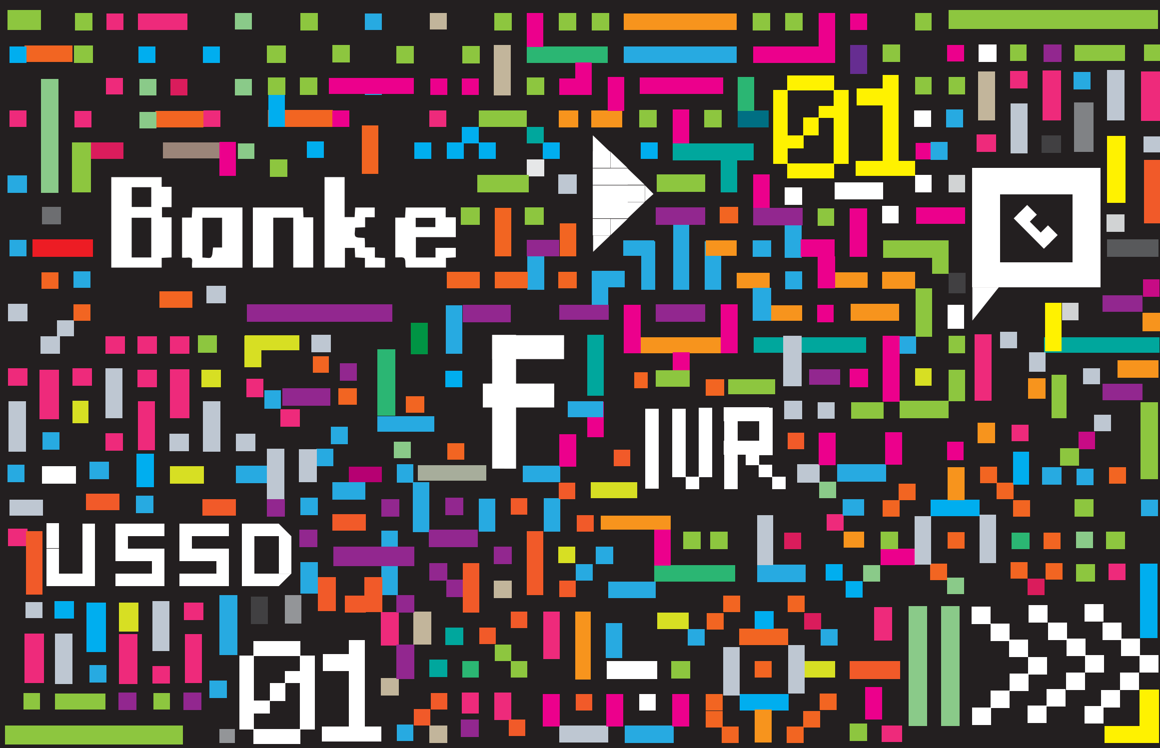
بنك فلسطين
BANK OF PALESTINE



Investing in Digital Innovation

2019

Annual **Report**

Table of contents

About Bank of Palestine (BOP)

Bank of Palestine has a long embedded presence and experience in Palestine dating back to 1960. Bank of Palestine is constantly growing to be financially inclusive, and socially responsible at the cutting edge of global financial practice and innovation. The bank has the most widespread branch network in Palestine (73 branches), a paid up capital of $204 million, and assets of over USD 5.26 billion, with 1,731 employees serving more than 1 million customers. BOP is engaged in retail, corporate, micro & SME, and Diaspora banking operations. BOP is the sole agent for issuing and acquiring Visa and MasterCard in Palestine with over 6,000 Point of Sale merchant terminals nationwide. BOP is involved in large project finance loan syndications. It adopts a holistic sustainability strategy; and has as such worked with the International Finance Corporation (IFC) to develop a stringent risk management & governance structure. BOP has been the leader in Corporate Social Responsibility (CSR) in Palestine dedicating 5% of its net profit to community & human development.

Bank of Palestine's stock (PEX: BOP) has been listed on the Palestine Exchange (PEX) since 2005. Bank of Palestine prides itself for maintaining a healthy and reliable dividends distribution commitment to its shareholders. For the last 10 years the bank has distributed in both stock dividends and cash dividends between 13%-37% of the par value of the stock annually. This consistent distribution of profits has helped the bank maintain a healthy level of capital adequacy; enabling the bank to sustain its growth strategy and in turn honor its shareholder value commitment. The Bank has a diversified shareholder base from international institutional entities; such as the IFC; the private sector arm of the World Bank Group; and other international, local and diaspora investors.

Bank of Palestine has adopted a strategic direction toward Investing in Digital Innovation as thrust in 2018 for the comings years investing in digitization focusing on digital products, digital channels and digital marketing. This digitization strategy will impact customer experience, efficiency and long-term growth of the bank.

Internationally, Bank of Palestine remains cognizant of its duty to also serve the more than 8 million Palestinians living in the diaspora, in addition to serving investors who are keen to do business with Palestine through offices outside Palestine. As such the bank opened its representative office outside Palestine in Dubai, UAE at the Dubai International Financial Centre (DIFC) in 2015. A second representative office in Santiago, Chile was opened in 2017 serving that country's 500,000 Chileans of Palestinian origin with evolving connections with their original home Palestine

Financial Inclusion"Felestinya" Women Program As part of the bank's strategy to provide access to finance to all segments of society, Bank of Palestine became a member of the Global Banking Alliance for Women (GBA), and a signatory of the Women's Empowerment Principles (WEPs).

Bank of Palestine pioneered in 2015 a special program "Felestineya" focusing on economic and social empowerment for women both at the bank and in the market place with a target of reaching 1000 women. The program provided access to more women jobs at the bank including senior positions; raising the number of women employees to 42%. BOP also conducted several financial awareness sessions for a total of 3,000 female participants last year. The program through novelty interventions such as the Mini-MBA in partnership with the IFC enabled skill set training in financial and non-financial knowhow. The Felestinya program for women also featured loans without collateral and accepting gold collateral from women. In recognition the bank was awarded as Best Bank in the Globe by the Banker Magazine and Best Bank in the Middle East for Financial Inclusion by emeafinance.

Today Bank of Palestine operates as a financial group encompassing an Islamic banking Subsidiary through Arab Islamic Bank, a Fintech Company through PalPay, a brokerage arm through Al Wasata Brokerage and an early stage investment fund through Ibtikar Innovation Fund.

A Tribute to our founders:

The late Dr. Hani Hashim Al Shawa, former Chairman, whose legacy of sound management and modernized banking we are still upholding today, giving the bank a road map towards an inclusive vision and a sustainable strategy.

The late Hashim Atta Al Shawa, early founder of the Bank; and the one who held it through different periods of turmoil and time periods, giving it the innate attributes of resilience and entrenched values.

Values and Vision

Values and Vision

Our Vision

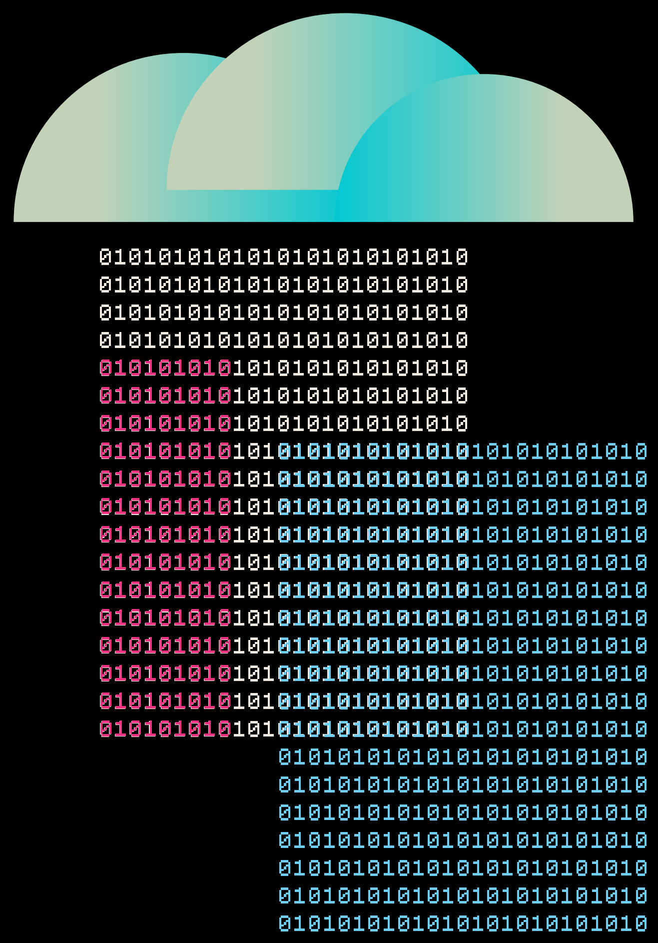
We aspire to become a valued & distinguished financial and banking institution on both the local and regional levels.

Our Mission

Bank of Palestine is endowed with a mission rooted in a value system that is humane and friendly, promoting real practice of inclusive banking and customer care. We will strive to grow while remaining local at heart with global standards, but energized with agile innovation in finance and banking in order to impact positively human and economic.development at home and in the globe.

2019 Financial Results Highlights

USD	2015	2016	2017	2018	2019
Gross Income	136,787,234	177,484,615	213,451,231	221,616,842	230,832,007
Profit before tax	54,570,455	67,999,090	72,983,244	69,825,341	51,795,049
Net profit	43,167,433	53,055,980	54,008,928	54,110,093	38,936,722
Total assets	2,785,203,240	4,121,322,946	4,884,822,851	4,657,182,978	5,264,944,640
Customer deposits	2,242,782,298	3,143,151,591	3,768,631,790	3,735,178,556	4,115,584,018
Loans	1,388,805,441	2,213,463,765	2,518,590,540	2,687,155,004	2,983,385,227
Total Shareholders Equity	305,756,304	403,574,797	449,961,687	416,380,548	430,664,193
Paid Up Capital	175,000,000	195,008,685	200,000,000	200,000,000	204,000,000
Net Intrest & Comission Revenue	115,655,568	149,135,734	182,781,606	196,598,248	202,373,544
Number of Employees	1,405	1,652	1,705	1,728	1,731
Number of Customers	479,548	542,474	528,513	560,513	617,966
Number of Branches	57	67	71	73	73
Market Ratio- Deposits	% 23.23	% 29.67	% 31.47	% 30.5	% 30.7
Market Ratio loans	% 23.84	% 32.68	% 31.37	% 32.97	% 34.5



Hashim Shawa

Chairman of the Group

Dear Shareholders:

On behalf of the Board of Directors of Bank of Palestine, its Executive Management and the entire Bank of Palestine family, I would like to present the Annual Report for the bank's operations and financial results for the year ending December 31st, 2019.

Palestine had witnessed a deep economic stagnation in the year 2019 that affected our group results; this is despite growth in operational indictors in deposits, revenues, and credit facilities. It is worth noting that the GDP Growth of 1.2% was flat in Palestine, and was the lowest ever in last 5 years as per International and Local reports. These external pressures have pushed for a higher need for provisioning to ensure the sustainability of the bank in compliance with international accounting guidelines.

It is known that this reality was caused by the tax revenue deductions imposed by government of Israel on Palestinian revenues coupled with decreased levels of donor assistance to public sector This double reality has created a liquidity crunch which impacted the entire economic cycle including the banks.

Against these external macro-economic pressures, it was only natural that NPL Ratios at group level have increased. As a result of these political pressures we saw further provisions being added for cushioning against general conditions and as part of implementation of IFRS9 in 2019. These extra provisions have caused a steep decline in net profit by 28%. With the Basel 3 implementation underway in 2020 we will work on a confident capital plan for the bank exploring cooperation with Multinational Development banks and raising capital through stock dividends as well to position the bank for growth opportunities that remain innate in the local economy.

Financial Results for 2019:

Bank of Palestine Group ended the year 2019 with its financial consolidated results reporting a gross income of USD 230 million in 2019, compared with USD 222 million in 2018, reflecting an increase of 4.2 %. The bank's Profit before tax is USD 51.8 million compared with USD 69.8 million in 2018, with a net profit achieved of USD 38.94 million. Total assets reached USD 5.27 billion compared with USD 4.66 billion at the end of 2018.

Total Loan portfolio witnessed growth at USD 3 billion, up by 11 % compared to USD 2.6 billion at the end of 2018. Customer deposits also grew to USD 4.1 billion, up by 10.2% compared to USD 3.7 billion at the end of 2018, a sign of continued confidence in the bank by customers and depositors.

The Bank's total shareholders' equity reached USD 430 million compared with USD 416 million at the end of 2018. Paid up capital is at USD 204 million with a 2% increase giving the bank a solid financial adequacy position.

Innovation, Segmentation and Customer Care:

We are proud to report that internally the bank remained focused on its segmentation and digitization drive focusing on financially including additional segments of the society. Digital inclusion in 2019 saw the introduction of new digital channels which included a new business Whatsapp Channel for the bank's customers, a new IVR Channel for automated service provision, and a new Channel for all those customers without smart phones to ensure that they are able to enjoy the new digitized services. All of these channels were meant to allow all those customers with the means to benefit from the enhanced digital services recognizing their means, abilities and communication tools.

Operationally or centralization drive continued to be refined post the big push we took the year before and in 2019 we started reaping the benefits of centralizing many back office functions providing leaner, quicker services and customer satisfaction as a result of customer segmentation and dedicated customer relations managers.

The loyalty of our customers was rewarded through various reward campaigns mainly PointCom which provided customers cash in return for points for using our family of electronic cards. The year 2019 witnessed the launch of our biggest savings campaign to date with daily, monthly rewards with a bonus reward of USD 500,000 at the end of the campaign. These campaigns had a direct impact on the rise of customer deposits for 2019; again evidence of the confidence of customers in the bank.

In addition to our enhancement of the existing e banking channels of Banke 2 and Banke 3 coming on line early quarter of 2020, our Fintech Company PalPay is finalizing plans to provide e-payment solutions to the unbanked leveraging the new direction by regulators towards allowing additional electronic transactions in the payments and financial eco system.

Value based banking via financial inclusion:

As a financial group spread across the country with presence abroad, we continue to focus on segments of society that are less served by traditional banks. Our Felestinya women banking program has provided financial awareness training to more than 3000 women and our Mini MBA program continues to graduate business women with the skills needed to managed business and be financially sustainable. We continue to serve the real economy by providing loans to SMEs across economic sectors and across the country.

Investor Relations and Rep Offices:

The bank leveraged the network of its representative offices in Dubai and Chile conducting cross border Investor Road Shows covering the GCC and Latin American continent. The bank through its rep office in Chile hosted an investment conference with GCC and Palestinian Diaspora business leaders and the Dubai office hosted several business delegations from Chile offering networking opportunities between the bank's diaspora customers. Investor Road Shows in 2019 included; the Kingdom of Saudi Arabia, Kuwait, the United Arab Emirates, France, Switzerland and Chile.

International Diaspora Relations

The bank continues to expand its relations with the more than 200 international entities operating in Palestine including the most important International Development Aid Agencies in the globe. This year the bank entered several strategic MOUs for partnerships with UNICEF and UNDP towards a collaborative approach for implementing the SDGs in Palestine. The bank also entered a new phase of partnerships with the Japan Representative Office providing more financial schemes to the SME sector in the Jericho area and with the Italian Business Associations promoting more trade and development between business leaders from Italy and Palestine.

Diaspora communities are part of the community of the bank and this year we continued to encourage diaspora links with Palestine via sponsorship of diaspora conventions at home principal of which: the Bethlehem Diaspora Convention and 2nd Nablus Diaspora Conferences. Our aim from these interactions is to continue to actively promote investments by our diaspora partners into Palestine.

Corporate Social Responsibility-CSR

Our values are evidenced by the bank's 5% of profits contribution to the community as part of CSR aimed at helping solve social problems achieving measurable impact in education, health, sports art and culture.

Subsidiary Companies

Diversification of income from subsidiaries remains part of the bank of Palestine Group's core strategies:

PalPay® – Palestine Payments – the leading payment platform company PalPay has in addition to enabling payment of bills from various outlets revolutionizing the payment systems in Palestine; is now poised to be the leader in introducing the first e wallet in Palestine. The e wallet will help provide financial services to the unbanked in Palestine which according to estimates stand at more than 50% of the entire population.

Al-Wasata Securities continues to be the fastest growing brokerage company in Palestine, playing a major role in the acquisition of new investors into the Palestinian market, and adding new markets to its dealing platform including web based electronic platforms.

Arab Islamic Bank (AIB), we continue to be proud of our Islamic banking arm, growing at a nice pace compared to its peers with additional branches including introduction of electronic banking and mobile banking solutions. AIB in 2019 has achieved a remarkable growth across all financial indicators

We believe as a financial group committed to our shareholders, customers, employees and stakeholders

Future Outlook

that our value added is our resilience and our ability to continue upholding not only our ideals but also our operational efficiency and strategic direction despite the distractions and stress in the external environment. We keep on reminding stakeholders and ourselves that Palestine has promise. Its population remains youthful and its land resources are still underutilized where the potential for more growth is still unrealized.

Allow me below to recount some of the indicators of a promising outlook we detected in late 2019:

- The Palestinian Government's encouragement for economic self-reliance, by way of incentivizing more local production and private sector investments including enticing regional investments into Palestine.
- The Palestinian Monetary Authority-PMA, has provided banks with incentives to invest in Green energy, agri-business and entrepreneurship. As a result, banks will reduce cost of capital providing higher profitability to the bottom line.
- As a Banking Group we are exploring investing in solar and other agri-projects to benefit from the PMA incentives in 2020
- The PMA has also laid the ground for licensing of e payment companies providing our banking group through its Fintech Company PalPay with a good opportunity to lead in the provision of such services.
- As a financial group, we are in the midst of several engagements with Multilateral Development Banks (MDBs) exploring ways to introduce financial schemes to encourage growth in the SME sector in Palestine as key driver of the economy. The size and track record of our group plus its value-based commitment to developing the real economy is one advantage of the group that is attractive to these MDBs.
- As we end 2019, I want to thank our shareholders, our board, our external regulators and customers for their support. Most importantly, I want to salute our staff in Gaza, East Jerusalem, the West Bank, Dubai and Santiago, Chile for their dedication. We are hoping that in 2020 the work being led by Global HR consulting firm Korn Ferry will yield in better employee performance and in turn reward. Our staff motivation is focal point of our drive through the future.

Hashim Shawa

Group Chairman

Investing in Digital Innovation

Regulatory Environment

BOP has continued implementing its risk management strategy by enhancing the governance structure through having an active Risk committee and a Risk management function, and Compliance department strengthening its internal controls, spreading risk culture, developing and applying advanced internal rating models for its credit portfolio, and upgrading systems for Basel II implementation, working in tandem with International Banking compliance requirements and local national regulatory requirements.

Palestine enjoys a strong regulatory environment especially in the banking sector. The Palestine Monetary Authority (PMA) has continued implementing Basel II & soon Basel III instructions to banks operating in Palestine in 2018. The PMA continued to receive positive appraisal from international monetary agencies about its strict implementation of the AML and CTF rules in Palestine. It should be noted that in 2015 the Palestinian President has also officially decreed Palestinian Anti Money Laundering (AML) and CTF laws strengthening the legal environment in Palestine to combat all illegal activities. The PMA has created an independent Deposit Insurance Agency covering depositors and enhanced readiness for disaster recovery for the banking system. 2017 witnessed the introduction of the Real Time Gross Settlement System (RTGS) to enhance settlement processes. In 2018 the PMA reignited its strategy for Financial Inclusion as a key focus area. In 2019 the PMA started to license electronic payment companies revolutionizing the payments market in Palestine.

The Palestine Exchange (PEX); established in 1995 as a private shareholding company to promote investment in Palestine and transformed into a public shareholding company in February 2010 responding to principles of transparency and good governance. It is the first fully- automated stock exchange in the Arab world and the only Arab exchange that was fully owned by the private sector. PEX upgraded its Trading System "X – Stream as part of the new generation from NASDAQ to be in line with all Global Exchanges. With 48 companies listed with a market value of USD$ 3.76 billion. PEX is listed in the Frontier Markets of FTSE Financial Times Index. It was also accepted as a full member in The World Federation of Exchanges (WFE) in 2016. Membership was hailed a recognition for PEX's commitment to the highest levels of transparency, disclosure and investor protection, in spite of Palestine's geopolitical conditions, the surrounding regional environment and challenging economic conditions.

The PEX operates under the supervision of the Palestine Capital Market Authority (PCMA). It uses best-of-breed technology and strives to provide an enabling environment for trading that is characterized by equity, transparency, and competence as well as serving and maintaining the interest of investors. The PEX has maintained its presence under challenging political and economic conditions for the past 20 years and positioned itself as a robust exchange among its emerging market peers. The PEX is one of the most rewarding exchanges in the region in terms of return on investment (ROI) which averaged 5.69% over the last five years. The PEX is listed in leading financial indices in the Frontier Markets category in the FTSE Index of the Global Financial Times Stock Exchange.

It was a step towards positioning Palestine on the global investment scene and a positive indicator for many institutional investors and investment funds, reflecting compliance with international standards. PCMA has been a great supporter of financial inclusion efforts by banks.

The Palestinian Banking Sector

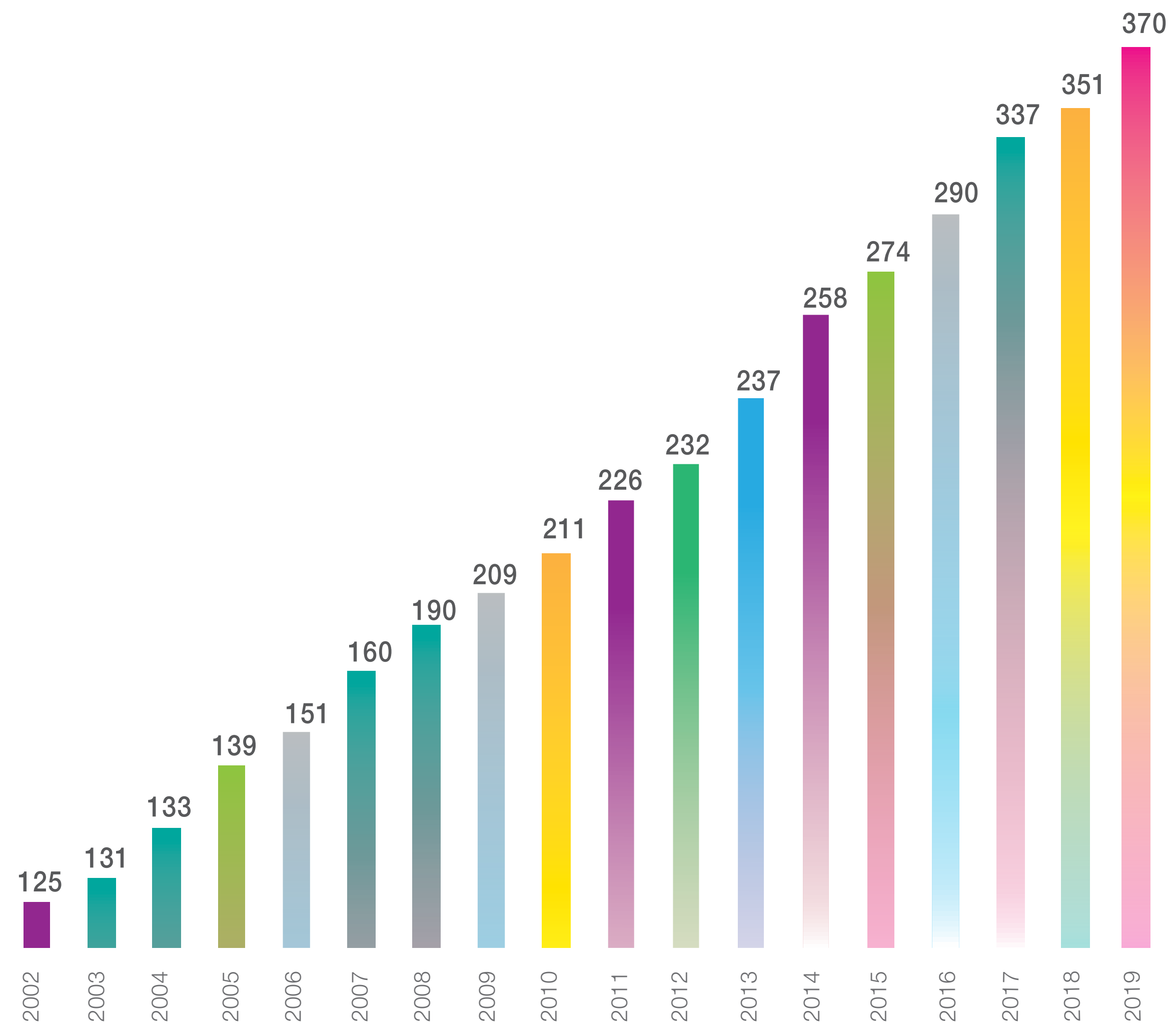
Fourteen banks operate within Palestine, seven of which are Palestinian. The growth potential for the banking sector in Palestine is very promising. There are currently 370 branches that serve the entire Palestinian population of 5 million. Without taking into account the growth in the Palestinian population, the number of bank branches in Palestine needs to double to meet the world standard of a maximum of one branch per 10,000 people. Estimates that 60% of the Palestinian population remain unbanked.

Bank of Palestine regards the relatively sparsely populated banking arena in Palestine as an opportunity both to extend the reach of its business and to provide high quality, innovative products and advisory services that improve the lives of its customers via banking services and financial inclusion.

Bank of Palestine's potential for growth is strong. During 2019, the banking sector assets increased by 11%, deposits by 9.5%, and loans by 7%.

With 73 branches, offices, and increased enhanced digital channels, Bank of Palestine, is strongly positioned to maintain its position as the leader in the banking sector in Palestine. The effort we have put into building a highly respected financial institution with a strong brand has been rewarded by great customer loyalty, and new partnerships which is reflected both in our results for the year and our positive outlook for the future.

2019 -BOP indicators Benchmarked to the Banking Sector:



2019 -BOP indicators Benchmarked to the Banking Sector:

(Total Assets (USD	2015	2016	2017	2018	2019
Banking Sector	12,602,347,774	13,859,455,383	15,472,566,496	15,637,763,079	17,347,170,110
BOP	2,785,203,240	4,121,322,946	4,884,822,851	4,657,182,978	5,264,944,640
Deposits					
Banking Sector	9,654.597,508	10,595,777,751	11,973,385,261	12,227,327,064	13,384,708,641
BOP	2,242,782,298	3,143,151,591	3,768,631,790	3,735,178,556	4,115,584,018
Total Credit Facilities					
Banking Sector	5,824,694,875	6,865,906,898	8,025,978,869	8,437,900,129	9,037,905,231
BOP	1,406,484,124	2,240,844,838	2,554,216,880	2,782,226,225	3,113,623,834

Percentage of Growth in Deposits & Loans (year to year)

Custemer Deposits	2015	2016	2017	2018	2019
Banking Sector	8%	9.75%	13%	2.1%	9.5%
BOP	8.74%	40.15%	19.9%	-0.89%	10. % 2

Credit Facilities	2015	2016	2017	2018	2019
Banking Sector	19%	17.87%	16.9%	5.1%	7 .1 %
BOP	20.57%	59.38%	14%	8.9%	11.9 %

Bank of Palestine Market Share
in the Palestine Exchange

% 11

Bank of Palestine Market Share
in deposits in Banking Sector

% 30.7

Bank of Palestine Market Share
in loans in Banking Sector

% 34.5

Governance and Management Structures
Board Members

Mr. Hashim Shawa
Chairman of the Board of Directors
Bachelor of Engineering - University College London – 1997
Date of Birth: 25/01/1976
Date of Membership: 2007

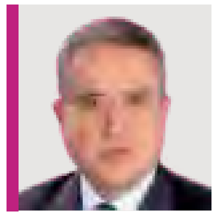
Experience
Chairman of Bank of Palestine Financial Group.
Chairman of Palpay Electronic Payments
Chairman of Alwasata Securities Company
Chairman of Ibtikar Fund
2007 - 2017, General Manager of Bank of Palestine
2005 - 2007, Associate Director Middle East Gulf Region, HSBC Private Bank - Switzerland
2002 – 2005, Vice President, Middle East Region, Citigroup Private Bank, Geneva -Switzerland.
1997 – 2002, Assistant Vice President Operations & Technology - Citigroup, London, UK.

Memberships
Member of the Institute of International Finance (IIF) Emerging Markets Advisory Council (EMAC)
World Bank Advisory Council on Gender and Development
Member of the Board of Trustees “ Bethlehem University”
Member of the Board of Directors “Pharmacare Company”
Chairman of the board of Ibtikar Fund.

Mr. Maher Farah
Member
Bachelor of Civil Engineering – Cairo University - Egypt 1966
Date of Birth: 21/03/1945
Date of Membership: 2002

Experience
1966 – 1982 Civil Engineer in different countries.
1982 “ 1997 “ General Manager of Contractors Group Company “ Kuwait
1997 to present “ Chairman of the International Contracting Company- Palestine

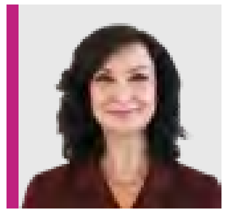
Memberships
Member of the Board of Directors – Abraj Real Estate Investment and Development Company – Palestine
Member of the Board of Directors – Arab Islamic Bank



Dr. Hani Nigim
Member
PhD - Mechanical Engineering – Leicester University England – 1981
Date of Birth: 28/06/1952
Date of Membership: 2004

Experience:
1981 Researcher - Leicester University Leicester - England.
1983 to present – Professor - Department of Mechanical Engineering - Birzeit University – Palestine.
1993 – 1998 Dean of Engineering - Birzeit University – Palestine.
2004 Consultant - Planning and Developing - Al- Aqsa University -Palestine.
2005 President of Al Azhar University Gaza – Palestine
2006 Coordinator of the higher education project supported by the World Bank and the European Union – Palestine Visiting Professor - Department of Mechanical Engineering - of many regional and international universities and a coordinator of many projects supported by the European Union.

Memberships:
Member of Board of Directors – Palestine Electricity Holding Company.
Member of Board of Directors- Palestinian Pension Agency.
Member of Board of Directors – Palestine Real Estate Investment.
Member of General Assembly – The Palestine Investment Fund (PIF).
Member of Board of Directors – Palestine Centre for Micro Projects Development – Palestine.
Member – Mediterranean Network on Water Reclamation and Reuse - Spain.
Member of the Board of Trustees – Al Azhar University Gaza – Palestine.
Member of the Board of Trustees – Al-Quds Open University – Palestine.
Associate Fellow – American Institute of Aeronautics and Astronautics (AIAA).



Mrs .Lana Abu-Hijleh
Member
B.SC- Civil Engineering, University Of Iowa, USA – 1985
Date of Membership: 2014

Experience
1986 – 2003 – Assistant Resident Representative of the United Nations Development Program/Program of Assistance to the Palestinian People (UNDP/PAPP).
2003 - Present –Country Director of Global Communities (Formerly known as CHF International – Palestine).

Memberships
Member of the Board of Directors - Palestine Investment Fund
Vice Chair - Palestine for a New Beginning.
Member of the Board of Directors of the Palestine Student Lending Fund.
Member of the Board of Trustees of Palestine Economic Policy Research Institute (MAS).
Member of the Board of Director of Vitas Company for Microfinance
Member of the Board of Directors of the Palestine Institute for Public Diplomacy.
Member - Palestinian Business Women Forum.
Member – Education for Employment Foundation
Member - Young Presidents’ Organization (YPO/WPO).
Fellow of the Middle East Leadership Network – The Aspen Institute.
Chair of the Board of Trustees - El Funoun Group

Mr. Faysal Shawa
Member
Bachelor of Civil Engineering – Memphis State University - United States of America - 1992
Master of Business Administration – North Virginia State University- United States of America - 2009
Date of Birth: 20/04/1968
Date of Membership: 2004

Experience
General Manager – Shawa General Trading & Contracting Co.

Memberships
Chairman of the Board of Directors – Shawa General Trading & Contracting Co. – Palestine.
Vice Chairman of the Board of Directors – The Palestine Trade Centre - PalTrade - Palestine.
Vice-Chairman of the Board of Directors – The Middle East Pharmaceutical Industry Co. – Palestine.
Vice-Chairman – Al-Amal for the Asphalt Co.– Palestine
Member of the Board of Directors – Wataniya Mobile. Telecommunication Company - Palestine.
Member of the Board of Directors – Palestinian Company for Electricity - Palestine.
2005 - 2009 Member of the Board of Directors (Secretary General) – Businessmen Association Gaza – Palestine
2006 - 2007 Member – Palestinian Shippers› Council – Palestine.
Member of the Engineers Syndicate (TBP) - USA.
Member of the Contractors Union - Palestine.
Member of the Engineers Syndicate Gaza – Palestine.
Member of the Palestinian Businessmen Association.

Mr. Tareq Shaka
Member
Bachelor of Business Law – Ohio University Athens - USA 1987
Date of Birth: 18/02/1964
Date of Membership: 2010

Experience
1987 – 1989 – Shaka Drug Store, Nablus Palestine.
1989 - 1999 – Jerusalem Pharmaceutical Company, Ramallah - Palestine.
2000 - 2005 – Birzeit Pharmaceutical Company, Ramallah - Palestine.
2005 to present – General Manager of Lotus Financial Investment Ltd., Ramallah – Palestine

Memberships
Member of Board of Directors – Lotus Financial Investment Ltd Ramallah - Palestine
Member of Board of Directors – Eastern. Chemical Company - Palestine.
Member of Board of Directors – Arab Hotels Company (AHC) Ramallah – Palestine.
Member of Board of Directors – Abraj Real Estate Investment Company.
Member of the board of directors of the Arab Palestinian Investment Company (APIC).

