-	-	4,289,655	4,247,661
Note (22) Shares dividends	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	(112,942)	3,262,102	97,545,291

The accompanying notes from (1 to 48) form an integral part of these consolidated financial statements.

Palestine Investment Bank (Public Shareholding Company)

Consolidated financial statements for the year ended December 31, 2019

(All amounts are presented in USD unless otherwise stated)

Consolidated statement of cash flows

For the year ended December 31

	Note	2019	2018 (Restated - Note 46)
Operating activities			
Profit before tax for the year		6,123,429	5,870,994
Adjustment for:			
Impairment provision	(9)	653,470	553,386
Depreciation and amortisation		1,966,133	1,443,252
Gains on sale of financial assets at amortised cost	(29)	(194,666)	-
Gains on sale of financial assets at fair value through the statement of income	(29)	(194,369)	(4,888)
Net (gains) losses on revaluation of financial assets at fair value through the statement of income	(29)	(282,259)	219,061
Profit on sale of property, plant, and equipment		-	(61,102)
Various provisions	(20)	670,133	836,639
Dividends income		(123,401)	(26,581)
Finance costs for lease liabilities	(12)	57,137	-
Bonds interests	(25)	(1,100,942)	(1,287,418)
Other non-cash items		15,297	86,330
		7,589,962	7,629,673
Change in assets and liabilities			
Direct credit facilities		(8,641,272)	(9,172,097)
Requirements of cash statutory reserve	(5)	(3,365,844)	4,402,802
Sale of financial assets at fair value through the statement of income		2,590,357	134,084
Purchase of financial assets at fair value through the statement of income		(192,757)	(1,368,611)
Other assets		(3,314,700)	(1,201,783)
Customers' deposits		56,380,355	5,845,525
Cash margins		3,972,564	1,049,187
Other liabilities		1,448,650	(411,173)
Net cash generated from operating activities before provisions and tax payments		56,467,315	6,907,607
Sundry provisions paid	(20)	(125,506)	(446,228)
Taxes paid	(18)	(1,366,043)	(1,840,768)
Net cash generated from operating activities		54,975,766	4,620,611
Investing activities			
Sale of financial assets at fair value through other comprehensive income		1,797,327	-
Purchase of financial assets at fair value through other comprehensive income		(21,080,500)	-
Purchase of financial assets at amortised cost		(7,270,815)	(11,884,578)
Maturity of financial assets at amortised cost		8,568,336	4,002,765
Sale of financial assets at amortised cost		4,232,934	-
Purchase of property, plant and equipment	(14)	(3,238,396)	(4,405,019)
Sale of property, plant and equipment		-	102,694
Purchase of intangible assets	(13)	(315,855)	(153,986)
Dividends income received		123,401	26,581
Bonds' interests received		819,222	1,592,443
Net cash (used in) investing activities		(16,364,346)	(10,719,100)
Financing activities			
Capital increase	(22)	-	3,700,932
Cash dividends paid	(22)	(3,000,000)	-
Lease liabilities paid	(12)	(454,584)	-
Subsidiaries loans	(19)	1,000,000	-
Net cash (used in) generated from financing activities		(2,454,584)	3,700,932
Increase (decrease) in cash and cash equivalents		36,156,836	(2,397,557)
Cash and cash equivalents at the beginning of the year		105,594,598	107,992,155
Cash and cash equivalents at the end of the year	(34)	141,751,434	105,594,598

- The accompanying notes from (1 to 48) form an integral part of these consolidated financial statements.

Palestine Investment Bank (Public Shareholding Company)

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(All amounts are presented in USD unless otherwise stated)

Notes to the consolidated financial statements

1. General

Palestine Investment Bank (hereinafter referred to as the "Bank") was established 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) with a share capital of USD 20 million. The Extraordinary General Assembly decided 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, 2019, the Bank's capital was increased to USD 78 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's main objectives are providing banking, commercial and investing activities through lending, financing, opening accounts and letters of credit; accepting deposits; and trading in different currencies through its headquarter in Ramallah, its (10) branches in Palestine, in addition to (11) offices, and Al Bahrain's branch as at December 31, 2019.

The number of the Bank's employees (Headquarter and branches) and its subsidiaries as at December 31, 2019 and 2018 was (281) and (276) employee, respectively.

The accompanying consolidated financial statements were approved by the Bank's Board of Directors in its meeting held on February 5, 2020 and are subject to the approval of the Palestinian Monetary Authority and Shareholders' General Assembly.

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 at 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRIC) as issued by the International Accounting Standards Board (IASB) approved by the Palestinian Monetary Authority.

The main differences between the IFRSs as approved by the Palestinian Monetary Authority and the International Financial Reporting Standards issued by the International Accounting Standards Board are as follows:

- Provisions for expected credit losses are formed in accordance with the instructions of the Palestine Monetary Authority No. (2 of 2018) "regarding requirements and guidelines for the application of the IFRS 9" and instructions of the Palestinian Monetary Authority No. (1/2008) "Classification of credit facilities, provisions and acceptable guarantees" and instructions of the Monetary Authority No. (3/2020) "Regarding the irregular and non-scheduled facilities for public sector employees", the amounts resulting from the application of these instructions may differ from the amounts resulting in the case of applying the International Financial Reporting Standards issued by the International Accounting Standards Board.
- Interest and commissions on non-performing credit facilities granted to customers are suspended in accordance with the regulations of the Palestinian Monetary Authority, which leads to the failure to record those interest and commissions.
- Assets reverted to the Bank and which are currently owned by the Bank are recognised in the consolidated statement of financial position within the "other assets" at the lower of the value reverted to the Bank or the fair value, and are reassessed at each financial disclosure period individually. 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.
The total value of the assets that have been reverted to the Bank that has been owned for more than 5 years is amortised, this may result in the recognition of additional provisions and stating the acquired assets at a less value in accordance with the International Financial Reporting Standards.
- The credit losses on the Palestinian government's exposure are low, which results in a decrease in the total value of the expected credit losses provisions calculated in comparison with the provisions that may result from applying the International Financial Reporting Standards.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through the statement of income, and the financial assets at fair value through the statement of other comprehensive income, and lands at fair value at the consolidated financial statements date.

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

Palestine Investment Bank (Public Shareholding Company)

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(All amounts are presented in USD unless otherwise stated)

Notes to the consolidated financial statements

During the year, the Bank invested in the total shares of the German Miscellaneous Income Fund (the "Fund") established in accordance with the German Capital Investment Law. The Bank's management has not consolidated the financial statements of the Fund according to the requirements of IFRS 10 due to the Bank's inability to obtain the audited financial statements of the Fund from the investment manager as at December 31, 2019 because of the difference in the Fund's financial year that ends in May of each year.

Based on the general information disclosed by the investment manager of the Fund, the table below shows the significant effect and the affected financial items:

Consolidated statement of financial position

	Balance before consolidation	Impact	Balance in case of consolidation
Assets			
Balances with banks and financial institutions	103,478,939	2,110,472	105,589,411
Financial assets at fair value through the statement of income	5,590,496	19,331,352	24,921,848
Financial assets at fair value through other comprehensive income	21,549,520	(21,432,600)	116,920
Other assets	11,433,042	13,463	11,446,505
	142,051,997	22,687	142,074,684
Liabilities			
Other liabilities	7,697,764	22,970	7,720,734
	7,697,764	22,970	7,720,734
Consolidated equity			
Fair value reserve	322,125	(159,407)	162,718
Retained earnings	4,526,312	159,407	4,685,719
	4,848,437	-	4,848,437

Consolidated statement of income

	Balance before consolidation	Impact	Balance in case of consolidation
Interests payable	21,743,367	226,506	21,969,873
Other operating expenses	7,896,879	(67,099)	7,829,780
Profit for the year	4,520,684	159,407	4,680,091

Consolidated statement of comprehensive income

	Balance before consolidation	Impact	Balance in case of consolidation
Profit for the year	4,520,684	159,407	4,680,091
Change in fair value of financial assets at fair value through statement of other comprehensive income	635,067	(159,407)	475,660
Net comprehensive income for the year	5,155,751	-	5,155,751

2.2. Changes in accounting policies and disclosures

The accounting policies used in the preparation of the Bank's consolidated financial statements for the year ended December 31, 2019 were consistent with the accounting policies adopted for the preparation of the consolidated financial statements for the year ended December 31, 2018 except as described in note (2.2) below.

(a) New and amended standards adopted by the Bank

The following standards and amendments have been applied by the Bank in preparing these consolidated financial statements. The adoption of the standards and amendments listed below did not result in changes to the previously reported net profit and equity of the Bank, except for the changes mentioned in Note 2.2 - (c) "Applying IFRS 16".

Standards:

- **IFRS 16, 'Leases'** (effective from January 1, 2019).
- **Amendment to IFRS 9 "Financial instruments"** regarding the properties of advance payment with negative compensation and amendments to financial liabilities - this amendment confirmed two points:

Palestine Investment Bank (Public Shareholding Company)

Consolidated Financial statements for the year ended December 31, 2019

(All amounts are presented in USD unless otherwise stated)

Notes to the consolidated financial statements

1. This reasonable compensation for prepayments can be both negative or positive cash flows when considering whether only financial assets have cash flows that represent the principal amount and interest.
 2. Where a financial liability, which is measured at amortised cost, is amended without resulting in de-recognition, the profit or loss will be recognised directly in the consolidated statement of income. Profit or loss is calculated on the basis of the difference to the original effective interest rate. This means that the difference cannot be distributed over the remaining life of the instrument, which may be a change in the application in comparison with IAS 39.
- **IFRIC 23, "Uncertainty over income tax treatments"** explains the determination of taxable profit (tax loss), tax bases, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
 1. Whether tax treatments should be considered collectively.
 2. Assumptions of tax authorities.
 3. Determination of tax profit (tax loss), tax bases, unused tax losses and tax rates.
 4. Impact of changes in facts and circumstances.
 - **Amendments to IAS 19 'Employees' benefits'** which relate to amendment to plans, curtailment, or adjustments.
 - **Annual improvements to IFRSs for the following reports issued during the years 2015 - 2017:** improvements to IFRS (3) include "Business combination" and IFRS (11) "Joint arrangements" and IAS (12) "Income taxes" and IAS (23) "Borrowing costs".
- (B) New standards and interpretations are effective for annual periods after January 1, 2019 and have not been early adopted**

IFRS 17 "Insurance contracts" - On May 18, 2017, the IASB completed its long-term project to establish an accounting standard on insurance contracts and issued IFRS 17 "Insurance contracts". IFRS 17 replaces IFRS 4, which currently allows several practices. IFRS 17 will result in a significant change in accounting for all entities issuing insurance contracts and investment contracts that include optional contribution. The standard is effective for annual periods beginning on or after January 1, 2021 and early application is permitted if it is consistent with the application of IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments".

IFRS 17 requires an existing measurement model where estimates are re-measured in each reporting period. The measurement is based on the basic elements of the weighted cash flows discounted and adjusted for risks and the margin of contractual services that represent unearned contracts profits. A simplified method of allocation of premiums is allowed for liabilities over the remaining coverage period if this technique provides a method of measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred should be measured based on the underlying elements of discounted, risk-adjusted and risk-weighted cash flows. The standard is applicable for the annual period beginning on or after January 1, 2021.

Amendments to IFRS 3 - This amendment revises the business definition. According to the comments received by the IASB, the application of the current guidance is believed to be very complex and would result in a very large number of transactions qualifying for classification as business combinations. The standard is applicable for the annual periods beginning on or after January 1, 2020.

Amendments to IAS (1) and IAS (8) - These amendments to IAS (1), "Presentation of financial statements" and IAS (8), "Accounting policies, and changes in estimates accounting and errors", and subsequent amendments to other IFRSs:

- Use a consistent definition of materiality in all IFRSs and the conceptual framework for financial reporting,
- Explain the interpretation of the definition of materiality,
- Include some guidance in IAS 1 on non-significant information.

The standard is applicable for the annual periods beginning on or after January 1, 2020.

Amendment to IFRS (9), IAS (39) and IFRS (7), 'Interest rate benchmark reform' - These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect of reforming intra-banks interest rate (LIBOR), which should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the consolidated statement of income. Given the pervasive nature of hedges involving LIBOR contracts, the reliefs will affect Banks in all areas. The standard is applicable for the annual periods beginning on or after January 1, 2020.

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Notes to the consolidated financial statements

Transition from LIBOR to risk-free rates

In July 2017, the Financial Conduct Authority (FCA) announced that it will not support the London Interbank Interest Rate (LIBOR) after 2021, indicating that LIBOR may cease to exist, at least in its current form, after this date.

The Bank has the following instruments exposed to LIBOR as at December 31, 2019:

Net direct credit facilities: USD 43,955,527

The Bank has no hedging relationship that may be affected by LIBOR.

The Bank assesses the impact and next steps to ensure a smooth transition from LIBOR to new interest rates.

Amendments are mandatory and shall be applied for annual periods beginning on or after January 1, 2020, and early adoption is permitted.

Except for the above, there are no new standards, amendments to standards, and relevant interpretations that are not yet effective and that would be expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

(C) Changes in accounting policies related to IFRS 16 - Leases

IFRS 16 was issued in January 2016, and almost all leases were recognised in the consolidated statement of financial position by the lessee, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Bank has applied the standard starting from the date of the mandatory application, which is January 1, 2019. The Bank has applied a simplified transition approach and has not restated the comparative amounts before the date of the standard adoption. As permitted under IFRS 16, the right of use assets are measured at the amount of the lease liability on application (adjusted for any prepaid or accrued rental expenses).

The Bank used the following practical solutions in the initial application:

- Used the Bank's previous assessment of which existing contracts are, or contain, lease.
- Where the unexpired lease term at the date of the initial valuation is less than 12 months or leases are of low value, thus the Bank has elected to use the short-term lease exemption.
- The direct initial costs of measuring the right of use assets is excluded at the date of initial application.

Upon measuring the lease liabilities, the Bank deducted the lease payments using the incremental borrowing rate at January 1, 2019. The weighted average applied in the Bank's main markets is based on standard interest rates. The weighted average of the incremental borrowing rate applied by the Bank is 3%.

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- (1) The following amounts were recognised in accordance with the new standard, in both the consolidated statement of financial position and the consolidated statement of income :

Consolidated statement of financial position:

	31 December 2019	1 January 2019
Right of use assets (offices and branches - Note 12)	2,003,410	2,331,509
Lease liabilities (other obligations - Note 12)	1,867,662	2,265,109

Consolidated statement of income:

	31 December 2019
Depreciation expense for the right of use assets (depreciation)	328,099
Finance costs on lease liabilities	57,137

- (2) Measurement of lease liabilities:

Operating lease liabilities disclosed as at December 31, 2018	2,660,587
Discount using the lessees' incremental borrowing rate on the date of initial application	(221,285)
Short-term leases	(174,193)
Lease liabilities recognised as at January 1, 2019	2,265,109
Including:	
- Current lease liabilities	675,656
- Non-current lease liabilities	1,589,453

Palestine Investment Bank (Public Shareholding Company)

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(All amounts are presented in USD unless otherwise stated)

Notes to the consolidated financial statements

2.3. Basis of consolidation of financial statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries: "Global Securitites Private Shareholding Limited Company" and "Horizon Real Estate Private Shareholding Limited" that is wholly owned and controlled by the Bank as at December 31, 2018 and 2019. 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 at December 31, 2019 and 2018:

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

The main objectives of Horizon Company is owning properties and managing properties owned by the 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 reevaluates 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.

2.4. Segment Information

The business segment represents distinct components of the Bank that jointly provide products or services subject to risks and returns that are different from those related to other business segments and that are measured according to the reports that are used by the main executive decision maker of the Bank.

A geographical segment is associated with the provision of products or services in a particular economic environment that is subject to risks and rewards different from those related to segments operating in other economic environments.

2.5. Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position of the Bank when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are measured initially at fair value. Transaction costs directly related to the acquisition or issue of financial assets and liabilities (other than financial assets and financial liabilities at fair value through the statement of income) are added to the fair value of the financial assets or financial liabilities, or deducted therefrom, as necessary, upon initial recognition. Transaction costs that are directly related to the acquisition of financial assets or financial liabilities at fair value through the statement of income are recognised directly in the consolidated statement of income. Immediately after initial recognition, the provision of expected credit loss for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income is recognised, as stated in Notes (10 and 3), which results in a credit loss incurred that is recognised in the consolidated statement of income.

1. Financial assets

Regular purchases or sales of financial assets are recognised and derecognised on the basis of the trade date. Regular purchases or sales are sales or purchases that require the delivery of assets within a timeframe established by the Law or the market custom.

Palestine Investment Bank (Public Shareholding Company)

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Notes to the consolidated financial statements

A. Classification and reclassification of financial assets

For the purposes of financial assets classification, the instrument is considered an "equity instrument" if it is non-derivative and meets the definition of "equity" of the issuer, with the exception of some non-derivative, saleable instruments that are presented as equity by the issuer. All other non-derivative financial assets are "debt instruments". Debt instruments are those that meet the definition of financial liabilities from the view of the issuer, such as loans, government bonds, and corporate bonds.

Financial assets are reclassified if the business model for portfolio management changes. The reclassification has a potential impact, and this is made as of the first day of the first reporting period after the change in the business model. The Bank did not change its business model during the current year.

Fair value option

A financial instrument with a fair value can be measured reliably at fair value through the statement of income (fair value option) upon initial recognition, even if the financial instruments are not acquired or incurred primarily for the purpose of selling or repurchasing. The fair value option for financial assets can be used if it substantially eliminates or reduces the inconsistency of the measurement or recognition that would otherwise have arisen from the measurement of assets or liabilities, or the recognition of related profit and loss on a different basis ("accounting mismatch"). The fair value option for financial liabilities can be chosen in the following cases:

- If the choice leads to the cancellation or substantially reduces accounting mismatch.
- If the financial liabilities are part of a portfolio managed on a fair value basis, according to a documented risk or investment management strategy.
- If there is a derivative that is included in the host financial or non-financial contract and the derivative is not closely related to the host contract.

These tools cannot be reclassified to fair value through the statement of income while they are held or issued. Financial assets designated at fair value through the statement of income are recorded at fair value with any unrealised gains or losses arising from changes in the fair value recognised in consolidated statement of income under the item of profit of financial assets.

Debt instruments

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

- (1) Assets are held within a business model whose objective is to hold assets to collect contractual cash flows.
- (2) The contractual terms of the financial assets result in, on specified dates, cash flows that represent payments of principal and interest/ profits due on the outstanding amount thereof.

All other financial assets, except for debt instruments carried at amortised cost, are subsequently measured at fair value. Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- **Amortised cost:** Assets held for the purpose of collecting contractual cash flows are measured at amortised cost, when those cash flows represent payments of principal and interest, and those not classified at fair value through the statement of income. The carrying amount of these assets is adjusted against the measured provision for expected credit loss as stated in Note (3).
- **Fair value through other comprehensive income:** Financial assets held for collecting contractual cash flows and selling assets are measured at fair value through other comprehensive income when the cash flows of the assets represent payments of principal and interest, as well as the financial assets which are not classified at fair value in the statement of income. The movement in fair value is recognised through other comprehensive income. Profits and losses resulting from impairment, interests receivables and currency differences (if any) are recognised in the consolidated statement of income while fair value gains and losses are recognised in other comprehensive income and are subsequently reclassified to the consolidated statement of income upon derecognition.
- **Fair value through the statement of income:** Assets that do not meet the criteria for recognition at amortised cost or at fair value through other comprehensive income are measured at fair value through the statement of income. Profits or losses arising from debt investments measured at fair value through the statement of income that are not part of the hedge relationship are included in the profit or loss and are recognised in the consolidated statement of income as "net gains from financial assets" in the period in which they arise, unless they arise from debt instruments that are classified at fair value or have not been held for trading. In this case, they are presented separately in the consolidated statement of income.

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Investments in debt securities are included in the fair value through the statement of income if they do not meet the criteria for amortised cost or fair value through other comprehensive income. The Bank may also irrevocably assign investments in debt securities at fair value through statement of income upon initial recognition, if the application of this option substantially reduces the mismatch of accounting between financial assets and liabilities that are recognised or measured on different accounting basis.

- **Business model:** The business model reflects how the Bank manages assets in order to generate cash flows, i.e. whether the Bank's objective is solely to collect contractual cash flows from the assets or to collect both contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (i.e. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at fair value through the statement of income. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets are collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.
- **SPPI:** If the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the cash flows of the financial instruments represent solely payments of principal and interest (the "SPPI test").

In making this assessment, the Bank considers whether the contractual cash flows are consistent with the basic lending agreement, i.e. the interest includes only consideration of the time value of cash, credit risks, other basic lending risks and the interest rate that is in compliance with the basic lending agreement. When the contractual terms result in exposure to risks or fluctuations that are not consistent with the basic lending agreement, the related financial assets are classified and measured at fair value through the statement of income.

Financial assets with embedded derivatives are taken fully into account when determining whether their cash flows represent only SPPI.

The Bank reclassifies debt investments when, and only when, its business model changes to manage those changes in assets. Reclassification is made from the beginning of the first reporting period following the change.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the view of the issuer, i.e. instruments that do not have a contractual obligation to pay and that are evidence of the remaining interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank measures all equity investments at fair value through the statement of income, except in cases where the Bank's management has made a final choice, upon initial recognition, by classifying equity investments at fair value through other comprehensive income. The Bank's policy is to classify equity investments at fair value through other comprehensive income when these investments are held for purposes other than to generate investment returns. When using this option, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including upon derecognition. Impairment losses (and reversal of impairment losses) are not recorded separately from other changes in the fair value.

Dividend distribution, when it represents an income on these investments, continues to be recognised in the consolidated statement of income as dividend income when the Bank's right to receive payments is established.

Amortised cost and effective interest rate method

Amortised cost is the amount by which the financial asset or liability is measured at initial recognition, less the principal repayments, plus or less the accumulated amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and for the financial assets, adjusted for any loss provision.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts during the expected life of the financial asset or financial liability to the total carrying amount of the financial asset (i.e. amortised cost before any impairment provision) or to the amortised cost of a financial liability. The calculation does not consider the expected credit losses and includes transaction costs, premiums, discounts, and fees paid or received that are an integral part of the effective interest rate.

When the Bank reviews future cash flow estimates, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimates discounted using the original effective interest rate. The changes are recognised in the consolidated statement of income.

Interest income is calculated by applying the effective interest rate to the total carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), in which interest income has been suspended according to the instructions of the Palestine Monetary Authority.

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B. Impairment of financial assets

The Bank assesses on a forward-looking basis the expected credit loss associated with direct credit facilities and the assets of debt instruments carried at amortised cost and bonds at fair value through other comprehensive income and the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises the loss provision for such exposures at each reporting date. The measurement of expected credit loss reflects:

- A weighted fair amount that was determined by evaluating a range of possible outcomes.
- The time value of money.
- Reasonable and proven information that is available without incurring any unnecessary cost or effort at the reporting date on past events, current conditions, forecasts for future events, and economic conditions.

Note (3) provides more details on how the expected credit loss provision is measured.

C. Loans modification (restructured and rescheduled loans)

Taking into account the relevant instructions of the Palestine Monetary Authority, the Bank sometimes renegotiates or modifies contractual cash flows for loans provided to customers. When this happens, the Bank assesses whether the new terms are substantially different from the original terms. The Bank conducts this by considering, among others, the following factors:

- If the borrower faces financial difficulties, whether the modifications only reduces the contractual cash flows to amounts that the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as the profit share/ return on equity, which substantially affects the loan risk profile.
- Significant extension of the loan period when the borrower does not face financial difficulties.
- Significant change in the interest rate.
- Change in the loan currency.
- Including collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial assets and recognises 'new' assets at fair value and recalculates a new effective interest rate for the assets. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, and also for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new recognised financial assets are deemed to be subsequently credit-impaired at initial recognition, especially in circumstances where the purpose of renegotiation is the inability of the debtor to make the originally agreed payments. Differences in the carrying amount are also recognised in the consolidated statement of income as profit or loss on de-recognition.

If the terms are not substantially different, the renegotiation or modification does not result in the de-recognition, and the Bank recalculates the total carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in the consolidated statement of income. The new total carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

De-recognition for a reason other than modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (1) the Bank transfers substantially all the risks and rewards of ownership, or (2) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

Bad debts

Credit facilities with provisions are written off, in the event of the infeasibility of procedures taken for collection, by deducting them from the provision, and any surplus in the total provisions is transferred, if any, to the consolidated statement of income, and the subsequent recoveries of written off debts are recognised in the consolidated statement of income.

2. Financial liabilities

Classification and subsequent measurement

All financial liabilities (including deposits and balances due to banks, repurchase agreements with banks, medium term loans and customers' deposits) are initially recognised at fair value and subsequently measured at amortised cost, except for:

- **Financial liabilities at fair value through the statement of income:** this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities classified at fair value through the statement of income presented partially in other comprehensive income (the change in fair value due to credit risk) and partially in profit or loss (the remaining amount of change in the fair value of the liabilities). This is unless such a presentation would result in, or increase, the accounting

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mismatch, in which case the gains and losses attributable to changes in the credit risk of the liabilities are presented in profit or loss.

Financial liabilities resulting from the transfer of financial assets that are not qualified for de-recognition, in such cases, financial liabilities are recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liabilities.

Gains and losses arising from financial guarantees contracts and loan commitments classified at fair value through the statement of income are recognised in the consolidated statement of income.

De-recognition of financial liabilities

Financial liabilities are de-recognised when they are amortised (i.e. when the obligation specified in the contract is discharged, cancelled or expired).

When replacing an existing debt with a new debt from a new lender, the existing debt would be de-recognised in the financial statements, with the difference between the carrying amount and the fair value of the consideration paid recognised in the consolidated statement of income. However, when modifying or exchanging a debt while retaining the original lender, International Financial Reporting Standards (IFRS) include specific guidance on whether the transaction results in de-recognition or is calculated differently. This analysis is based on the question of whether the modification is "substantial" or whether the original debt has been replaced by another debt with "substantially" different terms.

3. Fair value measurement

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in a regular transaction between market participants at the measurement date in the main market, or in its absence, the most advantageous market for the Bank on that date. The fair value of a liability reflects the risk that the obligation will not be fulfilled.

The Bank measures the fair value of the instrument, if necessary, using the quoted price in the active market for that instrument. The market is considered an active market when the transactions relating to the asset or liability are regular and appropriate in terms of sufficient volume to determine price data on an ongoing basis.

In the absence of a quoted price in an active market, the Bank then determines the fair value by using valuation techniques that maximize the use of relevant observable inputs while limiting the use of unobservable inputs. The chosen valuation technique includes all factors that participants can use to determine the transaction price.

The best evidence of the fair value of a financial instrument upon initial recognition is usually the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at the date of the initial recognition differs from the transaction price and no objective evidence is available for the fair value either through a quoted price in an active market for a similar asset or liability, or based on any technique of valuation that uses only data from observable markets. The financial instrument is initially measured at fair value, and adjusted to postpone the difference between the fair value at the initial recognition date and the transaction price. The difference is subsequently recognised in the consolidated statement of income on an appropriate basis over the life of the instrument, but not after the date on which the valuation is fully supported by observable market data or after the closing date of the transaction.

If the asset or liability measured at fair value has a bid price or an ask price, the Bank measures long-term assets and positions at the bid price while short-term liabilities and positions are measured at the ask price.

The portfolio of financial assets and financial liabilities exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market risk or credit risk, is measured on the basis of the price that would be received from the sale of a net long-term position (or paid to transfer a net short-term position) for a specific risks exposure. These portfolio-level adjustments are made for each item of assets and liabilities on the basis of the risk-related adjustment for each of the portfolio's instruments.

The Bank recognises transfers between levels of the fair value measurement as at the end of the reporting period in which the change has occurred.

Fair value hierarchy

- Level 1: Quoted market prices in active markets for similar assets or liabilities.
- Level 2: Other techniques where inputs have a significant impact on the fair value are used, which can be observed directly or indirectly.
- Level 3: Other techniques where inputs are used that have a significant impact on the fair value but are not based on observable market information.

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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 in this portfolio are not usually subject to the measurement of expected credit losses.

2.7. Financial assets at fair value through other comprehensive income

Financial assets held for collecting contractual cash flows and selling assets are measured at fair value through other comprehensive income when the cash flows of the assets represent payments of principal and interest, as well as the financial assets which are not classified at fair value through the statement of income. The movement in fair value is transferred through other comprehensive income.

In the event of the sale of the asset or part thereof, the resulting gain or loss is taken to the statement of comprehensive income and within the consolidated statement of equity. The reserve balance for valuation of financial assets sold is transferred directly to retained earnings and not through the consolidated statement of income.

Equity instruments within this item 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.

2.8. 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 that are 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 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.

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2.9. Fair value measurement

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.

2.10. 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 provision for impairment of credit facilities and suspended interests.

The impairment provision is recognised on direct credit facilities using the expected credit loss model as stated in Note (3).

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

Interest and commissions are suspended for classified debts and those with legal proceedings.

2.11. Impairment

The expected credit loss should be measured through a provision for impairment amounting to:

- 12-month ECL, i.e. The expected life of the ECL that result from those default events on the financial instrument that can be realised within 12 months after the reporting date, referred to in Stage 1; or
- ECL over the period of the instrument, i.e. the expected life of the ECL that result from those possible default events over the lifetime of the financial instrument, referred to in Stage 2 and Stage 3.

A loss provision for lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECL are measured at an amount equal to the 12-month ECL.

ECL are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive, which arise from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

For the limits not utilised, the expected credit loss is the difference between the present value of the difference between the contractual cash flows due to the Bank if the borrower withdraws the financing and the cash flows that the Bank expects to receive if the financing is utilised.

For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the instrument holder, the customer or any other party.

The Bank measures ECL on an individual basis, or on the portfolio basis that share similar economic risk characteristics. The measurement of the loss provision is based on the present value of the asset's expected cash flows using the instrument's original EIR, regardless of whether it is measured on an individual basis or a portfolio basis.

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Financial assets are assessed to ensure that there are indicators of loss recorded for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events occurring after the initial recognition of the financial assets, that affected the estimated future cash flows of the asset.

The objective evidence for the recorded impairment loss may include:

- Significant financial difficulty facing the issuer or counterparty.
- Breach of contract, such as default or delinquency in interest or principal payments.
- The probability that the borrower will enter bankruptcy or financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Purchasing financial assets with a major discount which impact credit losses incurred.

It may not be possible to identify a single discrete event, instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial position, unless there is evidence that as a result of granting the concession, the risk of not receiving contractual cash flows has reduced significantly, and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the assets are deemed credit impaired when there is observable evidence of credit-impairment, including meeting the definition of default. The definition of default includes possibility of non-payment and cessation of payment if the amounts are overdue for 90 days or more. However, cases where the asset's impairment is not recognised after 90 days of maturity, are supported by reasonable information.

Default

The definition of default is deemed critical to the determination of ECL. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss provision is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECL and the identification of a significant increase in credit risk as shown below.

The Bank considers the following as an event of default:

- The borrower defaults for more than 90 days on any significant credit obligation to the Bank.
- The borrower is unlikely to pay his credit obligations to the of the Bank in full.

The definition of default is tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of contracts, which is not relevant for retail lending. Quantitative indicators, such as default and non-payment of another obligation to the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

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 accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are not included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of income during the financial period in which they are incurred. Land is not depreciated.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, according to the following:

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

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The estimated useful lives, residual values, and methods of calculating depreciation are reviewed - at the end of each year, with the effect of any changes in the estimates calculated on prospective basis.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from the continuing use of the asset. Any gains or losses arising from the disposal or retirement of an item of property, plant and equipment are determined on the basis of the difference between the sale proceeds and the carrying amount of the asset, and are recognised in the consolidated statement of income.

Land is stated at fair value. Fair value of lands is assessed periodically to ensure that the fair value is not materially different from its carrying amount. The increase in the fair value of these lands is recognised through equity and the impairment, which exceeds any previous increase in fair value, is recognised in the consolidated statement of income.

2.13. Financial guarantee contracts and loan commitments

Financial guarantees are contracts that require the Bank to pay specific amounts to compensate the holders of the guarantee for the loss they incur due to the debtor's failure to make any payments when they due according to the terms of the debt instrument. Contract commitments are irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss provision.
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

2.14. Derivative financial instruments

The Bank deals with derivatives such as forward foreign exchange contracts.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value at the end of each reporting period. The resulting profits or losses are recognised in the consolidated statement of income immediately unless the derivative is qualified and identified as a hedging instrument, in which case the timing of recognition in the consolidated statement of income depends on the nature of the hedge relationship. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by referring to quoted market prices, discounted cash flow models and quoted pricing models, as appropriate.

2.15. Provisions

Provisions include legal provisions and are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that the Bank will be required to incur resources representing economic benefits to settle the obligation and reliable estimate of the amount can be made.

The value recognised as a provision represents the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the estimated cash flows to settle the present obligation, its book value represents the present value of those cash flows.

2.16. Provision for end of service indemnity

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 deducted are recorded in the account of income and compensations paid to employees who leave the service are recorded in the end of service indemnity provision account.

2.17. Taxes provision

Income tax includes current tax and deferred tax.

The current tax is based on taxable profits, and taxable profits differ from the profits disclosed in the consolidated statement of income. Accounting profits may include non-taxable profits or taxable expenditures which may be exempted in the current or subsequent financial years.

Taxes are calculated as per the tax rates established by the laws, regulations and instructions in the Palestinian income tax department.

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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.

The carrying values of deferred taxes are reviewed at the date of the consolidated financial statements and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

2.18. Offsetting

Financial assets and liabilities are offset and net amounts are reported in the 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.

2.19. Revenue and expense recognition

a. Interest income and expense

Interest income and expense for all interest bearing financial instruments are calculated by applying the effective interest method to the total carrying value of the financial instrument, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income has been suspended according to the instructions of the Palestine Monetary Authority.

b. Fee and commission income and expenses

The Bank earns fee and commission income from a variety of services that it provides to its customers. Fees earned for providing services are collected over a period of time during that period. These fees include commission income, asset management, custody and other management services. Loan commitment fees and other credit related fees (with any incremental costs) are deferred and amortised over the loan period using the effective interest method.

c. Dividend income

Dividend income from investments is recognised in the consolidated statement of income when the Bank's right to receive the dividends has been established (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be reliably measured).

2.20. Assets reverted to the Bank in settlement of due debts

In certain cases, the Bank may close transactions by acquiring assets in exchange for debt settlement. Assets acquired are recorded at the lower of their fair value less costs to sell or the carrying value of the loan (net of impairment losses), at the date of exchange.

Any impairment is recognised in the consolidated statement of income. Any subsequent increase in the fair value is recorded in the consolidated statement of income only to the extent that it does not exceed the previously recorded impairment losses, if any.

Assets reverted to the Bank are recognised in the consolidated statement of financial position within the "other assets".

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, according to PMA instructions, the banking law and related instructions.

2.21. Intangible assets

Intangible assets acquired through acquisition are stated at fair value as at the date of acquisition.

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 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 are 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.

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2.22. Foreign currencies

The fair value of financial assets denominated in foreign currency is determined in that foreign currency and translated at the prevailing exchange rate prevailing at the end of each reporting period. The foreign exchange component is part of the fair value gains or losses. Therefore:

- 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.
- Foreign currency exchange gains or losses are recognised in the consolidated statement of income.
- For financial assets classified at fair value through the consolidated statement of income, the foreign exchange component is recognised in the consolidated statement of income.
- For financial assets that represent monetary items classified at fair value through other comprehensive income, the foreign exchange component is recognised in the consolidated statement of income.
- For financial assets that represent non-monetary items classified at fair value through other comprehensive income, the foreign exchange component is recognised in the consolidated statement of comprehensive income.
- For debt instruments - denominated in foreign currency and measured at amortised cost at the end of each reporting period, foreign exchange gains and losses are determined on the basis of the amortised cost of the financial assets and are recognised in the consolidated statement of income.

2.23. Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer subject to the estimation of the Bank. Dividends for the year that are approved after the consolidated statement of financial position date are disclosed as an event that occurred after the consolidated statement of financial position date.

2.24. Cash and cash equivalents

Cash and cash equivalents comprise cash and cash balances that mature within three months. They include cash and balances with Palestinian Monetary Authority and balances with banks and financial institutions, less deposits with banks and banking institutions that mature within three months, as well as restricted balances.

2.25. Impairment of non-financial assets

At the end of each reporting period, the Bank reviews the carrying amount of its non-financial assets to determine whether there is any indication that these assets may be subject to impairment losses. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount for each asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be determined, the assets are allocated to each cash-generating unit, or otherwise are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value of the asset less costs to sell or value in use. For purposes of assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks associated with the asset for which the future cash flows estimates have not been adjusted.

In cases where the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (cash-generating unit) is reduced to the recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income.

If the impairment loss is subsequently reversed, the carrying amount of the asset (or the cash-generating unit) is increased to the adjusted estimate of the recoverable amount. However, the increase in the carrying value should not exceed the carrying value that could have been determined if the impairment loss for the assets (or cash-generating unit) was not recognised in previous years.

2.26. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily require a long period of time in order to be ready for use or sale, are added to the cost of those assets until such time when these assets become fully ready for use for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in the consolidated statement of income in the period in which they are incurred.

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2.27. Revenue from Contracts with Customers

Under IFRS 15, revenue is recognised at consideration that reflects the value that an entity expects to receive from those goods or services. The main principles of IFRS 15 provide a more structured approach to measuring and recognizing revenue. Specifically, the standard provides a five-step approach to revenue recognition:

- Step 1: Identify the contracts with customers,
- Step 2: Identify the separate performance obligation,
- Step 3: Determine the contract transaction price,
- Step 4: Allocate the transaction price for each of the separate performance obligations, and
- Step 5: Recognise revenues, when each performance obligation is met.

The Bank has estimated the impact resulting from the application of IFRS 15 and the Bank has concluded that the current treatment for revenue recognition of contracts with customers is inconsistent with the new principles of the standard and there is no transitional impact on retained earnings. The impact of the application of the standard was limited to the new disclosure requirements.

2.28. De-recognition 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.

2.29. Leases

The Bank leases various offices and branches. Leases are typically made for fixed periods of 1-3 years extended as mentioned in the extension and termination option below.

Assets and liabilities arising from the lease are initially measured based on the present value. Lease liabilities include the net present value of fixed payments (including embedded fixed payments), less any lease receivable incentives. Lease payments under certain extension options are also reasonably included in the measurement of the liability.

Lease payments are discounted using the interest rate embedded in the lease. If that rate cannot be readily determined, and this is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used, which is the rate that the lessee has to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank uses recent third-party financing received as a starting point, which is adjusted to reflect changes to the new financing terms, when needed.