Governance and Management Structures
Board Members

Mr. Tarek Al-Aggad
Member
A representative of Arab Palestinian Investment Company (APIC)
B.A – Economics - Harvard University, USA – 1992
Date of Membership: 2014

Experience
Arab Palestinian Investment Company (APIC) Palestine - Chairman & CEO.
Al- Aggad Investment Company (AICO) Saudi Arabia - Executive Director.
Siniora Food industries (SNRA) Jordan/Palestine Chairman.
Unipal General Trading company-Palestine Chairman.
Medical Supplies and Services (MSS)- Palestine Chairman.
Palestine Automobile Company- Palestine –Chairman

Memberships
Member of the Board of Directors - Palestine Investment Fund.
Palestine Electricity Company (PEC)- Member of the Board of Directors.
Palestine Power generation Company (PPGC) Member of the Board of Directors.
Several other board memberships in Saudi Arabia, Jordan and Palestine.
Member of the Board of Trustees and Board of Directors - the King Hussein Cancer Foundation, Jordan.
Member of the Board of Trustees: King's Academy.

Mr. Abdullah Al-Ghanim
Member
A representative of AL-Muhalab Real Estate Company
MBA - The Thunderbird School of Global Management - 2005
Finance - Boston University - 1996
Date of Membership: 2014

Experience
2001 – 2006 - AlMuhalab Kuwaiti Real Estate – Kuwait.
2006 – 2010 - HSBC Private Bank - Kuwait.
2010-2011 - Boubyan Bank - Kuwait.
2011- 2012 - International Finance Corporation - UAE.
2012 to Present - ASIYA Investment Co - Kuwait.
2015 - Assistant General Manager - Investment Banking, Gulf Bank of Kuwait

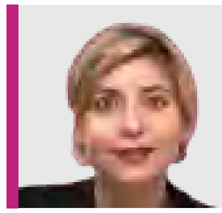
Dr. Tafeeda Jarbawi
Member
PhD in Analytical Chemistry, minor in Biochemistry.
University of Cincinnati, Ohio, USA
Date of Membership: 2019

Experience
2011-to date Director General of Taawon (Welfare Association)
2010-2011 Deputy Director General of Taawon (Welfare Association)
2008-2010 Directors of Operations-Taawon (Welfare Association)
2006-2008 Director of Research and Planning - Taawon (Welfare Association)
1995-2006 Associate Prof. Director of Ramallah Womens' College comprised of: Teacher Education as well as Vocational and Technical Training - UNRWA
1995 Visiting Research Professor for - University of Bonn/ Germany
1987 Visiting Research Professor- University of Minnesota /USA
1981-1994 Assistant Professor of chemistry/ Head of Chemistry Department -Birzeit University
Author of more than 40 publications in chemistry, education and women's affairs
Memberships
Member of the advisory board of Bard-Al Quds University
Advisory Member to MEPLI Professional Education Program , Harvard Graduate School of Education
Member of the Gov. Education Reform Committee
Higher Council for Vocational and Technical Education
Accreditation and Quality Assurance for Higher Education
UNISCO-World Commission of the Ethics of Scientific Knowledge and Technology (COMEST)
Bioethics Network on Women's Issues in the Arab Region

Mrs. Maha Awad
Member
BA- Economics -Birzeit University
Date of Birth:24/04/1962
Date of Membership: 2018

Experience
-1988 -Present: General Manager – Abu Shousheh contracting Co.
-1997 – 2008: Chairwoman & General Manager – Abu Shousheh Trading Co.
-2008 - present: Board Member Autozone Trading Co.
-2014 – 2018: Chairwoman of Palestinian Business Women Forum.
-2006 – 2015: Chairwomen of the Palestinian Shippers Council
-2006 – 2015: the president of the board of directors of Riwaq (the Palestinian association for the preservation of architectural heritage),
-Honorary Consul of the State of Indonesia.

Memberships
-Member of the Board of Trustees - Al Quds University.
-Member of the Board - Medical Relief Association.
-Member of the Board - Council of Arab Business Women.
-Founding Partner in several Private Sector companies.



Mrs. Nada Shousha
Member
BA in Economics –Focus on Political Economics
University of Geneva, Switzerland 1984
Date of Birth:17/12/1962
Date of Membership: 2017

Experience
International Finance Corporation- IFC - Middle East and North Africa Department 2016 – present : Senior Regional Advisor 2012 – 2016 : Regional Manager – Egypt, Yemen and Libya. 2009 – 2012 : Principal Country Officer – Egypt. - Financial Institutions Group 2002 – 2008 Senior Investment Officer · 1997 – 2002 : Arthur Andersen (Egypt) Manager – Economic and financial consulting/Corporate Finance Group – Egypt · 1994 - 1997 : International Group for Investment (Egypt) - Senior Consultant · 1987 – 1991 : Bear Stearns (Geneva) - Account Executive · 1984 –1987 : ATAG/Ernst & Young (Geneva) Associate – Investment and Asset Management Department

Memberships
-Board and Investment Committee Member: Egyptian American Enterprise Fund (USAID -US) · Board and Chair of Risk Committee Member : Bank of Palestine (West Bank and Gaza. · Board Member and Audit Committee Member : AXA (Egypt) · Board Member and Remuneration Committee Member : MS Pharm (Jordan) · Board Member and Audit Committee Chairperson : Dawi Clinics (Egypt)

Dr. Nabil Qaddumi
Member
PHD in civil engineering
He has degrees from the University of Texas, Stanford University, and MIT, all in civil engineering.
Date of Membership: 2018

Experience
-is the founder and Chairman of SPETCO International Petroleum Company (SPETCO). ·
-He is also the founder and previous Chairman of PROJACS International, a leading regional project management company.
-In the public service domain, he was the Chairman of the Board of Trustees of the Welfare Association (TAAWON), and is
-The Founder and Director of the Hani Qaddumi Scholarship Foundation (HQSF),
-The Vice Chairman of the Arab Fund for Arts & Culture (AFAC),
-A member of the Board of the Institute for Palestine Studies (IPS), and
-Previous Palestine's Governor at the Arab Fund for Economic and Social Development.
-He was a lecturer at Kuwait University, and a visiting lecturer at Stanford University.

Date of Resignation 7/2019

Code of Governance

The purpose of Bank of Palestine's (BOP) Code of Corporate Governance (Code) is to summarize the bank's

key corporate governance policies and provisions. By adopting this Code, BOP confirms its commitment to demonstrably lead and promote good corporate governance throughout the bank's departments and activities. BOP understands corporate governance as a set of policies, systems and processes for the direction and control of companies, involving a set of relationships between the company's shareholders, board and executive bodies for the purpose of creating long-term shareholder value.

In order to foster the confidence of its shareholders, employees, investors, and the general public, this Code goes beyond the established legal and regulatory framework by the Palestine Capital Markets Authority (PCMA), Palestinian Monetary Authority (PMA), and embraces internationally recognized corporate governance principles and practices.

BOP's corporate governance framework is broadly based on the following principles:

• Accountability: This Code ensures BOP's accountability to all shareholders and guides the company's board in the important strategy setting function, while guiding and monitoring the company's management.

• Fairness: BOP obligates itself to protect shareholder rights and ensure the equitable treatment of all shareholders, including minority shareholders. All shareholders are to be granted effective redress for violation of their rights through the board.

• Transparency: BOP is to ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company, in a manner easily accessible to interested parties.

• Responsibility: BOP recognizes the rights of other stakeholders as established by laws and regulations, and encourages cooperation between the company and stakeholders in creating sustainable and financially sound enterprises.

Following is a summary of BOP's key corporate governance policies and practices related to:

I: Board Governance

BOP strives to maintain an effective, professional, and well-functioning board of directors given its key role for ensuring corporate governance in the Bank's departments and activities.

The Board shall bear overall accountability for the performance of Bank of Palestine.

The Board is elected by shareholders to oversee and guide management with the ultimate goal of creating long-term shareholder value for the Bank, while taking into account the interest of its stakeholders.

Members of the board act in good faith, with due care and in the best interest of the company and all its shareholders–and not in the interests of any particular shareholder–on the basis of all relevant information. Each director is expected to ensure full commitment to the director duties, attending all board and applicable committee meetings.

The number of Directors shall be between seven and thirteen; each director will be elected to serve a term of four years, which can be renewed. There is no maximum limit on the number of terms a director may serve, rather reappointment shall be based on the director's continued ability to perform the necessary director duties and maintain sufficient objectivity.

The board's composition (competencies, skills and appropriate mix) is such that it is adequate for oversight of duties, and the development of the company's direction and strategy. Each individual member of the board shall have the experience, knowledge, qualifications, expertise and integrity necessary to effectively discharge board duties and enhance the board's ability to serve the long-term interests of the company and its shareholders.

To ensure the impartiality of decisions and to maintain the balance of interests among various groups of shareholders, at least 25 percent of the board members are independent directors.

Board committees have been set up to ensure best governance. All committees have charters containing provisions on the scope of authority, competencies, composition, working procedures, as well as the rights and responsibilities of the committee members. All Directors are subject to re-election by the shareholders at the annual general assembly meeting at least every four years.

The HR and Corporate Governance Committee shall oversee the non-executive director remuneration policy for the Bank. The remuneration policy shall seek to attract, motivate, reward, and retain directors of high integrity and superior ability who are focused on enhancing and maintaining the long-term shareholder value. Further, the remuneration policy shall be such that it does not jeopardize a director's independence or encourage unjustified short-term risk taking.

The board meets according to a fixed schedule, which enables it to properly discharge its duties. As a rule, the board shall meet no less than six times a year.

II: Management Control Practices

BOP strives to maintain sound management control frameworks to ensure integrity of its operations and provide assurance to its shareholders and stakeholders. BOP shall place great importance on risk management and it is the board of directors that is tasked with ensuring that appropriate risk management systems are established.

BOP shall place great importance on internal control and its board of directors is charged with ensuring the Bank has an effective framework of internal control. BOP shall have an internal auditor, who is a part of the Internal Audit and Inspection Department that provides assurance to the board as to the effectiveness of the company's internal controls. BOP shall have an active compliance department that ensures proper compliance with all applicable external laws and regulations as well as internal codes and policies.

BOP shall engage a publicly recognized, licensed and independent auditing firm, which is fully independent from the company, the company's management, and major shareholders.

III: Shareholder rights

BOP ensures that all shareholders have the right to participate in the governance and the earned profits of the Bank.

BOP's Articles of Association include particular provisions about the conduct of the general assembly. BOP shall have a system of registering shareholder complaints and effectively solve them.

BOP's directors and employees shall understand this Code as their joint obligation, and accordingly, obligate themselves to ensure that its provisions and its spirit are adhered to and acted upon throughout the company. Board members and executives shall not divulge or use confidential or insider information about the company and shall comply with the insider trading policy. All BOP directors and employees are expected to act ethically at all times and to acknowledge their adherence to the BOP Code of Ethics.

A potential conflict of interest exists if the company intends to enter into a transaction with a related party. When such a conflict exists, members of the board and management shall disclose information about the conflict of interest to the board, and shall abstain from deliberating and voting on such issues.

The audit committee shall resolve any such conflicts. Unless required to do so by law, no board member or employee shall, during his or her membership on the board or afterwards, disclose any information of a confidential nature regarding the business of the company and/or any companies in which it holds a stake, that came to his or her knowledge in the capacity of his or her work for the company and which he/she knows or should know to be of a confidential nature.

A board member shall not use such confidential information for his or her personal benefit.

IV: Transparency and Information Disclosure

BOP strives to maintain a high standard of corporate transparency to its shareholders and stakeholders, including timely and accurate information disclosure. BOP's policy is to disclose all material information, including the financial situation, performance, ownership and the governance structure of the company to its shareholders and the broader public as appropriate.

The company shall publish a comprehensive annual report that includes a corporate governance section. The company shall also strive to disclose its corporate governance practices, corporate events calendar and other material information on its internet site in a timely manner.

V: Corporate Social Responsibility

BOP is committed to making a positive difference in the communities in which we live and work.

Corporate Social Responsibility is the commitment of business to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve the community at large according to the board of directors approved strategy.

BOP fully considers social, cultural, environmental, governmental and economic factors when evaluating development opportunities.

Board Responsibilities & Committees

Board of Directors

The Board shall bear overall accountability for the performance of Bank of Palestine.

The Board is elected by shareholders to oversee and guide management with the ultimate goal of increasing long-term shareholder value for the bank, while taking into account the interest of its stakeholders.

The following functions are the common recurring activities of the Board in carrying out its guidance and oversight responsibility.

- Reviewing, approving, and monitoring BOP's long-term strategic objectives and business plans of the executive management.
- Monitoring the overall performance of the Bank and progress towards its strategic objectives.
- Assessing the major risks facing the bank's executive management and the steps taken by management to monitor and control such risks.
- Setting the level of 'Risk Appetite' of the Bank and ensuring there is a culture of risk management through the organization.
- Overseeing the integrity of the financial statements, ensuring compliance with legal and regulatory requirements, the performance, qualifications, and independence of the external auditor, and the performance of the internal audit function.
- Reviewing and approving major business transactions, including significant credit decisions, capital allocations and expenditures, in line with the approved chart of authorities.
- Overseeing investment and financing activities of the bank and making major investment and financing decisions.
- Overseeing and approving the human resource policies, and framework and Corporate Governance of the Bank.
- Selecting and recommending Director Nominees for election by Shareholders.
- Selecting, developing, and evaluating potential candidates for senior executive officer positions and overseeing the development of senior executive officer succession plans.
- Determining remuneration policies for board of directors and senior executives.
- Evaluating the overall performance and effectiveness of the Board and its members and taking corrective actions as needed.
- Overseeing the bank's corporate governance framework and ensuring compliance with agreed policies and provisions.
- Ensuring proper shareholder relations are maintained, shareholder rights are protected, and shareholder meetings are conducted in accordance with applicable laws and regulations.
- Ensuring stakeholder interests are considered and the bank conducts its business in a socially responsible manner to the extent practical.

Audit Committee

Committee Members:

- Mr. Tarek Aggad, Chairman
- Mrs. Lana Abu Hijleh, Member
- Ms. Maha Awad, Member

The role of the Committee is to assist the board in overseeing the bank's financial controls with particular emphasis on:

(a) The integrity of internal controls and financial reporting.

(b) The qualification and independence of the bank's external auditor.

(c) The performance of the bank's internal audit and compliance functions and of its external auditor. In order to fulfill its role, the Committee shall have the following authorities and responsibilities:

- Review Internal Control systems of the bank.
- Reviewing the reports of the Inspection and Audit department, internal auditor, and compliance control department including financial and non-financial issues, remedial procedures and means of controlling the risks faced by the bank.
- Direct oversight of the Compliance and the AML officer including the reports from the Compliance department and the AML officer.
- Reviewing accuracy of financial statements provided to the board, shareholders and other users.
- Reviewing the bank’s commitment to laws and regulations of the PMA, the Board, and other regulations applicable in Palestine.
- Reviewing the external auditing plan and verifying that the plan includes all activities of the bank.
- Ensuring the accuracy and integrity of accounting and compliance with laws and regulations applicable to the activities of the bank.
- Developing disclosure and transparency standards and submitting them to the board for approval.
- Reviewing notes mentioned in the PMA’s reports and offering recommendations to Board on the appropriate remedial steps.
- Coordinating with Risks Management Committee to present the financial statements of the bank.
- Studying the financial system employed at the bank and making recommendations to improve it and guarantee that they fairly represent the situation and that no false data are reported.
- Putting in place a system that allows employees to report secretly on fears of potential violations and in a manner that makes it possible to investigate them independently and follow them up without supervisors penalizing them or colleagues looking down at them. The audit committee shall monitor the implementation of these procedures.
- Acting as a liaison between the board of directors and the external auditor, the board of directors and the internal auditor and between the internal and external auditors.
- Following up on the bank’s adherence to its internal code of professional conduct and adherence to external laws and regulations.
- Informing the board of directors of issues that require its immediate intervention and offering recommendations on the appropriate remedial steps.
- The audit committee shall submit reports to the board of directors on all matters that fall within its scope of work thereby enabling it to carry out its function of monitoring the management of the bank and submitting to shareholders and investors factual and documented information.

Risk Management Committee

Committee Members:

- Ms. Nada Shousha, Chairwomen
- Mrs. Lana Abu Hijleh, Member
- Mr. Tarek Aggad, Member

The role of the Committee is to assist the Board of Directors of BOP in fulfilling its oversight responsibilities with regard to:

(a) The risks inherent in the business of the Bank and the control processes with respect to such risks.

(b) The assessment and review of credit, market, and operational risks.

(c) The risk management activities of the bank and its subsidiaries.

In order to fulfil its role, the Committee shall have the following authorities and responsibilities:

- Approve the overall risk management policies and ensure there is an effective Enterprise Risk Management framework in place to proactively identify, measure, mitigate, and monitor all types of risk in the bank and to promote continuous dialogue about risk management throughout the organization (i.e., promoting a ‘Risk Culture’).
- Determine the overall ‘Risk Appetite’ of the bank and ensure the overall risk profile and tolerances are in line with the agreed appetite.
- Obtain assurance from the executive management and internal auditing that the risk processes and systems are operating effectively, with sound controls, and compliance with approved policies.
- Obtain assurance that the bank is complying with applicable laws and regulations regarding all risk management policies and procedures.
- Review the bank’s capital adequacy and provisions to ensure they are in compliance with regulatory guidelines and in line with the risk profile of the bank.
- Review reports on a quarterly basis or on a needs basis from the executive management on the status of the bank’s risk portfolio, highlighting key risk areas, trends, forecasts, and management actions being taken to address particular issues.
- Review significant risk exposures and the steps management has taken to monitor, control, and report all types of risk, including, credit, market, operational, fiduciary, liquidity, compliance, reputational, strategic, and all other types of internal/external risk impacting the bank.
- Provide guidance to management, as needed, to help them improve their risk management practices and/or mitigate particular risks, including the existence of qualified personnel at the management level to carry out risk management activities effectively.
- Report to the board on a regular basis of the status of the bank’s risk portfolio and immediately inform the board of any substantial changes to the bank risk portfolio status.
- Review the appointment, responsibilities, performance, and replacement of the Chief Risk Officer and monitor effectiveness of the Risk Management departments in general.
- Support the Audit Committee’s efforts (with the help of Credit Risk Officer) to monitor and evaluate, as mandated by the PMA, “guidelines and policies to govern the process by which risk assessment and management is undertaken.”

Executive Committee

Committee Members:

- Mr. Hashim shawa, Chairman
- Dr. Maher Farah, Member
- Mr. Faisal Shawa, Member
- Mr. Abdullah Al Ghanim, Member
- Mr. Tareq Aggad, Member

Responsibilities of the Executive Committee is primarily to oversee the operations and business continuity of the bank in order to achieve its long-term strategic plans. It manages the main elements of the ALCO functions, capital plans, business development, budgets, capital adequacy, mergers and acquisitions, new markets, international agreements and representations, and Corporate Social Responsibility programs.

- The committee reviews submissions for loans and investment decisions and any financial obligations to be construed upon the bank from any other activities that is not within the decision matrix of the executive management. If the requests for decisions are higher than the decision making matrix of the committee the committee sends recommendations to this effect to the entire board for a decision.
- The committee provides the board with recommendation for business plans, restructuring and major change management in main functions, geographic presence and correspondent banking.
- Oversee identification, assessment and management of Bank-wide material
- Yearly review the risk budget and capital plan in conjunction with the financial budget
- Consider the impact of changes in market, economic, political and competitive environments on the Bank's risk profile

Human Resources & Corporate Governance Committee

Committee Members:

- Dr. Hani Nigim, Chairman
- Ms. Nada Shousha, Member
- Mr. Abdullah Al Ghanim, Member
- Dr. Tafeeda Al Jarbawi, Member

The role of the Committee is to oversee

(a) The bank's corporate governance framework.

(b) Director nomination process, director and executive remuneration policies, board and executive evaluation processes.

(c) Succession planning, board education, and the bank's human resources policies.

In order to fulfil its role, the Committee shall have the following authorities and responsibilities:

• Review and approve major HR policies to ensure they are fair, competitive, complete, and in the best long-term interest of BOP.

• Help oversee major changes and improvements in the HR function to ensure it is effectively serving as a strategic partner in the organization;

• Develop for the board's approval and annually review the chart of authorities and delegation of authorities to management;

• Consider possible conflicts of interests of directors and any related party transactions of directors and make relevant proposals to the board in accordance with the BOP's corporate governance code;

• Review any change in status (including fulfilment of independence requirements)and professional affiliation of current directors and make relevant proposals to the board in accordance with the company's corporate governance code;

• Oversee the development and implementation of a board induction process for new directors and a programme of continuing director development as needed;

• Review corporate governance policies and practices throughout the company and make relevant proposals to the board to improve their effectiveness.

The Board delegates responsibility to the Board Risk Committee (BRC) for the following:

- Ensure development and implementation of the Bank's risk management framework
- Review of risk management effectiveness and follow up of remedial actions
- Review of the risk profile of the Bank at least quarterly through the risk management reporting package prepared by the Risk Management Function
- Review Risk Management Policies at least annually and recommend changes, if required
- Ongoing oversight and monitoring of the Bank's material risk exposures
- Monitor compliance with Bank risk management policies, PMA regulations and any other external risk management requirements
- Approval of the appointment of the Chief Risk Officer and senior risk officers and of the risk management organizational charter.

Governance and Management Structures
Board Meetings

Board Attendance and Absence of Board Meetings and Executive Committee Meetings for the year 2019:

Board members	27/01/2019	28/02/2019	16/04/2019	26/05/2019	25/08/2019	29/09/2019	31/10/2019	28/11/2019	19/12/2019	Total number of attendance for each member
	1	2	3	4	5	6	7	8	9	
Hashim Shawa	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Faysal Ghazi Shawa	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Maher Farah	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Lana Abu Hijleh	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Hani Nigim	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Tareq Shaka	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Nada Shousha	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Abdullah Al- Ghanim	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Tarek Aggad	Present	Present	Present	Present	Present	Present		Present	Present	8
Maha Awad	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Nabil Qaddumi	Present	Present	Present	Present						4
Dr. Tafeeda Jarbawi									Present	1
	11	11	11	11	10	10	10	10	11	

Disclosures

Senior Executive Management Salaries and Bonuses

General Manager, Deputy General Managers, and Assistant General Managers' salaries and bonuses amounted to USD 4,703,114 in 2019.

Seminars' Cost and Travel Expenses of Senior Executive Management

General Manager, Deputy General Managers, and Assistant General Managers' seminars cost, and travel expenses amounted to USD 292,323 in 2019.

Loans Granted to Senior Executive Management:

Total loans granted to Senior Executive Management in 2019 was USD3,954,602 .

Proposed Remuneration to Board of Directors

Proposed Board of Directors remuneration based on profits for the year 2019 is USD990,000 .

Dependence on Main providers and Customers

There is no main local or foreign provider or customer, who represents %10 or more of total purchases and/or sales.

Privileges

The bank does not have any governmental protection or privilege to the company or any of its products by law, regulations, or others.

Extraordinary Transactions

No financial effect occurred due to extraordinary transactions during the financial year.

Legal Actions

Number of cases filed against the bank was (186) and (139), as at 31 December 2019 and 2018 respectively, which were considered part of the normal activity of the bank. Cases were equivalent to USD 40,336,275 and USD 26,033,346 as at 31 December 2019 and 2018 respectively. The bank's management and lawyer assess that these cases would not entail any liabilities other than what the bank has already allocated.

Decisions with Material effect

Israeli Military orders are the major obstacles to the bank's operations, especially the siege on the Gaza Strip and military checkpoints spread across the West Bank. In spite of this situation, Bank of Palestine has the ability and experience to adapt with these orders. Having the largest banking network in Palestine enables the bank to manage its transactions and their continuity effectively given the prevailing conditions.

Control of the Company

There are no direct or indirect parties who control the company.

The Board of Directors Sessions

Nine Board of Directors meeting sessions were held in 2019, in addition to the board committees' meetings, to carry out the tasks entrusted in the members as stated in the Code of Corporate Governance and the internal procedures of the bank.

Special Voting by Shareholders

No issues requested a special voting by shareholders during the year 2019.

Preliminary Financial Statements

There is no difference between the preliminary financial statements disclosed previously and the final financial statements of the year.

External Auditor

Ernst & Young Co. audited the 2019 financial statements.

Disseminating Information

The Annual Report will be sent to all shareholders at their registered email address with an invitation to attend the General Assembly. The report will also be available in all of our branches and an electronic version will be available on our website

http://www.bop.ps/en/home

Risk Management

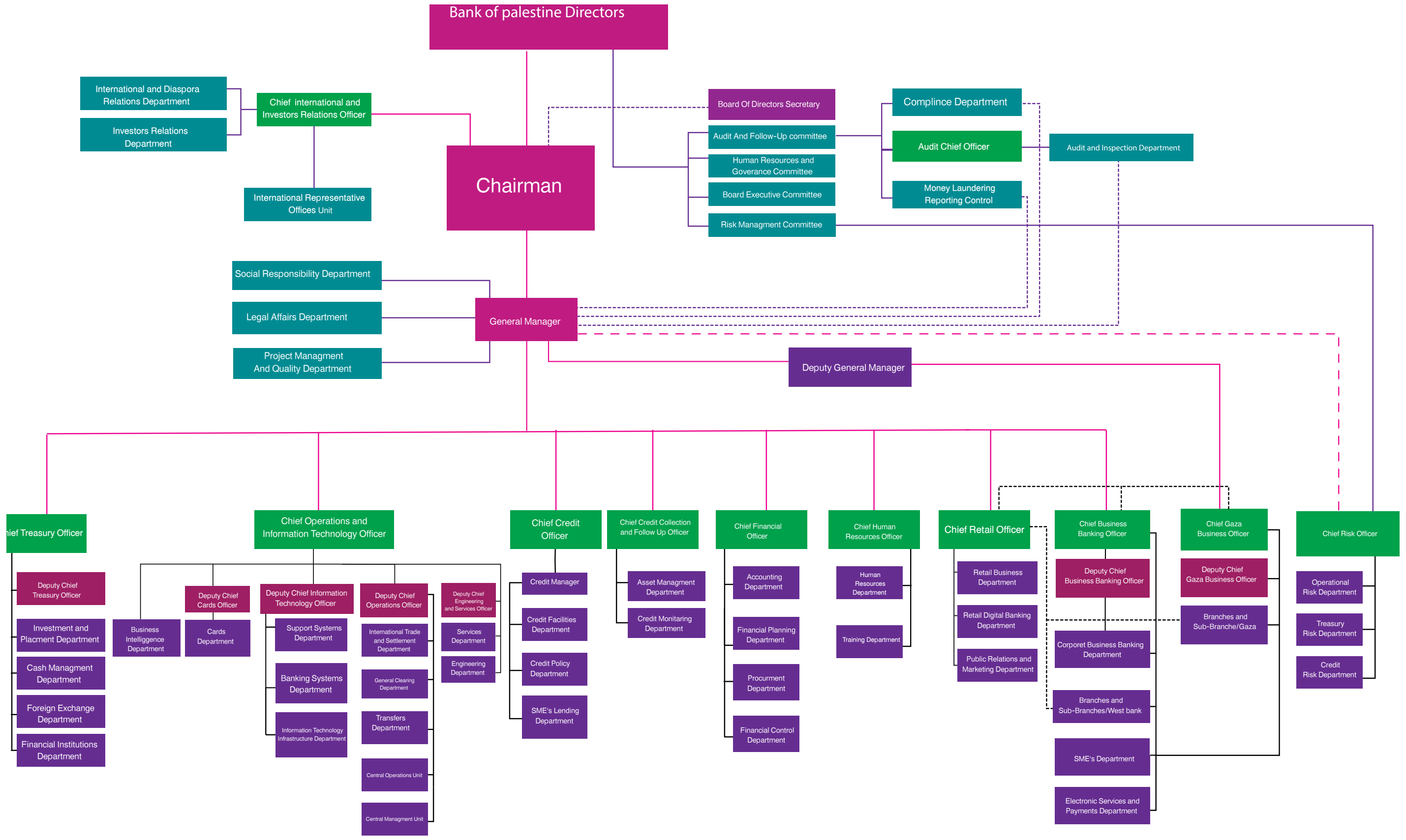
The Risk Management Policy of the Bank is under the authority of the Board of Directors. The Board is responsible for approving the Bank's risk appetite and strategy, and to formally review it annually or more often if required. The Board delegates specific oversight of all risk management activities in the Bank to the Board Risk Committee (BRC). While the Board delegates oversight authority to the BRC, ultimate responsibility for the Bank's effective risk management and adherence to this Policy rests with the Board.

The Board formally reviews the Risk Management Framework and the risk profile of the Bank at least annually or as internal or external events may dictate.

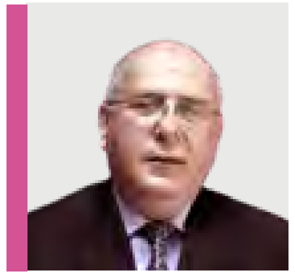
Responsibilities of the Board in relation to risk management include the following:

- Develops business strategy based on which a financial and risk budgets are drafted, including capital planning (ICAAP)
- Approves Risk Management Policies for the Bank and articulates risk appetite as part of the Risk Management Policies including risk tolerances and limits
- Establishes the risk governance structure as part of the Risk Management Policies
- Reviews significant risk issues highlighted by Board Risk Committee
- Delegates relevant authority to Board Risk Committee for ongoing review of the effectiveness of the Risk Management Framework
- Reports to shareholders on risk management as part of the annual report.

Organizational Structure



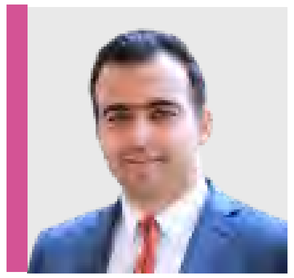
Mr. Rushdi Mahmoud Ghalayini
General Manager
Bachelor of Economics and Computer Science, American University, Cairo – Egypt 1986
Date of Birth: 26/05/1962
Joined BOP in 1989



Mr. Alaa' El Din Mohammed Al-Redwan
Deputy General Manager
Chief Operations Officer
Bachelor of Accounting, Damascus University- Syria 1992
Masters of Business Administration, Van Holland University
Date of Birth: 22/06/1965
Joined BOP in 1993

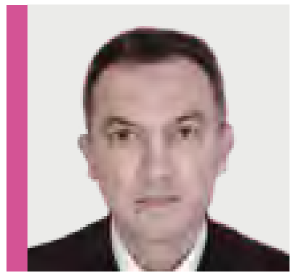
Mr. Wael AbdAllatif Al Sourani
Chief Gaza Business Oficer
Bachelor of Biology & Chemistry – Sana'a University, Yemen 1993
Date of Birth: 07/02/1967
Joined BOP in 1995

Mr. Kamel A. K. Husseini
Chief International And Investor Relations Officer
Master of international Business
The American University, Washington,D.C. 1990
Date of Birth: 11/02/1966
Joined BOP in: 2016



Mr. Thaer Hamayel
Chief Retail Officer
Master of Business Administration
Birzeit University, 2014
Date of Birth: 13/05/1978
Joined BOP in 2000

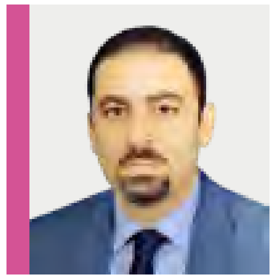
Mr. Mahmoud Maher Shawa
Chief Financial Officer
Master of Banking and Finance
University of Wales 2007
Date of Birth: 24/07/1982
Joined BOP in 2005



Mr. Hasan Majed Al-Afifi
Chief Operations and information technology Officer
Bachelor of Industrial Engineering – Roosevelt University - Chicago, ILL. USA 1985
Bachelor of Computing Information Systems – Roosevelt University - Chicago, ILL. USA 1985
Date of Birth: 12/06/1962
Joined BOP in 2015

Governance and Management Structures
Executive Management Team

Mrs.Randa S. Mousa Abdallah
Chief Human Resources Officer
Master of Business Administration
Birzeit University,2012
Date of Birth: 14/05/1974
Joined BOP in: 2011



Mr. Najeeb J. N. Yaser
Audit Chief Officer
Master of Business Administration
University of North Carolina 2006
Date of Birth: 30/05/1978
Joined BOP in 2017

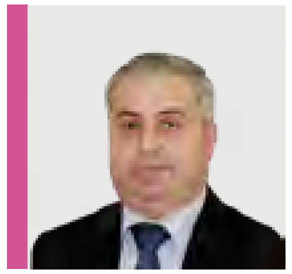
Mrs. Susan George Khoury
Chief Risk Officer
Mathematics & Management Studies - Queen Elizabeth College, University of London 1983
Date of Birth: 02/06/1961
Joined BOP in 2012

Mr.Hatem G. H. Mustafa
Chief Credit Collection and Follow up Officer
Business Administration
Winona State University 1984
Date of Birth: 04/01/1961
Joined BOP in: 1994

Mr. Saqer Mahmoud Jundia
Head of the Compliance Department
Bachelor of Economics and Political Science – Alexandria University – Egypt 1970
Master of Business and Commerce – Banha University – Egypt 1990
Date of Birth: 01/02/1949
Joined BOP in 1979

Mr. Khamis Fawzy Asfour
Legal Advisor
Bachelor of Law – Alexandria University, Egypt 1975
Date of Birth: 29/05/1952
Joined BOP in 1979

Mr.Suliman M. S. Naser
Chief Treasury Officer
Master of Business Administration
Birzeit University 2005
Date of Birth: 25/10/1978
Joined BOP in 2000



Mr. Naser M. R. Bakeer
Chief Business Banking Officer
Bachelor of Accounting
AL Mansoura University 1993
Date of Birth: 23/07/1969
Joined BOP in 1994

International & Investor Relations
Investor Relations

Bank of Palestine share Activity 2019

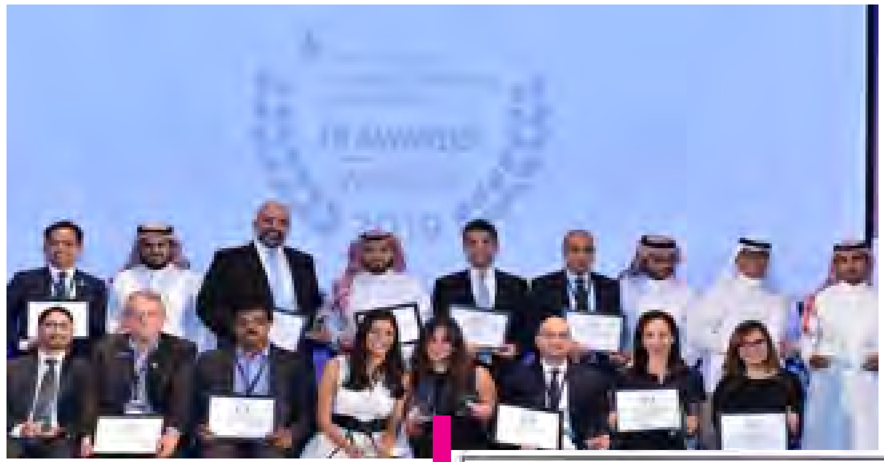
BOP share was listed for trading at PEX in 2005.
The below table shows the share activity in 2019

Activity	2019	Notes
Number of shareholders	4,650	of total shareholders 4.63%
Number of shares traded	21,257,487	of total trading 14.883%
Value of traded shares	45,041,298	of total trading 16.444%
Number of deals	3,352	of total traded deals 11.450%
Average share turnover	٪ 10.42	average company circulation 7.33%
Number of sessions where share traded	236	of total trading sessions 95.93%
Market capitalization	408,000,000	of total market capitalization 10.86%
Highest share price USD	USD 2.50	
Lowest share price USD	USD 1.98	
Closing price USD	USD 2	
Free Float	٪ 81.58	

Investor Relations

The Investor Relations department remains committed to constant communication with all shareholders during good times and stressful times. The department continues to upload all public information; disclosures in real time and in accordance with our corporate governance structure – which meets international best practices and the regulations in Palestine. The information is presented in a way that is easily accessible and clear to all types of investors, fund managers, and the financial media. We continue to send our quarterly earnings releases for information purposes only to a global list of more than 6000 stakeholders who constitute entities and individuals who have interest in learning the developments with the bank and its operations.

The IR function at the bank harvested in 2017 the Best Company in Investor Relations in the Levant by the Middle East Investor Relations Association MEIRA and continued to be nominated for IR awards in 2018. In 2019 the bank was recognized as best Corporate in IR in Palestine. This marked the first time that MEIRA recognized Palestine as a member country and not only part of Levant .The department through its senior IR officer obtained the Certified Investor Relations Officer CIRO from the Middle East Investor Relations Associations MEIRA in cooperation from the UK IR Society UKIRS becoming the first IR officer and Department with such certification in Palestine.



IR activities

2019 witnessed an additional focus on outreach with shareholders through of electronic channels by virtue of the activation of IR App, the new IR Data System, and conference calls with shareholders. This year we made a point of calling 1000 small shareholders to update the data base and ensure we communicate with all our shareholders base. Additionally, the IR department embarked on a geographically diversified networking series of trips in order to develop investor relations and strategic partners and allies.

Activity	Destination	Time period
World Economic Annual Meeting Davos	Davos, Switzerland	January 2019
Kuwait Trade Trip	Kuwait City, Kuwait	February 2019
Chile GCC Road Show	Santiago, Chile	April 2019
Middle East Investor Relations Association	Dubai, UAE	September 2019
Future Investment Initiative Conference by the Public Investment Fund -PIF, KSA	Riyadh, Saudi Arabia	November 2019
French Government Financial and Development Institutions	Paris, France	November 2019
Dubai Road Show	Abu Dhabi, Dubai, Sharja, UAE	December 2019

Bank of Palestine shareholders reached 4,650 shareholders in 2019 compared to 4,626 shareholders in 2018. Below is a list of shareholders with 4% or more ownership as of Dec 31, 2019.

Major Shareholders

Name	Number of Shares - End of 2018	Ownership Percentage - End of 2018	Number of Shares - End of 2019	Ownership Percentage - End of 2019
Al Muhalab Real Estate Company	13,732,713	6.87%	14,170,970	6.95%
International Finance Corporation (IFC)	9,456,402	4.73%	9,645,530	4.73%

Members of the Board of Directors

Member of the Board of Directors	Citizenship	Number of Shares - End of 2018	Ownership Percentage - End of 2018	Number of Shares - End of 2019	Ownership Percentage - End of 2019
Hashim H. H. Shawa - Chairman of the Board	Palestinian	7,494,635	3.74%	7,644,527	3.74%
Maher J. Farah	French	935,821	0.46%	954,537	0.47%
Hani H. M. Nigim	Palestinian	217,000	0.11%	221,340	0.10%
Faysal G. Shawa	Palestinian	21,000	0.01%	21,420	0.01%
Tareq T. F. Al Shakaa	Palestinian	70,000	0.04%	85,000	0.04%
Tarek Aggad	Palestinian	25,296	0.012648	25,801	0.01%
Lana Jamal Abu Hijleh	Palestinian	27,816	0.013908	28,372	0.01%
Abdullah Qais Abdullah Al-Ghanim	Kuwaiti	23,708	0.011854	24,182	0.01%
Nada Shousha	Egyptian	16,000	0.008	16,320	0.01%
Tafeeda Jerbawi	Palestinian	100,000	0.05%	150,000	0.07%
Maha Subhi Awad	Palestinian	16,000	0.01%	50,000	0.02%

Board of Directors First Degree Relatives Ownership

Name	Citizenship	Number of Shares - End of 2018	Number of Shares End of 2019
Huda Hani Shawa	Palestinian	5,657,761	5,770,916
Dina Hani Shawa	Palestinian	2,258,548	2,258,548
Linda Patrick Shawa	Palestinian	1,516,311	1,516,311
Bernardita Vigano Shawa	Swiss	149,310	152,296
Nabel Hani Qadoumi	Kuwaiti	3,148,731	3,232,105
Yasmeen Nabil Qaddoumi	Kuwaiti	1,482,752	1,512,407
Laila Nabil Qaddoumi	Kuwaiti	1,492,770	1,522,625
Omar Baheig	Palestinian	22,282	96,384
Genevieve Chantal Marie Boimond	French	197,324	201,270

Senior Management Ownership

Name	Title	Citizenship	Number of Shares - End of 2018	Number of Shares - End of 2019
Rushdi M. Ghalayini	General Manager	Palestinian	20,291	20,696
Alaa M. Al Redwan	Deputy General Manager - COO	Palestinian	14,538	14,828
Mahmoud Maher Shawa	Chief Financial Officer	Palestinian	5,855	5,972
Kamel Aref Kamel Husseini	Chief International and InvestorS relations Officer	Palestinian	14,996	16,570
Hasan Majed Afifi	Assistant General Manager - Chief IT Officer	Palestinian	10,000	10,200
Wael AbdAllatif Al Sourani	Assistant General Manager - Gaza Branches	Palestinian	47,330	48,276
Susan George Samaan Khoury	Assistant General Manager - Credit	Palestinian	13,353	13,620
Suliman M. S. Naser	Chief Treasury Officer	Palestinian	9,500	9,690
Najeeb Jaser Najeeb Yaser	Assistant General Manager - Chief Risk Officer	Palestinian	12,000	12,740
Naser Mohamad Rushdi Bakeer	Chief Business Banking Officer	Palestinian	18,480	18,849
Hatem Ghaleb Mustafa	Chief Credit Collection and Follow up Officer	Palestinian	4,336	4,422
Randa Saliba Abdallah	Chief Human Resources Officer	Palestinian	6,000	4,120

Invitation to attend the Ordinary Assembly General Meeting (AGM)

The Board of Directors of Bank of Palestine PLC is pleased to invite shareholders to attend the Ordinary General Assembly Meeting that will be held in meeting venues at Bank of Palestine's Head Office in Ramallah, Ain Misbah and simultaneously with shareholders from Gaza via video conference at 11:00 am on Thursday, March 26, 2020.

Ordinary Meeting Agenda and recommendations of Board of Directors:

- Presenting, discussing and approving the Board of Directors' Report.
- Presenting the external auditor's report, discussing and endorsing the financial statements of the company for the financial year ended on 31/12/2019.
- Approval of the membership to the Board of Directors of Ms. Tafeeda Jarbawi until the end of the current term of Board Membership.
- Absolving the Chairman and Members of the Board of Directors from liability for the financial year ended on 31/12/2019.
- Appointing an external auditor for the financial year 2020 and appropriating their fees or authorizing the board to do so.
- Approving the recommendation of the Board of Directors to pay a bonus for the members of the Board of Directors for the year 2019
- Discussing the Board of Directors' recommendation to distribute $20,400,000 as dividends for the bank's profits in 2019, a percentage of 10% of the bank's paid up capital for members in the general assembly and registered at the Palestine Exchange on March 25th, 2020 in proportion to each shareholder's share in the company's capital as follows:

USD$16,320,000 as cash dividends, equivalent to 8% of the paid up capital.

USD$4,080,000 as stock dividends, equivalent to 2% of the paid up capital.

International Awards & Recognitions:

Our performance was recognized as Palestine's largest financial services provider with the most spread branch network and adherence to Global Banking Standards while serving local needs with continued investment in digital innovation:

The Banker. Best Global Bank in Financial Inclusion

Euromoney Award for Excellence – Best Bank in Palestine

Global Finance – Best Bank in Palestine

Global Finance – Best Trade Finance Bank in Palestine

Emeafinance - Best CSR and Financial Inclusion Programs in the Middle East

Emeafinance – Best Bank in Palestine

Emeafinance – Best CEO in the Middle East

The Banker – Best Bank in Palestine

Asiamoney – Best Bank in Palestine

CPI Financial/Banker ME – Best Bank in Palestine

Middle East Investor Relations Society – Best Company for Investor Relations in Palestine

Middle East Investor Relations Society – Best IR professional in Palestine

Citibank's Performance Excellence Award for outstanding achievement in straight through processing

Ranked as One of the Top 100 Banks in the Middle East by CPI Financial 100

Management Discussions & Analysis:

Investing in Digital Innovation: sustaining and augmenting the strategy during 2019

After implementing our core strategy in 2018 and 2019 in Digital Innovation, last year was a year of feeling the tangible implications of the strategy on our banking services and channels. This digitization drive was also coupled with focusing on the creation of operational efficiency, in order to improve customer experience and services through. A centralization of operations and segmentation of clients into corporates, retail and digital channels.

Since enhancing digital services was enabled throughout the last year, we required new communications and marketing channels to reach newer and younger segments of the population. The following channels and services were introduced in 2019:

- A communications channel on Whatsapp business for Bank Customers
- IVR service for automated services for customers
- USSD service for all customers who do not have smart phones enabling them to enjoy the digital services

The digitization thrust and especially the digital communications channeled managed to reach new breed of customers and as such our teams provided important marketing and saving campaigns to retain customers via loyalty programs and attract new customers via savings campaigns:

Savings Campaign: Largest Savings campaign in the history of banking in Palestine

The saving campaign of 2019 was launched during the toughest economic conditions in the country but yet it was able to garner USD 80 million in deposits because of its appeal and the marketing channels and digital micro targeting. The campaign offered daily, monthly and a big prize of USD 500,000. These deposits are important as they indicate a degree of confidence depositors have in the bank and provided needed liquidity to provide lending facilities to grow the economy especially the SME sector.

Loyalty Programs:

PointCom: a campaign to encourage customers to use electronic banking services such as Banke mobile application, internet banking and all cards during their transactions. The points assembled were converted into cash.

Savings Card: providing customers with saving accounts with the ability to withdraw and deposit cash under a certain limit, in addition to enabling them to benefit from the electronic services.

Electronic Services Booths: the segmentation process in branches underway in stage 2 also saw the implementation of electronic services booths in main branches encouraging customers to on board electronic services.

The Operating Environment: additional provisions in the face of Increased Non-Performing Loans-NPLs:

2019 was a year extremely with external challenges mainly resulting from the economic pressure on public salary payments as a result of the government of Israel deducting a portion of the tax revenue owed to the Palestinian government. This had led to a reduction in the salary cycle of public sector employees, which in turn affected adversely the economic cycle. The hardest hit was the SME sector, especially with a weakening of the purchasing power. This has a direct link to the rise of NPLs in the banking sector. The bank saw the NPLs rise to reach 4.56% driving the need for higher provisions because of accounting standards IFRS9. These provisions were needed to mitigate against risks and ensure sustainability of the bank's operations. The added provisions had a direct impact on the bottom line causing net profits to drop by 28%. As a result, the bank had witnessed slowdown in the SME lending and as such, increased its retail banking programs and other retention programs.

% 30.7

Bank of Palestine Market Share in deposits in Banking Sector

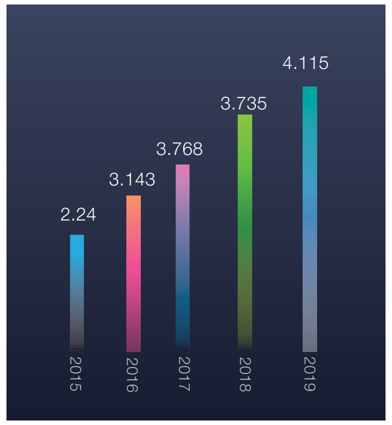
% 34.5

Bank of Palestine Market Share in loans in Banking Sector

As reported by the Bank of Palestine Group Chairman we continue to look forward to the future with hope and promise. We are already making use of the PMA licensing of electronic payment companies to forge ahead with PalPay's plans for launching the first e wallet serving the unbanked in Palestine. We are also planning to make use of the PMA's incentive in dealing with risk-weighted average for capital adequacy to invest in renewable energy, agri-business and start-ups.

Deposits

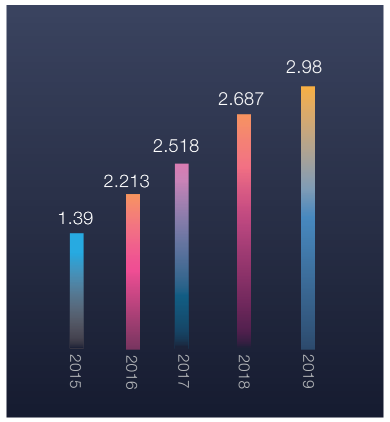
USD 4.115 billion



As a result of savings campaigns and other loyalty programs Bank of Palestine maintained a customer deposit base which reached of USD 4,115,584,018 at the end of 2019. This has been enabled by a variety of outreach campaigns including digital channels and marketing.

Loans

USD 2.98 billion

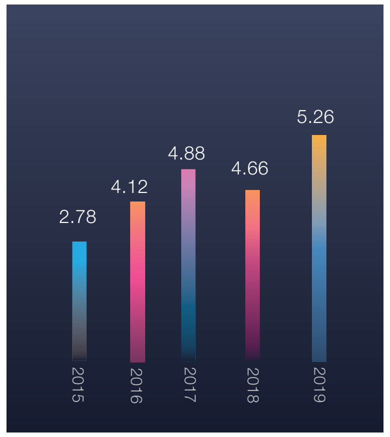


Despite the economic downturn, the overall loan portfolio in 2019 grew by 11% at USD 2,983,385,227 compared to USD 2,687,155,004. BOP continued to maintain a relatively industry standard Non Performing Loan Ratio of 4.56%.

Performance indicators

Assets

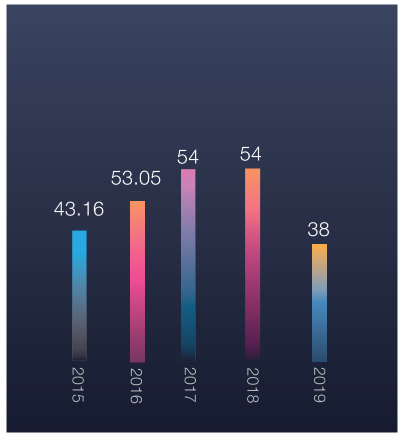
USD 5.26 billion



Bank of Palestine total assets reached USD 5,264,944,640 compared with USD 4,657,182,978 at the end of 2019. The bank continues its leadership position as the largest bank in Palestine in terms of assets and among the top 100 banks in the MENA region.

Operating and Net Profit

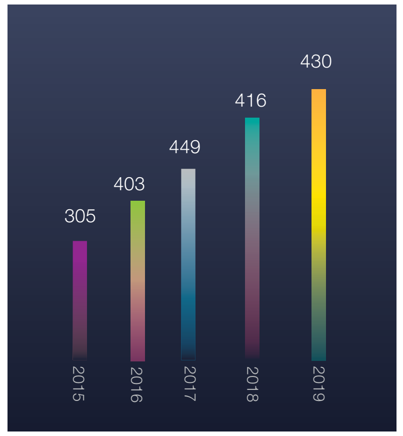
USD 38 million



Persistent organic growth have positively influenced financial results. Bank of Palestine achieved an operating income of USD 230,832,007 in 2019, compared with USD 222,967,9595 for the same period in 2018, reflecting an increase of 4.2%. The bank's net profit reached USD 38,936,722 decreasing by 28% increase in comparison with USD 54,110,093 in 2018 as the result of IFRS9 accounting principles requiring additional provisions because of the public salary crisis and underlying economic pressures.

Shareholders' Equity

USD 430 million



The Bank's paid capital grew by 2% to become USD 204,000,000 providing the bank with a lead in capital adequacy. However, total shareholders' equity reached USD 430,664,193 in 2019.

Risk Management

The risk management function at Bank of Palestine aims to establish a process to effectively identify, measure, manage, control and monitor risks faced by the Bank. The goal is to manage these risks to enhance the risk-return profile of the Bank's balance sheet by ensuring that risks:

- Remain within the approved risk appetite of the Bank as articulated by the Board of Directors (BoD) and embedded in the Bank's policies and procedures by way of risk limits;

- Are underwritten to increase long-term shareholder value of the Bank and to protect other stakeholders including customers, suppliers, employees, investors, and the Palestine Monetary Authority (PMA).

- Are correlated with the profitability targets set by the Board and pursued by the business lines. The objective is an optimization of the risk return trade off within the boundaries set by the Board through the approved risk appetite.

- Are accurately and timely reflected in the Bank's risk reports enabling stakeholder to take adequate management decisions

Risk management does not mean risk avoidance. Risks are an intrinsic part of banking business. BoP accepts risk-taking as part of its strategy to both create and preserve value, but the bank expects financial and non-financial returns commensurate with the risk.

Risk Governance:

The following principles underlie the risk governance structure of BoP, and the risk management framework generally:

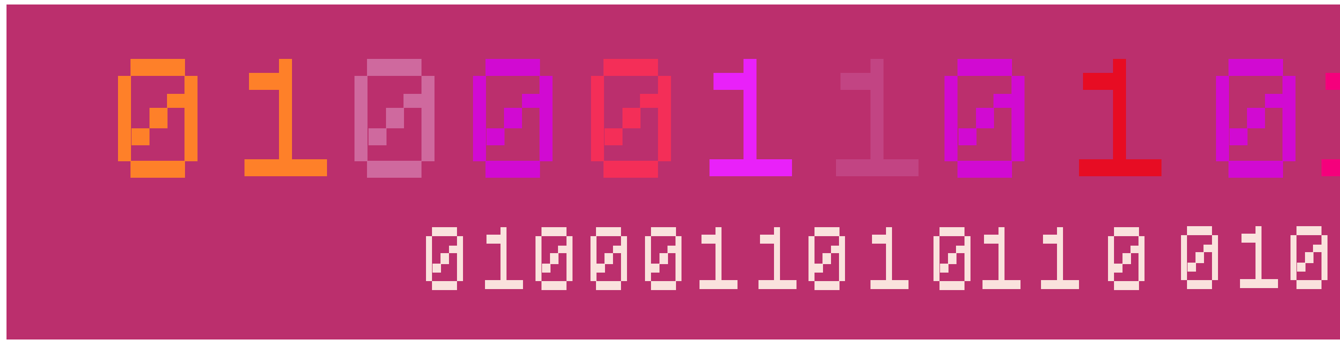
- The Risk Management Function is an independent function from any other units which have operational or business related responsibilities. Independence does not imply isolation, but quite the contrary, risk management, front office and back office support functions should be in close communication ensuring that risks are managed effectively throughout the Bank.

- The risk management function seeks to implement international standards in risk management by sing Risk Control Self Assessment RCSA in line with the Basel requirements.

- Risk Management shall use its own independent information sources for prices and financial information (i.e. MIS/Business Objects, Bloomberg, rating reports, audited financials).

- Risk Management departments uses the SAS EGRC program to define indicators for risks allowing the bank to predict future risks

- Risk Management shall be involved in the review of new products and services from the design phase and in any case pre-approval.



- Furthermore, Risk Management may propose means to optimise the risk adjusted return profile of the Bank, such as optimisation of liquidity and Credit Risk i.e. recommending certain portfolio allocations

- The methodologies and tools developed/acquired by the Risk Management Department shall consider the 'principle of proportionality' by which it is acknowledged that BoP operates under a business environment of low to medium complexity and thus may be in a position to adequately manage risks by applying simpler yet robust methods.

- Risk Management represents the 'second line of defence' in the control system of the Bank, having a clear role in ensuring effectiveness of controls in the first line (i.e. business units' controls).

- Business Continuity Plans by way of projecting scenarios for risk, with custom made Business Impact Analysis adapted to the specifics of bank of Palestine.

- Risk based Audits whereby risk department conducts checks and audits of various departments especially the departments with weight on risk.

- Disaster recovery with the ability resume operations after a disaster during the 15 hours post any incident using different and alternative locations by investing in modern technology to store data and transmit data speedily and securely.

Information Security:

To protect the bank and its IT systems from cyber-attacks a central security system to protect any security gap in the central systems and uses a special Information security system SIEM as per international standards of protection and encryption protect services and information from threats of cyber fraud, attacks and hacking. This included protection of the credit card information via encryption and applying higher standards of Information protect PCI DSS enforcing all e commerce and other electronic transactions through 3D Secure systems.

Business Banking

Small & Medium Enterprises

Despite the economic conditions and rising NPLs especially among the SME sector Bank of Palestine continued to work with micro, small, and medium sized enterprises (MSMEs) in 2010, not ignoring the fact the SME sector remains the engine of growth in an emerging economy like Palestine constituting 87% of economic activity in the country. We cannot talk about financial inclusion without being attentive to SMEs well-being and their resilience.

This year the bank doubled its effort in providing financial advisory services and worked with the Bank's credit department to restructure some loans and focus on key sector and activities in agri-business and solar energy that had growth potential, government incentives and Donor Agency support. This included working with Loan Guarantee Programs like ARIZ and Renewable Energy Programs like SUNREF.

SME Portfolio

2019	2018
359,526,250	349,628,480

فلسطينية . الك . لعيلتك . لشغلك

FELESTINEYA. FOR YOU,YOUR FAMILY & YOUR WORK

Women Financial Inclusion through "Felestineya" Program

We continue to be proud of our main financial inclusion program targeting women segments. Bank of Palestine's flagship “Felestineya” program continued in 2019 focusing on economic and social empowerment for women both at the bank and in the market place. The program through specialty interventions such as the Mini-MBA in partnership with the IFC enabled skill set training in financial and non-financial knowhow allowing women to gain immediate access to finance, marketing skills and other disciplines and the confidence to either create their own businesses or better manage existing business.

Felestineya uses different venues to connect with women. One of the most popular is using social media, especially the Felestineya Facebook page. It currently has about 80,000 followers. Since 2016 the Facebook page has grown organically without sponsorship through real interactive followers . The women also use this page to promote their businesses.

Mini-MBA Program Updates 2019

The Mini-MBA program is a 6-month program consisting of workshops given by experts with different backgrounds. Topics covered in the program are business development, marketing, customer service skills, human resources management, financial management, and taxes and registration.

BOP proudly graduated its 4th cohort of Felestineya’s Mini-MBA of women entrepreneurs in early 2019, raising the number of beneficiaries to 130 women. The program this year was done in cooperation with OXFAM and Rural Women Development Association targeting women entrepreneurs in cooperative and women associations.

This year the bank collaborated again for the second time the Lithuanian Representative Office and Market Place Investment Co. and Middle East Focus Magazine providing women with social media skills.

Women4 Women: This novel program was also made available for Felestineya alumni in Cooperation with the Representative Office of the Kingdom of the Netherlands. 75 Women from the Mini MBA beneficiaries interacted with Women Business Leaders from the Netherlands in a one on one mentorship and guidance sessions.

Business Banking
Felestineya- Financial Inclusion for Women

Felestineya program continued to use its local and global network to provide its members with access to knowledge, finance, and peer networking.

Memberships and Recognitions: In recognition for its financial inclusion policies and its gender and digital inclusion strategies, the Bank was recognized by several important international platforms and entities. It was accepted as a full member by the Global Alliance for Banking on Values – GABV (www.gabv.org), effectively becoming the first bank from the Middle East Region to join the alliance. The Bank was also awarded Best Global Bank in Financial Inclusion by the Banker Magazine of the Financial Times in December 2016 in recognition for its pioneering work in women inclusion under the women flagship Felestineya Program and for its innovative financial inclusion through electronic payment platforms targeting the rural and the unbanked in Palestine. Other recognitions were Best Program for Women Empowerment by the Global Alliance for Banking for Women GBA and Best Bank in the Middle East for Financial Inclusion by emeafinance in 2016. “Felestineya” – Financial Inclusion for Women

Non-Financial Advisory Services

Among the essential services offered in the bank comes from BOP's Non-Financial Advisory Services (NFAS), an important component in providing access to information and skills required to sustaining economic growth on an individual and business level.

The segments the NFAS focus on are women through the Felestineya program, MSMEs, youth, and people with disabilities.

4000 female beneficiaries participated and improved their financial literacy from the Financial and Banking Awareness Programs administered by Felestineya and its network of experts utilizing the Bank of Palestine Group companies as well in this effort.

Global Alliance for Banking on Values

Business Banking
Felestineya- Financial Inclusion for Women

Environment Society Governance: ESG

Bank of Palestine is keen to be part of global best practices aimed at ensuring ESG principles are upheld in its operations. It is implementing policies to eliminate carbon emissions and energy conversation through the following measures

- Converting lighting to LED lights in all offices and ATM units.
- Employing Smart Building control systems KNX
- Energy conservation systems and cleaner energy systems to decrease carbon emissions and reduce energy waste in buildings in heating and cooling systems
- Employing clean fire extinguishing systesm NOVEC 1230
- Higher quality insulation in building and by engineering Department
- Reducing energy waste and loss by 40% through insulation and better roofing
- More greenery inside branches and offices
- Safeguarding the Environment through Credit Facilities

Bank of Palestine started in 2019 implementing the SUNREF Program with PROPARCO/AFD and the EU in Support of Green and Renewable Energy Loans in Palestine

ESG remains a fundamental pillar in the credit practice of Bank of Palestine. With our Partners in AFD, PROPARCO and the EU 2019 witnessed the SUNREF program to finance green and renewable energy projects with a 12.5 million Euro. The program implementation included awarness workshops in Partnership with the Palestinian Energy Authority PENRA and the Technical Consultants for SUNREF both ECONOLER and ESCOM. We have seen more applications by our customers for the solar energy program.

We are hopeful that the program will expand to finance larger tickets including publicly held companies operating under the rules of market even those with local government as shareholders given the nature of the energy landscape in Palestine.

Landmark Loan Agreement with JDECO & Turkish Energy Conglomerate Zorlu Enerji

In 2019 a financing agreement was signed between Bank of Palestine and ZJ Strong Energy for Renewable Energy an SPV between JDECO and Zolru Enerji (Turkey) for financing a 1.8 MW Solar Power Plant in Jericho-to be called the Dead Sea Level Plant. ZJ Strong Energy is a Special Purpose Vehicle (SPV – Project Company) established by Zorlu Enerji Elektrik Üterim and JDECO, in which 75% is owned by Zorlu and 25% is owned by JDECO.

Zorlu Enerji Elektrik is the first company of Zorlu Energy Group, established in 1993, and is one of the leading players in the Turkish energy sector with 25 years of industrial experience.

JDECO is a 100 year company operating in Jerusalem and is the main electricity distribution company with its jurisdiction covering the middle area of the West Bank where all the economic activity is concentrated.

This is the first credit facility for the first 1.8 MW to be followed with another loan for 30 MW leading up to a capacity for the SPV of 100 MW in Palestine. Bank of Palestine is happy that it was chosen by JEDCO and Zorlu to be the financial & banking partner of the SPV.

Zorlu, JDECO, BOP signing event

Retail Banking

Retail banking continues to grow in terms of size and impact inside bank of Palestine with a focused strategy and approach. Every branch now has retail management supervision and digital booth targeting clients with added services. The focus on retail is not only demographic but goes far beyond the city and metropolis areas and continues to focus on rural areas customer acquisition through the Mobile Branch Rahal.

An important development this year was the fact that retail Banking utilized the digital platforms inside the bank to increase the customer base on these channels using marketing and communications channels to target young customers and youth segments. Younger customers require agile communications platforms and channels on smart phones. However, even customers with no smart devices also deserve to have access to same digital services. As such our digital marketing and communications channels were inclusive:

1. A communications channel on Whatsapp business for Bank Customers
2. IVR service for automated services for customers
3. USSD service for all customers who do not have smart phones enabling them to enjoy the digital services

Several campaigns and channels were introduced in 2019 targeting this segment of the population. The retail department as such devised important marketing and saving campaigns to retain customers via loyalty programs and attract new customers via savings campaigns:

Savings Campaign: Largest Savings campaign in the history of banking in Palestine

The saving campaign of 2019 was launched during the toughest economic conditions in the country but yet it was able to garner USD 80 million in deposits because of its appeal and the marketing channels and digital micro targeting. The campaign offered daily, monthly and a big prize of USD 500,000. These deposits are important as they indicate a degree of confidence depositors have in the bank and provided needed liquidity to provide lending facilities to grow the economy especially the SME sector.

Loyalty Programs:

PointCom: a campaign to encourage customers to use electronic banking services such as Banke mobile application, internet banking and all cards during their transactions. The points assembled were converted into cash.

Savings Card: providing customers with saving accounts with the ability to withdraw and deposit cash under a certain limit, in addition to enabling them to benefit from the electronic services. This allows customers with savings accounts only to be able to use the atms and other features of our services to be financially included.

Electronic Services Booths: the segmentation process in branches underway in stage 2 also saw the implementation of electronic services booths in main branches encouraging customers to on board electronic services.

Mobile Application Banke:

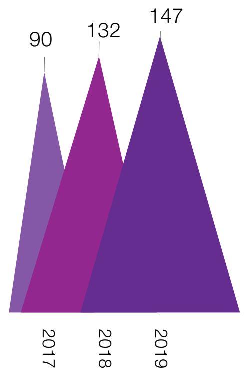
Several improvements on the mobile App Bank e were introduced in 2019 ensuring speed and information security including the ability to open and transfer money to a savings account without going to the branch to be subscribed to the service. The mobile App also enabled customers to enjoy all the features of the savings and loyalty campaigns through the App. Work is under way for a more user friendly App first quarter 2020.

Retail Banking

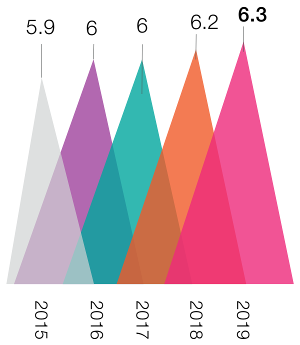
Cards/ATMs/POS

- Upgrade Visa card personalization according to Visa specification for BOP card and affiliate banks, this project was done in cooperation between BOP, Visa, G&D “card provider|”, Datacard and Offtec “Machine provider” .
- Upgrade prepaid card “Cash card” from magnetic strip technology to CHIP technology according to Visa requirement.
- Issuing Prepaid card “Cash Card” with new product for non-account, client that do not have account with BOP.
- Issuing Saving card with new product for cardholder with savings account.
- Issuing Premium Platin card with new product for VIP BOP client.
- Issuing Visa Debit classic with new profile for PalPay client
- Issuing Visa Debit Platinum with new profile for PalPay client
- AMAN Company Increased delivery of ATM from 15 ATM to 56 ATM, they are responsible for replenish and first maintenance support level .
- New ATM profile to support 200 ILS instead of 100 ILS.
- Number of POS increased by 838 POS, from 5412 to 6250.
- Increase of total acquiring volume from 251.3million to 286.38 Million

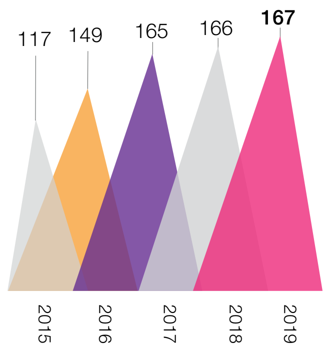
Electronic Services (thousands)



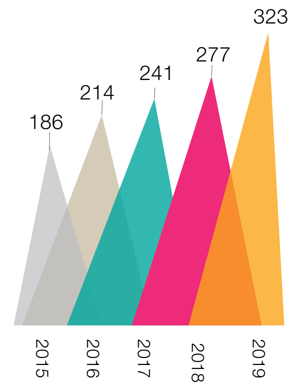
POS machines



ATMS



Debit and Credit Card (thousands)



Branch & Network Footprint:

Although branch expansion been slowed down in the last two years in favor of more digital expansion as part of efficiency and empowering digital banking, Bank of Palestine continues to be Palestine's leading bank in terms of presence and branch network. The bank with 73 branches and offices continues to provide services to both urban and rural areas. These branches enjoy segmentation at branches serving Retail, MSME and Corporate clients.