Lease payments are distributed between the asset and finance costs. Finance costs are charged to the consolidated statement of income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Bank may experience potential future increases in lease payments, which are not included in the lease liability until they take effect. When the amendments to the lease payments take effect, the lease liability is reassessed and adjusted against the right of use asset.

Right of use assets are measured at cost, which includes the following:

- The initial measurement amount of the lease liability.
- Any lease payments made on or before the contract start date less any lease incentives received.
- Any direct initial costs.

Right of use assets are generally depreciated over the shorter of the useful life of the asset and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise the purchase option, the right of use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of income. Short-term leases are leases with a lease term of 12 months or less, while low-value assets comprise IT equipment.

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Extension and Termination options

Extension and termination options are included in a number of the leases of the Bank's offices and branches. These options are used to increase operational flexibility in terms of asset management used in the Bank's operations. The majority of the existing extension and termination options are exercised only by the Bank and not by the lessor concerned.

3. Risk management

The Bank discloses information to help the consolidated financial statements users assess 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 to the Bank's activities are measured and monitored continuously to keep them within acceptable limits. Due to significance of risk management process on the Bank's profits, control roles and responsibilities related to these risks are distributed among the Bank's personnel. The Bank is exposed to credit risk, liquidity risk, and market risk, which represent interest rate risk, currency risk, equity price change risk, trading and hedging operations risks, in addition to operating and compliance risks.

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.

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.

Risk Committee

It is the responsibility of the Risk Committee to develop the risk strategy and apply the principles, general frameworks and limits permitted.

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 focusing on specific financial sectors. Information is collected from different departments and analysed for early identification of potential arising risks. This information is presented to the Bank's Board of Directors, the Audit Committee, and direct head of each department.

Business units:

Represents employees that are part of first line defence, who are directly responsible for risk management and related control procedures.

Risk Management Department:

Risk management department's employees are one of the elements of the second line of defence, and so they are responsible for coordinating the efforts of the risk management process and facilitating the supervision on the mechanisms used and applied by the Bank to manage the risks.

Compliance Department:

Compliance Department represents another element of the second line of defence. Compliance Department's employees ensure compliance with laws and regulations and instructions issued by the Palestine Monetary Authority and other regulatory bodies and sound banking practices.

The Bank has established the Risk Management Committee which is affiliated to the Board of Directors to manage the risks. The function of this committee is ensure that all of risks which the Bank faces or could be exposed to, are efficiently managed to decrease its impact on various activities of the Bank and to ensure the sound management of risks and have it in line with the Bank's strategy in order to maximise shareholders' equity and to maintain the Bank's growth within the approved risk framework. The committee carries out the following key tasks:

- Overseeing the policies and risk management strategy and ensuring that the risk management is performing its functions according to the adopted strategy and policies.
- Ensuring the provision of adequate and appropriate support for Risk Management Department in order to perform its functions in accordance with the adopted policies and procedures and the instructions of Palestine Monetary Authority.
- Ensuring the use of modern methods in managing and evaluating the Bank's risks.
- Reviewing periodic risk management reports.

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- Reviewing the acceptable risks levels adopted by the Bank and verifying that violations are addressed.
- Reviewing internal evaluation document of the adequacy of the Bank's capital and submitting it to the Board of Directors for approval, taking into account the Bank's strategic and capital plans.
- Ensuring the independence of Risk Management Department.
- Ensuring the Bank's commitment to the instructions of the Palestine Monetary Authority.

In addition, the Bank has established the Executive Risk Management Committee, which supervises the management of all risks which the Bank may face in addition to the general framework of Risk Management Department. The Executive Risk Management Committee issues the necessary reports to the Risk Management Department, which is affiliated to the Board of Directors.

On daily basis, the Risk Management Department manages the Bank's various risks (credit risk, operating risk and market risk) within the general framework of the adopted risks management policies through the following:

Risk Identification
Risk Assessment
Risk Control / Mitigation
Risk Monitoring

The internal audit employees represent the third line of defence and are responsible for conducting an independent review of the regulatory procedures, processes and systems associated with the processes of the Risk Management Department at the Bank's level.

Credit Risk Management

Credit risks are those risks resulting from the default of the counterparties to the financial instruments to meet their obligations to the Bank which results in losses. The Bank manages credit risk by setting limits to the amount of loans (individual or institution) and total loans granted to each sector and geographical area. The Bank also monitors credit risks and continuously evaluates the credit status of customers. The Bank also obtains appropriate collaterals from customers.

This in addition to the risk of customers' credit concentrations which are defined as the risks to which the Bank is exposed as a result of the unequal distribution of credit customers or as a result of the concentrations in facilities granted to economic sectors, which may lead to increased probability of financial losses.

Details of loans and financing activities of customers and the Bank's liabilities off-the financial position, which are exposed to credit risk, are disclosed in the notes to the consolidated financial statements. The Bank limits the risk of concentration of assets and liabilities through the distribution of its activities to several sectors.

Credit risk in respect of cash and cash equivalents

Cash and cash equivalents represent the maximum exposure to credit risk. Cash and cash equivalents are held with the Palestine Monetary Authority and with banks and other financial institutions.

Credit Risk Management

Credit risk is managed by:

- Promoting the structure of a good and balanced credit portfolio that achieves the target return within its defined risk levels.
- Controlling credit strictly in its various stages and complying consistently with the instructions of the regulatory authorities and their amendments.
- Working on the distribution of the credit portfolio, including expanding the customer base according to specific plans, ceilings and risks.
- Continuing to work within the principle of segregation of the duties of customers' relationship department, credit analysis and credit control.
- Granting credit on the basis of eligibility and repayment ability, bearing in mind that there are no restrictions on borrowing or foreclosure in the Company's Memorandum of Association and bylaws and the Bank's belief in the ability of customers to meet their obligations based on a comprehensive credit study of the customer's position and within the levels of risk classification accepted by the Bank.
- Disallowing financing of facilities except for the purposes specified in the Bank's credit policy, the instructions of the Palestine Monetary Authority, the Banking Law and any instructions issued by the regulatory authorities, and the appropriate collaterals that guarantee the Bank's right.
- Reducing the non-performing debt ratio in the credit portfolio while increasing market share in commercial finance and corporate finance.
- Taking into consideration the diversification of the credit portfolio, especially in the corporate portfolio, while avoiding the concentration of client-level concentration over the prescribed limits.

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Credit Risk Management methods:

1. Credit facilities (including loan commitments, LCs and LGs)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of credit commitments between counterparties. The Bank measures credit risk using the concept of expected loss which requires the following factors:

- Probability of default (PD)
- Loss Given Default (LGD)
- Exposure at Default (EAD)

Under IFRS 9, expected loss is replaced by expected credit loss (ECL), which is based on macro-adjusted PD, LGD & EAD factors. Additionally, it also captures deterioration and credit lifetime likelihood of defaults.

2. Credit risk grades

Credit risk grades are defined using qualitative and quantitative factors that indicate the risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to continuous monitoring, which may result in the exposure being transferred to a different grade of credit risk.

Default and default treatment mechanism:

Default is summarised in the appearance of entitlements on the customer's facilities of more than 90 days and a significant increase in risk levels, in addition to any signs indicating the existence of a probability of the customer's default that requires including some customers within the concept of default. This includes but is not limited to:

- Significant financial difficulties faced by the debtor such as the severe weakness in the financial statements.
- Amortization of part of the liabilities incurred by the debtor as a result of financial difficulties.
- Non-payment of liabilities on time.

Internal rating system for corporate customers:

It is a system designed to assess and measure the risks of corporate customers in a comprehensive manner, by extracting the degree of customer's risk, which is associated with the customer's probability of default (PD) based on the financial and objective data, and also to extract the expected losses (EL) of the customer facilities through the degree of customer's risk and losses given default (LGD) and associated with the guarantees provided.

The Bank has a different model system and evaluation cards to cover most customer's segments. Each model is divided into several sections. Each department is linked to the existence of risk weights and according to the model used. The risk score is calculated through these models/ cards by collecting the results of the extracts (financial and objective) and then performing calculations to extract the so-called average assessment and is shown in a form of consecutive characters.

Principles used in the rating process within the internal rating system for corporate customers:

- Up-to-date and audited/ non-audited financial statements that reflect the actual financial position of the applicant of credit.
- There is a clear perception in the credit granting body of the objective aspects related to the customer's position such as (management, customer's sector, competitive situation, etc.) as objective aspect has impact on the customer's risk assessment results.
- Sufficient data is provided on the collateral given by the customer to enable risk assessment of the facility.
- The annual update of the probability of default according to the latest studies, taking into account the reason for the historical default of the portfolio for each classification.
- The appropriate analysis model is selected to fit the customer's nature.
- The archiving option is used to save the customer's historical risk levels, which are approved within the credit study.

3. Measurement of expected credit loss

IFRS 9 outlines a 'three-stage' model to determine impairment based on changes in credit quality since initial recognition of the credit facility as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The identification of SICR is measured via a change in one-year probability of default between the date of inception of facility until the date ECL is examined according to IFRS 9.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

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- Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from potential default events during the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A prevailing concept in measuring the ECL in accordance with IFRS 9 requires that forward-looking information be considered.
- Purchased or originated credit impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured (Stage 3) according to the instructions of Palestine Monetary Authority.

4. Significant increase in credit risk

The Bank considers a financial asset to have experienced a significant increase in credit risk when a significant change in one-year probability of default occurs between the origination date of a specific facility until the examination date of ECL according to IFRS 9.

Quantitative criteria

Corporate loans:

For corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following quantitative factors:

- Operating performance
- Operating efficiency
- Debt service
- Liquidity assessment
- Capital structure
- Credit reduction

Retail:

For retail portfolio, if the borrowers meet one or more of the following criteria:

- Adverse findings for an account/ borrower as per credit department data;
- Accounts overdue over 30 days;

Treasury:

Significant change in the investment's expected performance and behaviour of borrower (collateral value, temporary cessation of payment, payment to income ratio, etc.).

Qualitative criteria

Corporate loans:

For corporate loans, if the borrower experiences a significant increase in probability of default, which can be triggered by the following Default Risk Indicator's (DRI):

- Past due
- Fraudulent activity
- Financial covenants breach
- Significant operations disruption

For corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following qualitative factors:

- Management
- Industry outlook
- Financial conduct
- Income stability
- Auditor's information

If the borrower defaults for more than 30 days past due in its contractual payments, a backstop is applied, and the financial asset is considered to have experienced a significant increase in credit risk.

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5. Definition of default and credit-impaired assets

The Bank defines a financial instrument of corporate, retail and investment as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- **Quantitative criteria:**

The borrower defaults for more than 90 days in its contractual payments.

- **Qualitative criteria:**

According to the Basel definition, default is considered to have occurred with regard to particular debtor when either one of the following events have taken place:

- The Bank considers that the obligor is unlikely to fully pay its credit obligation without referring to the Bank to take actions, such as realizing the guarantee (if held).
- The Bank puts the credit obligation on a non-accrued status.
- The Bank makes a provision for default or specific provision resulting from a observable decline in credit quality subsequent to the Bank's exposure.
- The Bank sells the credit obligation at a material credit-related economic loss.
- The Bank agrees to restructure the defaulted loans for the credit obligation, as this leads to a decline in the financial obligation resulting from the exemption or postponement of payment of the principal amount, interest or other fees.
- The Bank has filed for the debtor's bankruptcy or similar request in respect of the debtor's credit obligation.
- The debtor defaulted for more than 90 days in the repayment of any material credit obligation

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to the model of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Bank's expected loss calculations.

An instrument is considered to be no longer in default (i.e. to have been cured) when it no longer meets any of the default criteria for a consecutive period of 3 months. This period of 3 months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

The Bank applies a three-stage approach to measuring ECL on financial instruments accounted for at amortized cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and which are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of these assets have occurred.

6. Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The expected credit loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition of a specific facility or whether an asset is considered credit-impaired. The Bank has adopted a forward exposure method for computing the ECL for each facility. The Bank has opted for a monthly granular computation of PD, EAD and LGD.

- **Probability of default (PD):**

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on externally and internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The collateral values have been modified using historical data to arrive at the appropriate collateral values for the purposes of calculating the loss resulting from the default.

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- **Loss given default (LGD):**

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

- **Exposure at Default (EAD)**

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

- **Expected credit losses**

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

Lifetime expected credit losses are expected credit loss resulting from all probable default events over the expected lifetime of the financial instrument. Expected credit losses are the probability-weighted average of credit losses and the weighing factor is the Probability of Default (PD) for a lifetime.

- The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.
- For amortizing products and bullet repayments loans, this is based on the contractual repayments owed by the borrower over a 12 month period or lifetime basis.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining committed limit by the time of default.
- The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.
- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/carrying values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and prices.
- Forward-looking economic information is also included in determining the 12-month and lifetime PD.
- There have been no significant changes in estimation techniques or significant assumptions made during the year.

7. **Importance of staging criteria**

- Staging is based on the assessment of movement in the credit quality of the loans since initial recognition.
- Loans in Stage 3 are those loans for which the Bank has objective evidence of impairment. Accordingly, specific provision is recorded for such exposures.
- The transition from one stage to another is based on an assessment of the change in credit risk (which is measured using the risk of lifetime risk of default) and not through the absolute credit risk at the reporting date.

8. **Forward looking information incorporated in the ECL model**

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Bank's experts team. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

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9. IFRS 9 Governance

This section describes the roles and responsibilities of the Committees and groups, related to the IFRS 9 process at the Bank.

- Board of Directors (BoD)

The Board will be responsible for:

- Approving the IFRS 9 Framework, that has been recommended by RMC.
- Maintaining ECL allowances at appropriate levels, as well as monitoring and supervising appropriate credit risk policies for assessment and measurement, including internal control systems in place to consistently determine allowances in accordance with the stated policies and procedures, the applicable accounting framework and relevant supervisory guidance.

The BoD may delegate the responsibility of reviewing the detailed IFRS 9 related policies to the Risk Management Committee ("RMC").

The Risk Management Committee will be responsible for:

- Reviewing and recommending the IFRS 9 framework to the BoD.
- Reviewing the implementation of IFRS 9 and ensuring the appropriate steps for compliance.
- Reviewing and approving the periodic disclosures in accordance with the Standard.
- Recommending adjustments to the business models, framework, methodology and policies and procedures.

Internal Audit Department:

Internal Audit Department will be independently responsible for:

- Ensuring the Bank's overall compliance with the Standard;
- Reviewing the methodology and assumptions to ensure compliance; and
- Ensuring that the expected and related credit losses are proportionate to the Bank.

Risk Management Department:

The Head of Risk Management and his/ her respective personnel in the department will be responsible for:

- Coordinating between the different departments and units to manage the implementation of IFRS 9;
- Assisting in creating and reviewing the framework and methodology to be implemented by the Bank;
- Creating the expected credit loss models in compliance with the Standard; and
- Evaluating the impact of the ECL on the capital adequacy ratio.

Credit Control Department:

- Credit Control Department is responsible for:
- Identifying the stages of each customer;
- Reviewing the calculation for each customer; and
- Updating customer's information for IFRS 9 calculations.

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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.

Total credit risk exposures (before collaterals and other mitigating factors):

	2019	2018
Consolidated statement of financial position items		
Balances with Palestine Monetary Authority	36,500,000	28,824,355
Balances with banks and financial institutions	103,478,939	82,000,186
Direct credit facilities:		
Retail	104,823,593	96,651,162
Corporates	102,735,497	111,191,143
Public sector facilities	18,470,542	10,240,553
Financial assets at fair value through the statement of income	2,185,160	3,917,720
Financial assets at amortised cost	18,162,991	23,441,949
Other assets	9,882,100	5,128,174
	396,238,822	361,395,242
Items off the consolidated statement of financial position		
Guarantees	16,005,568	18,168,401
Letters of credits	2,859,518	771,273
Acceptances	3,277,845	3,461,389
Unutilised direct credit facilities limits	16,557,943	7,121,253
	38,700,874	29,522,316

The table above represents the maximum limit of the Bank's credit risk exposure as at 31 December 2019 and 2018, without taking into consideration the collateral and the other factors which will decrease the Bank's credit risk.

For the statement of financial position items, the exposure in the above table is based on the balances as appeared on the statement of financial position, in addition to the related accrued interests.

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Credit risk: (continued)

Following is the macroeconomic factors impact on the forward-looking information based on multiple scenarios as at 31 December 2019 and 2018:

Macroeconomic factors	Used Scenario	Weighting for each scenario (%)	Percentage Change in economic variables (%)
			2019
Gross domestic product (GDP)	Base scenario	80	0.40
	Best scenario	10	1.53
	Worst scenario	10	(0.73)
Unemployment rates	Base scenario	80	0.03
	Best scenario	10	0.08
	Worst scenario	10	(0.08)
Macroeconomic factors	Used Scenario	Weighting for each scenario (%)	Percentage Change in economic variables (%)
			2018
Gross domestic product (GDP)	Base scenario	80	0.40
	Best scenario	10	2.32
	Worst scenario	10	(1.52)
Unemployment rates	Base scenario	80	0.01
	Best scenario	10	0.07
	Worst scenario	10	(0.05)

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Credit risk: (continued)

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	Exposure at default (EAD)	LGD%
Balances with banks and financial institutions	Stage 1	103,527,852	48,913	0.0010	AA- / BB-/Unrated	103,527,852	45%
Direct credit facilities							
Corporates	Stage 1	83,446,903	219,345	0.0097	-	84,360,181	27%
	Stage 2	14,310,939	76,717	0.0140	-	14,496,609	38%
	Stage 3	6,264,955	827,121	0.2979	-	6,264,956	44%
		104,022,797	1,123,183			105,121,746	
Retail	Stage 1	86,677,269	422,781	0.0090	-	89,049,410	53%
	Stage 2	11,977,392	139,804	0.0217	-	12,040,236	53%
	Stage 3	9,175,382	1,909,172	0.3676	-	9,175,382	57%
		107,830,043	2,471,757			110,265,028	
Government and public sector	Stage 1	18,560,383	89,841	0.0131		18,560,383	37%
Total direct facilities		230,413,223	3,684,781	-	-	233,947,157	-
Indirect credit facilities	Stage 1	35,305,799	19,865	0.0010	-	4,430,155	56%
	Stage 2	3,395,075	4,978	0.0029		598,530	53%
Debt instrument at amortised cost	Stage 1	17,376,409	152,745	0.0228	-	17,376,409	39%
	Stage 2	1,000,000	2,822	0.0063	-	1,000,000	45%

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Credit risk exposure for each risk rating

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

	Retail	Corporates	Government and public sector	Total
31 December 2019				
Low risk	81,739,735	60,341,875	18,560,383	160,641,993
Acceptable risk	8,937,535	30,135,826	-	39,073,361
Watch list	8,097,105	7,280,140	-	15,377,245
Non-performing:				
Substandard	2,222,584	3,563,906	-	5,786,490
Doubtful	6,833,084	2,701,050	-	9,534,134
Total	107,830,043	104,022,797	18,560,383	230,413,223
Suspended interest and commissions	(534,693)	(164,117)	-	(698,810)
Impairment allowance for facilities	(2,471,757)	(1,123,183)	(89,841)	(3,684,781)
	104,823,593	102,735,497	18,470,542	226,029,632

	Retail	Corporates	Government and public sector	Total
31 December 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