International Representative Offices

Santiago-Chile 2019

Inaugurated in 2017 the office has expanded its outreach to other countries in Latin America. Pursuing the network of 1 million Palestinian diaspora communities in the continent, it started to reach out these communities in Peru and Honduras. The Santiago Office has become involved in regional events and activities across the Latin America Landscape. It has also expanded its cooperation with the Office in Dubai connecting the diaspora communities in both regions. 2019 was a year where the Chile Rep continued to strengthen bonds between Palestinian Diaspora in Latin America and Palestine.

Several missions and road shows were conducted across Chile and Palestine including diaspora conventions in Latin America targeting promoting business flows and connectivity with Palestine through the bank.

- The Rep office provided guidance to a leading diaspora Palestinian conglomerate interested in setting up business in Chile
- The Rep office sponsored Hijos de Beit Jala with a focus to collect funds for the development of Beit Jala city in Palestine.
- The Rep office hosted BOP Chile Road Show in April 2019 that featured GCC and Palestinian business people
- The Rep office co-convened with leading Investment House Credicorp a business workshop exploring investment opportunities between the UAE and Chile
- The Rep office sponsored the Taqalid event in Peru, a platform to communicate and connect with entire Palestinian diaspora community in Latin American.
- The Rep office represented Bank of Palestine at the GSG Impact Summit in Argentina connecting with the wider community of impact investment.
- The Rep office sponsored the Maklube dinner, a focal fundraising event of the community in Santiago collecting funds for scholarships for Palestinian children.
- Organized visits to Palestine and Dubai of several of Business delegations from Chile.

Investment Conference for GCC and Chile Business Leaders hosted by BOP rep office Chile and Leading Investment House in Chile CrediCorp with presence Of Rasmala Dubai.

International Representative Offices

Dubai, DIFC, UAE 2019

Inaugurated in 2015, the Rep office in Dubai continues to play a central role in connecting the over 2 million Palestinians in the Gulf region with their homeland through Bank of Palestine branches. The diaspora in the Gulf unlike that in Chile are closer and still more connected to Palestine therefore requiring banking services at home.

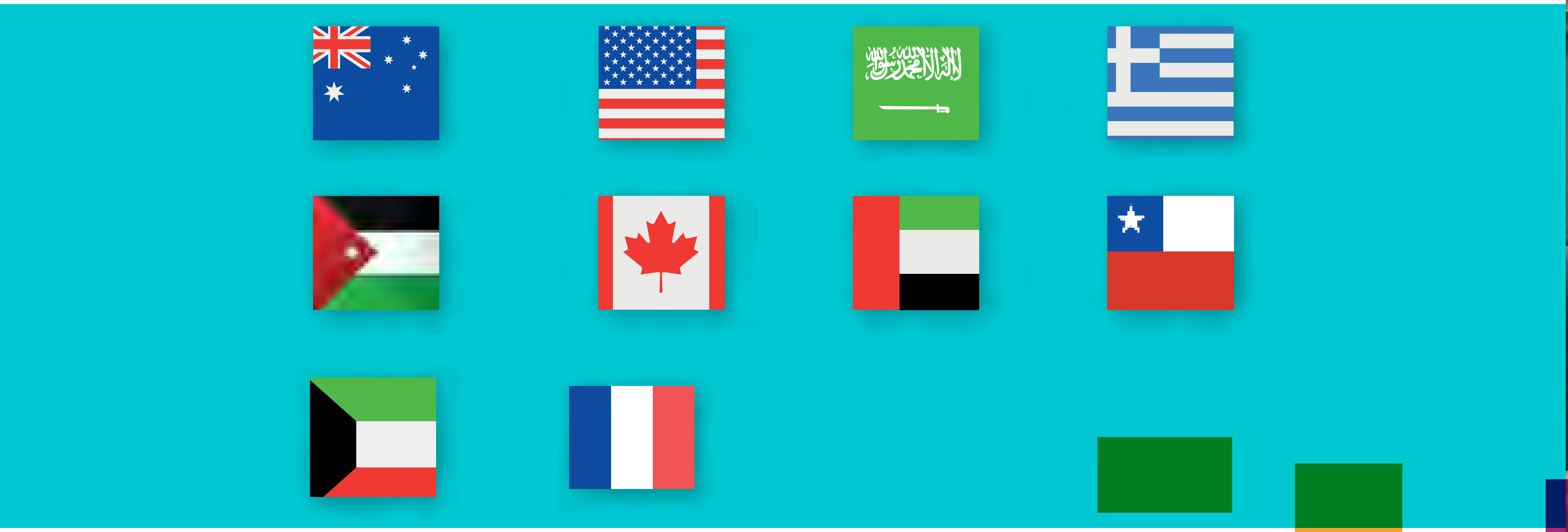
The Rep office has dealt with more than 2000 customer in the Gulf region providing support and information to their banking needs at home. The Rep office continues to also promote investment in the shares of the bank to key HNWI in the region including Institutional Gulf Investors. Its outreach and marketing trips included all the emirates within the UAE, the Kingdom of Saudi Arabia and Kuwait. Leveraging the presence of the Chile Rep office, Dubai has served as a point of interest to key investors from Chile who stop over on their trip to Palestine.

The Dubai office was key in organizing the BOP Chile Road Show in April 2019 bringing to Santiago leading Gulf based financial houses and diaspora Palestinian investors to explore Chile's promising market.

The Rep office in Dubai engages in a lot of activities in the UAE in order to maintain presence with the community at large and these engagements are listed below:

- Working with the Palestinian Business Council in Abu Dhabi co-sponsoring key national events for the UAE during the year of Tolerance and the year of Shiekh Zayed.
- The Dubai Rep office sponsored the annual fundraiser dinner for Al Quds University in Abu Dhabi
- The Dubai Rep office hosted several Palestinian business delegation, mostly customers of the bank who flock to Dubai for the famous regional exhibitions such as Gulf Food and ExpoTech.
- The Rep office often represents the bank in key event and Forums:
  - INF World Leaders Summit
  - Global Finance Forum
  - SME World Summit
  - Seamless Fintech Summit
  - Middle East Investor Relations Association Conference and Awards
  - Dubai Investment Week
  - Sharja FDI Forum
  - UAE Economic Forum

International & Diaspora Relations



Diaspora Relations:

With 8 million Palestinians in the diaspora and around 5 million at home, Bank of Palestine continues to focus on its diaspora banking. As we stated in every annual report, the Palestinian diaspora is endowed with human capital, financial capital but above all a deep desire to connect with the economy in Palestine and the region. This year 2019 we continued as a Bank to offer a natural bridge for the diaspora connecting them with their home Palestine and offering all the class of diaspora products for the diaspora.

Our diaspora products range from accounts to specialized time deposits to mortgage finance at home.

Communicating with our diaspora:

Today with the technology at hand, our diaspora enjoy the various digital platforms to get served by the bank: Online banking, Mobile App and the various communications channels. The diaspora team is a dedicated team often acting as account executives for diaspora clients on a 24-hour basis most of the time with the different time zones.

Another way the diaspora team connects with the diaspora is through sponsorship diaspora conventions and conferences at home in Palestine:

1. The 2nd Bethlehem Diaspora Convention
2. The 2nd Nablus Expatriates Conference

These conventions have brought over 2000 diaspora Palestinians back home and we remain committed to do more to expand the outreach to ensure we connect all diaspora with their homeland. We are planning to expand the scope to all Latin American countries, to Canada, to Australia, to Europe, and the MENA region.

International Relations:

With over 200 international entities operating in Palestine in the realms of economic development, and humanitarian aid, the International relations department continues to forge relations with these entities and engages in partnership with them.

Partnership with the Representative Office of Japan: Developing SME Businesses in the Jericho Agricultural & Industrial Park

In 2019 Japan Chose Bank of Palestine to implement New Financial Scheme in support of Tenants at the Jericho Agro-Industrial Park to spur further Investments and Economic Activity

The Representative office of Japan on behalf of the government of Japan and in cooperation with Ministries of Economy, Finance in Palestine and the Palestine Monetary Authority have chosen Bank of Palestine to implement the new Japan Financial Assistance Scheme for Tenants (JFAST) dedicated to support new and existing tenants at the Jericho Agro-Industrial Park (JAIP). The new scheme will support existing tenants to expand their current operations with new product lines, assembly lines and machinery, and will provide new tenants with financing towards setting up their production lines and market channels.

The scheme will provide tenants with a soft loan with interest coverage fully subsidized by the government of Japan as an incentive for tenants to invest in the Park. The loan will be for 8 years with a grace period of 1 year and a declining 8% interest rate that is fully subsidized by the government of Japan. The scheme expects that 12-14 loans shall be dispensed under the criteria of this scheme allowing additional tenants to join the already existing 12 tenants making total number of operational tenants stand at 24 by end of 2019 almost double the existing number of tenants. This revolving line of credit is expected to provide almost USD$10 million in the form of interest subsidy towards encouraging additional tenants. A single loan has a ceiling of USD$ 750,000 under the scheme in order to be eligible for the interest subsidy. Any additional loan amount above the ceiling will be possible to obtain from Bank of Palestine but will not benefit from the JFAST interest subsidy.

Ever since the Park was established in the Jericho area, Bank of Palestine was the first to provide attractive loans to the tenants, we have financed above USD$15 million in loans to date to existing Tenants. As a sign of our long-term commitment, we have also opened a branch for the bank in JAIP in order to provide access to finance and banking services to the JAIP tenants and to the Palestinian Industrial and Free Zones Authority PIEFZA and all the neighboring community and business."

The Jericho Agro-Industrial Park has been the hall mark of the government of Japan's effort to spur economic activity in the Jordan valley under it grand vision for the Jordan Valley acting as a corridor of Peace between Palestine, Israel and Jordan. The government of Japan has invested above USD$50 million in the park and in supporting state of the art infrastructure in the area such as the USD35$ million waste water treatment plant and the solar plant in the park. The proximity of the park to Jordan provides future access to markets in Jordan and the Arab world for tenants locating in JAIP. Access roads to Jordan and to Israel are being discussed by the Japanese government with relevant authorities as part of ensuring future connectivity to markets.

Conference on the Cooperation among East Asian Countries for Palestinian Development “CEAPAD”

Bank of Palestine sponsored the first conference event to promote enhanced business and Trade relations between Palestine and the Countries of East Asia.

Among the participants for the first time were representatives of Kadin Indonesia, distinguished members of the Indonesian Chamber of Commerce and Industry

Bank of Palestine is always eager to be a partner with this coalition of Governments, Business Federations, and International Organizations.

Our role goes beyond sponsoring the official Palestine Trade Day, it goes all the way to support trade and business ties through financing and trade financing services that Bank of Palestine will put forth to support the CEAPAD process. As a financing Partner; the Bank will leverage its local financial standing as the largest bank in Palestine to support trade and business. The bank will lend a hand through its Trade Finance Team and Correspondent Banking Team and its Treasury Team providing banking services in Trade Finance, LCs, Transfers and FX.

Trade figures between Palestine and East Asian Countries are not significant and there is as such much more room to develop trade volumes and relations. Trade volumes are: approximately $3.2m with Indonesia only

This event has encouraged private sector in Palestine and East Asia to go into forming Joint Business Councils like the one existing between Palestine and Indonesia led by the Indonesian chamber of commerce and Industry and the Palestinian Federation of Businessmen Associations in Palestine

Bank of Palestine will bring to bear the fact that we are the largest lender to SMEs with a USD$ 400million loan portfolio to SMEs with above 3,000 SME client network and the largest footprint in the country with over 100 branches including for our Islamic Subsidiary arm Arab Islamic Bank.

CEAPAD is a regional conference initiated by Japan in February 2013 to discuss assistance to Palestine by utilizing resources and knowledge and experiences of economic development of the East Asian countries: Japan, Brunei, Indonesia, Malaysia, Singapore, Thailand, Vietnam, Islamic Development Bank, World Bank, UNRWA

Bank of Palestine and the United Nations Development Programme Sign an MOU to Cooperate in SDGs and Financial Inclusion in Palestine

In 2019 Bank of Palestine and the United Nations Development Program signed a general framework agreement to build a long-term cooperation in Support of Sustainable Development and Financial Inclusion in Palestine by pledging to work together dedicating knowhow, expertise and other resources towards a joint program of works.

This partnership will be based on a series of mutual commitments complimenting the two organizations` s areas of strength and expertise, pulling resources and know towards implementing wider goals of the Sustainable Development Goals (SDG’s) and financial inclusion, in East Jerusalem and Gaza.

The focus areas will allow the development of action plans and proposing interventions aimed towards revitalization and safeguarding culture heritage in East Jerusalem and unleashing its cultural, social and economic potentials. The provision of technical assistance, advocacy, advice and positioning for the housing sector in East Jerusalem and specifically in relation to revamping access to finance schemes. Plus, the Provision of technical assistance, advocacy and positioning for Economic revitalization in East Jerusalem with emphasis on Small-Medium Enterprises (SME’s).

Additional focus areas is the development of an action plan for reinforcing the role of the Palestinians in the Diaspora in supporting the national SDG’s agenda through launching “Reconnect Palestine” initiative and exploring ways for re-deployment of UNDP Tokten Programme, UNV modalities in addition to leveraging the Diaspora “know how”. More importantly is the development of an action plan for enhancing the access of Youth to decent job opportunities, particularly internships and job placement with a focus on Gaza youth with special needs and vocational training.

This is not only a public private partnership, but one that is leveraging extremely important know how of one of Palestine’s leading financial institutions and UNDP’s track record in economic sustainable development.

Memorandum of Understanding between Bank of Palestine, and the United Nations Children’s Fund, UNICEF

As part of our engagement with the International, community 2019 witnessed the entry into of a Memorandum of Understanding with UNICEF to formalize the collaboration between the bank and UNICEF to further through this partnership the promotion of the rights of Palestinian Children, especially young people, by leveraging resources and collaborating in areas where there is common interest.

Thematic Areas of Focus for Collaboration:

The Parties agree to cooperate within the respective frameworks of their organizational mandate with focus placed on, and not limited to:

- Generation Unlimited to solve challenges for the next generation in education, skills and empowerment of girls using BOPs marketing channels
- Community Outreach & Campaigns in areas covering children rights, water, sanitation, water, protection from violence against children and child participation
- Financial Inclusion Literacy Initiatives to boost the youth's enrolments and participation in these initiatives, financial data, capacity building and financial support
- Human Capacity via sharing information, good practice and initiatives that support well-being and promoting child rights through sports events and special events
- Technical support of Vocational Educational Training TVET

The President of Italy Decorates Bank of Palestine's Chairman in recognition for strengthening Italian-Palestinian Economic and Business Ties

2019 witnessed the recognition of the role of Bank of Palestine and particularly its Chairman Mr. Hashim Shawa in promoting Italian Palestinian Economic relations. The Consul General of Italy in Jerusalem, H.E. Fabio Sokolowicz on behalf of the President of the Republic of Italy awarded Mr. Shawa with the Officer of the Order of the Star of Italy.

This esteemed decoration comes at a time of great collaboration between the Consulate of Italy in Jerusalem and Bank of Palestine under the Joint Palestinian-Italian Business Council in order to improve economic and business ties among Palestinian and Italian business communities. The joint council is active in promoting business and trade relations between Italian and Palestinian entrepreneurs. The Joint Palestinian-Italian Business Council was established in February 2017 post the Milano Expo in 2015 when Bank of Palestine offered to sponsor the trip of 50 Italian Companies to visit Palestine to explore business opportunities in order to break the psychological barrier of traveling and doing business with Palestine. In February 2017, representatives of 20 Italian companies from the Italian Confindustria of Young Entrepreneurs & the Confederation of Italian Industries answered the call and took the challenge and traveled to Palestine setting in motion the inauguration of the first Joint Palestinian-Italian Business Council Chaired by Mr. Hashim Shawa, Chairman, Bank of Palestine Group. Ever since the council was established, several trade missions from Palestine visited Italy. This year 52 Italian Companies visited Palestine a sign of rising interest by Italian companies in the economy of Palestine.

Information Technology Department Achievements 2019

The bank is always keen to support investment in digital technology and therefore the Information Technology Department seeks to keep abreast of technological development and work to provide all programs and capabilities to support the bank's strategy in investing in digital leadership to make banking service faster and keep pace with the global development in automation, digitization and banking modernity. Among the most prominent achievements in the field of technology and information systems in the Support Systems Department, including:

- Control programs have been developed to monitor the Power Card system so that you monitor the system and notify the competent authorities in case there is a need for intervention, and the system is sometimes able to do the required without the intervention of the competent authorities, and this system was developed in order to deal with it easily and by means of Multiple calls such as: (email / text messages), and the system can be used to monitor other systems.

- Implementing the instant card printing system in the Arab Islamic Bank.

- The Digital Signage system has been implemented where the content of the display screens in the branches is remotely controlled by a central system, where 13 screens have been installed in the branches so far.

- Several branches were equipped with the SEDCO automatic floor system, and they include the following branches: Ni'lin, Qalqilya, Dora and Al-Irsal.

- Implementation of the Hard and Soft Segmentation System, in coordination with the Project Management Department in some branches.

- Several branches were equipped with the automatic floor system of the type SEDCO, as this system was adopted in the main branches, including Hebron, Jenin and Bethlehem.

- One of the most important achievements in the IT Department for the year 2019:

-The Information Technology Department has invested and purchased the VDI Citrix desktop environment system with the aim of:

• Reducing expenses

• Reducing network consumption

• Increase the physical security of the data and information of the bank's customers

• Enabling employees to work from anywhere (bank offices and branches, alternate location) without relying on specific office equipment such as PC, Workstation and laptop.

- The Department of Information Technology invested and purchased the Cisco ACI network management and control system in place of the old system whose use has expired and the parent company is no longer obligated to maintain it, in addition to increasing the efficiency of the network to link the various bank sites to each other within a higher efficiency than they were dozens of times faster (From 1 Gbps to 40 Gbps).

- The Information Technology Department has prepared the infrastructure for some new branches, offices, and ATM locations, which are (Al-Irsal is based in CCC, Lakasa Mall, and Qalqilya).

- The Information Technology Department has upgraded and increased the capacity of main storage units to accommodate new systems and increase the capacity of old systems.

- The Information Technology Department has prepared and prepared the necessary requirements in order to establish a new information technology center with the ability to fulfill the requirements of the bank to expand and spread on the one hand and achieve the requirements of the regulatory authorities on the other hand, such as PMA, EY PCI and Internal audit. Its implementation is expected to start in the second quarter of 2020.

- The Information Technology Department purchased a new package of IP Address to achieve the work of banking systems such as Internet banking, Mobile banking from the alternative site in line with the bank's plan and the requirements of the Monetary Authority to provide all sensitive and important systems besides the main systems Power Card, ATM and Core Banking in the reserve site in Bethlehem.

- The Information Technology Department has completed all the necessary requirements and preparations in order to obtain the International Payment Card Industry (PCI) for the second time, in line with each of the requirements of the Visa International Company and increase the security and protection of all electronic payment cards for each of the bank's customers, and it is expected to obtain Ali Shahada in the first quarter of 2020.

- The Information Technology Department has upgraded the main system for gathering SPLUNK security events in order to collect all Security Logs & Events for all protection systems operating in the bank in a better and faster way, in anticipation of any possibility of security breaches that may occur on all the bank's systems.

- The Information Technology Department has invested and prepared a mini site to establish the Security Operation Center "SOC" in preparation for building a complete and comprehensive center in the coming years, and it is expected to be operational in the second quarter of 2020.

- The Department of Information Technology made a simulation to work through the alternative site of the main systems Core, Power Card ATM, VISA & Master Card. The process was successfully completed, and the requirements of the business continuity plan were met.

Project Management Office

In its third year since inception, the Project Management Office –PMO continued to support the bank in managing strategic projects designed to help the bank achieve efficiency, reduction in operational expenses and alignment of strategic projects. Core Functions of the PMO:

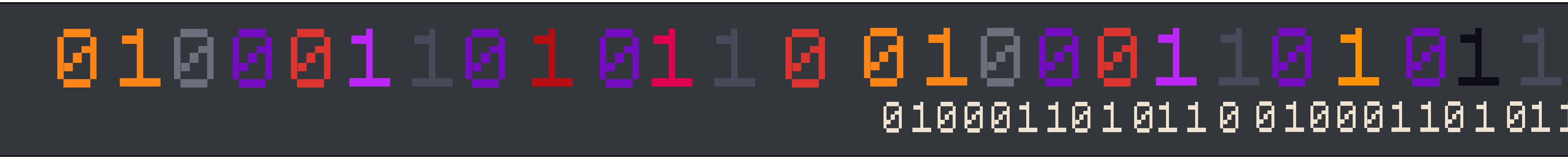
- Build a modern PMO system at the Bank
- Build Data Bases and Systems to support Operations
- Process Engineering in support of the Investment in Digital Innovation strategy
- Quality Control and Better Customer Care

The PMO office in 2019 was overseeing 20 integrated 20 projects in the last period. A key project that is bearing fruit in 2019 was initiated last year is the re-engineering process revolving around Centralized Operations and the Segmentation project including the assignment of account executives for premier accounts for key accounts and business corporate accounts The work included quality control and review of procedures, workflows, and forms.

The PMO was also actively involved the digital archiving project to be fully launched in 2020 which will be transformative in securing documents and information. Another project that was successfully implemented is the account updating for customers key for KYC and compliance requirements.

The PMO also supervises the quality control and assurance of customer related operations conducting digital survey for clients satisfaction and other digital systems to measure customer satisfaction.

Internally the PMO is also engaged in the effort to digitize and streamline all work procedures.



Human Resources:

With a total of 1731 staff in 2019, Bank of Palestine continued to be the bank of choice for talents wanting to be in banking and financial inclusion. Additional staff were recruited during the year 2019. The bank continued to support job-creating initiatives in the market place and continued to invest in training. Practicing what it breaches in terms of percentage of women employees in 2018 it was 40% compared to 41.2% in 2019 in consistency with the policies of empowering women in higher management positions.

Internal Well Being:

In 2019 the bank continued to pay increasing attention to a healthy environment under its internally designated theme program: “Health First in the First National Bank”. Under this program a weight loss competition was conducted to encourage staff to lose weight and be healthier providing financial incentives and memberships at gyms and diet counseling. These internal health competitions provide financial rewards to encourage staff to lose weight and or gain weight if they are underweight. The health awareness program also focused on other areas such:

- Smoking was the negative social habit that was combatted by HR in the effort to ensure a healthier workforce.
- Sport tournaments were also conducted among the staff and their kids including participation in the International Marathon
- Hiking and walks were scheduled in the West Bank and Gaza.
- Internal awareness campaigns were done to bring level of awareness on diabetes with healthy food items delivered to reinforce the message of healthy diet and healthy lifestyle.

The Human resource department also continued to strive to provide free health insurance to staff and their families.

Skill Enhancement and Training:

The bank has maintained steady growth in the number of training programs given to staff with a total of 250 programs benefiting 3,226 staffers in various fields including in cooperation with local training experts and international training experts:

- Audit, Compliance and Controls
- Credit Facilitation
- Corporate Social Responsibility
- Technology and ICT
- Soft Skills and Communications
- Training of Trainers
- Accounting, Investments and Financial Management
- Banking Operations
- Operational Risk

Each Individual staffer received on average 1.8 training program.

Corporate Social Responsibility:

Values Partnership Impact

As the bank is edging into more SDG related partners, it is also refining its CSR strategy towards more Value Based Partnership in order to achieve impact. As such, over the years the bank dedicated 5% of its total profit towards social and community investments. The Bank has continued to conduct its social investment program in conformity with the UN Global Compact principles enhancing the environment, access to information, skills and gender and human rights. As such the bank in terms of sustainability practices continues to adhere to the following principles:

- Promoting sustainable finance
- Developing a sustainable economy
- Gender inclusion and women empowerment
- Investing in youth
- Corporate social responsibility (CSR)
- BOP – A sustainable business
- Green Loans
- Financial Disclosures and communications
- Human Rights and Ethical practices

البيارة
AL BAYYARA

The bank continues to seek social partners in an effort to help social causes and have impact. Often these partners come from active members of the community and social entrepreneurs. The bank often collaborates with international organizations sharing the same value system as the bank. Partnerships have ranged from subject matters spanning key developmental areas such as Entrepreneurship, Art & Culture, Sports, Well Being, Education and the Environment.

Investing in Youth and Education continue to be cornerstone interventions of the Bank's CSR strategy. The flagship Zamala program has provided over 200 professors and faculty members with the opportunity of visiting international academic centers of excellence enabling them to bring back added value knowledge transferring it to their local universities.

In Education the bank partnered with the Faisal Husseini Foundation in East Jerusalem and the European Commission to provide partial support to rehabilitation of 15 schools in the city promoting the values of pluralism and citizenship in an enhanced modern educational environment. This year the program involved workshops on research, robotics and other areas of STEM Education.

Health Awareness: An Awareness campaign to combat Diabetes was launched last year in partnership with local and international partners. Diabetes infects 10% of the Palestinian population and the bank is keen to be partner in national efforts to help create awareness to prevent the prevalence of Diabetes inside the bank and the larger community. These awareness campaigns benefit from the media channels of the bank and do spread the work to help prevent the spread of these non-communicable diseases.

صحتي وصحتك
أحلى من السكر

Saving Lives: Pink Mobile Clinic

The Pink mobile continued to operate after its innuguration last year. The clinic goes to remote villages were women are deprived of the early detection examination and equipment. It is reported that chances of cure is 89% because of early detection.

Recreation for communities in partnership with diaspora funds remained a principle intervention for the Al Biyara string of more than 32 community recreation gardens for kids across 11 governorates in the West Bank and Gaza.

The Palestine Museum: Bank of Palestine provides annual support for the Iconic Palestine Museum regarded locally and Internationally for its architecture and uplifting of the art and cultural scene in Palestine.

•

البنك الإسلامي العربي
ARAB ISLAMIC BANK

Arab Islamic Bank (AIB), is the latest subsidiary addition to Bank of Palestine Group, and in essence is the Islamic banking arm for Bank of Palestine, allowing it to provide with its 27 branches Islamic Banking solutions to a growing segment of customers requiring such sharia' compliant solutions.

The bank with its new brand is projecting a modernized Islamic Banking offering new breed of services: a new mobile APP, Internet Banking, Western Union service, and Mobile Banking Branch on the road
The bank also managed to expand its operation in the GCC by obtaining a license to open a representative office in DIFC Dubai in 2018.

The bank has assets of USD 1.272 billion, deposits of USD 1.023 million with net profits in 2019 of USD 9 million. Benchmarked against the banking sector AIB's assets grew by 126% clearly indicating the potential for growth for AIB in the coming years

AIB has been awarded Best Islamic Bank in Palestine 2017, 2018, and 2019 respectively by the Islamic Finance News Magazine and Best Islamic Bank 2016 by Global Finance Magazine.

الوساطة

AL WASATA

- Al-Wasata Securities has been the fastest growing brokerage company in Palestine playing a major role in the acquisition of new investors into the Palestinian market. The company ranked number one (out of eight brokerage companies) in Palestine with respect to attracting new investors. It continues to acquire new accounts under management over 557 in 2019. It has a USD 109.5 million trading volume in local & regional markets, and more than USD 500 million worth of shares under management. 2017 and 2018 saw the capital of Al-Wasata increase to allow the firm to obtain licenses to conduct asset and wealth management in addition to portfolio fund management, allowing it to capture new market and customer potential. 13 of the staff are certified brokers differentiating Al Wasata form Peers on Quality and specialization of Staff skills in brokerage Management. The company received the award for Best Brokerage Firm in Palestine again for 2019 from EMEA Finance Magazine.

In 2019 Al-Wasata has launched a new service providing brokerage services in different market via the Multi-Markets system including main in North America. A new digital App will also be provided to customers for web based operating systems and mobile enabled as well.

PALPAY®

PalPay® – Palestine Payments – As the leading payment platform company PalPay has been successful since inception utilizing the many POS machines and enabling payment of bills from various outlets revolutionizing the payment systems in Palestine. The number of electronic transactions conducted during the year 2019 through PalPay® reached more than 1 billion, in payments transacted showing an increase of 11.5% compared with last year. The company also continued to sign agreements with additional utility companies in Palestine to allow their clients to make e-payments through the PalPay® system. PalPay® has raised to 120 entities the number of service customers using its platform with 100% collection rate.
PalPay has benefited from the advent of 3G technology whereby users and businesses will start to increase the frequency of mobile applications in their business relying on e-payment solutions. The direction at the central government level to move the government payment system into electronic payment platforms as part of E-Government programs in the coming years will provide PalPay with room to grow its footprint both at home and in the region.

Palpay is awaiting permission from the regulators to launch the first E-Wallet in the country serving the unbanked and penetrating the financial market with its tools.

Winner of Tech Integrity Challenge: PalPay also was proudly the winner for the biggest worldwide contest in the field of “crisis management and aid” launched by Citi bank (MasterCard, Facebook, Microsoft, IBM and others). PalPay E-Voucher and cash assistance Platform won the first place in the Citi Tech for integrity challenge; a global competition among 2000 international companies, where 103 finalists representing 25 countries vied for awards at six Demo Days. Overall, applicants came from more than 70 countries and 300 cities.

Visit of the Chairman of the Bank of England with the Bank of Palestine Group Chairman to PalPay Offices

صندوق ابتكار
IBTIKAR FUND

Ibtikar Innovation Fund

Ibtikar Innovation Fund continues to have traction in 2019. With a youth unemployment rate of 50% plus the fact, that many young entrepreneurs do not have any available early stage financing, the Fund provides a way out of this reality.

This reality has provided a real opportunity for Bank of Palestine to step in to create a bridging mechanism to support investing into aspiring entrepreneurs. The Bank along with several like-minded partners has established a $11 million Ibtikar Fund. The objective of this fund is to invest selectively in Palestinian early stage innovative ventures (focusing primarily in the ICT sectors). Through active participation of the fund managers and a network of experienced mentors, successful results have beeb achieved and companies are enabled to grow and create returns to investors. The effects of this fund will go beyond the hoped for returns to investors and will positively impact the Palestinian economy and create employment opportunities for young Palestinian university graduates.

Ibtikar Fund, Palestine's only active investor in startups, is an early stage venture capital fund of which Bank of Palestine was the anchor investor and limited partner.

In 2019, Ibtikar continued to make a strong impact in the Palestinian entrepreneurial ecosystem by investing in the top Palestinian tech startups. Ibtikar provides the funds and hands-on support necessary for such startups to expand, within and outside Palestine.

In 2019, several of Ibtikar investments reached major revenue milestones, raised money from international investors (many of whom are investing in Palestinian startups for the first time), and won many regional and international awards and competitions. Ibtikar's companies span several sectors, including marketing technology, financial technology, real estate, health and wellness, and e-commerce.

Ibtikar's portfolio companies have created over 250 employment opportunities for highly-skilled Palestinians, nearly 30% of whom are women, and over 50% of whome are under the age of 30.

In 2020, Ibtikar will be raising its second fund, in order to build on this momentum and continue to support the most promising Palestinian tech startups.

Two Announcements of Investments in Ibtikar Companies:

Ibtikar Fund was happy to announce in 2019 that its portfolio company, Gamiphy, had secured a six-figure pre-series A investment round.

This round is led by Ibtikar Fund and includes participation from Kuwait-based Al Mohallab Kuwait Real Estate Company and Al-Joud Kuwait Holding Company.

Gamiphy offers businesses with plug and play tools that empower their strategies in different verticals, such as customer acquisition and loyalty, customer engagement through games, and workforce management and motivation through gamification.

Ibtikar Fund was equally to announce in 2019 that its portfolio company, Receet, secured a six-figure, pre-series A investment round.

This round is led by Ibtikar Fund, and includes participation from Paltel Group.

Receet has developed a mobile app where consumers can easily receive digital receipts, without having to scan physical receipts or provide an email address or phone number (a huge plus for privacy-aware consumers). The digital receipts generated by Receet can be indexed, categorized and easily searched for, all of which is not possible with email receipts.

Case Study: ICEP 1.0

Bank of Palestine steps as a main sponsor of the First International Conference on Entrepreneurship in Palestine with Global Partners

In 2019 Bank of Palestine helped make a reality in collaboration with other Partners the convening of the first of its kind international conference on empowering the entrepreneurial ecosystem in Palestine. The conference was organized by the Global Shapers Hubs in Palestine, a community of the World Economic Forum, in partnership with the Ministry of Entrepreneurship & Empowerment and in cooperation with Hubert Burda Media Group in Germany.

The conference brought together for the first time in the West Bank city of Bethlehem, Palestinian entrepreneurs, startup companies, technology companies and business entities from finance to technology with 200 high-powered CEOs of Technology Companies, Entrepreneurs, and Experts from Germany and Europe to network with over 600 Palestinian entrepreneurs, startups and private companies. A senior delegation from the world Economic Forum was at hand during the event, including prominent CEOs from Companies like Orange, Dell and other technology entities from Europe.

The conference was described as a watershed event for Palestine; as an opportunity to show case the entrepreneurial spirit of the youth of Palestine in front of an important delegation of European investors and technology firms.

The Global Shapers community in Palestine is comprised of 50 young members spread in 4 hubs; in East Jerusalem, Gaza, Ramallah and Nablus and are active members of change in their respective community. "

Hubert Burda Media is one of Germany's most renowned publishing houses and home to more than 250 premium brands such as InStyle, ELLE, Bunte, Focus, Harper's Bazaar, and Xing. "We are excited as Hubert Burda Magazine to partner with the Palestinian government and Global Shaper to convene this conference. We have opened up our network of European technology companies and investors to come to Bethlehem to attend this networking conference. We look forward to learning more about the Palestinian entrepreneurial ecosystem and bringing forth the technology and digital updates from Europe, said Steffi Czerny-General Manager at Hubert Burda Media."