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

	Retail	Corporates	Total
31 December 2019			
Collaterals against:			
Low risk	47,793,542	51,262,483	99,056,025
Acceptable risk	13,864,518	6,302,027	20,166,545
Watch list	7,877,797	12,438,547	20,316,344
Non-performing:			
Substandard	92,896	108,658	201,554
Doubtful	3,136,159	3,329,050	6,465,209
Total	72,764,912	73,440,765	146,205,677
Comprising:			
Cash insurance	10,191,941	15,424,554	25,616,495
Quoted shares	7,155,896	3,516,960	10,672,856
Vehicles and equipment	7,587,451	8,760,852	16,348,303
Property	47,829,624	45,738,399	93,568,023
	72,764,912	73,440,765	146,205,677

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Credit risk exposure for each risk rating (continued)

	Retail	Corporates	Total
31 December 2018			
Collaterals 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 insurance	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
Property	37,904,489	66,498,180	104,402,669
	68,940,053	83,945,610	152,885,663

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Credit risk exposure for each risk rating (continued)

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

	Inside Palestine	Jordan	Israel	Europe	USA	Others	Total
2019							
Balances with Palestine Monetary Authority	36,500,000	-	-	-	-	-	36,500,000
Balances with banks and financial institutions	33,578,287	14,538,985	24,017,356	17,601,772	5,991,621	7,750,918	103,478,939
Direct credit facilities	225,831,253	198,379	-	-	-	-	226,029,632
Financial assets at fair value through the statement of income	-	-	-	-	-	2,185,160	2,185,160
Financial assets at amortised cost	9,376,410	2,000,000	-	1,962,048	-	4,824,533	18,162,991
Other assets	9,882,100	-	-	-	-	-	9,882,100
Total as at 31 December 2019	315,168,050	16,737,364	24,017,356	19,563,820	5,991,621	14,760,611	396,238,822
Total as at 31 December 2018	293,986,430	15,156,662	8,453,077	32,632,579	4,321,578	7,140,641	361,690,967
Items off the consolidated statement of financial position:							
Guarantees	7,701,245	-	425,445	-	-	7,878,878	16,005,568
Letters of credits	-	-	-	-	-	2,859,518	2,859,518
Acceptances	-	-	-	-	-	3,277,845	3,277,845
Unutilised direct credit facilities limits	16,557,943	-	-	-	-	-	16,557,943
Total as at 31 December 2019	24,259,188	-	425,445	-	-	14,016,241	38,700,874
Total as at 31 December 2018	28,751,043	562,712	208,561	-	-	-	29,522,316

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Credit risk exposure for each risk rating (continued)

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

	Financial	Industrial and tourism	Trade	Properties	Securities	Government and public sector	Others	Total
2019								
Balances with Palestine Monetary Authority	36,500,000	-	-	-	-	-	-	36,500,000
Balances with banks and financial institutions	103,478,939	-	-	-	-	-	-	103,478,939
Direct credit facilities	17,993,649	28,145,263	68,856,721	44,332,338	1,129,395	18,514,083	47,058,183	226,029,632
Financial assets at fair value through the statement of income	2,185,160	-	-	-	-	-	-	2,185,160
Financial assets at amortised cost	9,780,497	-	-	-	-	8,382,494	-	18,162,991
Other assets	9,882,100	-	-	-	-	-	-	9,882,100
Total as at 31 December 2019	179,820,345	28,145,263	68,856,721	44,332,338	1,129,395	26,896,577	47,058,183	396,238,822
Total as at 31 December 2018	147,393,492	28,069,696	70,153,168	47,391,459	803,645	10,328,507	57,550,613	361,690,580

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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 exchange rate is equal and opposite to the increase shown below:

Currency	2019		2018	
	Increase in the exchange rate	Interest income sensitivity (Consolidated statement of income)	Increase in the exchange rate	Interest income sensitivity
	Basis point		Basis point	
USD	10+	138,117	10+	45,636
Jordanian Dinar	10+	(6,944)	10+	(9,924)
Israeli Shekel	10+	(44,754)	10+	(46,813)
Euro	10+	381	10+	2,697
Other currencies	10+	20	10+	69

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Re-pricing interest gap

	Less than 1 month	From 1 month to 3 months	From 3 months to 6 months	Interest rate re-pricing gap			Total
				From 6 months to 1 year	More than 1 year	Non-interest bearing items	
31 December 2019							
Assets							
Cash and balances with Palestine Monetary Authority	-	-	-	-	-	84,589,336	84,589,336
Balances with banks and financial institutions	-	-	56,602,547	-	-	46,876,392	103,478,939
Financial assets at fair value through the statement of income	-	-	-	-	2,185,160	3,405,336	5,590,496
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-
Direct credit facilities	51,534,345	8,713,015	25,051,038	26,657,815	114,073,419	21,549,520	21,549,520
Financial assets at amortised cost	-	-	-	3,376,410	14,786,581	-	226,029,632
Other assets	-	-	-	-	-	11,433,042	11,433,042
Deferred tax assets	-	-	-	-	-	988,172	988,172
Right of use assets	-	-	-	-	-	2,003,410	2,003,410
Intangible assets	-	-	-	-	-	1,230,991	1,230,991
Property, plant and equipment	-	-	-	-	-	26,847,421	26,847,421
Total assets	51,534,345	8,713,015	81,653,585	30,034,225	131,045,160	198,923,620	501,903,950
Liabilities							
Deposits with banks and financial institutions	-	22,351,226	-	-	-	411,696	22,762,922
Customers' deposits	251,939,738	13,764,337	11,842,976	61,523,260	-	-	339,070,311
Cash insurance	6,322,434	6,050,565	2,776,435	5,240,977	5,120,834	330,035	25,841,280
Tax provision	-	-	-	-	-	305,560	305,560
Subsidiaries loans	-	-	-	-	1,000,000	-	1,000,000
Various provisions	-	-	-	-	-	3,657,409	3,657,409
Lease liabilities	-	-	-	-	1,867,662	-	1,867,662
Other liabilities	-	-	-	-	-	7,697,764	7,697,764
Total liabilities	258,262,172	42,166,128	14,619,411	66,764,237	7,988,496	12,402,464	402,202,908
Equity							
Paid-up capital	-	-	-	-	-	78,000,000	78,000,000
Statutory reserve	-	-	-	-	-	9,435,295	9,435,295
General banking risks reserve	-	-	-	-	-	2,481,489	2,481,489
Pro-cyclicality reserve	-	-	-	-	-	1,723,266	1,723,266
Fair value reserve	-	-	-	-	-	322,125	322,125
Excess from revaluation of assets	-	-	-	-	-	3,212,555	3,212,555
Retained gains	-	-	-	-	-	4,526,312	4,526,312
Total equity	-	-	-	-	-	99,701,042	99,701,042
Total liabilities and equity	258,262,172	42,166,128	14,619,411	66,764,237	7,988,496	112,103,506	501,903,950
Interest rate re-pricing gap	(206,727,827)	(33,453,113)	67,034,174	(36,730,012)	123,056,664	86,820,114	-
Cumulative Gap	(206,727,827)	(240,180,940)	(173,146,766)	(209,876,778)	(86,820,114)	-	-

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Re-pricing interest gap (continued)

	Less than 1 month	From 1 month to 3 months	From 3 months to 6 months	Interest rate re-pricing gap		
				From 6 months to 1 year	More than 1 year	Non-interest bearing items
31 December 2018						Total
Assets						
Cash and balances with Palestine Monetary Authority	28,824,355	-	-	-	-	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	7,511,468
Financial assets at fair value through other comprehensive income	-	-	-	-	-	3,593,748
Financial assets at amortised cost	-	-	-	-	-	1,631,280
Property, plant and equipment	-	-	-	-	23,441,949	23,441,949
Deferred tax assets	-	-	-	-	-	24,997,359
Intangible assets	-	-	-	-	-	815,917
Other assets	-	-	-	-	-	1,164,836
Total assets	159,039,045	8,056,341	21,751,733	22,291,610	145,128,339	8,018,939
Liabilities						
Deposits with banks and financial institutions	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 insurance	9,562,817	2,000,044	3,250,233	7,055,622	-	21,868,716
Various provisions	-	-	-	-	-	3,110,005
Other liabilities	-	-	-	-	-	6,247,448
Total liabilities	275,371,369	22,294,585	22,831,466	27,411,862	-	9,357,453
Equity						
Paid-up capital	-	-	-	-	-	75,000,000
Statutory reserve	-	-	-	-	-	8,978,821
General banking risks reserve	-	-	-	-	-	2,481,489
Pro-cyclicality reserve	-	-	-	-	-	3,788,055
External branch reserve	-	-	-	-	-	935,211
Excess from revaluation of assets	-	-	-	-	-	3,212,555
Fair value reserve	-	-	-	-	-	(112,942)
Retained gains	-	-	-	-	-	3,262,102
Total equity	-	-	-	-	-	97,545,291
Total liabilities and equity	275,371,369	22,294,585	22,831,466	27,411,862	-	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	-

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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:

Currency	2019		2018	
	Increase in the exchange rate (%)	Effect on statement of income	Increase in the exchange rate (%)	Effect on Consolidated statement of income
Euro	10+	65,372	10+	343,585
Israeli Shekel	10+	(173,223)	10+	(263,949)
Jordanian Dinar	10+	7,949	10+	121,831
Other currencies	10+	1,938	10+	6,848

Following is the foreign currencies position of the Bank:

	JOD	Euro	Israeli Shekel	Others	Total
31 December 2019					
Assets					
Cash and balances with Palestine Monetary Authority	9,800,925	1,360,623	50,716,713	-	61,878,261
Balances with banks and financial institutions	22,799,073	3,761,612	40,730,932	439,694	67,731,311
Direct credit facilities	5,684,929	2,173,139	(16,913,401)	(146,301)	(9,201,634)
Other assets	441,428	68,339	6,964,474	-	7,474,241
Total assets	38,726,355	7,363,713	81,498,718	293,393	127,882,179
Liabilities					
Deposits with banks and banking institutions	7,007,052	-	9,703,136	-	16,710,188
Customers' deposits	28,421,068	5,553,473	58,868,329	273,275	93,116,145
Cash insurance	2,346,251	984,265	12,767,384	-	16,097,900
Other liabilities	872,493	172,254	1,892,097	743	2,937,587
Total liabilities	38,646,864	6,709,992	83,230,946	274,018	128,861,820
Net concentration in financial position	79,491	653,721	(1,732,228)	19,375	(979,641)
Contingent liabilities outside the financial position	340,075	2,702,257	5,597,556	-	8,639,888
	Jordanian Dinar	Euro	Israeli Shekel	Others	Total
31 December 2018					
Total assets	42,793,909	11,372,391	172,666,456	398,529	227,231,285
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

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Derivative financial instruments are as follows:

The following table below shows details of the derivative financial instruments at year-end:

	Positive fair value	Negative fair value	Par value of maturity		
			Total par value	Within 3 months	More than 3 months
2019					
Currency sale contracts	-	-	6,405,108	2,401,103	4,004,005
Currency purchase contracts	-	2,677	6,402,431	2,387,957	4,014,474
2018					
Currency sale contracts	-	-	3,802,922	-	3,802,922
Currency purchase contracts	-	1,066	3,801,856	-	3,801,856

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:

Indicator	Increase in indicator (%)	2019		2018	
		Effect on Consolidated statement of income	Effect on Equity	Effect on Consolidated statement of income	Effect on Equity
Foreign markets	10	559,050	2,154,952	715,686	23,128
Local markets	10	-	-	35,461	140,000
		559,050	2,154,952	751,147	163,128

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 impact of a liquidity risk is identified by ascertaining the extent of the liquidity of the Bank's assets and liabilities to convert liquid and semi-liquid assets into cash with the least amount of losses if the prices decrease. The Bank should provide assets that can be sold at a price that is close to its fair value. Accordingly, the liquidity risk which the Bank may be subject to can be divided into the following:

A- Funding Liquidity Risk: the inability of the Bank to convert assets into cash, or obtain financing to meet commitments.

B- Market Liquidity Risk: the inability of the Bank to sell assets in the market or the sale of these assets at a large financial loss due to the poor liquidity or demand in the market.

The Treasury and Investment Department is responsible for managing the Bank's liquidity, while the Asset and Liability Committee (ALCO) manages, measures and monitors the liquidity risk which are governed by pre-set policies and procedures as well as the Contingency Funding Plan. The Committee is tasked with monitoring and controlling liquidity and ensuring the optimum strategic distribution of the Bank's assets and liabilities, whether in the on/off- consolidated statement of financial position items of it in coordination with the Head of Treasury and Investment Department. The management of liquidity risk is conducted within the following group of inputs:

1. A set of policies and procedures approved by the committees which determine principles, definition, management, measurement and monitoring of liquidity risk.
 - a. Analysis of the liquidity position of the Bank based on the following liquidity reports:
 - Time gap analysis of assets and liabilities.
 - Legal liquidity ratio, liquidity according to maturity grade (in US Dollars and foreign currencies).
 - Customers' deposits (in US Dollars and foreign currencies).
 - Liquidity Indicators Report.
 - Stress testing.

The Treasury and Investment Department diversifies funding sources and matches its maturity dates, and maintains sufficient liquid assets, in order to mitigate liquidity risk. Accordingly, this is accomplished through:

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Analysis and monitoring of assets and liabilities maturity dates: the Bank examines its assets and liabilities as well as any changes that may occur on a daily basis. Through the Asset and Liability Committee, the Bank seeks to achieve a balance between the maturity dates of the assets and liabilities and monitors the gaps in relation to those specified by the policies of the Bank.

Liquidity Contingency Plan: Assets and Liabilities Risk Management Committee submits its recommendations regarding the liquidity risk management and its procedures and sets necessary orders to apply the effective monitoring controls and issues reports regarding liquidity risk and the ability to adhere to the policies and controls. This is in addition to providing analytical resources to senior management including monitoring all the technical updates related to the measurements and liquidity risk and its applications.

Geographical and sectorial distribution: the assets and liabilities of the Bank are distributed regularly into local and foreign investments depending on more than one financial and capital market. The facilities are also distributed among several sectors and geographical regions while maintaining a balance between providing customer and corporate credit. Furthermore, the Bank seeks to diversify the sources of funding and their maturity dates.

Cash reserves at the banking monitoring authorities: The Bank maintains statutory cash reserves at the Palestinian Monetary Authority amounting to USD 23,602,832.

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Credit risk (continued)

Below are the details of the Bank's assets and liabilities (undiscounted) based on the remaining periods as they are due, as at 31 December 2019 and 2018:

31 December 2019	Less 1 month	From 1 month to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 3 Years	More than than 3 years	Without Maturity	Total
Assets:								
Cash and balances with Palestine Monetary Authority	12,897,168	-	-	-	-	-	71,692,168	84,589,336
Balances with banks and financial institutions	40,164,195	6,525,263	56,789,481	-	-	-	-	103,478,939
Financial assets at fair value through the statement of income	-	-	5,590,496	-	-	-	-	5,590,496
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	21,549,520	21,549,520
Direct credit facilities	56,172,436	9,497,186	27,305,631	29,057,018	91,970,703	32,567,043	-	246,570,017
Financial assets at amortised cost	-	-	-	-	18,162,991	-	-	18,162,991
Other assets	8,216,246	-	-	2,389,740	685,428	-	141,628	11,433,042
Deferred tax assets	-	-	-	-	-	988,172	-	988,172
Right of use assets	-	-	-	-	-	-	2,003,410	2,003,410
Intangible assets	-	-	-	-	-	-	1,230,991	1,230,991
Property, plant and equipment	-	-	-	-	-	-	26,847,421	26,847,421
Total assets	117,450,045	16,022,449	89,685,608	31,446,758	110,819,122	33,555,215	123,465,138	522,444,335
Liabilities:								
Deposits with banks and banking institutions	412,382	22,425,730	-	-	-	-	-	22,838,112
Customers' deposits	252,359,638	13,810,218	11,902,191	62,138,493	-	-	-	340,210,540
Cash insurance	6,332,971	6,070,734	2,790,317	5,293,387	5,223,251	-	336,636	26,047,296
Tax provision	-	-	-	305,560	-	-	-	305,560
Subsidiaries loans	4,167	8,333	12,500	50,000	1,004,167	-	-	1,079,167
Various provisions	-	-	-	-	-	3,657,409	-	3,657,409
Lease liabilities	23,933	47,866	71,799	143,598	861,588	718,878	-	1,867,662
Other liabilities	-	225,000	168,664	418,837	5,287,666	864,561	733,036	7,697,764
Total liabilities	259,133,091	42,587,881	14,945,471	68,349,875	12,376,672	5,240,848	1,069,672	403,703,510
Equity:								
Paid-up capital	-	-	-	-	-	-	78,000,000	78,000,000
Statutory reserve	-	-	-	-	-	-	9,435,295	9,435,295
General banking risks reserve	-	-	-	-	-	-	2,481,489	2,481,489
Pro-cyclicality reserve	-	-	-	-	-	-	1,723,266	1,723,266
Fair value reserve	-	-	-	-	-	-	322,125	322,125
Excess from revaluation of assets	-	-	-	-	-	-	3,212,555	3,212,555
Retained gains	-	-	-	-	-	-	4,526,312	4,526,312
Total equity	-	-	-	-	-	-	99,701,042	99,701,042
Total liabilities and equity	259,133,091	42,587,881	14,945,471	68,349,875	12,376,672	5,240,848	100,770,714	503,404,552
Maturity gap	(141,683,046)	(26,565,432)	74,740,137	(36,903,117)	98,442,450	28,314,367	22,694,424	19,039,783
Cumulative Gap	(141,683,046)	(168,248,478)	(93,508,341)	(130,411,458)	(31,969,008)	(3,654,641)	19,039,783	-

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Credit risk (continued)

31 December 2018

Assets:	Less than 1 month	From 1 month to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 3 Years	More than 3 years	Without Maturity	Total
Cash and balances with Palestine Monetary Authority	28,824,355	-	-	-	-	-	58,322,879	87,147,234
Balances with banks and financial institutions	60,608,637	1,551,703	-	-	-	-	19,839,846	82,000,186
Direct credit facilities	54,245,587	7,089,634	23,709,389	24,297,855	47,201,212	81,166,639	-	237,710,316
Financial assets at fair value through the statement of income	-	-	-	-	-	3,917,720	3,593,748	7,511,468
Financial assets at fair value through the statement of comprehensive income	-	-	-	-	-	-	1,631,280	1,631,280
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	4,156,531	-	-	2,441,513	577,219	-	843,676	8,018,939
Total assets	147,835,110	8,641,337	28,319,641	26,739,368	47,778,431	103,916,056	111,209,541	474,439,484
Liabilities:								
Deposits with banks and banking institutions	40,673,268	2,658,232	-	-	-	-	19,110	43,350,610
Customers' deposits	223,853,070	17,989,035	19,973,487	20,763,365	5,764,798	-	-	288,343,755
Cash insurance	4,662,498	2,000,044	3,250,233	4,900,319	7,055,622	-	-	21,868,716
Various provisions	-	-	-	-	-	-	3,110,005	3,110,005
Other liabilities	-	234,260	47,397	45,672	3,721,574	718,249	1,480,296	6,247,448
Total liabilities	269,188,836	22,881,571	23,271,117	25,709,356	16,541,994	718,249	4,609,411	362,920,534
Equity:								
Paid-up 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	-	-	-	-	-	-	(112,942)	(112,942)
Retained gains	-	-	-	-	-	-	3,262,102	3,262,102
Total equity	-	-	-	-	-	-	97,545,291	97,545,291
Total liabilities and equity	269,188,836	22,881,571	23,271,117	25,709,356	16,541,994	718,249	102,154,702	460,465,825
Maturity gap	(121,353,726)	(14,240,234)	5,048,524	1,030,012	31,236,437	103,197,807	9,054,839	13,973,659
Cumulative Gap	(121,353,726)	(135,593,960)	(130,545,436)	(129,515,424)	(98,278,987)	4,918,820	13,973,659	-

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Liquidity coverage ratio

In 2018, the Palestinian 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 at enhancing 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.

	2019		2018	
	Value before applying the discount ratio/ flows (average)	Value after applying the discount ratio/ flows (average)	Value before applying the discount ratio/ flows (average)	Value after applying the discount ratio/ flows (average)
High quality liquidity stocks				
Total cash outflows issued for high-quality assets		174,885,908		174,885,908
Retail deposits including small enterprises:				
Stable deposits	83,584,998	79,405,749	84,156,831	79,948,989
Deposits less stable	72,603,996	65,343,597	52,247,457	45,558,407
Deposits and unsecured forms of financing for non-retail and small enterprises:				
Operating deposits Non-operating deposits	295,892,976	14,821,412	319,275,448	12,690,416
Deposits and guaranteed financing		30,321,586		30,321,586
Cash outflows resulting from derivative contracts				
A. Outflows related to net exposures of derivatives				
B. outflows related to the requirements of guarantee of such contracts				
Assets-backed securities, covered bonds and other structures financing instruments				
Assets-backed securities, funds of investment securities and other similar financing instruments	28,293,787	27,903,750	31,998,626	25,407,921
Credit lines, irrevocable committed liquidity and revocable lines within a 30-day period	221,480,095	204,835,807	218,378,583	173,251,154
Any other contractual cash outflows				
Total cash outflow and cash inflows				
Guaranteed lending		174,695,759		217,614,575
Cash inflows from performing loans		11,565,942		2,309,892
Any other contractual cash inflows				
Cash inflows				
Total high quality assets		181,218,166		174,885,908
Net cash outflows		46,585,647		46,991,279
Liquidity coverage ratio (%)		389%		372%

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Net stable financing ratio

In 2018, the Palestinian 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:

	2019		2018	
	Amount before applying the discount	Amount after applying the discount	Amount before applying the discount	Amount after applying the discount
Regulatory capital	92,094,251	92,094,251	92,173,164	92,173,164
Retail deposits and small enterprises (stable)	137,283,732	130,419,545	84,156,831	79,948,989
Retail deposits and small enterprises (less stable)	63,390,396	53,468,764	52,247,457	45,558,407
Guaranteed and non-guaranteed financing (deposits):	70,925,489	8,959,280	36,666,795	18,333,398
Other financing and deposits: Classes of other obligations (not included within the above classes)	-	-	43,350,610	-
Total stable financing available	216,504,214	284,941,840	308,594,857	236,013,958
Non-collateralised high liquid assets of level 1	94,199,590	93,719,077	169,968,441	159,518,307
Non-collateralised high liquid assets of level 2/ class (a)	64,396,876	63,430,923	64,396,876	965,953
Non-collateralised high liquid assets of level 2/ class (b)	11,478,592	5,739,296	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	12,406,118	12,406,118	8,980,055	5,837,036
All other assets	17,370,268	17,370,268	31,441,728	31,441,728
Credit facilities and conditional irrevocable and revocable conditional liquidity	170,759,014	84,316,150	173,251,154	173,251,154
Other potential future financing commitments	23,142,931	21,985,784	4,128,695	206,435
Total stable financing required	161,635,389	143,264,082	426,919,867	159,592,345
Net stable financing ratio	-	%196	-	148%

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Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failure of internal procedures, human factor or systems, or resulting from external events. From a management perspective, this definition also includes legal risk, strategic risk and reputational risk for the purposes of managing these types of risk.

Due to the continuous change in the working environment and the management's desire to remain in-sync with the latest technologies and developments in the field, in order to provide new banking services and products. The management of the Bank has developed an operational risk policy, and has generalized this concept to all its departments and branches, so that the policy includes all the main foundations and is aligned with the Bank's strategic objectives.

As a result, the Bank's strategies have been implemented to enhance the role of operational risk management which is represented by Operational Risk Management Framework, which includes all the Bank's divisions and branches. This requires determining, evaluating, supervising and rendering the operational risk to each branch separately as it is outlined in Basel committee accords through which control Risk Self-Assessment (CRSA) made by:

1. Holding "workshops" based on approved analyses, procedures and audit reports, which in turn help to define risks, controls, and organizational gaps through the risk matrix. In this context, they are a model of regulatory examinations and tests for which unit, department and branch managers, or their representatives, are responsible for coordinating.
2. Setting major risk indicators in order to fully cover the Bank, including its various branches.
3. Providing a mechanism to collect operational events and calculate expected losses based on the events, using an "actuarial model"; which helps to determine risk tolerance "risk appetite" for each level separately.
4. Supervising the renovation and development of a business continuity plan in the Bank.

From this point, the continuity and effectiveness of operational risk management is an integral part of the responsibilities of all those concerned with applications affairs at the Bank and at all levels, through:

1. Compliance with regulatory examinations conducted by their schedules and without delay.
2. Presenting all results of regulatory tests and examinations in a precise and transparent manner.
3. Reporting and disclosing operational losses or events without delay or hesitation.
4. Adopting and implementing the recommendations "corrective actions/ recommendations/ mitigation actions" that are put forward by the operational risk unit, that would mitigate the risks identified through holding workshops/ reporting of events or operational losses/ regulatory examinations and tests.
5. The role of the Board of Directors, Risk and Compliance Committee, senior management, the audit department is to activate activities related to operational risks as important and to make them an essential part of daily activities.

To ensure that the above is implemented, the operational risk management unit is keen to spread awareness and knowledge of the nature of the operational risk management process through holding workshops and training courses for all departments of the Bank, as well as by creating an effective work environment between the operational risk management unit and the relevant parties from all departments. In addition, the Operational Risk Management Unit is responsible for reporting to the Internal Risk Committee in all matters related to any deficiencies or violations. This will ultimately improve the readiness of both departments/ units for risk, and hence the preparedness of the Bank as a whole.

In addition to the above, the operational risk management unit is concerned with the following:

1. Reviewing the Bank's internal policies and procedures to highlight the associated risks and work on minimizing such risks prior to implementation.
2. Conducting stress testing and observing the results.
3. Conducting internal capital assessments regarding operational risks in accordance with the instructions issued by the Palestinian Monetary Authority.
4. Continuously developing and improving the systems used.
5. Completing the work of developing an integrated program for business continuity plans.

Information Security:

The responsibility of the Information Security/ Risk Management Unit is to ensure the security, availability and accuracy of the Bank's data through the following:

1. Developing an information security program based on leading international standards.
2. Providing all the tools and ways to reduce information security risks.
3. Developing the necessary security policies related to information systems and sources.
4. Spreading security awareness continuously among the Bank's employees and ensure their compliance with the security program.
5. Managing security incidents related to information management systems and submit recommendations to senior management.
6. Setting security standards for the various information systems.
7. Working on developing a business continuity plan to ensure business continuity in emergency and disaster situations.
8. Determining the appropriate controls to reduce risks faced by the Bank by analysing various information security risks.
9. Preparing and developing necessary security measures regarding incidents that affect the security of information systems.
10. Managing incidents that affect the security of information systems and submit relevant recommendations to senior management.

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11. Ensuring the security and safety of various hardware, software and applications, by conducting risk analyses and international examinations to ensure the safe use of such resources.

Compliance risk

Compliance risk is defined as the risk of legal and regulatory sanctions, material loss or reputation risk that the Bank may be exposed to due to the non-compliance with the applicable prevailing laws, regulations, instructions, code of ethics and the correct Banking practices.

Compliance with the laws and regulations issued by the regulatory authorities represents one of the most important risks which the Bank might be exposed to, due to the major financial losses resulting from the violation of the laws and instructions that affect the Bank's reputation. Moreover, the past few years witnessed many new regulations, instructions and laws organising the work of the various institutions. Accordingly, the need for managing the compliance risk of the Bank is necessary. Moreover, compliance enhances the efficiency of managing risks and decreases the costs that the Bank might be exposed to as a result of non-compliance with the prevailing laws and instructions.

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Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability through a structured process between market participants at the measurement date, regardless of whether this price is directly observable or estimated using another valuation method. In estimating the fair value of an asset or a liability, the Bank takes into account these factors when pricing the asset or liability at the measurement date. The fair value for the purposes of the measurement and/or disclosure in these financial statements is determined on this basis, with the exception of measurements that are similar among themselves and one of the fair values, but not others, such as the value used in IAS 36.

The fair value of financial assets and liabilities that are not carried at fair value in the consolidated financial statements are not significantly different from their carrying values.

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

Financial instruments whose fair value approximates the carrying amount, which are monetary assets and financial liabilities or have a short maturity period (less than three months) and their carrying amount is close to their fair value.

Financial instruments with a fixed rate of interest: the fair value of financial assets and financial liabilities that are carried at amortized cost and that have a fixed rate of interest is estimated by comparing discounted cash flows using market interest rates when they are first included with the current market rates for similar financial instruments.

The following table shows an analysis of financial instruments that were measured at fair value after the initial recognition date:

- Level 1: Using (non-adjusted) quoted prices in active markets for identical assets or liabilities;
- Level 2: Using other methods in which all data that have a material impact on the recorded fair value can be observed directly or indirectly from market information.
- Level 3: Methods using inputs that have a material impact on the recorded fair value and are not based on observable data in the market.

Assets	2019			2018		
	Carrying amount	Level (1)	Fair Value Level (2)	Level (3)	Carrying amount	Fair Value Level (1) Level (2) Level (3)
Cash and balances with Palestine Monetary Authority	84,589,336	-	84,589,336	-	87,147,234	- 87,147,234 -
Balances with banks and financial institutions	103,478,939	-	103,478,939	-	82,000,186	- 82,000,186 -
Financial assets at fair value through the statement of income	5,590,496	5,590,496	-	-	7,511,468	7,511,468 - -
Financial assets at fair value through other comprehensive income	21,549,520	21,549,520	-	-	1,631,280	231,280 - 1,400,000
Liabilities						
Deposits with banks and banking institutions	22,762,922	-	22,762,922	-	43,350,610	- 43,350,610 -
Customers' deposits	339,070,311	-	339,070,311	-	282,689,956	- 282,689,956 -
Cash insurance	25,841,280	-	25,841,280	-	21,868,716	- 21,868,716 -

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Estimation of fair values

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments:

Direct credit facilities

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of loans at a fixed interest rate.

Investments carried at cost and derivatives

The fair value is based on market prices quoted at the reporting date, without discounting transaction costs. If quoted market prices are not available, the fair value is estimated based on discounted cash flows and other valuation techniques.

When using cash flow-based methods, estimated discounted cash flows are based on more accurate management estimates and discount rate. It represents the relevant market price for one of the similar instruments as at the reporting date.

Financial assets at fair value through OCI and fair value through income statement

The fair values of quoted investments are based on quoted bid prices as at the reporting date. Equity investments not carried at fair values are recognized and calculated according to appropriate valuation techniques based on income, market and cost approaches, or a combination thereof, or on the basis of capital account data or net asset values of investing companies received from independent fund managers and adjusted for subsequent cash flows, until the reporting date.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account when estimating fair values.

Financial instruments outside the statement of financial position and derivative financial instruments

No fair value adjustment is made with respect to credit-related financial instruments off- the statement of financial position, which represent contracts of guarantees, collaterals, and withdrawals, if they reflect the relevant future income flows and, materially, the contractual fees and commissions actually imposed on the date of the agreements with similar credit conditions and maturities.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in the carrying amounts of other assets and other liabilities.

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4. Bases 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 assets and liabilities and disclosure of contingent liabilities. These estimates and judgments also affect income, expenses and provisions as well as other comprehensive income. 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.

Judgments, estimates and assumptions are reviewed on an ongoing basis. The impact of change in estimates is recognised in the financial period in which the change occurs, if the change affects only the financial period or in the financial period in which the change occurs and in future periods if the change affects both current and future periods.

The Bank's management believes that its estimates in the consolidated financial statements are reasonable and detailed as follows:

Useful lives of tangible and intangible assets

Management reassesses the useful lives of tangible assets and intangible assets periodically for the purpose of calculating annual depreciation and amortisation based on the overall condition of those assets and estimates of expected useful lives in the future.

If the expected useful life is different from the previous life, the future difference will be recorded as a change in the accounting estimate.

Taxes provision

The management records annual tax expenses in accordance with local laws and regulations, and accounting standards. The management calculates and approves the deferred tax asset that represents recoverable income taxes through future deductions from taxable profits, and it is recorded in the consolidated statement of financial position. Deferred income tax assets are recognised to the extent where the realisation of relevant tax benefits is probable. Profits subject to future tax and the amount of potential tax benefits in the future are based on previous management experience, judgment, and assumptions that are believed to be reasonable under these circumstances, and the actual tax rate and elements of temporary differences are part of the management judgment in this area.

Provision for lawsuits

A provision is made for lawsuits filed against the Bank. This item is subject to an appropriate legal study prepared by the Bank's lawyer and advisors. These legal assessments are reviewed periodically.

Provision for end of service indemnity

End of service indemnity is provided in accordance with the Bank's internal regulations approved under the Palestinian Labour law.

Determination of lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The extension options (or periods after the termination options) are included only in the term of the lease if the lease is reasonably certain to be extended (or not terminated). The evaluation is reviewed in the event of a significant event or significant change in the circumstances that affect this evaluation and that are under the control of the lessee.

Discounting lease payments

Lease payments are discounted using the bank's incremental borrowing rate (IBR). Management applied provisions and estimates to determine IBR at the start of the lease.

Allowance for credit losses

Management uses significant judgments and estimates to estimate the amounts and timing of future cash flows, and the increased credit risk for the financial assets after initial recognition and future measurement information for the expected credit loss. The significant policies and estimates used by the Bank's management are explained in the notes to the consolidated financial statements.

Elements that have a significant impact on the allowance for credit loss include the definition of default, the significant increase in credit risk, probability of default (PD), exposure at default (EAD) and loss given default (LGD), as well as macroeconomic scenario models. The Bank regularly reviews and validates models and their inputs to reduce any differences between expected credit loss estimates and actual credit loss experience.

The details describing the allowance for credit losses and its components applied by the Bank are clarified in note (3).

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence, including how the performance of assets is evaluated and measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors

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financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held is appropriate. If the current assessment is inappropriate, a prospective change is made to the classification of those assets.

Impairment of non-financial assets

At each reporting date, the Bank makes sure of whether there are any indications of impairment of non-financial assets. Upon observing these indications, the Bank estimates the recoverable amount. The recoverable amount of these assets represents the fair value of the original/ cash generating unit less the higher of costs of sale or value in use. This assessment is calculated for each asset separately.

If the carrying amount exceeds the recoverable amount, the value of these assets for each cash-generating unit will be reduced to the recoverable amount. In order to calculate the value in use, the expected cash flows of these assets are discounted to their present value using a pre-tax discount rate that reflects current market estimates of the time value of money and the risks associated with those assets.

When calculating the fair value less the selling expenses, similar market transactions are considered, if any. In the absence of such transactions, other appropriate valuation techniques are used. The impairment losses are recorded in the consolidated statement of income.

Fair value measurement

When the fair values of the financial assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are extracted from observable market data, if possible, but when observable market data are not available, some judgments must be made to estimate fair values. These judgments include liquidity considerations and model inputs, such as fluctuation in the assumptions of undated hedging instruments, discount ratios, prepayment ratios and the default ratio of securities backed by assets. Management believes that the selected valuation techniques and the assumptions used are appropriate to determine the fair value of financial instruments.

Classification and measurement of financial assets

Classification and measurement of financial assets depend on the business model that management uses in dealing with its financial assets and the characteristics of the contractual cash flows of the financial asset being valued. The management is satisfied that the financial assets of the Bank are appropriately classified and measured.

Impairment of financial assets

An assessment of whether credit risk on financial assets has increased significantly since initial recognition and the use of future information in measuring the expected credit loss.

- Significant increase in credit risk

At the reporting date, the Bank assesses whether there has been a significant increase in credit risk for financial assets since the initial recognition by comparing the default risk that occurs over the expected life between the reporting date and the initial recognition date.

When determining whether there has been a significant increase in credit risk since the initial recognition, the Bank uses its historical experience, internal credit risk rating system, external risk ratings and expected information to assess the deterioration in the credit quality of a financial asset.

Each exposure is associated with a certain degree of credit risk upon initial recognition based on the information available on the borrower. Exposures are subject to continuous monitoring, which may result in the exposure being transferred to a different degree of credit risk.

- The significance of staging criteria

The stages are significant data for determining the expected credit loss according to the instructions of the Palestinian Monetary Authority and IFRS 9, as they determine the loans that will be in the first stage (expected credit loss for 12 months) and the second stage (lifetime expected credit loss). The classification within IFRS 9 is based on the movement assessment in the credit quality of loans since initial recognition. Loans classified in the third stage are loans for which there is objective evidence of impairment and for which certain provisions were formed.

- Credit impaired financial assets

A financial asset is credit-impaired when one or more events that have a negative impact on the estimated future cash flows of that financial asset have occurred and includes:

- The borrower is known to be experiencing difficulties in cash flows.
- The original contract payments or the accrued interests are past due.
- The loan pledges or conditions are breached.
- Realisable collateral is impaired.

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- The borrower is likely to enter into bankruptcy or financial reorganisation of any kind.
- The credit rating is significantly reduced by an external credit rating agency.

The instrument is no longer in default (i.e. default no longer exists) when it no longer meets any of the default criteria for a consecutive period of 3 months as defined in the regulatory directives.

- Measurement of expected credit loss

The amount of the expected credit loss is measured as the current weighted value of the liquidity deficit over 12 months (first stage) or over the expected lifetime of the financial asset (second and third stages) discounted at the actual original interest rate of the financial instrument.

The main inputs in measuring the expected credit loss are represented in the structure of the following variables:

- Probability of default (PD).
- Loss given default (LGD).
- Exposure at default (EAD).

These measures are generally derived from internally developed statistical models, other historical data and future information.

The Bank takes into account the historical loss experience and adjusts it to the current observable data. In addition, the Bank uses reasonable and supporting expectations of future economic conditions, including judgments with experience, to estimate the amount of expected impairment loss.

IFRS 9 uses macroeconomic factors, which include, but are not limited to, real annual growth in total GDP, and requires an assessment of both current and expected trends in the economic cycle. The consolidation of forward-looking information increases the level of judgment about how changes in macroeconomic factors will affect expected credit losses. The methodology and assumptions, including any forecasts for future economic conditions, are reviewed regularly.

- Establishing groups of assets with similar credit risk characteristics

When the expected credit loss is measured on a collective basis, the financial instruments are grouped based on common risk characteristics such as the type of instrument, the degree of credit risk, the type of collateral, the initial recognition date, the remaining period of maturity date, the industry, the borrower's geographic location, etc. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

5. Cash and balances with Palestine Monetary Authority

Item details

	2019	2018
Cash on hand	48,089,336	58,322,879
Balances with Palestine Monetary Authority:		
Current and demand accounts	12,897,168	8,587,367
Requirements of cash statutory reserve	23,602,832	20,236,988
	84,589,336	87,147,234

- 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 before 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%.