The Global Shapers Community is a grassroot network of young people driving dialogue, action and chance with a global footprint, consisting of 8411 shapers, in 403 hubs in 154 countries, with an alumnus of around 2000, they start at the age of 30-20 and are chosen based on their innovative skills, achievement desire, brilliance and creativity in their own countries accelerating change. Global Shapers Community is an initiative of the World Economic Forum and operates from Geneva.

ICEP
International Conference on Entrepreneurship - Palestine
Empowering Entrepreneurial Eco-System

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

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

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

Building a better working world

90 Years in MENA

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

Opinion

We have audited the consolidated financial statements of Bank of Palestine and its subsidiaries (collectively the "Bank"), which comprise the consolidated statement of financial position as at December 31, 2019, consolidated income statement, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key Audit Matter	Audit Procedures
Expected Credit Loss "ECL" allowances: This is considered as a key audit matter as the Bank exercises significant judgement and estimates to determine when and how much to record as impairment. Credit facilities form major portion of the Bank's assets, and there is a risk that inappropriate impairment provisions are booked, whether from the use of inaccurate underlying data, or the use of unreasonable assumptions. Due to the significance of the judgments used in classifying credit facilities into various stages stipulated in IFRS (9) and determining related provision requirements, this audit area is considered a key audit matter. As at December 31, 2019, the Bank and its subsidiaries gross credit facilities and Islamic financing amounted to U.S. $ 3,113,623,834 and the related ECL amounted to U.S. $ 113,582,505 and interest in suspense amounted to U.S. $ 16,656,102. ECL and the related accounting policies are presented in note (3) to the consolidated financial statements.	Our audit procedures include: • Gained an understanding of the Bank's key credit processes comprising granting and booking and tested the operating effectiveness of key controls over these processes. • Reviewed and gained an understanding of the Bank's impairment provisioning policy and compared it with the requirements of IFRS (9) as well as relevant regulatory instructions. • Assessed the Bank's ECL model, in particular focusing on its alignment with the requirements of IFRS (9). • Examined a sample of exposures, assessed on an individual basis and performed the following procedures: - Assessed the appropriateness of the Bank's staging (stage 1, 2 or 3). - Assessed the appropriateness of determining Exposure at Default (EAD), including the consideration of repayments in the cash flows and the resultant arithmetical calculations. - Assessed the appropriateness of the Probability of Defaults (PD), Exposure at Default (EAD) and Loss Given Defaults (LGD) used for different exposures at different stages. - Assessed theoretical soundness and mathematical integrity of the ECL Model. - For exposures moved between stages, we have checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. We also checked the timely identification of exposures with a significant deterioration in credit quality. - For exposures determined to be individually impaired we re-preformed the ECL calculation. We also obtained an understanding of the latest developments on the counterparty's situation and the latest developments in estimated future cash flows, current financial position and any rescheduling or restructuring agreements. - For forward looking assumptions used by the Bank in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information. - Assessed the adequacy of disclosures, including accounting policies, significant accounting estimates and judgments to ensure compliance with IFRS 9. The accounting policies, significant accounting estimates and judgments are detailed in notes number (3, 8, 10, 25, 37 and 49) in the consolidated financial statements.

Other information included in the Bank's 2019 Annual Report

Other information consists of the information included in the Bank's 2019 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2019 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

Ernst & Young – Middle East
License # 206/2012

Sa'ed Abdallah

Ernst + Young

Sa'ed Abdallah
License # 105/2003

March 17, 2020
Ramallah – Palestine

Consolidated Statement of Financial Position
As at December 31, 2019

	Note	2019 U.S. $	2018 U.S. $
ASSETS			
Cash and balances with Palestine Monetary Authority	5	1,361,087,532	1,100,900,058
Balances at banks and financial institutions	6	396,006,755	345,642,339
Financial assets at fair value through profit and loss	7	10,654,320	10,774,178
Direct credit facilities and Islamic financing	8	2,983,385,227	2,687,155,004
Financial assets at fair value through other comprehensive income	9	37,317,641	33,104,285
Financial assets at amortized cost	10	242,744,683	279,369,058
Investment in associates	11	5,503,519	5,472,858
Investment properties	12	25,677,869	17,800,433
Property, plant and equipment	13	124,329,349	86,043,108
Projects in progress	14	3,175,677	6,270,572
Intangible assets	15	15,297,116	14,805,428
Other assets	16	59,764,952	69,845,657
Total Assets		5,264,944,640	4,657,182,978
LIABILITIES AND EQUITY			
Liabilities			
Palestine Monetary Authority's deposits	17	243,522,869	215,320,321
Banks and financial institutions' deposits	18	238,742,403	107,587,058
Customers' deposits	19	3,871,986,081	3,534,761,228
Cash margins	20	243,597,937	200,417,328
Subordinated loan	21	75,000,000	75,000,000
Sundry provisions	22	46,976,344	43,012,724
Tax provisions	23	1,421,119	3,634,870
Lease Liabilities	3&24	33,671,658	-
Other liabilities	25	79,362,036	61,068,901
Total Liabilities		4,834,280,447	4,240,802,430
Equity			
Paid-in share capital	1	204,000,000	200,000,000
Additional paid-in capital	26	24,848,415	24,848,415
Statutory reserve	27	54,982,241	51,586,473
Voluntarily reserve	27	246,361	246,361
General banking risks reserve	27	9,749,949	9,452,970
Pro-cyclicality reserve	27	40,000,000	40,000,000
Fair value reserve	9	(3,854,902)	(3,467,059)
Retained earnings		46,828,335	43,529,095
Total equity holders of the Bank		376,800,399	366,196,255
Non-controlling interests	4	53,863,794	50,184,293
Total Equity		430,664,193	416,380,548
Total Liabilities and Equity		5,264,944,640	4,657,182,978

Consolidated Income Statement
For the year ended December 31, 2019

	Note	2019 U.S. $	2018 U.S. $
Interest income	29	160,857,087	157,188,901
Interest expense	30	(43,830,406)	(41,065,120)
Net interest income		117,026,681	116,123,781
Net financing and investment income	31	37,000,873	31,163,360
Net commissions	32	48,345,990	49,311,107
Net interest, financing, investment and commissions income		202,373,544	196,598,248
Foreign currency gain		17,978,791	16,194,449
Net gains from financial assets	33	2,214,059	1,580,287
Change in fair value of investment properties	12	1,186,495	1,054,147
Recovery (impairment) of expected credit losses on investments	37	234,267	(113,123)
Bank's share of results of associates	11	421,968	246,872
Other revenues	34	6,422,883	6,055,944
Gross profit		230,832,007	221,616,824
Expenses			
Personnel expenses	35	(73,379,864)	(78,781,364)
Other operating expenses	36	(55,673,291)	(55,377,277)
Depreciation and amortization	13&15	(17,780,549)	(12,412,362)
Expected credit losses on direct credit facilities and Islamic financing, net	8	(30,691,140)	(3,862,006)
Credit facilities not previously provided for and written off		(1,497,114)	(1,235,074)
Palestine Monetary Authority's fines	38	(15,000)	(123,400)
Total expenses		(179,036,958)	(151,791,483)
Profit before taxes		51,795,049	69,825,341
Taxes expense	23	(12,858,327)	(15,715,248)
Profit for the year		38,936,722	54,110,093
Attributable to:			
Equity holders of the Bank		33,957,680	50,661,663
Non-controlling interests	4	4,979,042	3,448,430
		38,936,722	54,110,093
Basic and diluted earnings per share	40	0.17	0.25

Consolidated Statement of Comprehensive Income
For the year ended December 31, 2019

	Notes	2019 U.S. $	2018 U.S. $
Profit for the year		38,936,722	54,110,093
Other comprehensive income:			
Other comprehensive income items not to be reclassified to the consolidated income statement in subsequent periods:			
Change in the fair value of financial assets		(399,017)	(2,200,942)
Other comprehensive income		(399,017)	(2,200,942)
Total comprehensive income for the year		38,537,705	51,909,151
Attributable to:			
Equity holders of the Bank		33,599,837	48,013,872
Non-controlling Interests	4	4,937,868	3,895,279
		38,537,705	51,909,151

Consolidated Statement of Changes in Equity
For the year ended December 31, 2019

2019	Paid-in share capital	Additional paid-in capital	Reserves					Retained earnings	Equity holders of the Bank	Non-controlling interests	Total equity
			Statutory	Voluntarily	General banking risks	Pro-cyclicality	Fair value				
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	200,000,000	24,848,415	51,586,473	246,361	9,452,970	40,000,000	(3,467,059)	43,529,095	366,196,255	50,184,293	416,380,548
Profit for the year	-	-	-	-	-	-	-	33,957,680	33,957,680	4,979,042	38,936,722
Other comprehensive income	-	-	-	-	-	-	(357,843)	-	(357,843)	(41,174)	(399,017)
Total comprehensive income	-	-	-	-	-	-	(357,843)	33,957,680	33,599,837	4,937,868	38,537,705
Fair value reserve for sold financial assets	-	-	-	-	-	-	(30,000)	30,000	-	-	-
Transfers to reserves	-	-	3,395,768	-	296,979	-	-	(3,692,747)	-	-	-
Stock dividends (note 28)	4,000,000	-	-	-	-	-	-	(4,000,000)	-	-	-
Cash dividends (note 28)	-	-	-	-	-	-	-	(23,000,000)	(23,000,000)	(1,258,367)	(24,258,367)
Fractions of stocks	-	-	-	-	-	-	-	4,307	4,307	-	4,307
Balance, end of the year	204,000,000	24,848,415	54,982,241	246,361	9,749,949	40,000,000	(3,854,902)	46,828,335	376,800,399	53,863,794	430,664,193

2018	Paid-in share capital	Additional paid-in capital	Reserves					Retained earnings	Equity holders of the Bank	Non-controlling interests	Total equity
			Statutory	Voluntarily	General banking risks	Pro-cyclicality	Fair value				
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year – before applying IFRS 9 (note 3)	200,000,000	24,848,415	46,520,307	246,361	35,439,810	40,000,000	159,568	51,138,854	398,353,315	51,608,372	449,961,687
Impact of applying IFRS (9)	-	-	-	-	(33,164,178)	-	(978,836)	(18,690,526)	(52,833,540)	(4,801,966)	(57,635,506)
Balance, beginning of the year – after applying IFRS (9) (note 3)	200,000,000	24,848,415	46,520,307	246,361	2,275,632	40,000,000	(819,268)	32,448,328	345,519,775	46,806,406	392,326,181
Profit for the year	-	-	-	-	-	-	-	50,661,663	50,661,663	3,448,430	54,110,093
Other comprehensive income	-	-	-	-	-	-	(2,647,791)	-	(2,647,791)	446,849	(2,200,942)
Total comprehensive income	-	-	-	-	-	-	(2,647,791)	50,661,663	48,013,872	3,895,279	51,909,151
Acquisition of a subsidiary (note 4)	-	-	-	-	-	-	-	(337,392)	(337,392)	(517,392)	(854,784)
Transfers to reserves	-	-	5,066,166	-	7,177,338	-	-	(12,243,504)	-	-	-
Cash dividends (note 28)	-	-	-	-	-	-	-	(27,000,000)	(27,000,000)	-	(27,000,000)
Balance, end of the year	200,000,000	24,848,415	51,586,473	246,361	9,452,970	40,000,000	(3,467,059)	43,529,095	366,196,255	50,184,293	416,380,548

Consolidated Statement of Cash Flows
For the year ended December 31, 2019

	Notes	2019 U.S. $	2018 U.S. $
Operating activities			
Profit before taxes		51,795,049	69,825,341
Adjustments for:			
Depreciation and amortization		17,780,549	12,412,362
Net gains from financial assets		(2,869,558)	(2,364,082)
Expected credit losses on direct credit facilities and Islamic financing, net		30,456,873	3,862,006
Finance cost on lease liabilities		1,028,101	-
Sundry provisions		6,292,825	13,178,846
Valuation gains on investment properties		(1,186,495)	(1,054,147)
Bank's share of results of associates		(421,968)	(246,872)
Credit facilities not previously provided for and written off		1,497,114	1,235,074
Losses on disposal of property, plant and equipment		93,808	32,295
Other non-cash items		(753,035)	25,612
		103,713,263	96,906,435
Changes in assets and liabilities:			
Direct credit facilities and Islamic financing		(328,559,307)	(229,471,564)
Statutory cash reserve		(28,526,680)	(1,137,789)
Other assets		5,173,295	17,203,388
Customers' deposits		337,224,853	(24,040,634)
Cash margins		43,180,609	(9,412,600)
Other liabilities		18,234,822	(35,821,981)
Net cash flows from (used in) operating activities before taxes and sundry provision		150,440,855	(185,774,745)
Taxes paid		(15,072,078)	(23,387,671)
Sundry provision paid		(2,329,205)	(4,090,974)
Net cash flows from (used in) operating activities		133,039,572	(213,253,390)
Investing activities:			
Purchase of financial assets at fair value through profit or loss and through other comprehensive income		(4,702,373)	(5,482,532)
Purchase of financial assets at amortized cost		(54,361,610)	(71,054,159)
Sale of financial assets at fair value		5,090,000	2,547,481
Maturated financial assets		87,185,613	41,480,166
Deposits at banks and financial institutions maturing in more than three months		(5,641,749)	24,239,712
Deposits at Islamic banks maturing in more than three months		(1,459,597)	6,272,725
Stocks dividends received		3,499,950	2,612,385
Intangible assets		(1,550,214)	(3,136,360)
Projects in progress		(4,282,009)	(5,144,330)
Purchase of investment properties		(5,741,544)	(755,030)
Sale of investment properties		-	702,742
Purchase of property, plant and equipment		(9,079,517)	(8,179,986)
Sale of property, plant and equipment		95,887	1,727,197
Net cash flows from (used in) investing activities		9,052,837	(14,169,989)
Financing activities:			
Lease liabilities paid		(2,203,378)	-
Cash dividends paid		(24,110,034)	(27,534,980)
Fractions of stock dividends sold		4,307	-
Net cash flows used in financing activities		(26,309,105)	(27,534,980)
Increase (decrease) in cash and cash equivalents		115,783,304	(254,958,359)
Cash and cash equivalents, beginning of the year		790,747,428	1,045,705,787
Cash and cash equivalents, end of the year	39	906,530,732	790,747,428
Interest expense paid		52,538,996	41,280,466
Interest revenue received		206,525,647	157,400,648

Notes to the Consolidated Financial Statements
December 31, 2019

1. General

Bank of Palestine P.L.C (the Bank) was established in 1960 and was registered with the companies' controller office of the Palestinian National Authority in Gaza as a public shareholding limited company under registration no, (563200096) in accordance with Companies' Law of 1929 and its subsequent amendments. The bank's shares were listed for trading at the Palestine Securities Exchange during 2005.

Following the decision of the extraordinary general assembly during its meeting held on March 29, 2018, the Bank's authorized capital was increased from 200 million shares to 250 million shares at U.S. $ 1 par value for each share from. During its meeting held on March 28, 2019, the general assembly approved the increase of the bank's paid-in share capital by U.S. $ 4,000,000 through stock dividends. The Bank's authorized and paid in capital amounted to U.S. $ 204,000,000 and U.S. $ 200,000,000 at U.S. $ 1 par value each as at December 31, 2019 and 2018, respectively. The Bank has been classified as a bank of regulatory importance at the local level, according to the general framework of banks of regulatory importance as approved by the Board of Directors of the Palestine Monetary Authority (PMA).

The Bank carries out all of its banking activities which include opening current account, letter of credit, accepting deposits and lending money through its (28) branches and (45) offices located in Palestine and an electronic office and a mobile office; In addition, PMA authorized the opening of two representation offices; one in the City of Dubai in United Arab Emirates and another in Chile. The number of branches of Arab Islamic Bank (subsidiary) was (22) branches in addition to (4) offices and a mobile office.

The Bank's personnel (head quarter and branches) reached (1,731) and (1,728) as at December 31, 2019 and 2018, respectively. The number of employees of subsidiaries are (639) and (598) as at December 31, 2019 and 2018, respectively.

The consolidated financial statements were authorized for issuance by the Bank's Board of Directors during their meeting number (374) held on February 27, 2020 and by PMA on March 16, 2020.

2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at December 31, 2019.

The Bank's ownership in the subsidiaries' share capital was as follows:

	Country of incorporation and operations	Ownership %		Subscribed capital $ .U.S	
		2019	2018	2019	2018
Arab Islamic Bank*	Palestine	52.06	52.06	84,919,252	75,000,000
Al-Wasata Company**	Palestine	100	100	5,000,000	5,000,000
PalPay Company	Palestine	85	85	1,500,000	1,500,000
2000 Company	Palestine	100	100	100,000	100,000

* The extraordinary general assembly of Arab Islamic Bank, decided at its meeting held on March 25, 2019, to increase its paid-in capital by capitalizing an amount of U.S. $ 3,669,252 of the retained earnings and an amount of U.S. $ 6,250,000 of the additional paid in capital which were distributed as stock dividends to shareholders.

** The general assembly of Al-Wasata Company, in its extra-ordinary meeting held on April 27, 2010, approved to increase its share capital to 5 million shares of U.S. $ 1 par value each and in the extra-ordinary meeting held on December 2, 2017 the general assembly approved that the payment would be made from Bank of Palestine and added to its shares. During 2018, the legal requirements of registration have been finalized and the company has been fully owned by the Bank and the Bank paid its full share. The acquisition resulted in recording an amount of U.S. $ 337,392 as write-off from retained earnings.

The reporting dates of the subsidiaries and the Bank are identical. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Bank's accounting policies.

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

3. Accounting Policies

3.1 Basis of preparation

The consolidated financial statements as at December 31, 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), and in conformity with PMA regulations.

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

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

3.2 Basis of consolidation of financial statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at December 31, 2019. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

The Bank re-assesses whether or not it controls investees if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of subsidiaries begins when the Bank obtains control over the subsidiaries and ceases when the Bank loses control of the subsidiaries. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statement from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

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

3.3 Changes in accounting polices

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2018, except that the Bank applied certain amendments to the standards, which are effective for annual periods beginning on or after January 1, 2019:

IFRS (16) "Leases"

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

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

The bank adopted IFRS (16) using the modified retrospective approach with the date of initial application of 1 January 2019 accordingly, prior year consolidated financial statements were not restated. The bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS (17) and IFRIC (4) at the date of initial application. The bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

a) Nature of the effect of adoption IFRS (16)

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

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

- **Leases previously classified as finance leases**

The bank did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS (17). The requirements of IFRS (16) was applied to these leases from 1 January 2019.

▸ **Leases previously accounted for as operating leases**

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

The bank also applied the available practical expedients where in it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its previous evaluation prior to the date of application and related to lease contracts that will result in a loss;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

b) The amounts recognized in the consolidated statement of financial position and consolidated income statement

The table below shows the book value of the rights of use assets and the lease liabilities and the movement over them during the year ended December 31, 2019:

	Right of use assets	Lease liabilities
	U.S. $	U.S. $
As at January 1, 2019	38,741,538	34,846,935
Amortization	(3,947,275)	-
Finance costs	-	1,028,101
Payments	-	(2,203,378)
As at December 31, 2019	34,794,263	33,671,658

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

Right-of-use assets

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

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

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

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

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

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

Significant judgement in determining the lease term of contracts with renewal options
The bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The bank has the option, under some of its leases to lease the assets for additional terms. The bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew.

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

The bank included the renewal period as part of the lease term due to the significance of these assets to its operations. These leases are considered to have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available. The weighted average of the lease contracts is 10 years.

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

	2019
	U.S. $
Discount rate used	%3.01
Assets	
Right of use assets	38,741,538
Prepayments	(3,894,603)
Net effect on assets	34,846,935
Liabilities	
Lease liabilities	34,846,935

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS (12) and does not apply to taxes or levies outside the scope of IAS (12), nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments.

No material impact has resulted from the application of these amendments to the bank's consolidated financial statements.

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

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

3.4 Summary of Significant Accounting Policies

Revenues and expenses recognition

Interest income is recognized as the interest accrues using the effective interest method except for interest and commission income on non-performing facilities.

Income from Islamic financing is recognized based on the accrual basis of accounting, Commission income is recognized when the services are rendered. Dividends income are recognized when the right to receive dividends is established.

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

Financial assets and liabilities

Financial assets at amortized cost

The Bank measures financial investments at amortized cost if both of the following conditions are met:

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

Financial instruments for which both conditions apply are initially measured at fair value taking into account any discount or premium on acquisition, fees and costs that are an integral part of the effective interest rate (EIR), unless the Bank elected to classify these investments through profit or loss, Interest recorded using EIR.

The effective interest rate is the interest rate that is used to discount future cash flows on the life of the instrument, or lower period in other cases, to equal the book value of at initial recognition.

At initial recognition the bank can irreversibly classify the instrument that fulfilled the conditions mentioned above as a financial asset at fair value through profit or loss if this removes or substantially decrease the inconsistency of accounting treatment if it is classified as amortized cost.

Financial assets at fair value through profit or loss (FVPL)

Financial assets in this category are those that are not held for trading and have been either designated by the Bank upon initial recognition or are mandatorily required to be measured at fair value under IFRS (9). The Bank only designates an instrument at FVPL upon initial recognition when the designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis.

Upon initial recognition, the Bank classifies equity instruments at fair value through profit or loss except for investments that are not held for trading for which the Bank can classify it at fair value through other comprehensive income (FVOCI).

Financial assets at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in the consolidated statement of profit or loss.

Dividends are recognized when the right of the payment has been established.

Financial assets at fair value through other comprehensive income (FVOCI)

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS (32)

FVOCI instruments are initially measured at fair value taking into account acquisition costs, FVOCI instruments are subsequently measured at fair value with gains or losses arising due to changes in fair value recognized at OCI in the fair value reserve. When the Bank decided to dispose such instruments, gains or losses recorded previously in the fair value reserve are reclassified directly to retained earning not consolidated income statement.

Dividends are recognized in the consolidated income statement when the right of the payment has been established except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI.

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

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

Reclassification of financial assets and liabilities

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

Impairment of financial assets

Overview of the ECL principles

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

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

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

The ECL allowance is based on the credit losses expected to arise over12 months' expected credit loss (12mECL). Unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the life of the asset (the lifetime expected credit loss or "LTECL").

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

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

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

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

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

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

<u>The calculation of ECLs</u>

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

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

PD	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

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

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

The mechanics of the ECL method are summarized below:

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

<u>Forward looking information</u>
In its ECL model, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Unemployment rates

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

Collateral valuation

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

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

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

Write-offs

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

Forborne and modified facilities and financing

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to the otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

In accordance with PMA instructions, the Bank classified not-rescheduled substandard credit facilities granted to public sector employees in Gaza into stage (2) according to IFRS (9), assuming a de-facto rescheduling of these facilities.

Credit facilities and Islamic Financing

Credit facilities and Islamic financing are carried at cost net of allowance for impairment losses and interest in suspense.

Interest, commission and profits on non-performing credit facilities and Islamic financing are suspended according to PMA instructions.

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

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

Bade debt not previously provided for and written off

The facilities and Islamic financing that its borrower died and do not have enough collaterals will be written-off in accordance with PMA instructions.

Credit cards and other revolving facilities

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

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities.

Investments in financial assets

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

Derecognition of financial assets

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

Fair value measurement

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

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

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

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

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

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

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

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

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

Offsetting

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

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any, such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other costs are recognized in the consolidated income statement as incurred. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets (except for land) as follows:

	Useful life (Years)
Buildings and real estate	50
Furniture and equipment	6 - 17
Computers	5 - 10
Leasehold improvements	5
Vehicles	7 - 10

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

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

Assets obtained by the Bank by calling on collateral

Assets obtained by the Bank by calling on collateral are stated in the consolidated statement of financial position under "Other assets" at the lower of the carrying value or fair value of the assets. These assets are revaluated individually at the date of the consolidated financial statements at fair value. Any impairment loss is recorded in the consolidated income statement. However, any appreciation in the assets' value is not recorded as gain. Subsequently, the gain resulted from the appreciation of the assets value is recorded in the consolidated income statement to the extent of the impairment loss previously recorded.

Investments properties

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments properties, Investments properties are measured initially at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value and changes in fair value are recognized in the consolidated income statement.

Projects in progress
The projects in progress represent the costs of establishing, finishing, expanding and improving the Bank new branches and other projects that have not ended up to the date of the financial statements. Upon completion of the execution of each project it will be transferred to property, plant and equipment or intangible assets. A decrease in the carrying amount of projects in progress is recorded when there is evidence that the carrying amount of the projects cannot be recovered. If such indicators exist, the carrying amount of the projects is reduced to the recoverable amount.

Intangible assets
The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Intangible assets acquired separately are measured on initial recognition at cost. Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortization and any accumulated impairment losses.

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

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

Gains or losses on disposal of intangible assets that represent the difference between the proceeds from disposal of an asset and the carrying amount of an asset are recognized in the consolidated statement of income.

Intangible assets with an estimated useful life are amortized over a period based on the estimated useful life, and their carrying values are reviewed for impairment whenever indicators exist. The amortization period and the method of calculation of intangible assets whose estimated useful lives are estimated at a fixed period at least at the end of the financial year are reviewed. The amortization expense of intangible assets whose estimated useful lives are stated in the consolidated statement of income.

Intangible assets include computer software, banking systems and goodwill. The Bank's management estimates the useful lives of items of computer software and banking systems. Computer software and banking systems are amortized on a straight-line method over a period of 10 years.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The acquisition cost represents the total fair value of the consideration paid on the date of acquisition and the value of the non-controlling interests in the acquire. At any business combination, the Bank assesses the non-controlling interests' share of the acquired at fair value. Acquisition costs are recognized in the consolidated income statement.

Upon acquisition, the Bank evaluates and classifies the financial assets and liabilities of the acquired in accordance with the contractual terms and economic conditions at the date of acquisition.

In the case of a business combination as a result of the acquisition, the investment previously classified as the acquired is measured at fair value on the date of acquisition. The difference between the fair value and the carrying amount of an investment previously recognized is recognized in the consolidated income statement.

Goodwill arising from the acquisition of subsidiaries is recognized at cost, which represents the increase in the consideration transferred from the Bank's share of net assets and liabilities acquired from the subsidiary. If the consideration is less than the fair value of the net assets of the subsidiary, the difference is recognized as gain in the consolidated income statement.

Subsequent to initial recognition, goodwill is recognized at cost less any accumulated impairment losses. For the purpose of carrying out a study on impairment of goodwill, goodwill is allocated at the acquisition date to the units or group of units generating cash and expected to benefit from the consolidation process, regardless of whether the other assets and liabilities of the Bank have been allocated to these units or not.

Where goodwill forms part of a cash-generating unit, and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Investment in associates

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

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

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

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

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

Provisions

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

Provision for end of service indemnity

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

Taxes provision

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

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

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

Cash and cash equivalents

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

Segments information

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

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

Foreign currencies

Transactions dominated in foreign currencies occurring during the year are recorded at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at reporting date.

Non-monetary items measured at fair value and denominated in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

Currency exchange differences for non-monetary assets and liabilities items stated at fair value (such as financial assets at fair value through other comprehensive income) are recognized in the consolidated statement of other comprehensive income.

Use of estimates

The preparation of consolidated financial statements and the application of accounting policies require management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These estimates and assumptions also affect the revenues and expenses and the resulting provisions as well as other comprehensive income items. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty. Therefore, actual results may differ resulting in future changes in such provisions.

Bank's management believes that estimates used in the preparation of the consolidated financial statements are reasonable and are as follows:

- The Bank reviews the useful lives of tangible and intangible assets on regular basis in order to assess the depreciation and amortizations for the year based on the assets' condition, useful lives and future economic benefits. Impairment, if any, is recognized in the consolidated income statement.
- Tax provisions are calculated annually based on prevailing tax laws in the territories in which the Bank operates and the accounting standards that the Bank follows.
- Management reviews, on a regular basis, the financial assets at amortized cost to estimate impairments, if any. Impairment losses are reflected in the consolidated income statement.
- Impairment of goodwill is based on the estimate of the "value in use" of the cash-generating units to which goodwill has been allocated. This requires estimating the future cash flows of the cash generating units and selecting the discount rates to calculate the present value of those future cash flows.
- Investment properties are appraised by using real estate valuation experts.
- End of service indemnity expense is calculated annually based on prevailing labor law and in agreement with the international accounting standards.
- Lawsuits provision is established to provide for legal obligations, if any, based on the opinion of the Bank's lawyer.
- Provisions for impairment – ECL are reviewed based on PMA instructions and applicable IFRSs as follows:

  In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

  The Bank computes the provision for impairment of financial assets according to (IFRSs) and PMA instructions.

  The Bank has followed the following criteria to determine the ECL calculation at individual basis as follow:

  - Retail portfolio: individual basis based on the product level and country (overdrafts, overdrawn, loans)
  - Corporate portfolio: individual basis at facility /customer level
  - Financial Institutions: individual basis at deposit / bank level
  - Debt instruments measured at amortized cost: individual basis at instrument level.

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

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

- **Assessment of significant increase in credit risk (SICR)**

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

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

1. Management has established thresholds for significant increases in credit risk based on movement in the customer's internal credit grade and the related PDs relative to initial recognition.
2. Restructuring and/or rescheduling on the customers' accounts/ facilities during the assessment period is considered as indicator for SICR.
3. Instruments which are 30 days past due have experienced a significant increase in credit risk as per the standard rebuttable presumption.
4. Government employees in Gaza.
5. Two notches decrease in the financial assets rating.
6. Overdraft that is overdue for more than 60 days.

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

- **Macroeconomic factors, forward looking information and multiple scenarios**

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

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

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

The estimation of expected credit losses in Stage (1) and Stage (2) will be a discounted probability- weighted estimate that considers a minimum of three future macroeconomic scenarios.

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

- **Definition of default**

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

- **Expected Life**

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

- **IFRS (9) governance**

To ensure proper compliance of the IFRS (9) implementation, a steering committee was formed consisting of the Chief Risk Officer, Chief Credit Officer, Chief Financial Officer, Head of IT, Head of Central Monitoring and Head of Project Management with the responsibilities to provide decisions /feedback on the work plan regarding implementation and adoption of IFRS (9) to ensure all relevant policies and procedures are updated in line with the new requirements and systems are modified / updated for the new requirements, in addition to present the ECL results to the top management and related Committees of the Board of Directors.

4. Material Partly-owned Subsidiaries

The financial information of subsidiaries that have material non-controlling interest are provided below:

Proportionate of equity interest held by non-controlling interests:

Company	Country of incorporation and operation	2019 %	2018 %
Arab Islamic Bank	Palestine	47.94	47.94
PalPay	Palestine	15	15

Accumulated balances of material non-controlling interests:

	2019 U.S. $	2018 U.S. $
Arab Islamic Bank	53,535,711	49,946,917
PalPay	328,083	237,376
	53,863,794	50,184,293

Profit allocated to material non-controlling interest:

	2019 U.S. $	2018 U.S. $
Arab Islamic Bank	4,888,335	3,405,134
PalPay	90,707	43,296
	4,979,042	3,448,430
Share of non-controlling interest in comprehensive income	(41,174)	446,849
	4,937,868	3,895,279

A summary of subsidiaries' financial information before eliminating all intra-bank balances and transaction are provided below:

Summarized income statement information for the year ended December 31, 2019:

	AIB	PalPay
	U.S. $	U.S. $
Revenues	44,916,609	2,018,301
General and administrative expenses	(29,872,348)	(1,155,194)
Depreciation and amortization	(4,061,953)	(182,682)
Other revenues	971,974	86,122
Profit before tax	11,954,282	766,547
Income tax	(2,944,000)	(161,832)
Profit of the year	9,010,282	604,715
Other comprehensive income	783,531	-
Total comprehensive income of the year	9,793,813	604,715

Summarized income statement information for the year ended December 31, 2018:

	AIB	PalPay
	U.S. $	U.S. $
Revenues	38,761,058	1,578,186
General and administrative expenses	(26,106,437)	(1,096,439)
Depreciation and amortization	(2,896,152)	(150,452)
Other revenues	-	45,843
Profit before tax	9,758,469	377,138
Income tax	(2,655,149)	(88,497)
Profit of the year	7,103,320	288,641
Other comprehensive income	1,704,526	-
Total comprehensive income of the year	8,807,846	288,641

Summarized statement of financial position information as at December 31, 2019:

	AIB	PalPay
	U.S. $	U.S. $
Total assets	1,271,658,052	2,676,587
Total liabilities	(1,155,094,412)	(516,801)
Total equity	116,563,640	2,159,786
Attributable to:		
Bank's shareholders	63,027,929	1,831,703
Non-controlling interests	53,535,711	328,083
	116,563,640	2,159,786

Summarized statement of financial position information as at December 31, 2018:

	AIB	PalPay
	U.S. $	U.S. $
Total assets	1,062,302,827	1,917,626
Total liabilities	(952,908,000)	(362,555)
Total equity	109,394,827	1,555,071
Attributable to:		
Bank's shareholders	59,447,910	1,317,695
Non-controlling interests	49,946,917	237,376
	109,394,827	1,555,071

Summarized statement of cash flows information for the year ended December 31, 2019:

	AIB	PalPay
	U.S. $	U.S. $
Operating activities	(32,301,949)	659,354
Investing activities	(9,431,410)	(230,864)
Financing activities	131,665,619	(8,000)
Increase in cash and cash equivalents	89,932,260	420,490

Summarized statement of cash flows information for the year ended December 31, 2018:

	AIB	PalPay
	U.S. $	U.S. $
Operating activities	(115,243,518)	219,032
Investing activities	(9,140,474)	(221,617)
Financing activities	93,657,323	-
Decrease in cash and cash equivalents	(30,726,669)	(2,585)

5. Cash and balances with Palestine Monetary Authority

This item comprises the following:

	2019	2018
	U.S. $	U.S. $
Cash on hand	934,725,363	759,107,067
Balances with Palestine Monetary Authority:		
Current and demand accounts	45,043,807	15,608,423
Deposits maturing within 3 months or less	26,657,264	-
Statutory cash reserve	354,711,248	326,184,568
	1,361,137,682	1,100,900,058
Less: allowance for expected credit losses	(50,150)	-
	1,361,087,532	1,100,900,058

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

PMA does not pay interest or profits on current accounts.