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6. Balances with banks and banking institutions

Item details

	2019	2018
Banks and banking institutions inside Palestine:		
Current accounts	128,305	39,079
Deposits maturing with 3 months and less	33,449,982	44,567,969
	33,578,287	44,607,048
Banks and banking institutions outside Palestine:		
Current accounts	46,751,699	19,800,767
Deposits maturing with 3 months and less	23,197,866	17,627,147
Provision for balances with banks and banking institutions in accordance with IFRS (9)	(48,913)	(34,776)
	69,900,652	37,393,138
	103,478,939	82,000,186

Restricted balances amounted to USD 4,201,441 as at December 31, 2019 and USD 3,580,084 as at December 31, 2018.

Non-interest bearing balances with banks and banking institutions as at December 31, 2019 and December 31, 2018 amounted to USD 46,876,392 and USD 19,839,846 respectively.

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

	The first stage	The second stage	The third stage	2019
Low risk/ performing	103,527,852	-	-	103,527,852
Acceptable risk/ performing	-	-	-	-
Total	103,527,852	-	-	103,527,852

	The first stage	The second stage	The third stage	2018
Low risk/ performing	19,839,846	-	-	19,839,846
Acceptable risk/ performing	62,195,116	-	-	62,195,116
Total	82,034,962	-	-	82,034,962

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6. Balances with banks and banking institutions (continued)

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

	The first stage	The second stage	The third stage	2019
Total balance as at the beginning of the year	82,034,962	-	-	82,034,962
New balances during the year	38,274,447	-	-	38,274,447
Balances repaid	(16,781,557)	-	-	(16,781,557)
Transferred to stage 1	-	-	-	-
Total	103,527,852	-	-	103,527,852

	The first stage	The second stage	The third stage	2018
Total balance as at the beginning of the year	97,934,158	-	-	97,934,158
New balances during the year	20,770,632	-	-	20,770,632
Balances repaid	(36,667,676)	(2,152)	-	(36,669,828)
Transferred to stage 1	28,576	(28,576)	-	-
Total	82,065,690	(30,728)	-	82,034,962

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

	The first stage	The second stage	The third stage	2019
Total balance as at the beginning of the year resulting from IFRS 9 application	34,776	-	-	34,776
Impairment loss on new balances and deposits during the year	179,802	-	-	179,802
Recoveries from impairment loss on repaid balances and deposits	(165,665)	-	-	(165,665)
Transferred to the first stage	-	-	-	-
Amendments resulting from changes in currency exchange	-	-	-	-
Total	48,913	-	-	48,913

	The first stage	The second stage	The third stage	2018
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

7. Financial assets at fair value through income

Item details

	2019			2018		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Quoted securities in financial markets	-	3,405,336	3,405,336	354,611	3,239,137	3,593,748
Quoted financial bonds in international markets	-	2,185,160	2,185,160	-	3,917,720	3,917,720
	-	5,590,496	5,590,496	354,611	7,156,857	7,511,468

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7. Financial assets at fair value through the statement of income (continued)

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
2019						
Quoted securities in financial markets	-	-	-	-	3,405,336	3,405,336
Quoted financial bonds in international markets	-	2,185,160	-	-	-	2,185,160
Total as at December 31, 2019	-	2,185,160	-	-	3,405,336	5,590,496
2018						
Quoted securities in financial markets	354,611	-	-	-	3,239,137	3,593,748
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	3,239,137	7,511,468

8. Financial assets at fair value through other comprehensive income

Item details

	2019	2018
Quoted securities in financial markets (equity instruments)	21,549,520	231,280
Unquoted securities (equity instruments)	-	1,400,000
	21,549,520	1,631,280

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

	2019	2018
Balance at the beginning of the year	(112,942)	(70,948)
Change in fair value	635,067	(41,994)
Profits on sale of financial assets at fair value through other comprehensive income recognised in retained earnings (equity instruments)	(200,000)	-
Balance at end of the year	322,125	(112,942)

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

	Palestine	Others (Investment funds)	Total
2019			
Securities in financial markets	116,920	21,432,600	21,549,520
Total as at December 31, 2019	116,920	21,432,600	21,549,520
2018			
Securities in financial markets	231,280	-	231,280
Unquoted securities	1,400,000	-	1,400,000
Total as at December 31, 2018	1,631,280	-	1,631,280

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9. Direct credit facilities, net

Item details

	2019	2018
Retail		
Loans and discounted bills	85,125,893	77,169,188
Current accounts receivable	20,594,706	18,820,683
Credit cards	2,109,444	2,103,121
Corporates		
Loans and discounted bills	85,996,948	87,580,238
Current accounts receivable	18,025,849	25,575,359
Government and public sector	18,560,383	10,328,507
	230,413,223	221,577,096
Suspended interest and commissions	(698,810)	(512,812)
Direct credit facilities impairment charges	(3,684,781)	(2,981,426)
	226,029,632	218,082,858

- Total credit facilities rated, net of suspended interests, according to PMA regulations as at December 31, 2019 amounted to USD 12,406,118 representing 5.4% of the total credit facilities (compared to USD 7,940,794 representing 3.58% of the total credit facilities as at December 31, 2018).
- Total credit facilities in default, net of suspended interests, according to PMA regulations as at December 31, 2019 amounted to USD 11,487,050 representing 4.98% of the total credit facilities (compared to USD 7,503,694 representing 3.39% of the total credit facilities as at December 31, 2018).
- Total credit facilities granted to the Palestinian National Authority and by its guarantee amounted to USD 18,560,383 representing 8% of total direct credit facilities at December 31, 2019 (compared to USD 10,328,507 representing 4.66% as at December 31, 2018).
- Credit facilities amount granted to non-residents amounted to USD 198,378 as at December 31, 2019 (against USD 245,879 as at December 31, 2018).
- The fair value of guarantees provided against credit facilities amounted to USD 146,205,677 and USD 152,885,663 as at December 31, 2019 and 2018, respectively.

Suspended interests and commissions

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

	2019	2018
Balance at the beginning of the year	512,812	383,114
suspended interests during the year	281,225	273,157
Suspended interests transferred to revenues	(10,676)	(68,527)
Suspended interest written off	(4,067)	(4,418)
Disposal of suspended suspended interests on credit facilities that have been defaulted for over 6 years	(80,484)	(70,514)
Balance at end of the year	698,810	512,812

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

	2019	2018
Balance at the beginning of the year	2,981,426	2,381,201
Additions during the year	1,224,776	1,258,350
Recoverable provisions	(483,129)	(445,930)
Net provision for impairment of direct credit facilities	741,647	812,420
Disposal of impairment allowance for direct credit facilities that have been defaulted for over 6 years:		
Currency differences	(144,766)	(965,596)
Impact of the adoption of IFRS 9	106,474	(92,445)
	—	845,846
Balance at the end of the year	3,684,781	2,981,426

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

	2019	2018
The first stage	731,967	856,447
The second stage	216,521	116,951
The third stage	2,736,293	2,008,028
	3,684,781	2,981,426

Net provision for impairment shown in the consolidated statement of income comprise the following:

	2019	2018
Additional provisions for direct credit facilities of the third stage	1,224,776	1,130,798
Recoverable provisions on direct credit facilities of the third stage	(458,219)	(902,744)
Net (recoveries) additions and transfers from the provision for impairment of direct credit facilities of the first and second stages	(24,910)	127,552
Net additions and transfers from provision for impairment of balances with banks and banking institutions	14,137	34,776
Net (recoveries) additions and transfers from the provision for impairment of financial assets at amortised cost	(56,831)	212,398
Net additions and transfers from provision for impairment of indirect credit facilities	1,666	23,177
Recoverable provisions on off-balance sheet direct credit facilities (more than 6 years)	(47,149)	(72,571)
	653,470	553,386

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	2019
Low risk	188,684,555	9,556,096	-	198,240,651
under control	-	16,732,235	-	16,732,235
Non-performing	-	-	5,259,313	5,259,313
Sub-standard	-	-	10,181,024	10,181,024
Doubtful	-	-	-	-
Balance at the end of the year	188,684,555	26,288,331	15,440,337	230,413,223

	The first stage	The second stage	The third stage	2018
Low risk	138,679,414	-	-	138,679,414
Acceptable risk	49,401,244	24,872,749	170,083	74,444,076
under control	-	-	437,100	437,100
Non-performing	-	-	3,315,895	3,315,895
Substandard	-	-	4,700,611	4,700,611
Doubtful	-	-	-	-
Balance at the end of the year	188,080,658	24,872,749	8,623,689	221,577,096

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Movement in the total direct credit facilities aggregated is as follows:

	The first stage	The second stage	The third stage	2019
Total balance as at the beginning of the year	188,080,658	24,872,749	8,623,689	221,577,096
New balances during the year	57,872,594	-	-	57,872,594
Balances repaid	(40,110,477)	(14,345,095)	(1,626,050)	(56,081,622)
Transferred to stage 1	1,679,317	(1,498,654)	(180,663)	-
Transferred to the second stage	(17,753,930)	17,753,930	-	-
Transferred to the third stage	(3,958,650)	(4,960,211)	8,918,861	-
Changes resulting from adjustments	2,875,043	4,465,612	(149,732)	7,190,923
Bad balances	-	-	(145,768)	(145,768)
Balance at end of the year	188,684,555	26,288,331	15,440,337	230,413,223

	The first stage	The second stage	The third stage	2018
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	115,705,087	-	-	115,705,087
Balances repaid	(104,035,466)	(2,023,512)	(445,930)	(106,504,908)
Transferred to stage 1	5,267,585	(5,267,585)	-	-
Transferred to the second stage	(18,018,576)	18,018,576	-	-
Transferred to the third stage	(1,732,663)	(1,538,525)	3,271,188	-
Bad balances	-	-	(965,596)	(965,596)
Balance at 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 aggregated is as follows:

	The first stage	The second stage	The third stage	2019
Total balance as at the beginning of the year	856,447	116,951	2,008,028	2,981,426
New balances during the year	511,375	92,984	855,088	1,459,447
Balances repaid/ due	(247,834)	(94,296)	(404,838)	(746,968)
Transferred to stage 1	6,333	(6,247)	(86)	-
Transferred to the second stage	(239,645)	239,645	-	-
Transferred to the third stage	(150,871)	(140,965)	291,836	-
Changes resulting from adjustments	(3,838)	8,449	131,031	135,642
Bad balances	-	-	(144,766)	(144,766)
Balance at end of the year	731,967	216,521	2,736,293	3,684,781

	The first stage	The second stage	The third stage	2018
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 stage 1	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

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The distribution of the total direct credit facilities at amortised cost - for individuals according to the Bank's internal credit rating categories is as follows:

	The first stage	The second stage	The third stage	2019	2018
Low risk	86,677,269	4,979,344	-	91,656,613	82,307,050
under control	-	6,998,048	-	6,998,048	10,403,905
Non-performing	-	-	3,769,086	3,769,086	3,408,845
Sub-standard	-	-	5,406,296	5,406,296	1,973,192
Doubtful	-	-	-	-	-
Balance at the end of the year	86,677,269	11,977,392	9,175,382	107,830,043	98,092,992

Movement in the total direct credit facilities at amortised cost - for individuals is as follows:

	The first stage	The second stage	The third stage	2019	2018
Total balance as at the beginning of the year	82,240,018	10,461,339	5,391,635	98,092,992	71,276,060
New facilities during the year / additions	31,076,260	-	-	31,076,260	33,056,327
Facilities paid	(18,310,741)	(4,029,341)	(994,179)	(23,334,261)	(4,749,393)
Transferred to the first stage	1,678,979	(1,498,316)	(180,663)	-	-
Transferred to the second stage	(7,142,914)	7,142,914	-	-	-
Transferred to the third stage	(2,374,265)	(2,671,184)	5,045,449	-	-
Changes resulting from adjustments	(490,068)	2,571,980	-	2,081,912	(544,984)
Facilities written off	-	-	(86,860)	(86,860)	(945,018)
Balance at end of the year	86,677,269	11,977,392	9,175,382	107,830,043	98,092,992

Movement on the expected credit loss provision for direct credit facilities at amortised cost - for individuals is as follows:

	The first stage	The second stage	The third stage	2019	2018
Total balance as at the beginning of the year	446,972	68,525	1,478,541	1,994,038	1,929,879
New facilities during the year / additions	282,195	20,172	535,885	838,252	655,336
Facilities paid	(96,879)	(52,628)	(263,611)	(413,118)	(330,358)
Transferred to the first stage	6,333	(6,247)	(86)	-	-
Transferred to the second stage	(164,230)	164,230	-	-	-
Transferred to the third stage	(45,117)	(68,153)	113,270	-	-
Changes resulting from adjustments	(6,493)	13,905	131,031	138,443	684,199
Facilities written off	-	-	(85,858)	(85,858)	(945,018)
Balance at end of the year	422,781	139,804	1,909,172	2,471,757	1,994,038

The distribution of the total direct credit facilities at amortised cost - for companies according to the Bank's internal credit rating categories is as follows:

	The first stage	The second stage	The third stage	2019	2018
Low risk	83,446,903	4,576,752	-	88,023,655	92,015,620
under control	-	9,734,187	-	9,734,187	17,907,923
Non-performing	-	-	1,490,227	1,490,227	1,561,223
Sub-standard	-	-	4,774,728	4,774,728	1,670,831
Doubtful	-	-	-	-	-
Balance at the end of the year	83,446,903	14,310,939	6,264,955	104,022,797	113,155,597

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Movement in the total direct credit facilities at amortised cost - for companies is as follows:

	The first stage	The second stage	The third stage	2019	2018
Total balance as at the beginning of the year	95,512,133	14,411,410	3,232,054	113,155,597	128,209,186
New facilities during the year / additions	16,271,176	-	-	16,271,176	34,068,279
Facilities paid	(19,506,454)	(10,315,754)	(631,871)	(30,454,079)	(49,101,290)
Transferred to the first stage	338	(338)	-	-	-
Transferred to the second stage	(10,611,016)	10,611,016	-	-	-
Transferred to the third stage	(1,584,385)	(2,289,027)	3,873,412	-	-
Changes resulting from adjustments	3,365,111	1,893,632	(149,732)	5,109,011	-
Facilities written off	-	-	(58,908)	(58,908)	(20,578)
Balance at end of the year	83,446,903	14,310,939	6,264,955	104,022,797	113,155,597

Movement on the expected credit loss provision for direct credit facilities at amortised cost - for companies is as follows:

	The first stage	The second stage	The third stage	2019	2018
Total balance as at the beginning of the year	321,521	48,426	529,487	899,434	406,878
New facilities during the year / additions	144,195	72,812	319,203	536,210	677,658
Facilities paid	(67,857)	(41,668)	(141,227)	(250,752)	(262,821)
Transferred to the first stage	-	-	-	-	-
Transferred to the second stage	(75,415)	75,415	-	-	-
Transferred to the third stage	(105,754)	(72,812)	178,566	-	-
Changes resulting from adjustments	2,655	(5,456)	-	(2,801)	98,297
Facilities written off	-	-	(58,908)	(58,908)	(20,578)
Balance at end of the year	219,345	76,717	827,121	1,123,183	899,434

The distribution of the total direct credit facilities at amortised cost - the government and the public sector according to the Bank's internal credit rating categories is as follows:

	The first stage	The second stage	The third stage	2019	2018
Low risk	18,560,383	-	-	18,560,383	10,328,507
under control	-	-	-	-	-
Non-performing:					
Sub-standard	-	-	-	-	-
Doubtful	-	-	-	-	-
Balance at end of the year	18,560,383	-	-	18,560,383	10,328,507

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Movement in the total direct credit facilities at amortised cost - the government and the public sector is as follows:

	The first stage	The second stage	The third stage	2019	2018
Total balance as at the beginning of the year	10,328,507	-	-	10,328,507	13,857,267
New facilities during the year / additions	17,990,180	-	-	17,990,180	-
Facilities paid	(9,758,304)	-	-	(9,758,304)	(3,528,760)
Transferred to the first stage	-	-	-	-	-
Transferred to the second stage	-	-	-	-	-
Transferred to the third stage	-	-	-	-	-
Changes resulting from adjustments	-	-	-	-	-
Facilities written off	-	-	-	-	-
Balance at end of the year	18,560,383	-	-	18,560,383	10,328,507

Movement on the expected credit loss provision for direct credit facilities at amortised cost - the government and the public sector is as follows:

	The first stage	The second stage	The third stage	2019	2018
Total balance as at the beginning of the year	87,954	-	-	87,954	162,781
New facilities during the year / additions	84,985	-	-	84,985	-
Facilities paid	(83,098)	-	-	(83,098)	(74,827)
Transferred to the first stage	-	-	-	-	-
Transferred to the second stage	-	-	-	-	-
Transferred to the third stage	-	-	-	-	-
Changes resulting from adjustments	-	-	-	-	-
Facilities written off	-	-	-	-	-
Balance at end of the year	89,841	-	-	89,841	87,954

Following is a summary of movement on the impairment allowance for direct credit facilities and suspended interests that have been defaulted for over 6 years:

	Impairment allowance Credit facilities		Interest Suspended	
	2019	2018	2019	2018
Balance at the beginning of the year	3,702,148	2,922,628	1,106,595	1,098,578
Additions	144,766	965,596	80,484	70,514
Recovery	(47,149)	(72,571)	(1,330)	-
Suspended interest written off	(4,388)	(1,705)	(13,240)	-
Currency variances	138,394	(111,800)	75,339	(62,497)
Balance at end of the year	3,933,771	3,702,148	1,247,848	1,106,595

In accordance with the instructions of the Palestinian 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 financial statements as at December 31, 2019 and 2018 amounted to USD 5,181,619 and USD 4,808,743, respectively.