PMA pays interest on term deposits that ranges between %1.25 and %1.70.

The movement on the gross carrying amount of the balances at Palestine Monetary Authority is as follows:

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	341,792,991	-	-	341,792,991
Net change during the year	84,619,328	-	-	84,619,328
Balance, end of the year	426,412,319	-	-	426,412,319

The movement of ECL allowance on balances at Palestine Monetary Authority is as follows:

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	-	-	-	-
Net ECL for the year	50,150	-	-	50,150
Balance, end of the year	50,150	-	-	50,150

6. Balances at banks and financial institutions

This item comprises the following:

	2019	2018
	U.S. $	U.S. $
Local banks and financial institutions:		
Current accounts	211,353	70,148
Deposits maturing within 3 months or less	14,504,951	11,189,317
Swap deposits	13,988,717	9,167,842
	28,705,021	20,427,307
Foreign banks and financial institutions:		
Current and demand accounts	174,635,635	184,641,722
Deposits maturing within 3 months or less	111,706,273	123,547,646
Deposits maturing after 3 months	12,693,935	7,052,186
Swap deposits	60,000,000	-
	359,035,843	315,241,554
Investment at foreign Islamic banks:		
Investment maturing within 3 months	7,322,641	10,322,642
Investment maturing after 3 months	3,509,514	2,049,917
	10,832,155	12,372,559
Less: allowance for expected credit losses	(2,566,264)	(2,399,081)
	396,006,755	345,642,339

Non-interest or profits bearing balances at banks and financial institutions as at December 31, 2019 and 2018 amounted to U.S. $ 188,630,559 and U.S. $ 193,809,564, respectively. In addition, balances at banks and financial institutions include swap deposits with local and international banks as at December 31, 2019 and 2018 amounted to U.S. $ 73,988,717 and U.S. $ 9,167,842.

Restricted balances at banks and financial institutions as at December 31, 2019 and 2018 amounted to U.S. $ 123,375,156 and U.S. $ 80,707,371, respectively.

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

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	340,741,420	5,000,000	2,300,000	348,041,420
Net change during the year	50,531,599	-	-	50,531,599
Transfer to stage (1)	5,000,000	(5,000,000)	-	-
Transfer to stage (2)	(872,820)	872,820	-	-
Balance, end of the year	395,400,199	872,820	2,300,000	398,573,019

	2018			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	567,782,992	3,000,000	2,300,000	573,082,992
Net change during the year	(225,541,572)	500,000	-	(225,041,572)
Transfer to stage (2)	(1,500,000)	1,500,000	-	-
Balance, end of the year	340,741,420	5,000,000	2,300,000	348,041,420

The movement of allowance of expected credit losses on balances at banks and financial institutions is as follows:

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	80,584	18,497	2,300,000	2,399,081
Net ECL for the year	167,183	-	-	167,183
Transfer to stage 1	18,497	(18,497)	-	-
Transfer to stage 2	(1,259)	1,259	-	-
Balance, end of the year	265,005	1,259	2,300,000	2,566,264

	2018			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	188,732	7,297	2,300,000	2,496,029
Net ECL for the year	(108,148)	11,200	-	(96,948)
Balance, end of the year	80,584	18,497	2,300,000	2,399,081

7. Financial assets at fair value through profit or loss

This item comprises investment in shares of companies listed in Palestine Securities Exchange. The fair value of which amounted to U.S. $ 10,654,320 and U.S. $ 10,774,178 as at December 31, 2019 and 2018, respectively.

8. Direct credit facilities and Islamic financing

This item comprises the following:

	2019	2018
	U.S. $	U.S. $
<u>Retail</u>		
Loans	672,223,256	651,093,017
Overdraft accounts	15,582,810	13,080,931
Credit cards	32,786,240	36,996,236
Current overdrafts	58,640,098	65,544,458
Financing	243,842,688	227,532,594
<u>Corporate and institutions</u>		
Loans	858,725,414	791,344,573
Overdraft accounts	180,008,032	174,447,447
Current overdrafts	14,266,324	21,547,948
Financing	453,661,879	411,181,348
<u>Public sector</u>		
Loans	310,607,985	132,222,044
Overdraft accounts	207,539,056	210,727,710
Financing	65,740,052	46,507,919
	3,113,623,834	2,782,226,225
Suspended interests, commissions and profits	(16,656,102)	(11,242,052)
Allowance for expected credit losses	(113,582,505)	(83,829,169)
	2,983,385,227	2,687,155,004

A summary on the movement of interests, commissions and profits in suspense during the year is as follows:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	11,242,052	7,364,755
Suspended interest and profits during the year	6,357,696	4,992,948
Recovered interest during the year	(570,748)	(300,093)
Suspended interest and profits transferred to credit facilities and Islamic financing being default for more than 6 years	(301,986)	(625,589)
Suspended interest written off	(90,315)	(60,423)
Foreign currency exchange differences	19,403	(129,546)
Balance, end of the year	16,656,102	11,242,052

The movement in the gross carrying amount on direct credit facilities and Islamic financing is as follows:

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	2,145,073,404	526,626,302	110,526,519	2,782,226,225
Net change during the year	340,022,338	(33,880,565)	26,873,850	333,015,623
Transfers to stage (1)	51,774,478	(48,651,930)	(3,122,548)	-
Transfers to stage (2)	(189,438,352)	195,655,366	(6,217,014)	-
Transfers to stage (3)	(18,830,901)	(21,101,321)	39,932,222	-
Write off	-	-	(1,618,014)	(1,618,014)
Balance, end of the year	2,328,600,967	618,647,852	166,375,015	3,113,623,834

	2018			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	1,950,256,354	528,837,313	75,123,213	2,554,216,880
Net change during the year	259,121,515	(39,947,392)	12,151,274	231,325,397
Transfers to stage (1)	53,778,214	(48,480,907)	(5,297,307)	-
Transfers to stage (2)	(91,672,373)	98,247,303	(6,574,930)	-
Transfers to stage (3)	(25,175,232)	(12,030,015)	37,205,247	-
Write off	(1,235,074)	-	(2,080,978)	(3,316,052)
Balance, end of the year	2,145,073,404	526,626,302	110,526,519	2,782,226,225

The movement on allowance for expected credit losses is as follows:

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	12,572,296	18,896,888	52,359,985	83,829,169
Transfer to stage (1)	2,579,517	(1,631,444)	(948,073)	-
Transfer to stage (2)	(2,494,481)	2,680,511	(186,030)	-
Transfer to stage (3)	(254,722)	(985,367)	1,240,089	-
Net ECL for the year	670,086	6,291,559	23,729,495	30,691,140
defaulted direct credit facilities for more than 6 years	-	-	(1,139,810)	(1,139,810)
Recovery from defaulted credit facilities for more than 6 years	-	-	94,885	94,885
Write off	-	-	(2,588)	(2,588)
Foreign currency exchange differences	-	-	109,709	109,709
Balance, end of the year	13,072,696	25,252,147	75,257,662	113,582,505

	2018			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	18,318,116	35,334,271	28,261,585	81,913,972
Transfer to stage (1)	7,780,634	(7,684,172)	(96,462)	-
Transfer to stage (2)	(938,683)	1,327,002	(388,319)	-
Transfer to stage (3)	(613,464)	(12,981,129)	13,594,593	-
Net ECL for the year	(11,974,307)	2,900,916	12,935,397	3,862,006
defaulted direct credit facilities for more than 6 years	-	-	(2,080,978)	(2,080,978)
Recovery from defaulted credit facilities for more than 6 years	-	-	7,214	7,214
Write off	-	-	(28,203)	(28,203)
Foreign currency exchange differences	-	-	155,158	155,158
Balance, end of the year	12,572,296	18,896,888	52,359,985	83,829,169

The recoveries of defaulted credit facilities and Islamic financing included in stage (3) as at December 31, 2019 and 2018 amounted to $ 9,644,856 and $ 7,615,369, respectively.

The movement on the expected credit loss provision for direct credit facilities and Islamic financing that have been impaired for more than 6 years is as follows:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	12,902,412	11,388,919
Additions	1,139,810	2,080,978
Recovered during the year	(396,257)	(101,916)
Impairment allowance written off	(4,723)	(19,719)
Foreign currency exchange differences	204,490	(445,850)
Balance, end of the year	13,845,732	12,902,412

- Loans are presented net of their related interest and commission received in advance which amounted to U.S. $ 10,260,992 and U.S. $ 3,860,670 as at December 31, 2019 and 2018, respectively. In addition, direct Islamic financing net of unearned profits amounted to U.S. $ 82,478,277 and U.S. $ 76,144,920 as at December 31, 2019 and 2018.
- Downgraded direct credit facilities and Islamic financing net of suspended interest, commissions and profits according to PMA regulations as at December 31, 2019 and 2018 amounted to U.S. $189,183,999 and U.S. $ 166,258,630 representing (6.11%) and (6.00%) of credit facilities and Islamic financing net of suspended interests, commissions and profits, respectively.
- Defaulted credit facilities and Islamic financing net of suspended interests, commissions and profits as at December 31, 2019 and 2018 amounted to U.S. $ 141,109,198 and U.S. $ 99,284,467 representing (4.56%) and (3.58%) of credit facilities and Islamic financing net of suspended interests, commissions and profits, respectively.
- According to PMA circular number (1/2008), defaulted credit facilities and Islamic financing for more than 6 years were excluded from the consolidated financial statements. These defaulted facilities amounted to U.S. $ 26,906,789 and U.S. $ 25,658,053 as at December 31, 2019 and 2018 and the balance of impairment allowance and suspended interest and profits for defaulted accounts amounted to U.S. $ 25,571,139 and U.S. $ 24,460,117, respectively.
- Direct credit facilities and Islamic financing granted to the public sector as at December 31, 2019 and 2018 amounted to U.S. $ 583,887,093 and U.S. $ 389,457,673 representing (19%) and (14%) of gross direct credit facilities and Islamic financing, respectively.
- Direct credit facilities and Islamic financing guaranteed by Palestine National Authority as at December 31, 2019 and 2018 amounted to U.S. $ 28,830,910 and U.S. $ 2,722,577 representing (0.93%) and (0.10%) of gross direct credit facilities and Islamic financing, respectively.
- The fair value of collaterals obtained in lieu of direct credit facilities and Islamic financing amounted to U.S. $ 1,208,094,107 and U.S. $ 1,105,617,864 as at December 31, 2019 and 2018, respectively.
- Credit facilities and Islamic financing granted to non-residents amounted to U.S. $13,632,544 and U.S. $ 10,645,778 as at December 31, 2019 and 2018, respectively.
- Credit facilities and Islamic financing written-off during the year that weren't provisioned before amounted to U.S. $ 1,497,114 and U.S. $ 1,235,074 as at December 31, 2019 and 2018, respectively.

Following is the distribution of credit facilities and Islamic financing net of suspended interests, commissions and profits by economic sector:

	2019	2018
	U.S. $	U.S. $
Manufacturing	149,705,402	140,908,813
Services sector	380,086,716	303,303,836
Retail and whole-sale	472,501,366	445,207,351
Real estate and construction	709,455,375	668,945,886
Transportation	14,491,852	13,419,615
Agricultural	46,523,293	44,112,659
Tourism	33,777,704	32,197,564
Financial sector	28,778,477	34,899,166
Public sector	583,876,833	389,457,673
Consumer commodities	677,782,429	698,531,610
	3,096,979,447	2,770,984,173

Following is the distribution of credit facilities guaranteed by loan guarantee institutions:

	December 31, 2019			
	Granted	Outstanding balance	Guarantor share	Defaulted
Type of credit facilities	U.S. $	U.S. $	%	U.S. $
Production loans	15,285,666	10,886,562	70	3,275,473
Operating loans	14,969,671	8,297,518	60	3,763,493
Development loans	32,459,025	20,772,323	50	10,216,214
SME loans	6,221,323	3,873,752	100 - 35	741,059
	68,935,685	43,830,155		17,996,239

	December 31, 2018			
	Granted	Outstanding balance	Guarantor share	Defaulted
Type of credit facilities	U.S. $	U.S. $	%	U.S. $
Production loans	14,345,860	10,853,291	70	6,085,102
Operating loans	13,925,467	6,134,896	60	6,053,026
Development loans	31,558,993	22,238,968	50	10,344,320
SME loans	8,923,931	5,497,666	100 - 35	2,527,695
	68,754,251	44,724,821		25,010,143

9. Financial assets at fair value through other comprehensive income

This item comprises the following:

	Quoted shares	Unquoted financial assets	Total
	U.S. $	U.S. $	U.S. $
December 31, 2019			
Local	10,788,812	3,942,279	14,731,091
Foreign	17,273,366	5,313,184	22,586,550
	28,062,178	9,255,463	37,317,641
December 31, 2018			
Local	9,941,471	3,843,710	13,785,181
Foreign	17,539,109	1,779,995	19,319,104
	27,480,580	5,623,705	33,104,285

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

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	(3,467,059)	(819,268)
Change in fair value through comprehensive income	(357,843)	(2,647,791)
Fair value reserve of sold financial assets recognized in retained earnings	(30,000)	-
Balance, end of the year	(3,854,902)	(3,467,059)

10. Financial assets at amortized cost

The details of this item are as following:

	Treasury bills	Quoted bonds	Unquoted bonds	Islamic Sukuk	Allowance for ECL	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2019						
Local	31,285,668	-	6,910,000	-	(499,140)	37,696,528
Foreign	60,072,100	115,307,792	-	31,513,425	(1,845,162)	205,048,155
	91,357,768	115,307,792	6,910,000	31,513,425	(2,344,302)	242,744,683
December 31, 2018						
Local	14,413,352	-	6,910,000	-	(126,641)	21,196,711
Foreign	84,671,337	141,566,827	-	34,513,424	(2,579,241)	258,172,347
	99,084,689	141,566,827	6,910,000	34,513,424	(2,705,882)	279,369,058

The movement on the gross carrying amount of financial assets at amortized cost is as follows:

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	260,811,515	20,000,000	1,263,425	282,074,940
Net change during the year	(28,424,901)	(8,561,054)	-	(36,985,955)
Transfer to stage (2)	(32,691,395)	32,691,395	-	-
Balance, end of the year	199,695,219	44,130,341	1,263,425	245,088,985

	2018			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	245,920,164	5,317,358	1,263,425	252,500,947
Net change during the year	29,573,993	-	-	29,573,993
Transfer to stage (2)	(14,682,642)	14,682,642	-	-
Balance, end of the year	260,811,515	20,000,000	1,263,425	282,074,940

The movement on allowance for ECL of financial assets at amortized cost is as follows:

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	1,122,673	319,784	1,263,425	2,705,882
Net ECL for the year	(339,930)	(21,650)	-	(361,580)
Transfer to stage (2)	(12,165)	12,165	-	-
Balance, end of the year	770,578	310,299	1,263,425	2,344,302

	2018			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	-	-	1,263,425	1,263,425
Effect of IFRS 9 implementation	1,240,849	26,830	-	1,267,679
Balance, beginning of the year – adjusted	1,240,849	26,830	1,263,425	2,531,104
Net ECL for the year	(118,176)	292,954	-	174,778
Balance, end of the year	1,122,673	319,784	1,263,425	2,705,882

Interest on U.S. Dollar financial assets at amortized cost ranges between 2.85% and 8.13%.

Interest on Jordanian Dinar financial assets at amortized cost ranges between 4.69% and 6.49%.

Interest on Sterling Pound financial assets at amortized cost is 7.25%.

Interest on Kuwaiti Dinar financial assets at amortized cost range between 4.13% and 6.00%

Local financial assets at amortized cost includes the Bank's investment in the Palestinian governmental treasury bills according to a circular of PMA Number (64/2016), according to which the upper limit of the price discount of treasury bills in New Israeli Shekel is 8% and in U.S. $ is (6 months LIBOR +3%), annually.

Profit on Islamic Sukuk range between 2.55% and 7.44%.

Financial assets mature within a period from one month to 7 years.

11. Investment in associates

The details of this item are as following, as at December 31, 2019 and 2018:

	Country of Incorporation	Ownership 2019 %	Ownership 2018 %	Subscribed Capital 2019 U.S. $	Subscribed Capital 2018 U.S. $
Abraj Co, for Development & Investment (Abraj) *	Palestine	21	21	4,758,223	4,623,550
The Palestinian Company for Money Transportation and Valuables and Banking Services (Aman) **	Palestine	30	30	745,296	849,308
				5,503,519	5,472,858

* Abraj Company for Development and Investment (Abraj) was incorporated in 2008 in Palestine with goals of conducting all kinds of construction, real estate and commercial activities. Abraj's subscribed capital consists of 21.4 million shares at a U.S. $ 1 par value per share.

** The Palestinian Company for Money and Valuables Transfer (Aman) was incorporated in 2008 in Palestine. Aman provides money transfer services alongside transferring valuable collectibles and commercial papers inside and outside Palestine. Aman's subscribed capital consists of 1 million shares at a U.S. $ 1 par value per share.

Following is summarized information related to the Bank's investments in associates:

	Abraj		Aman	
	2019	2018	2019	2018
	U.S. $	U.S. $	U.S. $	U.S. $
The financial position of associates:				
Total assets	35,079,153	34,844,027	2,908,831	3,083,694
Total liabilities	(7,245,476)	(7,651,651)	(764,615)	(583,348)
Total equity	27,833,677	27,192,376	2,144,216	2,500,346
Bank's share	5,845,072	5,710,399	643,265	750,104
Book value before adjustments	5,845,072	5,710,399	643,265	750,104
Adjustments	(1,086,849)	(1,086,849)	102,031	99,204
Book value after adjustments	4,758,223	4,623,550	745,296	849,308
Revenues and results of operations:				
Net revenues	1,653,710	1,228,110	1,598,057	1,238,684
Operational, administrative and general expenses	(540,179)	(473,232)	(489,941)	(405,306)
Depreciation and amortization	-	-	(72,907)	(39,719)
Finance costs	(345,416)	(404,267)	(4,392)	-
Other revenues (expenses), net	(70,203)	(102,485)	98,262	24,254
profits before tax	697,912	248,126	1,129,079	817,913
Tax expense	(56,611)	(43,640)	(180,829)	(138,146)
Profits after tax	641,301	204,486	948,250	679,767
Other comprehensive income	-	-	-	-
Total comprehensive income	641,301	204,486	948,250	679,767
Bank's share	134,673	42,942	287,295	203,930

12. Investment properties

Investment properties are stated at fair value and changes in fair value are recognized in the consolidated income statement. Following is the movement on investment properties:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	17,800,433	16,693,998
Additions during the year	5,741,544	755,030
Disposals during the year	-	(702,742)
Transfers from assets obtained by the Bank by calling on collateral- (note 16)	949,397	-
Change in fair value during the year	1,186,495	1,054,147
Balance, end of the year	25,677,869	17,800,433

13. Property, Plant and Equipment

2019	Buildings and real estate * U.S. $	Furniture and equipment U.S. $	Computers U.S. $	Leasehold improvements U.S. $	Vehicles U.S. $	Right of use assets U.S. $	Total U.S. $
Cost:							
Balance, beginning of the year	46,708,005	91,101,269	14,691,435	11,319,214	3,051,608	-	166,871,531
Effect of IFRS (16) implementation	-	-	-	-	-	38,741,538	38,741,538
Balance, beginning of the year (adjusted)	46,708,005	91,101,269	14,691,435	11,319,214	3,051,608	38,741,538	205,613,069
Additions	-	6,056,135	1,388,342	755,442	879,598	-	9,079,517
Transfers from projects in progress	-	4,130,684	-	885,703	1,492,481	-	6,508,868
Disposals	-	(270,428)	(44,986)	-	(413,071)	-	(728,485)
Balance, end of the year	46,708,005	101,017,660	16,034,791	12,960,359	5,010,616	38,741,538	220,472,969
Accumulated Depreciation:							
Balance, beginning of the year	7,169,035	55,339,462	11,692,375	5,223,595	1,403,956	-	80,828,423
Depreciation for the year	578,322	7,863,497	1,288,523	1,753,975	422,395	3,947,275	15,853,987
Disposals	-	(161,593)	(44,952)	-	(332,245)	-	(538,790)
Balance, end of the year	7,747,357	63,041,366	12,935,946	6,977,570	1,494,106	3,947,275	96,143,620
Net book value December 31, 2019	38,960,648	37,976,294	3,098,845	5,982,789	3,516,510	34,794,263	124,329,349

2018	Buildings and real estate * U.S. $	Furniture and equipment U.S. $	Computers U.S. $	Leasehold improvements U.S. $	Vehicles U.S. $	Right of use assets U.S. $	Total U.S. $
Cost:							
Balance, beginning of the year	46,393,595	81,829,641	13,974,136	8,058,409	5,122,153	-	155,377,934
Additions	314,410	5,934,058	768,967	803,529	359,022	-	8,179,986
Transfers from projects in progress	-	3,556,558	-	2,463,093	-	-	6,019,651
Disposals	-	(218,988)	(51,668)	(5,817)	(2,429,567)	-	(2,706,040)
Balance, end of the year	46,708,005	91,101,269	14,691,435	11,319,214	3,051,608	-	166,871,531
Accumulated Depreciation							
Balance, beginning of the year	6,571,436	48,288,240	10,557,868	3,744,903	1,754,825	-	70,917,272
Depreciation for the year	597,599	7,252,520	1,181,691	1,480,600	345,289	-	10,857,699
Disposals	-	(201,298)	(47,184)	(1,908)	(696,158)	-	(946,548)
Balance, end of the year	7,169,035	55,339,462	11,692,375	5,223,595	1,403,956	-	80,828,423
Net book value December 31, 2018	39,538,970	35,761,807	2,999,060	6,095,619	1,647,652	-	86,043,108

* Property, plant and equipment comprise parcels of land owned by the Bank to carry out its banking activities amounting to U.S. $ 15,700,255 as at December 31, 2019 and 2018.

Property, plant and equipment include U.S. $ 48,750,288 and U.S. $ 40,212,405 of fully depreciated assets that are still operational as at December 31, 2019 and 2018, respectively.

14. Projects in progress

The item includes the cost of the construction, expansion, renovation and leasehold improvements the Banks' new branches; Following is the movement on the projects in progress:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	6,270,572	7,145,893
Additions	4,282,009	5,144,330
Transfers to intangible assets	(868,036)	-
Transfers to property, plant and equipment	(6,508,868)	(6,019,651)
Balance, end of the year	3,175,677	6,270,572

As at December 31, 2019, the estimated cost to complete projects in progress is U.S. $ 3,353,774. Projects are expected to be completed during the year 2021.

15. Intangible assets

This item comprises the following:

	Goodwill	Computer software	Total
	U.S. $	U.S. $	U.S. $
Cost			
Balance as at January 1, 2019	3,774,558	20,005,047	23,779,605
Additions	-	1,550,214	1,550,214
Transfers from projects in progress	-	868,036	868,036
Balance as at December 31, 2019	3,774,558	22,423,297	26,197,855
Amortization			
Balance as at January 1, 2019	-	8,974,177	8,974,177
Additions	-	1,926,562	1,926,562
Balance as at December 31, 2019	-	10,900,739	10,900,739
Net Book Value			
As at December 31, 2019	3,774,558	11,522,558	15,297,116

	Goodwill	Computer software	Total
	U.S. $	U.S. $	U.S. $
Cost			
Balance as at January 1, 2018	3,774,558	16,868,687	20,643,245
Additions	-	3,136,360	3,136,360
Balance as at December 31, 2018	3,774,558	20,005,047	23,779,605
Amortization			
Balance as at January 1, 2018	-	7,419,514	7,419,514
Additions	-	1,554,663	1,554,663
Balance as at December 31, 2018	-	8,974,177	8,974,177
Net Book Value			
As at December 31, 2018	3,774,558	11,030,870	14,805,428

The net realizable value of goodwill resulted from the acquisition of AIB was assessed for impairment based on fair value less selling costs of listed prices of AIB (level one) as at December 31, 2019 and 2018.

16. Other assets

This item comprises the following:

	2019	2018
	U.S. $	U.S. $
Clearing checks	13,400,622	12,995,317
Cash transportation intermediary account	12,720,127	1,449,555
In advance payments	7,459,750	13,524,285
Account receivable, advances and temporary expense	6,983,581	8,969,847
Tax advances and deferred tax assets	6,589,264	18,951,526
Accrued interest and commissions	3,690,855	4,144,973
Stationery and printings material and equipment in stores	2,576,861	2,092,793
Assets obtained by the Bank by calling on collateral	677,531	1,626,928
Other debit balances	5,666,361	6,090,433
	59,764,952	69,845,657

17. Palestine Monetary Authority's deposits

This item comprises the following:

	2019	2018
	U.S. $	U.S. $
Current accounts	2,514,245	-
Term deposits maturing within 3 months	212,079,298	166,895,721
Term deposits maturing in more than 3 months	28,929,326	-
SWAP deposits	-	48,424,600
	243,522,869	215,320,321

18. Banks and financial institutions' deposits

This item comprises the following:

	Current and demand accounts	Term deposits maturing within 3 months	Term deposits maturing in more than 3 months	SWAP deposits	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
<u>December 31, 2019</u>					
Local	117,191	96,445,813	-	14,049,053	110,612,057
Foreign	19,780,172	48,061,459	-	60,288,715	128,130,346
	19,897,363	144,507,272	-	74,337,768	238,742,403
<u>December 31, 2018</u>					
Local	188,984	74,498,636	4,574,200	8,255,088	87,516,908
Foreign	20,070,150	-	-	-	20,070,150
	20,259,134	74,498,636	4,574,200	8,255,088	107,587,058

19. Customers' deposits

This item comprises the following:

	2019	2018
	U.S. $	U.S. $
Customers' deposits		
Current and demand deposits	1,458,415,462	1,417,725,999
Saving deposits	955,104,120	799,187,072
Time deposits	724,203,985	719,375,485
Debit balances – temporarily credit	19,737,692	19,320,339
	3,157,461,259	2,955,608,895
Unrestricted investment accounts		
Saving deposits	292,477,505	370,559,599
Time deposits	422,047,317	208,592,734
	714,524,822	579,152,333
	3,871,986,081	3,534,761,228

Public sector deposits amounted to U.S. $ 138,914,884 and U.S. $ 208,663,628 representing 3.59% and 5.90% of total deposits as at December 31, 2019 and 2018, respectively.

Non-interest and non-profit bearing deposits amounted to U.S. $ 2,353,651,882 and U.S. $ 2,170,849,804 representing 60,79% and 61,41% of total deposits as at December 31, 2019 and 2018, respectively.

Dormant deposits amounted to U.S. $ 77,840,805 and U.S. $ 76,591,552 representing 2.01% and 2,17% of total deposits as at December 31, 2019 and 2018, respectively.

Restricted deposits amounted to U.S. $ 36,870,100 and U.S. $ 35,362,013 representing 0.95% and 1% of total deposits as at December 31, 2019 and 2018, respectively.

20. Cash margins

This item represents cash margins against:

	2019	2018
	U.S. $	U.S. $
Direct credit facilities and financing	173,938,708	137,226,842
Indirect credit facilities and financing	40,890,777	39,658,191
Others	28,768,452	23,532,295
	243,597,937	200,417,328

21. Subordinated Loan

During the year 2016, the Bank obtained the subordinated loan in accordance with a subordinated loan agreement signed on June 20, 2016 with International Finance Corporation (IFC) in the amount of U.S. $ 50 million payable on 10 semiannual installments for 10 years with 5 years of grace period. The first installment is due on December 15, 2021 and the last installment will become due on June 15, 2026. The loan is subject to average annual interest rate of 7.52%. The interest will be paid on semiannual basis and started December 15, 2016.

On May 30, 2017, the Bank signed additional subordinated loan agreement with IFC according to which the subordinated loan was increased by U.S. $ 25 million to become U.S. $ 75 million according to the terms and conditions of the subordinated loan agreement referred to above.

22. Sundry provisions

	Balance, beginning of the year	Provided during the year	Paid during the year	Balance, end of the year
	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2019				
Employees' end of service provision	41,093,289	6,292,825	(2,329,205)	45,056,909
Lawsuits provision	1,919,435	-	-	1,919,435
	43,012,724	6,292,825	(2,329,205)	46,976,344
December 31, 2018				
Employees' end of service provision	31,970,788	13,178,846	(4,056,345)	41,093,289
Lawsuits provision	1,954,064	-	(34,629)	1,919,435
	33,924,852	13,178,846	(4,090,974)	43,012,724

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

23. Tax provisions

Movement on tax provisions during the year 2019 and 2018 are as follows:

	2019	2018
	U.S. $	U.S. $
Balance, beginning of the year	3,634,870	11,127,197
Addition	12,858,327	15,715,248
Other settlements	-	180,096
Paid during the year	(15,072,078)	(23,387,671)
Balance, end of the year	1,421,119	3,634,870

Details of taxes provision are as follows:

	2019	2018
	U.S. $	U.S. $
Provision for the year	20,095,339	24,324,189
Prior years settlement	(6,047,698)	(7,184,851)
Tax incentives discount and other settlements	(1,189,314)	(1,424,090)
Tax expenses presented in the consolidated income statement	12,858,327	15,715,248

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

	2019	2018
	U.S. $	U.S. $
Accounting profit	51,795,049	69,825,341
Profit not subject to value added tax	(12,601,089)	(17,374,916)
Non-deductible tax expenses	22,753,694	27,058,292
Gross profit subject to value added tax	61,947,654	79,508,717
Net profit subject to value added tax	61,947,654	79,508,717
Deduct: value added tax	(8,544,504)	(10,966,720)
value added tax on salaries	(7,552,252)	(7,627,230)
Adjustment for tax calculation purpose	(820,111)	(209,422)
Taxable income	45,030,787	60,705,345
Tax expenses	5,608,552	9,025,802
Tax payable for the year	14,153,056	19,992,522
Tax provisions for the year	20,095,339	24,324,189
Effective tax rate	39%	%35

During 2019, the Bank reached final settlement with the Income Tax and the Value Added Tax Departments on the results of its operations for the year 2018.

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

24. Lease liabilities

The table below shows the book value of the lease liabilities and the movement thereon during the year 2019:

	Lease liabilities
	U.S. $
As at January 1, 2019	34,846,935
Finance costs	1,028,101
Payments	(2,203,378)
As at December 31, 2019	33,671,658

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

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

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

The liabilities related to rent contracts are deducted using 3.01% discount rate as at January 1, 2019.

	2019
	U.S. $
Short term liabilities	2,043,478
Long term liabilities	31,628,180
	33,671,658

The amount of the lease expense for short-term contracts and lease contracts of low-value assets that were recognized in the consolidated income statement for the year ended December 31, 2019 amounted to U.S. $ 1,257,039 (note 36).

25. Other liabilities

	2019	2018
	U.S. $	U.S. $
Certified checks	19,636,218	12,063,423
Temporary deposits	9,420,974	7,304,898
Outward Transfers	7,962,931	1,304,325
Accrued interests	7,426,311	8,453,316
Accounts payable on subsidiaries	6,049,978	3,351,174
Dividends payable	5,722,991	5,574,659
Return on unrestricted investment accounts	1,891,797	1,359,813
Board of Directors bonuses	1,227,000	1,178,571
Transactions in-transit with PMA	1,246,009	-
Tax payable	769,541	1,547,644
ECL allowance on indirect credit facilities and financing (note 49)	246,044	336,064
Due to employees' saving fund *	-	804,206
Others	17,762,242	17,790,808
	79,362,036	61,068,901

* The Bank deducted %5 of each employee's monthly basic salary and matched it with an additional %5 as the Bank's contribution for employees in service for less than 5 years, 8% for employees in service for the period from 5 years to less than 10 years, and 10% for employees in service for the period of more than 10 years.

26. Additional paid-in capital

Additional paid in capital resulted from the following:

- The acquisition of the Bank's portfolio of the Commercial Bank of Palestine (CBP), which resulted in issuing 10,008,685 shares of Bank's shares to the shareholders of CBP. The share price of Bank of Palestine of U.S. $ 1 par value was U.S. $ 2.58. This resulted in additional paid-in capital of U.S. $ 15,813,723. The acquisition was based on the Bank's extra –ordinary meeting held on March 25, 2016.
- The admission of the International Finance Corporation (IFC) as a strategic partner with 5% of the share capital which amounted to 4,070,239 shares of U.S. $ 1 par value, each and an additional paid-in capital of U.S. $ 2.06 for each share with total additional paid-in capital amounting to U.S. $ 8,384,692. The admission was based on the Bank's Board of Director's decision in the meeting held on June 15, 2008.
- Offers 13 million shares exclusively for Banks' shareholders at U.S. $ 1 par value for each share plus U.S. $ 0.05 of additional paid-in capital. Total additional paid-in capital amounted to U.S. $ 650,000. The offers were based on extra-ordinary shareholders meeting on April 6, 2007.

27. Reserves

Statutory reserve

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

Voluntarily reserve

Voluntarily reserve represents cumulative transfers of the Bank's subsidiaries.

General banking risks reserve

The item represents the amount of general banking risk reserve deducted in accordance with PMA's regulations number (6/2015) based on 1.5% of direct credit facilities after deducting impairment allowance for credit facilities and suspended interest and 0.5% of indirect credit facilities after deducting checks under collection, accepted letter of guarantees, inward letter of credits and derivatives. In accordance with PMA's circulation number (53/2013), no general banking risk reserve is created against the direct credit facilities granted to small and medium enterprises if the conditions mentioned in the circular are met. The reserve is not to be utilized or reduced without PMA's prior approval. During 2018, the Bank applied IFRS (9) and utilized this reserve for the ECL of stage 1 and 2 in accordance with PMA instructions No. (2/2018).

Pro-cyclicality reserve

This reserve represents 15% of net profit in accordance with PMA's instruction (1/2011) to support the Banks' capital against banking risks. The reserve is not to be utilized or reduced without PMA's prior approval. During 2018, PMA issued instructions No. (1/2018) regarding pro-cyclicity reserve, the reserve is to be calculated as a percentage of risk-weighted assets determined by PMA and ranging between 0% - 2.5%. PMA decided to set the percentage for 2018 at 0.57% of risk-weighted assets. During the year, the Bank did not deduct pro-cyclicality reserve based on understandings with the Palestine Monetary Authority.

28. Dividends

The Bank's General Assembly, during its meeting held on March 28, 2019, approved dividends distribution of U.S. $ 27,000,000, for the results of the Bank's operations for the year 2018, as stock dividends of U.S. $ 4,000,000 and as cash dividends of U.S. $ 23,000,000 based on pro-rata ownership of the Bank's shareholders in the Bank's share capital.

The Bank's General Assembly, during its meeting held on March 29, 2018, approved dividends distribution of U.S. $ 27,000,000, for the results of the Bank's operations for the year 2017, based on pro-rata ownership of the Bank's shareholders in the Bank's share capital.

29. Interest income

This item comprises interest revenues earned on the following accounts:

	2019	2018
	U.S. $	U.S. $
Loans	99,513,384	94,283,300
Overdraft accounts	27,903,342	26,351,035
Overdrawn	12,732,295	13,816,644
Financial assets at amortized cost	10,394,891	10,028,419
Credit cards	5,186,561	5,502,857
Balances at banks and financial institutions	4,969,190	6,824,234
Balances with PMA	157,424	382,412
	160,857,087	157,188,901

30. Interest expense

This item comprises interest incurred on the following accounts:

	2019	2018
	U.S. $	U.S. $
Interest on customers' deposits		
Time deposits	27,033,180	27,405,198
Saving accounts	2,162,897	1,846,114
Current and demand accounts	173,360	279,627
	29,369,437	29,530,939
Interest on banks and financial institutions' deposits	9,967,344	8,287,510
Interest on PMA's deposits	3,465,524	3,246,671
Interest on lease liabilities	1,028,101	-
	43,830,406	41,065,120

31. Net financing and investment income

This item comprises net investment and financing income from Arab Islamic Bank on the following accounts:

	2019	2018
	U.S. $	U.S. $
Revenues from financing	42,729,664	34,608,142
Investment returns	2,484,778	1,956,714
	45,214,442	36,564,856
Less: return of unrestricted investment accounts	(8,213,569)	(5,401,496)
The Bank's share of financing and investment income	37,000,873	31,163,360

32. Net commissions

This item comprises commissions against the following:

	2019 U.S. $	2018 U.S. $
<u>**Commissions income:**</u>		
Direct credit facilities	11,609,449	13,404,122
Credit cards commissions revenue, net	8,021,665	6,785,253
Accounts' management	6,839,290	5,179,467
Checks	6,821,455	8,120,816
Bank transfers	5,488,501	5,657,949
Indirect credit facilities	4,506,433	4,626,342
Salaries commission	3,590,040	3,318,424
Other banking services	5,424,977	5,401,967
	52,301,810	52,494,340
Less: commissions expense	(3,955,820)	(3,183,233)
	48,345,990	49,311,107

33. Net gains from financial assets

This item comprises the following:

	2019 U.S. $	2018 U.S. $
Dividend from financial assets at fair value through other comprehensive income	2,184,337	1,856,164
Dividend from financial assets at fair value through profit and loss	924,306	756,221
(Loss) gain from sale of financial assets at amortized cost	(55,817)	19,494
Unrealized losses from revaluation of financial assets through profit or loss	(183,268)	(267,797)
Investment management expenses	(655,499)	(783,795)
	2,214,059	1,580,287

34. Other revenues

	2019 U.S. $	2018 U.S. $
Safe boxes rental	203,676	186,326
Recovery of suspended interest	570,748	300,093
Sundry	5,648,459	5,569,525
	6,422,883	6,055,944

35. Personnel expenses

	2019 U.S. $	2018 U.S. $
Salaries and related benefits	48,345,507	47,451,345
VAT on salaries	7,552,252	7,370,471
Provision for employees' end of service	6,292,825	13,178,846
Bonuses and rewards	3,368,711	3,554,077
Medical and insurance expenses	3,260,387	3,043,427
Bank's contribution to saving fund	2,067,636	2,016,536
Clothing allowances	958,649	931,744
Training expenses	826,524	657,302
Transportation	707,373	577,616
	73,379,864	78,781,364

36. Other operating expenses

	2019	2018
	U.S. $	U.S. $
Palestine Deposit Insurance Corporation fees*	10,725,278	10,124,443
Telephone, postage and fax	5,791,786	5,739,572
Maintenance and repairs	5,447,438	4,752,961
Advertising and promotions	5,099,345	4,480,923
Cash shipping expense	3,763,386	3,785,206
Professional fees	3,562,216	2,212,906
Utilities	2,194,633	1,873,674
Board of Directors bonuses	1,982,420	1,578,571
Social responsibility **	1,928,878	2,605,436
Stationery and printing	1,703,972	1,681,131
License fees	1,392,923	1,228,984
Insurance fees	1,290,691	1,557,720
Rent	1,257,039	4,740,111
Travel and seminars	1,084,146	658,908
Subscriptions fees	1,062,287	1,393,378
Fuel	986,202	1,253,430
Printing checks	705,057	332,662
Hospitality and ceremonies	437,810	409,191
Vehicles expense	59,807	233,765
Sundry	5,197,977	4,734,305
	55,673,291	55,377,277

* The Palestine Deposit Insurance Corporation was established in accordance with Law No, (7) of the year 2013 whereby banks must accrue an annual subscription fee starting in 2014 for the corporation's account at 0.3% of total deposit balance specified under this law. On December 1, 2019, a circular No. (3/2019) from the Palestine Deposit Insurance Corporation was issued regarding reducing the minimum subscription fee to (0.2%-0.8%), and as at January 1, 2020 the subscription fee percentage will be 0.2% of the average total deposit instead of 0.3%.

** The Bank is committed to support social responsibility projects and activities in Palestine through contributions towards the development of various sectors including education, youth, innovation, sport, health and environment, culture and arts, development and economic, diaspora affairs, humanitarian effort and women empowerment, In addition, the Bank encourages its employees to participate in voluntary work by engaging them in developmental projects in cooperation with partner organizations and humanitarian initiatives. Social responsibility represents 4.95% and 4.82% of profit for the years 2019 and 2018, respectively.

37. Recovery (impairment) of expected credit losses on investments

This account represents the IFRS (9) effect on the financial assets except for direct credit facilities in which it is shown in note (8), as follows:

	2019				2018
	Stage (1)	Stage (2)	Stage (3)	Total	2018
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balances with Palestine Monetary Authority (note 5)	(50,150)	–	–	(50,150)	–
Balances at banks and financial institutions (note 6)	(167,183)	–	–	(167,183)	96,948
Financial assets at amortized cost (note 10)	339,930	21,650	–	361,580	(174,778)
Indirect credit facilities (note 49)	90,020	–	–	90,020	(35,293)
Total	212,617	21,650	–	234,267	(113,123)

38. Palestinian Monetary Authority fines

This item represents fines imposed by PMA on the Bank and its subsidiary amounted to U.S. $ 15,000 for the year ended on December 31, 2019 due to penalties related to non-compliance with PMA instructions and the related laws and regulations.

39. Cash and cash equivalents

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

	2019	2018
	U.S. $	U.S. $
Cash and balances with Palestine Monetary Authority	1,361,137,682	1,100,900,058
<u>Add:</u>		
Balances at banks and financial institutions	398,573,019	348,041,420
	1,759,710,701	1,448,941,478
<u>Less:</u>		
Balances at banks and financial institutions Maturing in more than three months	(12,693,935)	(7,052,186)
Investment maturing in more than three months	(3,509,514)	(2,049,917)
Palestine Monetary Authority deposits	(243,522,869)	(215,320,321)
Banks and financial institutions' deposits	(238,742,403)	(107,587,058)
Statutory cash reserve	(354,711,248)	(326,184,568)
	906,530,732	790,747,428

40. Basic and diluted earnings per share

	2019	2018
	U.S. $	U.S. $
Profit for the year attributable to shareholders of the Bank	33,957,680	50,661,663
	Shares	Shares
Weighted average of subscribed shares	204,000,000	204,000,000
	U.S. $	U.S. $
Basic and diluted earnings per share attributable to shareholders of the Bank	0.17	0.25

41. Related party transactions

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

2019	Associates	Major shareholders	Board of Directors and executive management	Others*	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Consolidated statement of financial position items:					
Direct credit facilities and financing	5,094,281	-	58,975,566	27,456,727	91,526,574
Including: non-performing credit facilities	-	-	3,562,589	184,745	3,747,334
Deposits	983,738	-	31,409,043	4,130,598	36,523,379
Deposits at subsidiaries	-	-	-	-	-
Subordinated loan	-	75,000,000	-	-	75,000,000
Financial assets at amortized cost	-	-	6,910,000	-	6,910,000
Board of Directors renumerations	-	-	1,227,000	-	1,227,000
Commitments and contingencies					
Letters of guarantees	211,566	-	29,474,484	309,619	29,995,669
Letters of credit	-	-	51,963	-	51,963
Unutilized limits	-	-	1,736,405	9,634,403	11,370,808
Consolidated Income statement items:					
Interest and commissions earned	329,448	-	2,460,749	1,826,451	4,616,648
Interest and commissions paid	-	5,839,621	899,455	24,876	6,763,952

2018	Associates	Major shareholders	Board of Directors and executive management	Others*	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Consolidated statement of financial position items:					
Direct credit facilities	5,645,161	-	42,446,153	18,638,357	66,729,671
Deposits	319,922	-	27,190,039	3,273,379	30,783,340
Subordinated loan	-	75,000,000	-	-	75,000,000
Financial assets at amortized cost	-	-	6,910,000	-	6,910,000
Board of Directors renumerations	-	-	1,178,571	-	1,178,571
Commitments and contingencies					
Letters of guarantees	-	-	3,072,797	236,701	3,309,498
Letters of credit	-	-	-	-	-
Unutilized limits	200,000	-	1,519,142	6,070,285	7,789,427
Consolidated Income statement items:					
Interest and commissions earned	241,048	-	1,923,578	1,748,483	3,913,109
Interest and commissions paid	-	6,012,752	529,959	205,395	6,748,106

* Others include branches' managers, non-executive employees and their relatives, and shareholders with less than 5% of ownership in the Bank's capital as disclosed to PMA.

- Net direct credit facilities and Islamic financing granted to related parties as at December 31, 2019 and 2018 represent 3,07% and 2.48% respectively, from the net direct credit facilities and Islamic financing.
- Net direct credit facilities and Islamic financing granted to related parties as at December 31, 2019 and 2018 represent 19.61% and 14.52% respectively, from the Bank's regulatory capital.
- Interest on U.S. $ direct credit facilities ranges between 1.8% to 14.4%.
- Interest on New Israeli Shekels direct credit facilities ranges between 3% to 16%.
- Interest on the Jordanian Dinar direct credit facilities ranges between 7.5% to 11%.
- Interest on U.S. $ deposits ranges between 0.75% to 1.25%.

Compensation of key management personnel:

	2019	2018
	U.S. $	U.S. $
Executive management's salaries and related benefits (short term)	4,421,900	4,144,745
Executive management's end of service provision (long term)	281,214	1,526,369
Board of Directors' bonuses and expenses *	1,227,000	1,178,571
Chairman allowances	480,000	400,000

* This item includes the board of directors' remuneration of Bank of Palestine in the amount of U.S. $ 990,000 for the year 2019 and 2018.

Following are the details of Board of Director remuneration for December 31, 2019 and 2018.

	2019	2018
	U.S. $	U.S. $
Hashim Hani Al Shawa	94,787	94,932
Faysal Ghazi Alshawa	94,787	94,932
Hani Hasan Nijim	94,787	94,932
Maher Jawad Farah	94,787	94,932
Tareq Al Shakaa	94,787	94,932
Abdallah Alghanim	94,787	94,932
Lana Abu Hajla	94,787	94,932
Nada Abu Shousha	94,787	94,932
Maha Awwad	94,787	81,370
Tariq Al Aqad	84,255	40,680
Nabil akadomi	42,128	81,370
Tafida Al Jarbawi	10,534	-
Mohammed Hirbawi	-	13,562
John Khoury	-	13,562
	990,000	990,000

Article no. (56) of the Bank's bylaw, states that 5% of the Banks' annual net income is distributed to the members of the Board of Directors. Actual bonuses distributed were 2.54% and 1.83% of profit for the years 2019 and 2018, respectively.

42. Fair value of financial instruments

The table below represents a comparison between the carrying amounts and fair values of financial instruments as at December 31, 2019 and 2018:

	Carrying amount		Fair value	
	2019	2018	2019	2018
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Cash and balances with Palestine Monetary Authority	1,361,087,532	1,100,900,058	1,361,087,532	1,100,900,058
Balances at banks and financial institutions	396,006,755	345,642,339	396,006,755	345,642,339
Financial assets at fair value through profit or loss	10,654,320	10,774,178	10,654,320	10,774,178
Direct credit facilities and Islamic financing	2,983,385,227	2,687,155,004	2,983,385,227	2,687,155,004
Financial assets at fair value through other comprehensive income:				
Quoted stocks	28,062,178	27,480,580	28,062,178	27,480,580
Unquoted stocks	9,255,463	5,623,705	9,255,463	5,623,705
Financial assets at amortized cost:				
Treasury bills	90,791,719	98,346,134	91,545,854	98,842,552
Quoted bonds	115,264,560	141,250,304	111,272,671	141,808,966
Unquoted bonds	6,746,142	6,910,000	6,910,000	6,910,000
Islamic sukuk	29,942,262	32,989,262	29,942,262	32,989,262
Other financial assets	42,461,546	33,650,125	42,461,546	33,650,125
Total assets	5,073,657,704	4,490,721,689	5,070,583,808	4,491,776,769
Financial liabilities				
PMA deposits	243,522,869	215,320,321	243,522,869	215,320,321
Banks and financial institutions' Deposits	238,742,403	107,587,058	238,742,403	107,587,058
Customers' deposits	3,871,986,081	3,534,761,228	3,871,986,081	3,534,761,228
Cash margins	243,597,937	200,417,328	243,597,937	200,417,328
Subordinated loan	75,000,000	75,000,000	75,000,000	75,000,000
Leased Liabilities	33,671,658	-	33,671,658	-
Other financial liabilities	79,115,992	58,698,653	79,115,992	58,698,653
Total liabilities	4,785,636,940	4,191,784,588	4,785,636,940	4,191,784,588

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

Fair values of cash and balances with PMA, balances at banks and financial institutions, other financial assets, PMA deposits, banks and financial institutions balances, some customers' deposits, some cash margins, and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair value for financial assets subject to interest was estimated by using expected cash flow by using the interest rates of comparative assets with the same terms and risks.

Fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income that are actively traded in active financial markets is determined by reference to quoted prices at the date of the consolidated financial statements.

Fair value of financial assets at fair value through other comprehensive income that are not actively traded in active financial markets is determined based on appropriate evaluation methods.

Fair value of credit facilities and Islamic financing was determined through the study of different variables such as interest rates, risk factors and the debtor's solvency. The fair value of credit facilities approximates their carrying amounts as at December 31, 2019.

43. Fair value measurement

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

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

The following table provides the fair value measurement hierarchy of the Bank's assets as at December 31, 2019:

			Measurement of fair value by		
		Total	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
	Date of evaluation	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 7):	December 31, 2019	10,654,320	10,654,320	-	-
Financial assets at fair value through other comprehensive income (note 9):					
Quoted	December 31, 2019	28,062,178	28,062,178	-	-
Unquoted	December 31, 2019	9,255,463	-	-	9,255,463
Investment properties (note 12)	December 31, 2019	25,677,869	-	-	25,677,869
Financial assets accounted for in its fair value:					
Financial assets at amortized cost (note 10):					
Government bills	December 31, 2019	91,545,854	60,072,100	-	31,473,754
Quoted	December 31, 2019	111,272,671	111,272,671	-	-
Unquoted	December 31, 2019	6,910,000	-	-	6,910,000
Islamic Sukuk	December 31, 2019	29,942,262	29,942,262	-	-

The following table provides the fair value measurement hierarchy of the Bank's assets as at December 31, 2018:

	Date of evaluation	Total	Measurement of fair value by: Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
		U.S. $	U.S. $	U.S. $	U.S. $
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 7):	December 31, 2018	10,774,178	10,774,178	-	-
Financial assets at fair value through other comprehensive income (note 9):					
Quoted	December 31, 2018	27,480,580	27,480,580	-	-
Unquoted	December 31, 2018	5,623,705	-	-	5,623,705
Investment properties (note 12)	December 31, 2018	17,800,433	-	-	17,800,433
Financial assets accounted for in its fair value:					
Financial assets at amortized cost (note 10):					
Government bills	December 31, 2018	98,842,552	84,429,200	-	14,413,352
Quoted	December 31, 2018	141,808,966	141,808,966	-	-
Unquoted	December 31, 2018	6,910,000	-	-	6,910,000
Islamic Sukuk	December 31, 2018	32,989,262	32,989,262	-	-

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

- Sensitivity of fair value measurements to changes in unobservable market data (level 3):

The table below describes the effect of changing the significant unobservable inputs to reasonable possible alternatives. Sensitivity data are calculated using certified competent external valuators to evaluate investment properties and unquoted investments. A number of techniques, including mostly the selling prices for similar lands during the year, which is calculated by multiplying square meters with value of square meter.

	Increase/ decrease in fair value	Effect on fair value
	%	U.S. $
2019		
Fair value per square meter	5+	1,283,893
Fair value per square meter	5-	(1,283,893)
2018		
Fair value per square meter	5+	890,022
Fair value per square meter	5-	(890,022)

44. Concentration of Assets and Liabilities

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

	2019			2018		
	Assets	Liabilities and equity	Items out of consolidated financial position	Assets	Liabilities and equity	Items out of consolidated financial position
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
By geographical area						
Palestine	4,671,014,294	4,985,377,437	430,555,421	4,043,932,499	4,495,724,903	470,922,144
Israel	44,732,079	-	2,878,406	68,690,783	-	-
Jordan	192,145,076	3,619,939	1,748,583	206,940,086	3,366,634	6,031,110
Europe	185,007,828	120,069,693	55,531,180	120,389,249	9,005,783	22,390,278
USA	21,693,087	100,374,894	4,770,846	25,130,861	93,259,723	1,327,722
Others	150,352,276	55,502,677	23,410,231	192,099,500	55,825,935	19,515,938
Total	5,264,944,640	5,264,944,640	518,894,667	4,657,182,978	4,657,182,978	520,187,192
By sector						
Retail	927,854,503	2,577,962,114	32,603,039	960,016,146	1,334,434,765	62,445,036
Corporate, institutions and public sector	2,055,530,724	1,656,829,608	486,291,628	1,727,137,858	2,400,743,791	457,742,156
Treasury	2,067,852,302	529,966,989	-	1,793,063,209	397,907,379	-
Others	213,707,111	500,185,929	-	176,965,765	524,097,043	-
Total	5,264,944,640	5,264,944,640	518,894,667	4,657,182,978	4,657,182,978	520,187,192

45. Risk Management

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

Risk management framework

Risks related to the Bank's activities is managed, measured and monitored continuously to remain within the permissible limits, and given the importance of the risk management process on the Bank's profits, tasks and monitoring responsibilities associated to these risks are distributed among employees.

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 which are responsible for managing and monitoring risks in the area in which the Bank operates.

Risk management committee

Risk management committee are responsible for developing risks strategies and applying the principles, general framework and allowed limits.

Risk measurement and reporting system

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk the Bank is willing to accept, Information is collected from different departments and analyzed for early identification of potential risks. This information is presented to the Bank's Board of Directors, the risk management committee and the executive departments responsible for risk management committee.

Risks

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

I. Credit Risk

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

Gross exposures to credit risk (net of ECL provisions and interest and profits in suspense and prior to collaterals and other risk mitigations):

	2019	2018
	U.S. $	U.S. $
Consolidated statement of financial position items		
Balances with PMA	426,362,169	341,792,991
Balances at banks and financial institutions	396,006,755	345,642,339
Direct credit facilities and Islamic financing:		
Retail	927,854,503	959,396,850
Corporate and institutions	1,476,790,115	1,340,629,408
Public sector	578,740,609	387,128,746
Financial assets at amortized cost	242,744,683	279,369,058
Other assets	42,461,546	33,650,125
	4,090,960,380	3,687,609,517
Commitments and contingencies		
Letters of guarantees	191,432,299	208,510,206
Letters of credit	44,331,976	41,069,246
Acceptances	22,039,772	18,524,644
Unutilized credit facilities limits	260,620,520	251,521,296
Other	470,100	561,800
	518,894,667	520,187,192

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

2019	Total Credit risk exposure	Fair value of collaterals: Cash margins	Precious metals	Quoted stocks and letter of guarantees	Vehicles and equipment	Real estate	Total gross collaterals	Net Exposure	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Credit exposures related to items in the consolidated statement of financial position:									
Balances with Palestine Monetary Authority	426,412,319	-	-	-	-	-	-	426,412,319	50,150
Balances at banks and financial institutions	398,573,019	-	-	-	-	-	-	398,573,019	2,566,264
Direct credit facilities and Islamic financing:									
Retail	972,434,202	24,990,387	377,179	170,061,825	9,535,737	52,375,856	257,340,984	715,093,218	44,579,699
Corporate	1,540,656,697	152,609,539	333,506	589,204,038	39,355,630	119,129,532	900,632,245	640,024,452	63,866,582
Government and public sector	583,876,833	-	-	-	-	50,120,878	50,120,878	533,755,955	5,136,224
Financial assets at amortized cost	245,088,985	-	-	-	-	-	-	245,088,985	2,344,302
Other financial assets	42,461,546	-	-	-	-	-	-	42,461,546	-
Total	4,209,503,601	177,599,926	710,685	759,265,863	48,891,367	221,626,266	1,208,094,107	3,001,409,494	118,543,221
Off-balance Sheet	518,894,667	160,517	-	11,572	-	-	172,089	518,722,578	246,044

Fair value of collaterals obtained against Stage (3) credit exposures is as follows:

2019	Total exposure	Fair value of collaterals: Cash margins	Precious metals	Real estate	Quoted stocks	Vehicles and equipment	Total gross collaterals	Net Exposure	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	
Credit exposures related to items in the consolidated statement of financial position:									
Credit facilities:									
Retail	31,515,568	1,949,583	4,998	3,990,518	-	1,546,969	7,492,068	24,023,500	17,220,128
Corporate	118,203,345	16,475,056	28,429	40,544,694	739,156	1,456,328	59,243,663	58,959,682	58,037,534
Total	149,718,913	18,424,639	33,427	44,535,212	739,156	3,003,297	66,735,731	82,983,182	75,257,662

2018	Total Credit risk exposure	Fair value of collaterals: Cash margins	Precious metals	Quoted stocks and letter of guarantees	Vehicles and equipment	Real estate	Total gross collaterals	Net Exposure	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Credit exposures related to items in the consolidated statement of financial position:									
Balances with Palestine Monetary Authority	341,792,991	-	-	-	-	-	-	341,792,991	-
Balances at banks and financial institutions	348,041,420	-	-	-	-	-	-	348,041,420	2,399,081
Direct credit facilities and Islamic financing:									
Retail	991,340,708	28,106,611	4,628,158	15,510,727	64,667,730	248,097,195	361,010,421	630,330,287	31,943,858
Corporate	1,390,185,792	110,890,607	5,875,003	32,540,537	116,653,654	469,665,635	735,625,436	654,560,356	49,556,384
Government	389,457,673	-	-	-	50,273	8,931,734	8,982,007	380,475,666	2,328,927
Financial assets at amortized cost	282,074,940	-	-	-	-	-	-	282,074,940	2,705,882
Other financial assets	33,650,125	-	-	-	-	-	-	33,650,125	-
Total	3,776,543,649	138,997,218	10,503,161	48,051,264	181,371,657	726,694,564	1,105,617,864	2,670,925,785	88,934,132
Off-balance Sheet	520,187,192	30,441,262	-	-	-	-	30,441,262	489,745,930	336,064

2018	Total exposure	Fair value of collaterals							
		Cash margins	Precious metals	Real estate	Quoted stocks	Vehicles and equipment	Total gross collaterals	Net Exposure	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	
Credit exposures relating to items in the consolidated statement of financial position:									
Retail	22,939,661	1,255,648	1,644,801	1,280,315	593,999	30,935	4,805,698	18,133,963	13,003,120
Corporate	76,344,806	15,976,197	4,734,307	12,652,344	1,200,742	1,015,672	35,579,262	40,765,544	39,356,865
Total	99,284,467	17,231,845	6,379,108	13,932,659	1,794,741	1,046,607	40,384,960	58,899,507	52,359,985

Concentration of risk exposures according to the geographical area is as follows:

December 31, 2019	Palestine	Arab Countries	Israel	Europe	USA	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances with PMA	426,362,169	-	-	-	-	-	426,362,169
Balances at banks and financial institutions	28,578,678	132,375,738	44,695,731	175,929,908	2,423,505	12,003,195	396,006,755
Direct credit facilities and Islamic financing	2,962,245,555	8,389,309	36,348	3,629,000	163,273	8,921,742	2,983,385,227
Financial assets at amortized cost	37,696,528	123,917,952	-	21,808,880	19,145,804	40,175,519	242,744,683
Other financial assets	42,461,546	-	-	-	-	-	42,461,546
Total as at December 31, 2019	3,497,344,476	264,682,999	44,732,079	201,367,788	21,732,582	61,100,456	4,090,960,380
Total as at December 31, 2018	3,095,997,974	256,491,985	68,690,783	120,389,249	25,130,860	120,908,666	3,687,609,517

Concentration of risk exposures according to IFRS (9) Stages as at December 31, 2019 and 2018 is as follows:

	Stage (1)	Stage (2)	Stage (3)	2019
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	2,795,673,451	627,204,774	74,466,251	3,497,344,476
Arab countries	252,795,865	11,887,134	-	264,682,999
Israel	44,732,079	-	-	44,732,079
Europe	194,628,123	6,739,665	-	201,367,788
USA	18,710,252	3,022,330	-	21,732,582
Others	54,532,208	6,568,248	-	61,100,456
Total	3,361,071,978	655,422,151	74,466,251	4,090,960,380

	Stage (1)	Stage (2)	Stage (3)	2018
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	2,493,408,890	555,700,602	46,888,482	3,095,997,974
Arab countries	255,426,426	1,065,559	-	256,491,985
Israel	68,690,783	-	-	68,690,783
Europe	120,389,249	-	-	120,389,249
USA	24,130,270	1,000,590	-	25,130,860
Others	106,842,264	14,066,402	-	120,908,666
Total	3,068,887,882	571,833,153	46,888,482	3,687,609,517

Concentration of risk exposures according to economic sectors is as follows:

December 31, 2019	Financial U.S. $	Industrial U.S. $	Commercial U.S. $	Real estate U.S. $	Securities U.S. $	Public sector U.S. $	Others U.S. $	Total U.S. $
Cash and balances with PMA	426,362,169	-	-	-	-	-	-	426,362,169
Balances at banks and financial institutions	396,006,755	-	-	-	-	-	-	396,006,755
Direct credit facilities and Islamic financing	28,547,647	176,108,536	428,254,526	678,898,531	-	578,740,609	1,092,835,378	2,983,385,227
Financial assets at amortized cost	83,863,480	21,197,632	12,565,078	2,308,897	-	95,591,406	27,218,190	242,744,683
Other financial assets	-	-	-	-	-	-	42,461,546	42,461,546
December 31, 2019	934,780,051	197,306,168	440,819,604	681,207,428	-	674,332,015	1,162,515,114	4,090,960,380
Total as at December 31, 2018	807,049,546	160,291,575	447,608,008	645,712,166	401,815	389,457,673	1,237,088,734	3,687,609,517

Concentration of risk exposures according to IFRS (9) Stages as at December 31, 2019 and 2018 is as follows:

	Stage (1)	Stage (2)	Stage (3)	2019
	U.S. $	U.S. $	U.S. $	U.S. $
Financial	913,925,897	20,831,160	22,994	934,780,051
Industrial	169,990,724	18,189,783	9,125,661	197,306,168
Commercial	358,210,906	65,157,040	17,451,658	440,819,604
Real estate	419,123,501	244,613,141	17,470,786	681,207,428
Securities	-	-	-	-
Public sector	661,205,172	13,126,843	-	674,332,015
Others	838,615,778	293,504,184	30,395,152	1,162,515,114
Total	3,361,071,978	655,422,151	74,466,251	4,090,960,380

	Stage (1)	Stage (2)	Stage (3)	2018
	U.S. $	U.S. $	U.S. $	U.S. $
Financial	801,740,770	4,856,158	452,618	807,049,546
Industrial	143,703,650	14,621,376	1,966,549	160,291,575
Commercial	345,958,766	45,833,008	20,343,293	412,135,067
Real estate	394,286,843	227,299,301	24,126,022	645,712,166
Securities	401,815	-	-	401,815
Public sector	389,457,673	-	-	389,457,673
Others	993,338,365	279,223,310	-	1,272,561,675
Total	3,068,887,882	571,833,153	46,888,482	3,687,609,517

Macroeconomic Factors, Forward Looking Information and Multiple Scenarios

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

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

Economic variables	ECL scenario	Assigned probabilities (%)	Percentage change in economic variables (%) 2019
GDP	Base case	80	(1,25)
	Best case	10	0.57
	Worst case	10	(1,82)
Unemployment rates			
	Base case	80	-
	Best case	10	(6,39)
	Worst case	10	6,39

Following is the macroeconomic factors impact on the forward-looking information based on multiple scenarios as at January 1, 2019:

Economic variables	ECL scenario	Assigned probabilities (%)	Percentage change in economic variables (%) 2019
GDP	Base case	80	0.40
	Best case	10	2.32
	Worst-case	10	(1.52)
Unemployment rates			
	Base case	80	0.97
	Best case	10	(5.37)
	Worst-case	10	7.31

Except for what is mentioned above, the worst-case scenario was taken at 100% on the facilities of government employees in Gaza Strip due for more than 30 days, and at 75% for below.

Classification of debt securities facilities based on risk rating:

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

Credit rating	2019 Financial assets at amortized cost U.S. $	2018 Financial assets at amortized cost U.S. $
Private sector:		
A- to AAA	79,502,953	82,808,280
B- to BBB+	60,735,766	67,941,992
Unrated	13,492,498	32,239,979
Government and public sector	91,357,768	99,084,689
Total	245,088,985	282,074,940

II. Market risk

Market risk arises from changes in interest rates, exchange rates of foreign currencies and stock prices. The Bank's Board of Directors sets the limits for acceptable risks. This is periodically monitored by the Bank's management through risk 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 those risks by reviewing the interest rate on assets and liabilities through its strategy on risk management.