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

	2019	2018
Manufacturing and mining		
Manufacturing	24,735,572	22,949,285
	24,735,572	22,949,285
Tourism, Restaurants, Hotels, and Others		
Restaurants	4,200,251	5,120,411
	4,200,251	5,120,411
Financial services	3,818,606	3,999,753
	3,818,606	3,999,753
Public sector		
Communications	358,890	220,750
Health	3,630,452	390,487
Education	2,150,897	1,624,870
Public utilities	8,745,880	2,590,821
Professionals	1,310,789	3,486,899
	16,196,908	8,313,827
Agriculture and livestock		
Agriculture	5,070,437	4,121,577
Livestock	2,197,364	1,580,992
	7,267,801	5,702,569
General trade		
Internal trading	41,690,840	42,806,450
Foreign trade	27,165,881	27,346,718
	68,856,721	70,153,168
Real estate and construction		
Construction	27,913,532	24,881,023
Residence	8,282,589	9,834,443
Properties	8,136,217	12,675,993
	44,332,338	47,391,459
Land	8,136,216	-
Transport		
Trade and shipping	13,884,614	13,158,227
	13,884,614	13,158,227
Financing the purchase of cars and private vehicles	9,576,585	-
Others in consumer goods financing		
Others	209,050	-
Credit cards	2,868,811	2,884,418
	3,077,861	2,884,418
Financing of investment in shares and financial instruments		
Financial companies	1,090,148	302,499
Others	220,641	205,421
	1,310,789	507,920
Others in the private sector	5,759,768	30,554,740
Public sector		
Palestinian National Authority	18,560,383	10,328,507
	18,560,383	10,328,507
	229,714,413	221,064,284

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10. Financial assets at amortised cost

Item details	2019	2018
Foreign government financial bonds	5,006,084	5,998,010
Local government payment bills	3,376,410	4,610,252
Quoted financial bonds***	9,936,064	13,046,085
	18,318,558	23,654,347
The provision for financial assets at amortised cost resulting from the application of IFRS 9 ****	(155,567)	(212,398)
	18,162,991	23,441,949

* This item represents the Bank's investment in bonds and treasury bills issued by the Jordanian, Moroccan, and Bahraini governments. 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 international 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:

	2019	2018
Balance at the beginning of the year	212,398	93,164
Additions during the year	-	119,234
Recovery during the year	(56,831)	-
Balance at end of the year	155,567	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	2019
Low risk/ performing	18,318,558	-	-	18,318,558
Acceptable risk/ performing	-	-	-	-
Balance at end of the year	18,318,558	-	-	18,318,558

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

Movement on financial assets at amortised cost is as follows:

	The first stage	The second stage	The third stage	2019
Total balance as at the beginning of the year	19,633,622	4,020,725	-	23,654,347
New balances during the year	7,177,223	-	-	7,177,223
Balances repaid	(10,492,287)	(2,020,725)	-	(12,513,012)
Transferred to stage 1	2,000,000	(2,000,000)	-	-
Transferred to the second stage	(1,000,000)	1,000,000	-	-
Balance at end of the year	17,318,558	1,000,000	-	18,318,558

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10. Financial assets at amortised cost (continued)

	The first stage	The second stage	The third stage	2018
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 stage 1	5,672,589	(5,672,589)	-	-
Transferred to the second stage	(1,072,922)	1,072,922	-	-
Balance at end of the year	19,633,622	4,020,725	-	23,654,347

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	2019
Total balance as at the beginning of the year resulting from IFRS 9 application	118,784	93,614	-	212,398
Impairment loss on new balances and deposits during the year	84,549	-	-	84,549
Recoveries from impairment loss on repaid balances and deposits	(54,105)	(87,275)	-	(141,380)
Transferred to the first stage	6,338	(6,338)	-	-
Transferred to the second stage	(2,821)	2,821	-	-
Balance at end of the year	152,745	2,822	-	155,567

	The first stage	The second stage	The third stage	2018
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 end of the year	118,784	93,614	-	212,398

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10. Financial assets at amortised cost (continued)

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

	Palestine	Jordan	Mexico	Gulf	Europe	Russia	West African countries	Total
2019								
Foreign government financial bonds	-	2,000,000	-	2,000,000	-	-	1,006,084	5,006,084
Local government payment bills	3,376,410	-	-	-	-	-	-	3,376,410
Quoted financial bonds	6,000,000	-	966,931	-	1,962,048	1,007,085	-	9,936,064
Total as at December 31, 2019	9,376,410	2,000,000	966,931	2,000,000	1,962,048	1,007,085	1,006,084	18,318,558
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

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11. Other assets

Item details

	2019	2018
Cheques under collection	7,177,579	4,240,477
Prepayments	1,027,165	1,440,391
Accrued interests	1,189,460	818,849
Receivables	1,131,273	848,829
Advance payments for purchase of software and establishment of branches	483,130	457,504
Interests received in advance	40,647	54,253
Tax advances (note 18)	-	115,917
Refundable deposits	202,298	2,283
Others	181,490	40,436
	11,433,042	8,018,939

12. Leases

The amounts recognized in the consolidated statement of financial position:

The consolidated statement of financial position includes the following amounts relating to the leases:

	2019	2018
Leased branches	1,179,157	1,362,765
Leased offices	824,253	968,744
Right of use assets	2,003,410	2,331,509
Less than 12 months	287,194	675,656
More than 12 months	1,580,468	1,589,453
Total lease liabilities	1,867,662	2,265,109

The movement on balances during the year is as follows:

	Right of use assets
The opening balance at the beginning of the year 2019	-
Initial application of IFRS 16	2,331,509
The opening balance at the beginning of the year 2019 (restated)	2,331,509
Depreciation during the year	(328,099)
The closing balance at December 31, 2019	2,003,410

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12. Leases (continued)

	Lease liabilities
Lease obligations as at 31 December 2018	2,660,587
Discount using the Bank's IBR at the date of initial application	(221,285)
Short-term leases	(174,193)
Initial application of IFRS 16	2,265,109
Balance at the beginning of the year 2019 (restated)	2,265,109
Lease liabilities finance costs	57,137
Lease commitments payments	(454,584)
The closing balance at December 31, 2019	1,867,662

The amounts recognized in the consolidated statement of income:

	2019	2018
Depreciation of the right of use assets	328,099	-
Finance costs for lease liabilities	57,137	-
Total	385,236	-

Cash flows paid on lease commitments for the year 2019 amounted to USD 454,584.

13. Intangible assets

Intangible assets comprise computer systems. Below is the movement of intangible assets during the year:

	2019	2018
Balance at the beginning of the year	1,164,836	1,232,648
Additions	315,855	153,986
Amortisations	(249,700)	(221,798)
Balance at end of the year	1,230,991	1,164,836

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14. Property, plant and equipment

Item details

	Land	Buildings and real estate	Furniture and equipment	Computer devices	Leasehold improvement	Motor vehicles	Total
31 December 2019							
Cost or price of valuation							
Balance at the beginning of the year	5,769,225	14,100,681	5,278,643	4,723,324	1,507,637	600,051	31,979,561
Additions	-	2,208,252.00	380,381	471,640	117,123	61,000	3,238,396
Disposals	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-
Balance at end of the year	5,769,225	16,308,933	5,659,024	5,194,964	1,624,760	661,051	35,217,957
Accumulated depreciation:							
Balance at the beginning of the year	-	489,050	2,282,794	3,109,245	850,804	250,309	6,982,202
Depreciation for the year	-	277,320	372,630	488,103	114,732	135,549	1,388,334
Disposals	-	-	-	-	-	-	-
Balance at end of the year	-	766,370	2,655,424	3,597,348	965,536	385,858	8,370,536
Net book value	5,769,225	15,542,563	3,003,600	1,597,616	659,224	275,193	26,847,421

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14. Property, plant and equipment (continued)

	Land	Buildings and real estate	Furniture and equipment	Computer devices	Leasehold improvement	Motor vehicles	Total
31 December 2018							
Cost or price of valuation							
Balance at the 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 the 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 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

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15. Deposits for banks and banking institutions

Item details

	2019	2018
Current and held at call accounts	411,696	19,110
Deposits with maturities of three months or less	22,351,226	43,331,500
	22,762,922	43,350,610

16. Customers' deposits

Item details

	2019	2018
Current and held at call accounts	146,141,862	118,768,666
Time and notice deposits	87,130,573	78,557,870
Saving deposits	100,924,389	81,065,057
Debit balances - temporary credit	4,873,487	4,298,363
	339,070,311	282,689,956

- Deposits of the public sector as at December 31, 2019 and 2018 amounted to USD 4,521,640 and USD 5,483,580, i.e. 1.3% and 1.90% of total deposits, respectively.
- Non-interest bearing deposits as at December 31, 2019 and 2018 amounted to USD 148,547,196 and USD 121,548,737, i.e. 43.8% and 43% of total deposits, respectively.
- Dormant deposits amounted to USD 8,457,214 and USD 7,410,689 as at December 31, 2019 and 2018, i.e. 2.5% and 2.62% of total deposits, respectively.

17. Cash deposits

This item represents cash margins against:

	2019	2018
Direct credit facilities	21,950,688	17,985,445
Indirect credit facilities	3,890,592	3,883,271
	25,841,280	21,868,716

18. Tax provision

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.

Below is the movement on the provisions for tax during the years ended December 31, 2019 and December 31, 2018:

	2019	2018
Balance at the beginning of the year	(115,917)	(34,027)
Current year income tax	1,775,000	1,670,000
Payments during the year	(1,366,043)	(1,297,935)
Payments for previous years	-	(542,833)
Currency differences	12,520	88,878
Balance at the end of the year	305,560	(115,917)
Tax advances (note 11)	-	115,917
	305,560	-

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18. Tax provision (continued)

Taxes as shown in the consolidated statement of income are as follows:

	2019	2018
Value added tax expense on profits	743,966	635,623
Income tax expense payable	1,031,034	1,034,377
	1,775,000	1,670,000
Deferred taxes	(172,255)	(88,661)
	1,602,745	1,581,339

The income tax legal percentage is 15%, and the value added tax percentage is 16% as at December 31, 2019. 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:

	2019	2018
Accounting profit of the Bank	6,123,429	5,870,994
Taxable profit for VAT	6,168,469	6,229,734
Gain subject to income tax	3,189,851	3,410,670
VAT on profit for the year	743,966	635,623
Income tax on profit	779,674	945,716
Previous years provision	251,360	-
Taxes for the year	1,775,000	1,581,339
Provisions	1,775,000	1,670,000
Percentage of actual tax	28.8%	28.19%

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.

19. Subsidiary loans

During 2019, Horizon Real Estate Company, a subsidiary wholly owned by Palestine Investment Bank, obtained a loan under an agreement signed on December 30, 2019 amounting to USD 1 million due on January 23, 2021. A reducing annual interest rate on the loan is calculated at a rate of 4.5% on a monthly basis starting from January 23, 2019 and the loan is repayable under this agreement in one instalment after 24 months.

20. Various provisions

Item details

	Beginning balance of the year	Provision for the year	Paid during the year	Currency variances	Closing balance of the year
31 December 2019					
End of service and vacations benefits	3,078,645	465,846	(125,506)	-	3,418,985
Legal cases against the Bank	31,360	204,287	-	2,777	238,424
	3,110,005	670,133	(125,506)	2,777	3,657,409

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20. Various provisions (continued)

	Beginning balance of the year	Provision for the year	Paid during the year	Currency variances	Closing balance of the year
31 December 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

21. Other liabilities

Item details

	2019	2018
Accounts payable and temporary deposits	2,720,030	1,504,228
Certified issued checks	1,052,864	997,242
Deferred tax liabilities*	566,921	566,921
Accrued interest payable	864,561	718,249
Board of Directors remunerations	225,000	234,260
Unpaid accrued expenses	168,664	123,726
Commissions received in advance	1,227,211	1,389,300
Other credit balances	428,833	602,636
Unallocated shares profits	418,837	45,672
Interests received in advance	-	42,037
Provision for impairment in indirect credit facilities resulting from the application of IFRS 9 **	24,843	23,177
	7,697,764	6,247,448

* This represents the deferred taxes on land revaluation surplus of 2015, with a revaluation surplus of USD 3,779,476. The revaluation surplus USD 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:

	2019	2018
Balance at the beginning of the year	23,177	10,963
Addition during the year	1,666	12,214
Balance at the end of the year	24,843	23,177

22. Paid-in capital

Item details

	2019	2018
Authorised Capital	100,000,000	100,000,000
Subscribed and paid share capital	78,000,000	75,000,000

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 up share capital of the Bank was increased through a general secondary subscription of USD 3.3 million to USD 59.6 million.

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22. Paid-in capital (continued)

At its meeting held on April 30, 2017, the General Assembly decided to increase the Bank's paid-up 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-up 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-up 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-up capital reached USD 200,000,000 as at December 31, 2018.

At its meeting held on April 23, 2019, the General Assembly decided to transfer an amount of USD 3 million of the pro-cyclicality fluctuation reserve and distribute it as bonus shares to shareholders so that the paid-in capital of the Bank amounts to USD 78 million as at December 31, 2019, and the General Assembly also approved at the same meeting the distribution of cash dividends to the shareholders at 4% of the nominal value of the share, for a total amount of USD 3,000,000.

23. 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 the Palestinian 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 guarantees. 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 the Palestinian 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 obtained the approval of PMA to transfer the balance of the external branch reserve to calculate the pro-cyclicality fluctuation reserve by virtue of letter No. 146 M.M/03/2019 dated March 31, 2019.

24. Retained earnings

Item details

	2019	2018
Balance at the beginning of the year	3,262,102	4,348,270
Net profit for the year	4,520,684	4,289,655
Results of sale of financial assets recognised directly in retained earnings	200,000	-
Share capital increase (Note 22)	-	(3,299,068)
Cash dividends	(3,000,000)	-
Transferred to reserves	(456,474)	(2,076,755)
Balance at the end of the year	4,526,312	3,262,102

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25. Interests payable

Item details	2019	2018
Interest on borrowings	11,389,971	10,217,959
Add:		
Net loan commissions	1,881,201	1,858,942
	13,271,172	12,076,901
Current accounts receivable	5,172,608	4,912,069
Government and public sector	1,076,707	783,152
Balances at banks and banking institutions	1,121,938	958,716
Financial assets at amortised cost	893,020	1,028,177
Financial assets at fair value through the statement of income	207,922	259,241
	21,743,367	20,018,256

26. Interests receivable

Item details	2019	2018
Interests on customers' deposits:		
Time and notice deposits	2,626,542	2,214,242
Saving deposits	14,629	34,308
Current and held at call accounts	70,417	87,861
	2,711,588	2,336,411
Interests on bank and banking institutions deposits	134,887	105,258
Interests paid to Palestine Monetary Authority	45,675	32,101
Cash deposits	80,954	74,430
	2,973,104	2,548,200

27. Net commissions income

Item details	2019	2018
Indirect credit facilities	924,246	797,742
Accounts management	610,201	523,848
Returned check	817,783	745,844
Transfers	265,540	258,658
Others	347,116	397,842
	2,964,886	2,723,934
Less: paid commissions		
Commissions paid to banks	(306,817)	(242,380)
Net commissions income	2,658,069	2,481,554

28. Net foreign currency exchange gains

This item represents profits resulting from the revalued assets and liabilities, and spot and forward foreign currency contracts, as well as foreign currency exchange movements for the Bank's customers during the year.

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29. Gains (losses) on financial assets

Item details

	2019	2018
Gains (losses) on valuation of financial assets at fair value through the statement of income	282,259	(219,061)
Gains from sale of financial assets at fair value through statement of income	194,369	4,888
Gains on sale of financial assets at amortised cost	194,666	-
	671,294	(214,173)

30. Other income

Item details

	2019	2018
Checks books	66,844	190,096
SWIFT and ATM revenues	1,164	1,676
Post income and fax charges	9,527	10,014
Others	247,750	98,761
	325,285	300,547

31. Employees' expenses

Item details

	2019	2018
Employees' salaries, benefits and bonuses	5,136,936	4,740,133
VAT on payroll	743,966	677,440
End-of-service indemnity	456,095	836,639
Medical expenses	344,595	235,557
Bank's contribution to the provident fund*	220,641	202,169
Bank's contribution to the Social Security Corporation (Bahrain)	17,480	15,349
Staff training	33,948	20,803
Employees' leaves	60,553	-
	7,014,214	6,728,090

* 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.

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32. Other operating expenses

Item details

	2019	2018
Fees, licenses and subscriptions	937,949	911,288
Postage, fax and telephone	786,372	742,341
Leases	174,193	534,891
Palestine Deposit Insurance Corporation fees	814,614	786,692
Maintenance	884,961	771,706
Travel and seminars	372,162	363,235
Professional fees	1,474,935	390,358
Board of Directors' remuneration and fees	352,163	339,071
Water, electricity and heating	265,317	260,938
Advertisement	414,454	205,730
Stationery and printing	167,087	168,231
Money shipping fees	314,845	231,672
Cleaning expenses	351,342	312,850
Saving accounts promotional prizes	239,549	160,515
Donations and charity*	90,629	78,333
Insurance	54,580	63,152
Hospitality	77,392	55,041
Fuels and vehicle expenses	32,236	28,319
Others	92,099	69,972
	7,896,879	6,474,335

* 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 2% during the year compared to 1.83% during 2018.

33. Basic and diluted earnings per share of the year profit

	2019	2018 Restated
Profit for the year	4,520,684	4,289,655
	Share	Share
Weighted average of shares subscribed during the year	78,000,000	77,267,948
Basic and diluted earnings per share of the year profit	0.058	0.056

34. 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:

	2019	2018
Cash and balances with Palestine Monetary Authority	84,589,336	87,147,234
Add:		
Balances at banks and banking institutions with maturity of 3 months'	103,527,852	82,034,962
Less:		
Deposits for banks and banking institutions	(22,762,922)	(43,350,610)
Statutory reserve requirements	(23,602,832)	(20,236,988)
	141,751,434	105,594,598

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35. Transaction with related parties

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	2019	2018
Items on the consolidated statement of financial position:			
Direct credit facilities	Key management personnel and board of directors	4,213,047	4,655,805
Direct credit facilities	Shareholders	16,663,633	20,085,000
deposits	Key management personnel and shareholders	164,910	396,315
Board of directors' remuneration	Board of Directors	225,000	234,260

	Nature of relationship	2019	2018
Consolidated statement of income items:			
Interests received	Key management	16,502	18,389
Interests received	Shareholders	1,038,000	903,006
Interests paid	Senior management	36,540	37,315
Board of Directors' remuneration and fees	Board of Directors	225,000	234,260
Key management personnel's share of salaries and related expenses	Key management	668,474	719,652
Key management's share in end of service benefits	Key management	55,706	58,721

- Net direct credit facilities granted to related parties as at December 31, 2019 and December 31, 2018 represent a percentage of 1.90% and 11.33% respectively of net direct credit facilities.
- Net direct credit facilities granted to related parties as at December 31, 2019 and December 31, 2018 represent a percentage of 9% and 11% 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%.

	2019					
	Inside Palestine	Jordan	Israel	Europe	USA	Others
						Total
Assets						
Cash and balances with Palestine Monetary Authority	84,589,336	-	-	-	-	84,589,336
Balances with banks and banking institutions	33,533,653	14,538,985	24,017,356	17,601,772	5,991,621	103,478,939
Financial assets at fair value through the statement of income	-	-	-	-	-	5,590,496
Financial assets at fair value through other comprehensive income	-	-	-	21,549,520	-	-
Direct credit facilities, net	224,175,486	1,854,146	-	-	-	21,549,520
Financial assets at amortised cost	9,276,012	2,000,000	-	1,962,048	-	226,029,632
Other assets	11,433,042	-	-	-	-	18,162,991
Deferred tax assets	988,172	-	-	-	-	11,433,042
Right of use assets	2,003,410	-	-	-	-	988,172
Intangible assets	1,230,991	-	-	-	-	2,003,410
Property, plant and equipment	26,847,421	-	-	-	-	1,230,991
	394,077,523	18,393,131	24,017,356	41,113,340	5,991,621	26,847,421
						501,903,950
Liabilities						
Deposits with banks and banking institutions	22,762,922	-	-	-	-	22,762,922
Customers' deposits	327,569,892	11,500,419	-	-	-	339,070,311
Cash deposits	25,841,280	-	-	-	-	25,841,280
Tax provision	305,560	-	-	-	-	305,560
Subsidiary loans	1,000,000	-	-	-	-	1,000,000
Various provisions	3,657,409	-	-	-	-	3,657,409
Lease liabilities	1,867,662	-	-	-	-	1,867,662
Other liabilities	7,697,764	-	-	-	-	7,697,764
	390,702,489	11,500,419	-	-	-	402,202,908
Items off the consolidated statement of financial position						
Guarantees	16,005,568	-	-	-	-	16,005,568
Letters of credits	2,859,518	-	-	-	-	2,859,518
Acceptances	3,277,845	-	-	-	-	3,277,845
Indirect facilities limits	16,557,943	-	-	-	-	16,557,943
	38,700,874	-	-	-	-	38,700,874

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36. Concentration of assets and liabilities (continued)

	2018					
	Inside Palestine	Jordan	Israel	Europe	USA	Others
Assets						
Cash and balances with Palestine Monetary Authority	87,147,234	-	-	-	-	-
Balances with banks and banking institutions	41,785,788	15,026,192	8,453,077	9,190,630	4,321,578	3,222,921
Direct credit facilities, net	217,836,979	245,879	-	-	-	-
Financial assets at fair value through the statement of income	-	-	-	7,511,468	-	-
Financial assets at fair value through the statement of comprehensive income	1,400,000	-	-	231,280	-	-
Financial assets at amortised cost	10,551,687	-	-	12,890,262	-	-
Property, plant and equipment	24,997,359	-	-	-	-	-
Deferred tax assets	815,917	-	-	-	-	-
Intangible assets	1,164,836	-	-	-	-	-
Other assets	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						
Deposits with banks and banking institutions	43,350,610	-	-	-	-	-
Customers' deposits	274,666,489	8,023,467	-	-	-	-
Cash deposits	21,868,716	-	-	-	-	-
Various provisions	3,110,005	-	-	-	-	-
Other liabilities	6,247,448	-	-	-	-	-
	349,243,268	8,023,467	-	-	-	-
						357,266,735
Items off the consolidated statement of financial position						
Guarantees	18,168,401	-	-	-	-	-
Letters of credits	771,273	-	-	-	-	-
Acceptances	3,461,389	-	-	-	-	-
Unutilised credit facilities limits	7,121,253	-	-	-	-	-
	29,522,316	-	-	-	-	-
						29,522,316

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37. 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 trading services, financial market and foreign currency exchange transactions and management of bank resources and investments.

Other business sectors: includes other items that do not represent any of the above sectors (such as other revenues and cases expenses).

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

	Retail banking services	Corporate banking services	Treasury	Others	2019	2018
Total revenues						
Interests payable	8,567,544 (1,171,493)	10,809,161 (1,478,003)	2,002,870 (273,865)	363,792 (49,743)	21,743,367 (2,973,104)	20,018,256 (2,548,200)
Commissions receivable	918,343	821,391	876,799	41,536	2,658,069	2,481,554
Impairment provision	(353,723)	(284,457)	56,831	(72,121)	(653,470)	(553,386)
Business sector results	7,960,671	9,868,092	2,662,635	283,464	20,774,862	19,398,224
Other expenses and revenues	(5,662,879)	(7,324,787)	(1,464,099)	(199,668)	(14,651,433)	(13,527,230)
Profit before taxes	2,297,792	2,543,305	1,198,536	83,796	6,123,429	5,870,994
Tax expense	(631,530)	(796,764)	(147,635)	(26,816)	(1,602,745)	(1,581,339)
Profit for the year	1,666,262	1,746,541	1,050,901	56,980	4,520,684	4,289,655
Other segment information						
Depreciation and amortisation	774,716	977,413	181,109	32,895	1,966,133	1,443,252
Capital expenditures	1,276,026	1,609,886	298,302	54,182	3,238,396	1,221,454
					2019	2018
Total segment assets	189,296,615	130,441,411	166,596,724	15,569,200	501,903,950	454,812,026
Total segment liabilities	240,095,639	109,715,317	43,349,973	9,041,979	402,202,908	357,266,735

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37. Segment analysis (continued)

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:

	Domestic		International		Total	
	2019	2018	2019	2018	2019	2018
Total revenues	20,894,233	19,027,493	2,773,658	2,066,532	23,667,891	21,094,025
Total assets	385,763,977	417,439,190	116,139,973	37,372,836	501,903,950	454,812,026
Total capital expenses	3,238,396	1,221,454	-	-	3,238,396	1,221,454

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38. Analysis of maturities of assets and liabilities

The table below shows the analysis of assets and liabilities based on the time they are expected to be recovered or settled:

	Up to 1 year	More than 1 year	Total
31 December 2019			
Assets			
Cash and balances with Palestine Monetary Authority	12,897,168	71,692,168	84,589,336
Balances with banks and banking institutions	103,478,939	-	103,478,939
Financial assets at fair value through the statement of income	-	5,590,496	5,590,496
Financial assets at fair value through other comprehensive income	-	21,549,520	21,549,520
Direct credit facilities, net	111,956,213	114,073,419	226,029,632
Financial assets at amortised cost	-	18,162,991	18,162,991
Other assets	10,605,986	827,056	11,433,042
Deferred tax assets	-	988,172	988,172
Right of use assets	-	2,003,410	2,003,410
Intangible assets	-	1,230,991	1,230,991
Property, plant and equipment	-	26,847,421	26,847,421
Total assets	238,938,306	262,965,644	501,903,950
Liabilities			
Deposits with banks and banking institutions	22,762,922	-	22,762,922
Customers' deposits	339,070,311	-	339,070,311
Cash deposits	20,390,411	5,450,869	25,841,280
Tax provision	305,560	-	305,560
Subsidiary loans	-	1,000,000	1,000,000
Various provisions	-	3,657,409	3,657,409
Lease liabilities	287,196	1,580,466	1,867,662
Other liabilities	812,501	6,885,263	7,697,764
Total liabilities	383,628,901	18,574,007	402,202,908
Total equity	-	99,701,042	99,701,042
Total liabilities and equity	383,628,901	118,275,049	501,903,950
Maturity gap	(144,690,595)	144,690,595	-

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38. Analysis of maturities of assets and liabilities (continued)

	Up to 1 year	More than 1 year	Total
31 December 2018			
Assets			
Cash and balances with Palestine Monetary Authority	28,823,455	58,323,779	87,147,234
Balances with banks and banking institutions	82,000,186	-	82,000,186
Direct credit facilities	67,128,818	150,954,040	218,082,858
Financial assets at fair value through the statement of income	-	7,511,468	7,511,468
Financial assets at fair value through other comprehensive income	-	1,631,280	1,631,280
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	276,859,567	454,812,026
Liabilities			
Deposits with banks and banking institutions	43,350,610	-	43,350,610
Customers' deposits	282,068,511	621,445	282,689,956
Cash deposits	13,158,571	8,710,145	21,868,716
Various provisions	-	3,110,005	3,110,005
Other liabilities	-	6,247,448	6,247,448
Total liabilities	338,577,692	18,689,043	357,266,735
Total equity	-	97,545,291	97,545,291
Total liabilities and equity	338,577,692	116,234,334	454,812,026
Maturity gap	(160,625,233)	160,625,233	-

39. 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.

40. 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:

	2019			2018		
	Amount	Ratio to assets %	Ratio to risk-weighted assets %	Amount	Ratio to assets %	Ratio to risk-weighted assets %
Regulatory capital	82,793,640	16.50	32.09	82,247,071	18.08	27.37
Basic capital	87,392,595	17.41	33.88	87,002,276	19.13	28.96

The Bank maintains a paid-in capital that is suitable for operating risk exposures, and also monitors capital adequacy in accordance with Basel framework in compliance with PMA.

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41. Commitments and contingent liabilities

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

	2019	2018
Guarantees	16,005,568	18,168,401
Letters of credits	2,859,518	771,273
Acceptances	3,277,845	3,461,389
Unutilised direct credit facilities limits	16,557,943	7,121,253
	38,700,874	29,522,316
Provision for impairment in indirect credit facilities resulting from the application of IFRS 9 *	(24,843)	(23,177)
Commitments and contingent liabilities -net	38,676,031	29,499,139

* 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:

	2019	2018
Balance at the beginning of the year	23,177	10,963
Additions during the year	1,666	12,214
Balance at the end of the year	24,843	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	2019
Low risk	35,305,799	-	-	35,305,799
under control	-	3,283,474	-	3,283,474
Non-performing	-	-	-	-
Sub-standard	-	-	111,601	111,601
Doubtful	-	-	-	-
Balance at end of the year	35,305,799	3,283,474	111,601	38,700,874

	The first stage	The second stage	The third stage	2018
Low risk	29,474,778	-	-	29,474,778
under control	-	-	-	-
Non-performing:	-	-	-	-
Sub-standard	-	-	-	-
Doubtful	-	-	47,538	47,538
Balance at the end of the year	29,474,778	-	47,538	29,522,316

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41. Commitments and contingent liabilities (continued)

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

	The first stage	The second stage	The third stage	2019
Total balance as at the beginning of the year	29,474,778	-	47,538	29,522,316
New balances during the year	12,363,323	-	-	12,363,323
Balances repaid	(2,562,182)	(627,211)	-	(3,189,393)
Transferred to stage 1	29,689	-	(29,689)	-
Transferred to the second stage	(3,909,809)	3,909,809	-	-
Transferred to the third stage	21,601	-	(21,601)	-
Changes resulting from adjustments	-	876	3,752	4,628
Balance at the end of the year	35,417,400	3,283,474	-	38,700,874

	The first stage	The second stage	The third stage	2018
Total balance as at the beginning of the year	28,214,547	-	-	28,214,547
New balances during the year	10,096,085	-	-	10,096,085
Balances repaid	(8,788,316)	-	-	(8,788,316)
Transferred to stage 1	-	-	-	-
Transferred to the second stage	-	-	-	-
Transferred to the third stage	-	-	-	-
Changes resulting from adjustments	-	-	-	-
Balance at end of the year	29,522,316	-	-	29,522,316

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

	The first stage	The second stage	The third stage	2019
Total balance as at the beginning of the year	23,177	-	-	23,177
Impairment loss on new balances and deposits during the year	90,273	-	-	90,273
Recoveries from impairment loss on repaid balances and deposits	(3,313)	(89,506)	-	(92,819)
Transferred to stage 1	21,008	(21,008)	-	-
Transferred to the second stage	(115,492)	115,492	-	-
Transferred to the third stage	-	-	-	-
Changes resulting from adjustments	4,212	-	-	4,212
Balance at the end of the year	19,865	4,978	-	24,843

	The first stage	The second stage	The third stage	2018
Total balance as at the beginning of the year	10,963	-	-	10,963
Impairment loss on new balances and deposits during the year	18,485	-	-	18,485
Recoveries from impairment loss on repaid balances and deposits	(6,271)	-	-	(6,271)
Transferred to stage 1	-	-	-	-
Transferred to the second stage	-	-	-	-
Transferred to the third stage	-	-	-	-
Changes resulting from adjustments	-	-	-	-
Balance at end of the year	23,177	-	-	23,177

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42. Cases filed against the Bank

The number of cases filed against the Bank in Palestine was (19) and (20) cases as at December 31, 2019 and 2018, respectively, during the normal activity of the Bank. The cases amounted to USD 7,387,245 and USD 6,933,386 as at December 31, 2019 and December 31, 2018, respectively.

Palestine Investment Bank during the year, once notified, filed a lawsuit in the US courts against a claim filed against the Bank by persons claiming indemnities 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 Bank's management and legal advisor believe that the Bank will have no commitments except for what has been allocated to face such lawsuits.

43. 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.

44. Subsidiaries owned by the bank

The bank owns 100% of the subsidiaries listed below as at December 31, 2018 and 2019:

	Country	Nature of business	Ownership percentage of non-controllers
Global Securitites Private Shareholding Limited Company	Palestine	Financial brokerage	100%
Horizon Real Estate Private Shareholding Limited Co.	Palestine	Owning and management of real estates	100%

(a) Statement of financial position (condensed) of subsidiaries before the corresponding operations for the year ended as at:

	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	Global Securitites Private Shareholding Limited Company	Global Securitites Private Shareholding Limited Company	Horizon Real Estate Private Shareholding Limited Co.	Horizon Real Estate Private Shareholding Limited Co.
Cash and cash equivalents	2,602,227	2,381,746	306,719	1,482,309
Financial assets at fair value through the statement of income	-	354,611	-	-
Financial assets at fair value through other comprehensive income	116,920	231,280	-	-
Right of use assets	118,211	-	-	-
Other current assets	28,306	23,949	-	-
Trade receivables	1,005,649	808,643	-	-
Property and equipment	794,097	815,036	5,702,157	3,556,081
Total assets	4,665,410	4,615,265	6,008,876	5,038,390
Trade payables	266,272	285,061	-	-
Other current liabilities	6,794	7,253	63,021	50,067
Lease liabilities	120,854	-	-	-
Various provisions	105,135	95,384	-	-
Tax provision	1,218	1,515	-	-
Bank facilities and loans	181,394	295,725	1,000,000	-
Total liabilities	681,667	684,938	1,063,021	50,067
Equity	3,983,743	3,930,327	4,945,855	4,988,323
Total liabilities and equity	4,665,410	4,615,265	6,008,876	5,038,390

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(b) Statement of income (condensed) of subsidiaries before the corresponding operations for the year ended as at:

	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	Global Securitites Private Shareholding Limited Company	Global Securitites Private Shareholding Limited Company	Horizon Real Estate Private Shareholding Limited Co.	Horizon Real Estate Private Shareholding Limited Co.
Revenue	55,882	91,400	153,470	13,333
Other income	134,994	100,143	-	-
Total income	190,876	191,543	153,470	13,333
General and administrative expenses				
General and administrative expenses	(243,675)	(252,185)	(195,306)	(24,534)
Revenues and other expenses	23,248	28,554	(632)	(476)
Total expenses	(220,427)	(223,631)	(195,938)	(25,010)
Net (loss) before tax	(29,551)	(32,088)	(42,468)	(11,677)
Income tax	-	-	-	-
Other comprehensive income (loss)	82,967	(41,994)	-	-
Total comprehensive income	53,416	(74,082)	(42,468)	(11,677)

(c) Statement of cash flows (condensed) of subsidiaries before the corresponding operations for the year ended as at:

	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	Global Securitites Private Shareholding Limited Company	Global Securitites Private Shareholding Limited Company	Horizon Real Estate Private Shareholding Limited Co.	Horizon Real Estate Private Shareholding Limited Co.
hedge				
Operational	(202,504)	(920,781)	32,663	44,425
Investment	554,947	(263,661)	(2,208,253)	(3,562,116)
Financing	(131,962)	295,725	1,000,000	5,000,000
Net (decrease) increase	220,481	(888,717)	(1,175,590)	1,482,309

45. Financial assets and liabilities offsetting

The following tables include financial instruments subject to settlement by offsetting or that may be subject to offsetting based on the signed agreement covering similar financial instruments, regardless of whether or not the offsetting has been made in the consolidated statement of financial position.

In the agreements that permit the offsetting, the Bank can dispose of the collaterals granted against the debt in case the customer fails to pay (or breach the terms of the agreement) during the transaction period, through certain legal procedures after obtaining the approval of the relevant regulatory authorities.

	Total exposure offset in the consolidated statement of financial position	Amount of collaterals	Net exposure
31 December 2019			
Direct credit facilities	230,413,223	146,205,677	84,207,546
	Total exposure offset in the consolidated statement of financial position	Amount of collaterals	Net exposure
31 December 2018			
Direct credit facilities	221,577,096	152,885,663	68,691,433

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46. Adjustment of financial statements

During the year 2019, the bank adjusted its consolidated financial statements for the year ended December 31, 2018 to comply with the requirements of IFRS 9 as follows:

- Investments at fair value through the statement of income:

The Bank had investments in some investment funds classified as financial assets at fair value through other comprehensive income as at December 31, 2017. These investments were held as financial assets at fair value through other comprehensive income when applying IFRS 9 at December 1, 2018.

In line with the requirements of IFRS 9 - Financial instruments, these investments had to be reclassified as financial assets at fair value through consolidated income due to the existence of a recovery option (investors' recovery rights). Therefore, management reclassified these investments within financial assets at fair value through consolidated income.

Accordingly, in accordance with the requirements of IAS 8 "Accounting policies and changes in accounting estimates and errors", management has corrected the classification of these investments as financial assets at fair value through the consolidated statement of income during the year 2019 and restatement of the comparative figures to adjust the consolidated financial statements for previous years as follows:

The impact of adjustments on the consolidated statement of financial position as at January 1, 2018 is as follows:

	Before restatement	Restatement	Restated
Financial assets at fair value through the statement of income	5,488,791	1,017,117	6,505,908
Financial assets at fair value through other comprehensive income	2,690,391	(1,017,117)	1,673,274

The impact of adjustments on the consolidated statement of financial position as at December 31, 2018 is as follows:

	Before restatement	Restatement	Restated
Financial assets at fair value through the statement of income	5,545,496	1,965,972	7,511,468
Financial assets at fair value through other comprehensive income	3,597,252	(1,965,972)	1,631,280
Fair value reserve	(165,611)	52,669	(112,942)
Retained earnings	3,314,771	(52,669)	3,262,102

The impact of adjustments on the consolidated statement of income, and basic and diluted earnings per share for the year as at December 31, 2018 is as follows:

	Before restatement	Restatement	Restated
Losses on financial assets	(161,504)	(52,669)	(214,173)
Profit for the year	4,342,324	(52,669)	4,289,655
Basic and diluted earnings per share of the year profit	0.056	(0.001)	0.056

The impact of adjustments on the consolidated statement of comprehensive income as at December 31, 2018 is as follows:

	Before restatement	Restatement	Restated
Profit for the year	4,342,324	(52,669)	4,289,655
Change in fair value of financial assets at fair value through other comprehensive income	(94,663)	52,669	(41,994)
Other comprehensive income items for the year	(94,663)	52,669	(41,994)
Net consolidated comprehensive income for the year	4,247,661	-	4,247,661

The impact of adjustments on the consolidated statement of cash flows as at December 31, 2018 is as follows:

	Before restatement	Restatement	Restated
Operating activities			
Profit before tax for the year	5,923,663	(52,669)	5,870,994
Net gains on revaluation of financial assets at fair value through the statement of income	166,392	52,669	219,061
Net cash generated from operating activities	5,855,138	-	5,855,138
Investing activities			
Purchase of financial assets at fair value through the statement of income	(367,087)	(1,001,524)	(1,368,611)
Purchase of financial assets at fair value through other comprehensive income	(1,001,524)	1,001,524	-
Net cash used in/ generated from investing activities	(11,953,627)	-	(11,953,627)
Decrease/ increase in cash and cash equivalents	(2,397,557)	-	(2,397,557)
Cash and cash equivalents at the end of the year	105,594,598	-	105,594,598

Palestine Investment Bank (Public Shareholding Company)

Consolidated Financial statements for the year ended December 31, 2019

(All amounts are presented in USD unless otherwise stated)

Notes to the consolidated financial statements

The impact of adjustments on the consolidated statement of equity as at December 31, 2018 is as follows:

	Before restatement	Restatement	Restated
Profit for the year	4,342,324	(52,669)	4,289,655
Retained earnings	3,314,771	(52,669)	3,262,102
Fair Value	(165,611)	52,669	(112,942)
Balance as at December 31, 2018	97,545,291	-	97,545,291

47. Comparative figures

Certain figures of the consolidated financial statements have been reclassified as at December 31, 2018 to conform to the presentation of the consolidated financial statements for the current year. These reclassifications do not affect previous years' earnings or equity.

48. Subsequent events

The existence of novel coronavirus (COVID-19) was confirmed in early 2020. The Bank considers that the impact of the outbreak of this virus occurred after the date of the consolidated financial statements without any modifications recorded. As the situation is fluid and rapidly evolving, we consider that it is premature to provide a quantitative estimate of the potential impact of this outbreak.

The PMA letter No. 4/2020 imposed a package of preventive and precautionary measures with the aim of containing the negative repercussions of the virus on the local economy, which included postponing monthly loan instalments for all borrowers for four months.



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بنك الاستثمار الفلسطيني
PALESTINE INVESTMENT BANK