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

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

	2019		2018	
	Increase in interest rate	Interest income sensitivity (consolidated income statement)	Increase in interest rate	Interest income sensitivity (consolidated income statement)
Currency	(basis points)	U.S. $	(basis points)	U.S. $
US Dollar	10	606,124	10	2,270,785
Jordanian Dinar	10	216,984	10	161,047
New Israeli Shekels	10	303,366	10	255,792
Other currencies	10	20,325	10	2,875

Interest rate re-pricing sensitivity gap

December 31, 2019	Interest rate re-pricing sensitivity gap						
	less than a month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than a year	Non-interest-bearing items	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Assets							
Cash and balances with PMA	-	10,669,173	-	-	-	1,350,418,359	1,361,087,532
Balances at banks and financial institutions	187,991,200	14,704,128	-	4,680,868	-	188,630,559	396,006,755
Financial assets at fair value through profit or loss	-	-	-	-	-	10,654,320	10,654,320
Direct credit facilities and Islamic financing	261,471,127	187,188,997	328,180,208	602,808,297	1,603,736,598	-	2,983,385,227
Financial assets at fair value through other comprehensive income	-	-	-	-	-	37,317,641	37,317,641
Financial assets at amortized cost	5,906,340	24,385,686	32,555,695	30,864,556	149,032,406	-	242,744,683
Investment in associates	-	-	-	-	-	5,503,519	5,503,519
Investment properties	-	-	-	-	-	25,677,869	25,677,869
Property, plant and equipment	-	-	-	-	-	124,329,349	124,329,349
Projects in progress	-	-	-	-	-	3,175,677	3,175,677
Intangible assets	-	-	-	-	-	15,297,116	15,297,116
Other assets	-	-	-	-	-	59,764,952	59,764,952
Total Assets	455,368,667	236,947,984	360,735,903	638,353,721	1,752,769,004	1,820,769,361	5,264,944,640
Liabilities							
PMA deposits	75,006,865	122,518,391	-	28,929,326	-	17,068,287	243,522,869
Banks and financial institutions' deposits	180,084,702	28,680,500	-	-	-	29,977,201	238,742,403
Customers' deposits	733,336,218	173,492,291	285,338,210	185,678,547	140,488,933	2,353,651,882	3,871,986,081
Cash margins	18,645,856	10,223,854	29,152,582	55,751,442	129,824,203	-	243,597,937
Subordinated loan	-	-	-	-	75,000,000	-	75,000,000
Sundry provisions	-	-	-	-	-	46,976,344	46,976,344
Tax provisions	-	-	-	-	-	1,421,119	1,421,119
Lease liabilities	1,144,589	-	-	-	24,079,514	8,447,555	33,671,658
Other liabilities	-	-	-	-	-	79,362,036	79,362,036
Total Liabilities	1,008,218,230	334,915,036	314,490,792	270,359,315	369,392,650	2,536,904,424	4,834,280,447
Equity							
Paid-in share capital	-	-	-	-	-	204,000,000	204,000,000
Additional paid-in capital	-	-	-	-	-	24,848,415	24,848,415
Statutory reserve	-	-	-	-	-	54,982,241	54,982,241
Voluntarily reserve	-	-	-	-	-	246,361	246,361
General banking risks reserve	-	-	-	-	-	9,749,949	9,749,949
Pro-cyclicality reserve	-	-	-	-	-	40,000,000	40,000,000
Fair value reserve	-	-	-	-	-	(3,854,902)	(3,854,902)
Retained earnings	-	-	-	-	-	46,828,335	46,828,335
Total equity holders of the Bank	-	-	-	-	-	376,800,399	376,800,399
Non-controlling interests	-	-	-	-	-	53,863,794	53,863,794
Total Equity	-	-	-	-	-	430,664,193	430,664,193
Total liabilities and equity	1,008,218,230	334,915,036	314,490,792	270,359,315	369,392,650	2,967,568,617	5,264,944,640
Interest rate re-pricing sensitivity gap	(552,849,563)	(97,967,052)	46,245,111	367,994,406	1,383,376,354	(1,146,799,256)	-
Cumulative gap	(552,849,563)	(650,816,615)	(604,571,504)	(236,577,098)	1,146,799,256	-	-

December 31, 2018	Interest rate re-pricing sensitivity gap						
	less than a month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than a year	Non-interest-bearing items	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total assets	358,983,723	102,232,798	653,098,736	250,978,418	3,042,754,013	249,135,290	4,657,182,978
Total liabilities and equity	872,545,128	85,998,042	5,084,574	70,194,300	683,726,935	2,939,633,999	4,657,182,978
Interest rate re-pricing sensitivity gap	(513,561,405)	16,234,756	648,014,162	180,784,118	2,359,027,078	(2,690,498,709)	-
Cumulative gap	(513,561,405)	(497,326,649)	150,687,513	331,471,631	2,690,498,709	-	-

Foreign currency risk

These are the risks of the change in value of financial instruments resulting from the change in foreign exchange rates. The US Dollar is the functional currency of the Bank. The Bank's Board of Directors annually sets the limits of the financial position for each currency, and such position is monitored on a daily basis and hedging strategies are used to ensure maintaining the foreign currency position within the set limits.

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

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

	2019		2018	
	Increase in currency rate	Effect on consolidated income statement	Increase in currency rate	Effect on consolidated income statement
Currency	(%)	U.S. $	(%)	U.S. $
New Israeli Shekels	10	1,330,148	10	(197,972)
Other currencies	10	1,323,731	10	1,184,332

Following is the foreign currencies position of the Bank:

	JOD	ILS	Others	Total
December 31, 2019	U.S. $	U.S. $	U.S. $	U.S. $
Assets				
Cash and balances with PMA	142,969,262	985,849,663	12,493,389	1,141,312,314
Balances at banks and financial institutions	139,421,514	50,279,228	66,790,643	256,491,385
Financial assets at fair value through profit and loss	9,180,223	-	-	9,180,223
Direct credit facilities and Islamic financing	462,353,089	1,214,794,118	47,196,160	1,724,343,367
Financial assets at fair value through other comprehensive Income	21,507,392	-	313,184	21,820,576
Financial assets at amortized cost	52,047,122	12,733,664	12,257,896	77,038,682
Other assets	4,428,380	33,752,682	9,240,045	47,421,107
Total Assets	831,906,982	2,297,409,355	148,291,317	3,277,607,654
Liabilities				
PMA deposits	-	179,241,799	14,281,070	193,522,869
Banks and financial institutions' deposits	6,707,371	168,800,043	4,482,800	179,990,214
Customers' deposits	789,772,847	1,440,459,865	102,120,288	2,332,353,000
Cash margins	25,311,750	123,198,101	8,866,624	157,376,475
Other liabilities	10,804,084	69,997,310	5,303,228	86,104,622
Forward contracts	-	302,410,759	-	302,410,759
Total Liabilities	832,596,052	2,284,107,877	135,054,010	3,251,757,939
Statement of financial position concentration	(689,070)	13,301,478	13,237,307	25,849,715
Commitments and contingencies	4,122,121	191,023,538	42,823,857	237,969,516

December 31, 2018	JOD	ILS	Others	Total
Total Assets	781,099,239	1,713,657,147	130,297,072	2,625,053,458
Total Liabilities	782,775,235	1,715,636,866	118,453,750	2,616,865,851
Statement of financial position concentration	(1,675,996)	(1,979,719)	11,843,322	8,187,607
Commitments and contingencies	5,782,548	156,009,741	44,964,070	206,756,359

Equity price risk

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

		2019		2018	
	Increase in indicator	Effect on consolidated income statement	Effect On equity	Effect on consolidated income statement	Effect on equity
Market	(%)	U.S. $	U.S. $	U.S. $	U.S. $
Palestine Securities Exchange	10	1,065,432	1,078,881	1,077,418	994,147
Foreign markets	10	-	1,727,337	-	1,753,911

III. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity and maintains sufficient amount of cash and cash equivalents.

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

December 31, 2019	less than a Month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months up to 1 year	More than 1 year to 3 years	More than 3 years	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Assets								
Cash and balances with PMA	995,707,111	10,669,173	-	-	-	-	354,711,248	1,361,087,532
Balances at banks and financial institutions	249,070,887	54,405,578	-	12,693,935	-	3,571,714	76,264,641	396,006,755
Financial assets at fair value through profit and loss	-	-	-	-	-	-	10,654,320	10,654,320
Direct credit facilities and Islamic financing	261,471,127	187,188,997	328,180,208	602,808,297	625,615,075	978,121,523	-	2,983,385,227
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	37,317,641	37,317,641
Financial assets at amortized cost	5,906,340	24,385,686	32,555,695	30,864,556	67,062,110	81,970,296	-	242,744,683
Investment in associates	-	-	-	-	-	-	5,503,519	5,503,519
Investment properties	-	-	-	-	-	-	25,677,869	25,677,869
Property, plant and equipment	-	-	-	-	-	-	124,329,349	124,329,349
Projects in progress	-	-	-	-	-	-	3,175,677	3,175,677
Intangible assets	-	-	-	-	-	-	15,297,116	15,297,116
Other assets	21,444,816	5,600,432	6,699,432	1,058	-	-	26,019,214	59,764,952
Total assets	1,533,600,281	282,249,866	367,435,335	646,367,846	692,677,185	1,063,663,533	678,950,594	5,264,944,640
Liabilities								
PMA deposits	92,075,152	122,518,391	-	28,929,326	-	-	-	243,522,869
Banks and financial institutions' deposits	183,588,618	55,153,785	-	-	-	-	-	238,742,403
Customers' deposits	3,086,988,100	173,492,291	285,338,210	185,678,547	94,791,379	45,697,554	-	3,871,986,081
Cash margins	18,645,856	10,223,854	29,152,582	55,751,442	56,416,341	73,407,862	-	243,597,937
Subordinated loan	-	-	-	-	15,000,000	60,000,000	-	75,000,000
Sundry provisions	-	-	-	-	-	46,976,344	-	46,976,344
Tax provisions	-	-	-	1,421,119	-	-	-	1,421,119
Lease liabilities	2,022,672	-	-	-	2,300,663	29,348,323	-	33,671,658
Other liabilities	54,234,606	2,967,432	3,956,575	4,945,720	7,913,152	5,344,551	-	79,362,036
Total liabilities	3,437,555,004	364,355,753	318,447,367	276,726,154	176,421,535	260,774,634	-	4,834,280,447
Equity								
Paid-in share capital	-	-	-	-	-	-	204,000,000	204,000,000
Additional paid-in capital	-	-	-	-	-	-	24,848,415	24,848,415
Statutory reserve	-	-	-	-	-	-	54,982,241	54,982,241
Voluntarily reserve	-	-	-	-	-	-	246,361	246,361
General banking risks reserve	-	-	-	-	-	-	9,749,949	9,749,949
Pro-cyclicality reserve	-	-	-	-	-	-	40,000,000	40,000,000
Fair value reserve	-	-	-	-	-	-	(3,854,902)	(3,854,902)
Retained earnings	-	-	-	-	-	-	46,828,335	46,828,335
Total equity holders of the Bank	-	-	-	-	-	-	376,800,399	376,800,399
Non-controlling interests	-	-	-	-	-	-	53,863,794	53,863,794
Total equity	-	-	-	-	-	-	430,664,193	430,664,193
Total liabilities and equity	3,437,555,004	364,355,753	318,447,367	276,726,154	176,421,535	260,774,634	430,664,193	5,264,944,640
Maturity gap	(1,903,954,723)	(82,105,887)	48,987,968	369,641,692	516,255,650	802,888,899	248,286,401	-
Cumulative gap	(1,903,954,723)	(1,986,060,610)	(1,937,072,642)	(1,567,430,950)	(1,051,175,300)	(248,286,401)	-	-

December 31, 2018	less than a Month U.S. $	More than 1 month to 3 months U.S. $	More than 3 months to 6 months U.S. $	More than 6 months up to 1 year U.S. $	More than 1 year to 3 years U.S. $	More than 3 years U.S. $	Without maturity U.S. $	Total U.S. $
Assets								
Cash and balances with PMA	774,715,490	-	-	-	-	-	326,184,568	1,100,900,058
Balances at banks and financial institutions	307,754,529	24,123,953	9,214,136	-	-	4,549,721	-	345,642,339
Financial assets at fair value through profit and loss	-	-	-	-	-	-	10,774,178	10,774,178
Direct credit facilities and Islamic financing	174,829,782	148,691,862	191,486,078	306,043,433	852,388,138	1,013,715,711	-	2,687,155,004
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	33,104,285	33,104,285
Financial assets at amortized cost	8,941,763	15,797,483	28,687,120	42,409,272	95,471,895	88,061,525	-	279,369,058
Investment in associates	-	-	-	-	-	-	5,472,858	5,472,858
Investment properties	-	-	-	-	-	-	17,800,433	17,800,433
Property, plant and equipment	-	-	-	-	-	-	86,043,108	86,043,108
Projects in progress	-	-	-	-	-	-	6,270,572	6,270,572
Intangible assets	-	-	-	-	-	-	14,805,428	14,805,428
Other assets	33,650,127	-	-	-	-	-	36,195,530	69,845,657
Total assets	1,299,891,691	188,613,298	229,387,334	348,452,705	947,860,033	1,106,326,957	536,650,960	4,657,182,978
Liabilities								
PMA deposits	138,744,367	-	-	76,575,954	-	-	-	215,320,321
Banks and financial institutions' deposits	78,012,844	25,000,014	4,574,200	-	-	-	-	107,587,058
Customers' deposits	2,217,270,384	335,782,379	711,334,504	188,223,672	26,926,902	55,223,387	-	3,534,761,228
Cash margins	-	4,207,763	9,709,317	23,604,590	118,738,251	44,157,407	-	200,417,328
Subordinated loan	-	-	-	-	-	75,000,000	-	75,000,000
Sundry provisions	-	-	-	-	-	43,012,724	-	43,012,724
Tax provisions	-	-	-	3,634,870	-	-	-	3,634,870
Other liabilities	57,150,998	-	-	-	-	3,917,903	-	61,068,901
Total liabilities	2,491,178,593	364,990,156	725,618,021	292,039,086	145,665,153	221,311,421	-	4,240,802,430
Equity								
Paid-in share capital	-	-	-	-	-	-	200,000,000	200,000,000
Additional paid-in capital	-	-	-	-	-	-	24,848,415	24,848,415
Statutory reserve	-	-	-	-	-	-	51,586,473	51,586,473
Voluntarily reserve	-	-	-	-	-	-	246,361	246,361
General banking risks reserve	-	-	-	-	-	-	9,452,970	9,452,970
Pro-cyclicality reserve	-	-	-	-	-	-	40,000,000	40,000,000
Fair value reserve	-	-	-	-	-	-	(3,467,059)	(3,467,059)
Retained earnings	-	-	-	-	-	-	43,529,095	43,529,095
Total equity holders of the Bank	-	-	-	-	-	-	366,196,255	366,196,255
Non-controlling interests	-	-	-	-	-	-	50,184,293	50,184,293
Total equity	-	-	-	-	-	-	416,380,548	416,380,548
Total liabilities and equity	2,491,178,593	364,990,156	725,618,021	292,039,086	145,665,153	221,311,421	416,380,548	4,657,182,978
Maturity gap	(1,191,286,902)	(176,376,858)	(496,230,687)	56,413,619	802,194,880	885,015,536	120,270,412	-
Cumulative gap	(1,191,286,902)	(1,367,663,760)	(1,863,894,447)	(1,807,480,828)	(1,005,285,948)	(120,270,412)	-	-

The table below summarizes the assets and liabilities on the basis of undiscounted contractual maturities as at December 31, 2019 and 2018, respectively:

December 31, 2019	less than a Month U.S. $	More than 1 month to 3 months U.S. $	More than 3 months to 6 months U.S. $	More than 6 months up to 1 year U.S. $	More than 1 year to 3 years U.S. $	More than 3 years U.S. $	Without maturity U.S. $	Total U.S. $
Liabilities								
PMA deposits	94,325,358	124,973,059	-	29,797,206	-	-	-	249,095,623
Banks and financial institutions' deposits	188,487,498	56,299,053	-	-	-	-	-	244,786,551
Customers' deposits	2,985,552,917	14,155,657	14,600,842	21,019,232	94,233,039	46,611,505	-	3,176,173,192
Cash margins	18,892,915	10,326,093	29,386,183	56,164,545	56,416,341	73,407,862	-	244,593,939
Subordinated loan	-	-	-	-	16,087,500	64,350,000	-	80,437,500
Sundry provisions	-	-	-	-	-	46,976,344	-	46,976,344
Tax provisions	-	-	-	1,421,119	-	-	-	1,421,119
Lease liabilities	1,005,577	-	-	-	2,369,913	37,175,209	-	40,550,699
Other liabilities	54,234,606	2,967,432	3,956,575	4,945,720	7,913,152	5,344,551	-	79,362,036
Total liabilities	3,342,498,871	208,721,294	47,943,600	113,347,822	177,019,945	273,865,471	-	4,163,397,003
Total assets according to maturity	1,299,891,691	188,613,298	229,387,334	348,452,705	947,860,033	1,432,511,525	210,466,392	4,657,182,978

December 31, 2018	less than a Month U.S. $	More than 1 month to 3 months U.S. $	More than 3 months to 6 months U.S. $	More than 6 months up to 1 year U.S. $	More than 1 year to 3 years U.S. $	More than 3 years U.S. $	Without maturity U.S. $	Total U.S. $
Liabilities								
PMA deposits	139,091,228	-	-	76,767,394	-	-	-	215,858,622
Banks and financial institutions' deposits	78,207,876	25,062,514	4,585,636	-	-	-	-	107,856,026
Customers' deposits	739,642,628	292,728,647	615,591,686	664,841,048	646,821,576	582,332,503	-	3,541,958,088
Cash margins	-	4,218,282	9,733,590	23,663,601	119,035,097	44,267,801	-	200,918,371
Subordinated loan	-	-	-	-	-	75,187,500	-	75,187,500
Sundry provisions	-	-	-	-	-	43,012,724	-	43,012,724
Tax provisions	-	-	-	3,634,870	-	-	-	3,634,870
Other liabilities	57,150,998	-	-	-	-	3,917,903	-	61,068,901
Total liabilities	1,014,092,730	322,009,443	629,910,912	768,906,913	765,856,673	748,718,431	-	4,249,495,102
Total assets according to maturity	1,299,891,691	188,613,298	229,387,334	348,452,705	947,860,033	1,432,511,525	210,466,392	4,657,182,978

Liquidity Coverage Ratio (LCR)

During 2018, PMA issued instructions No. (4/2018) in regard to Liquidity Coverage Ratio (LCR) which is considered one of the quantitative corrective tools issued by Basel Committee. LCR should not be lower than 100% in any case. LCR objective is to promote the short-term resilience of the liquidity risk profile of the Bank by ensuring that they have sufficient High-quality liquid assets to survive a significant stress scenario lasting 30 calendar days, and to keep the Bank services from the day of the stress until the Bank initiates corrective procedures in an efficient way.

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

	Amount before discount rates / average flows	Amount after discount rates / average flows
	U.S. $	U.S. $
High quality liquid assets	1,546,327,846	1,468,077,955
Retail deposits including small and medium corporates:		
A- Stable deposits	1,907,131,521	112,517,154
B- Less stable deposits	1,337,916,952	102,519,703
Other deposits and other unguaranteed facilities for companies:		
A- Operating deposits	52,386,284	13,096,571
B- Non-operating deposits	1,304,126,872	461,526,672
Guaranteed financing and deposits	4,601,561,629	689,660,100
Non-cancelled credit lines and required liquidity within 30 days	462,543,059	127,949,542
Gross cash outflows	5,064,104,688	817,609,642
Guaranteed credit facilities	109,640,593	54,820,297
Cash inflow from working credit	302,166,218	160,646,174
Gross cash inflow	411,806,811	215,466,471
Net cash outflow after adjustments		602,143,171
Total high-quality liquid assets after adjustments		1,468,077,955
Net cash outflow after adjustment		602,143,171
Liquidity Coverage Ratio		%244

The table below shows the calculation of the mentioned ratio as at December 31, 2018:

	Amount before discount rates / average flows	Amount after discount rates / average flows
	U.S. $	U.S. $
High quality liquid assets	1,303,493,866	1,216,197,081
Retail deposits including small and medium corporates:		
A- Stable deposits	873,834,465	43,691,723
B- Less stable deposits	1,878,096,871	150,347,271
Other deposits and other unguaranteed facilities for companies:		
A- Operating deposits	126,225,881	31,556,470
B- Non-operating deposits	1,187,859,429	393,933,002
Guaranteed financing and deposits	4,066,016,646	619,528,466
Non-cancelled credit lines and required liquidity within 30 days	601,440,810	115,260,489
Any other contractual outflows	-	-
Gross cash outflows	4,667,457,456	734,788,955
Guaranteed credit facilities	95,381,136	47,690,568
Cash inflow from working credit	304,164,256	145,556,710
Gross cash inflow	399,545,392	193,247,278
Net cash outflow after adjustments		541,541,677
Total high-quality liquid assets after adjustments		1,216,197,081
Net cash outflow after adjustment		541,541,677
Liquidity Coverage Ratio		%225

Net Stable Funding Ratio (NSFR)

PMA issued instructions No. (5/2018) in regard of applying Net Stable Funding Ratio (NSFR), which is considered one of key reforms to promote a more resilient banking sector. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability

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

Description	2019
	U.S. $
Regulatory capital	463,958,360
Stable retail deposits	937,191,709
Un-stable retail deposits	1,837,719,475
Guaranteed and unguaranteed financing	443,138,628
Other funding	14,464,663
Others	185,733,600
Gross funding available	3,882,206,435
Level 1 unrestricted high liquidity assets	178,769
Level 2 unrestricted high liquidity assets	13,068,286
Level 3 unrestricted high liquidity assets	44,246,676
Loans	1,011,971,444
Financial assets issued or guaranteed by banks and financial institutions	35,817,688
Unquoted financial assets	56,372,066
Quoted financial assets	97,014,945
Non-performing credit facilities	15,264,029
Other assets	488,054,314
Non-cancel credit facilities and line of credits	13,731,270
Future obligations	12,601,212
Gross financing required	1,788,320,699
Net Stable Funding Ratio	%217

The table below shows the calculation of the mentioned ratio as at December 31, 2018:

Description	2018
	U.S. $
Regulatory capital	459,681,779
Stable retail deposits	863,254,913
Un-stable retail deposits	1,686,053,903
Guaranteed and unguaranteed financing	475,993,587
Other funding	38,287,977
Others	151,636,948
Gross funding available	3,674,909,107
Level 1 unrestricted high liquidity assets	354,178
Level 2 unrestricted high liquidity assets	19,898,788
Level 3 unrestricted high liquidity assets	48,319,335
Loans	947,949,350
Financial assets issued or guaranteed by banks and financial institutions	61,263,458
Unquoted financial assets	43,273,069
Quoted financial assets	83,583,584
Non-performing credit facilities	12,067,936
Other assets	460,110,216
Non-cancel credit facilities and line of credits	11,812,046
Future obligations	13,433,295
Gross financing required	1,702,065,255
Net Stable Funding Ratio	%216

46. Maturities of assets and liabilities

The following table depicts the analysis of assets and liabilities according to their maturities:

	December 31, 2019			
	Less than a year	More than a year	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Assets				
Cash and balances with PMA	1,006,376,284	-	354,711,248	1,361,087,532
Balances at banks and financial institutions	316,170,400	3,571,714	76,264,641	396,006,755
Financial assets at fair value profit and loss	-	-	10,654,320	10,654,320
Direct credit facilities and Islamic financing	1,379,648,629	1,603,736,598	-	2,983,385,227
Financial assets at fair value through other comprehensive income	-	-	37,317,641	37,317,641
Financial assets at amortized cost	93,712,277	149,032,406	-	242,744,683
Investment in associates	-	-	5,503,519	5,503,519
Investment properties	-	-	25,677,869	25,677,869
Property, plant and equipment	-	-	124,329,349	124,329,349
Projects in progress	-	-	3,175,677	3,175,677
Intangible assets	-	-	15,297,116	15,297,116
Other assets	33,745,738	-	26,019,214	59,764,952
Total Assets	2,829,653,328	1,756,340,718	678,950,594	5,264,944,640
Liabilities				
PMA deposits	243,522,869	-	-	243,522,869
Banks and financial institutions' deposits	238,742,403	-	-	238,742,403
Customers' deposits	3,731,497,148	140,488,933	-	3,871,986,081
Cash margins	113,773,734	129,824,203	-	243,597,937
Subordinated loan	-	75,000,000	-	75,000,000
Sundry Provisions	-	46,976,344	-	46,976,344
Tax provisions	1,421,119	-	-	1,421,119
Lease liabilities	2,022,672	31,648,986	-	33,671,658
Other liabilities	66,104,333	13,257,703	-	79,362,036
Total Liabilities	4,397,084,278	437,196,169	-	4,834,280,447
Equity				
Paid-in share capital	-	-	204,000,000	204,000,000
Additional paid-in capital	-	-	24,848,415	24,848,415
Statutory reserve	-	-	54,982,241	54,982,241
Voluntarily reserve	-	-	246,361	246,361
General banking risks reserve	-	-	9,749,949	9,749,949
Pro-cyclicality reserve	-	-	40,000,000	40,000,000
Fair value reserve	-	-	(3,854,902)	(3,854,902)
Retained earnings	-	-	46,828,335	46,828,335
Total equity holders of the Bank	-	-	376,800,399	376,800,399
Non-controlling interests	-	-	53,863,794	53,863,794
Total equity	-	-	430,664,193	430,664,193
Total Liabilities and Equity	4,397,084,278	437,196,169	430,664,193	5,264,944,640
Maturity gap	(1,567,430,950)	1,319,144,549	248,286,401	-
Cumulative maturity gap	(1,567,430,950)	(248,286,401)	-	-

	December 31, 2018			
	Less than a year	More than a year	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Assets				
Cash and balances with PMA	774,715,490	-	326,184,568	1,100,900,058
Balances at banks and financial institutions	341,092,618	4,549,721	-	345,642,339
Financial assets at fair value profit and loss	-	-	10,774,178	10,774,178
Direct credit facilities and Islamic financing	821,051,155	1,866,103,849	-	2,687,155,004
Financial assets at fair value through other comprehensive income	-	-	33,104,285	33,104,285
Financial assets at amortized cost	95,835,638	183,533,420	-	279,369,058
Investment in associates	-	-	5,472,858	5,472,858
Investment properties	-	-	17,800,433	17,800,433
Property, plant and equipment	-	-	86,043,108	86,043,108
Projects in progress	-	-	6,270,572	6,270,572
Intangible assets	-	-	14,805,428	14,805,428
Other assets	33,650,127	-	36,195,530	69,845,657
Total Assets	2,066,345,028	2,054,186,990	536,650,960	4,657,182,978
Liabilities				
PMA deposits	215,320,321	-	-	215,320,321
Banks and financial institutions' deposits	107,587,058	-	-	107,587,058
Customers' deposits	3,452,610,939	82,150,289	-	3,534,761,228
Cash margins	37,521,670	162,895,658	-	200,417,328
Subordinated loan	-	75,000,000	-	75,000,000
Sundry Provisions	-	43,012,724	-	43,012,724
Tax provisions	3,634,870	-	-	3,634,870
Other liabilities	57,150,998	3,917,903	-	61,068,901
Total Liabilities	3,873,825,856	366,976,574	-	4,240,802,430
Equity				
Paid-in share capital	-	-	200,000,000	200,000,000
Additional paid-in capital	-	-	24,848,415	24,848,415
Statutory reserve	-	-	51,586,473	51,586,473
Voluntarily reserve	-	-	246,361	246,361
General banking risks reserve	-	-	9,452,970	9,452,970
Pro-cyclicality reserve	-	-	40,000,000	40,000,000
Fair value reserve	-	-	(3,467,059)	(3,467,059)
Retained earnings	-	-	43,529,095	43,529,095
Total equity holders of the Bank	-	-	366,196,255	366,196,255
Non-controlling interests	-	-	50,184,293	50,184,293
Total equity	-	-	416,380,548	416,380,548
Total Liabilities and Equity	3,873,825,856	366,976,574	416,380,548	4,657,182,978
Maturity gap	(1,807,480,828)	1,687,210,416	120,270,412	-
Cumulative maturity gap	(1,807,480,828)	(120,270,412)	-	-

47. Segment information

Information on the Bank's business segments

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

Retail banking: Includes handling individual customers' deposits, and providing consumer type loans, overdrafts, credit cards facilities and other services.

Corporate, institutions and public sector banking: Includes handling loans, credit facilities, deposits and current accounts for corporate, institutional customers and public sector.

Treasury: includes providing trading and treasury services and managing Bank's funds and investment.

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

December 31, 2019	Retail	Corporate, institutions and public sector	Treasury	Other	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	109,141,862	154,536,960	21,946,739	971,974	286,597,535
(Impairment) recovery of ECL	(13,076,212)	(17,614,928)	234,267	-	(30,456,873)
Credit facilities not previously provided for and written off	(1,497,114)	-	-	-	(1,497,114)
Segment results					180,863,204
Unallocated expenses					(129,068,155)
Profit before taxes					51,795,049
Taxes expense					(12,858,327)
Profit for the year					38,936,722
Other segment information:					
Depreciation and amortization					17,780,549
Capital expenditures					14,911,740
Total segment assets	927,854,503	2,055,530,724	2,067,852,302	213,707,111	5,264,944,640
Total segment liabilities	2,577,962,114	1,656,829,608	529,966,989	69,521,736	4,834,280,447

December 31, 2018	Retail	Corporate, institutions and public sector	Treasury	Other	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	84,739,620	152,452,649	19,075,755	15,111,772	271,379,796
(Impairment) recovery of ECL	(4,465,783)	603,777	(113,123)	-	(3,975,129)
Credit facilities not previously provided for and written off	(1,235,074)	-	-	-	(1,235,074)
Segment results					204,107,382
Unallocated expenses					(134,282,041)
Profit before taxes					69,825,341
Taxes expense					(15,715,248)
Profit for the year					54,110,093
Other segment information:					
Depreciation and amortization					12,412,362
Capital expenditures					17,215,706
Total segment assets	960,016,146	1,727,137,858	1,793,063,209	176,965,765	4,657,182,978
Total segment liabilities	1,334,434,765	2,400,743,791	397,907,379	107,716,495	4,240,802,430

Geographical distribution information

The following is the geographical distribution of the Bank's businesses. The Bank mainly carries out its business in Palestine, in addition to foreign operations.

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

	Domestic		Foreign		Total	
	2019	2018	2019	2018	2019	2018
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	268,295,166	252,608,193	18,302,369	18,771,603	286,597,535	271,379,796
Total assets	4,671,014,294	4,043,932,499	593,930,346	613,250,479	5,264,944,640	4,657,182,978
Capital expenditures	14,911,740	17,215,706	-	-	14,911,740	17,215,706

48. Capital management

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

The Bank manages its capital structure and makes adjustments to it in light of changes in business conditions. The Bank did not make any adjustments on goals, policies, and actions concerning capital management for current and prior year. During 2019 the bank increased its capital in the amount of U.S. $ 4,000,000 through stock dividends.

The Bank of Palestine has been classified as a bank of regulatory importance at the local level, according to the general framework of banks of regulatory importance as approved by the Board of Directors of the PMA.

The capital adequacy ratio is computed in accordance with the PMA's regulations derived from Basel Committee regulations. Subordinated loan was calculated under second pillar of the Bank capital according to PMA's regulations (note 21). The following are the capital adequacy rates for 2019 compared to 2018:

	2019			2018		
	Amount	Percentage to assets	Percentage to risk - weighted assets	Amount	Percentage to assets	Percentage to risk - weighted assets
	U.S. $	%	%	U.S. $	%	%
Regulatory capital	463,958,360	8.81	14,12	459,681,779	9.87	14.87
Basic capital	375,776,941	7.14	11,44	375,184,449	8.06	12.13

49. Commitments and contingent liabilities

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

	2019	2018
	U.S. $	U.S. $
Letters of guarantees	191,432,299	208,510,206
Letters of credit	44,331,976	41,069,246
Acceptances	22,039,772	18,524,644
Unutilized credit facilities limits	260,620,520	251,521,296
Others	470,100	561,800
	518,894,667	520,187,192

Outstanding forward contracts as at December 31, 2019 and December 31,2018 amounted to U.S.$ 4,280,353 and U.S. $ 100,000, respectively. Those contracts are not disclosed as part of commitments and contingent liabilities as the Bank hedges risks of these contracts with other banks. In addition, the Bank obtains cash margin ranging from 5% to 10% of contract value to cover unforeseen price changes and customers' non-compliance with the signed contracts.

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

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at January 1, 2019	520,187,192	-	-	520,187,192
Net change during the year	(1,292,525)	-	-	(1,292,525)
Balance as at December 31, 2019	518,894,667	-	-	518,894,667

The movement of ECL allowance on indirect credit facilities is as follows:

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at January 1, 2019	335,252	812	-	336,064
Net ECL for the year	(90,020)	-	-	(90,020)
Balance as at December 31, 2019	245,232	812	-	246,044

	2018			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at January 1, 2018	-	-	-	-
Impact of IFRS 9 implementation	294,512	6,259	-	300,771
Balance as at January 1, 2018 – adjusted	294,512	6,259	-	300,771
Net ECL for the year	40,740	(5,447)	-	35,293
Balance as at December 31, 2018	335,252	812	-	336,064

The related provision is recorded in other liabilities (note 25).

50. Lawsuits against the Bank

The number of lawsuits filed against the Bank as at December 31, 2019 and 2018 was (186) and (139) in the normal course of business with a total amount of U.S. $ 40,336,275 and U.S. $ 26,022,346, respectively. The Bank's management and lawyer believe that no additional provision is required other than what was provided.

During the year 2019, a lawsuit was filed against the Bank on January 1, 2019 by certain individuals in the United States District Court for the Eastern District of New York. By this lawsuit, the plaintiffs brought a single claim against the Bank for secondary liability pursuant to the United States Anti-Terrorism Act. On August 17, 2019 the bank filed a motion to dismiss the lawsuit based on legal basis. In response to the motion, the plaintiffs filed an amended complaint. The Bank accordingly filed a motion to dismiss the amended complaint on December 24, 2019.

Subsequent to the date of the consolidated financial statements, on February 4, 2020, the plaintiffs responded on the bank's motion to dismiss the amended complaint. The Bank filed its reply papers in support of its motion to dismiss on March 10, 2020. The bank's advisor anticipates that the Court will set a hearing during the year 2020, at which the parties' counsel will present oral argument on the Bank's motion to dismiss, and that the Court will issue a written decision on the motion within a few months thereafter. Consistent with the commitment of Bank management, the Bank complies fully with Palestinian laws and international best practices. In addition, the Bank fully complies with the Palestinian Anti-Terrorism and Money Laundering Law No. (20) of the year 2015 and the Palestinian requirements to maintain secrecy of customers and banking transactions. According to the bank's advisor, the lawsuit is at its early stages though any financial effect is not predictable at the date of the consolidated financial statements. According to the bank's advisor, the defenses raised by the motion are strong ones.

51. Development policy

The Bank's development policy includes the following:

- Continue cooperating with the International Finance Corporations (IFC) to design SME's finance programs.
- Develop finance programs and services for women to meet their banking needs.
- Focus on risk management to maintain performance and sustainable growth.
- Develop the Bank's computer systems and information technology including the requirements of the international standards reporting.
- Provide training opportunities for the Bank's employees at different levels.
- Continue to develop the Bank's electronic apps.

52. Concentration of risk in geographical area

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

53. Subsequent Events

Subsequent to the consolidated financial statements date, and as a result of the impact of the Corona virus (COVID-19) on the global economy and financial markets, it is expected that there will be effects on the investments of the banks and its clients in the various economic sectors. The management believes that it is still too early to determine the financial impact on the Bank's consolidated financial statements.

Additionally, the Bank's board of directors, during its meeting held on February 27, 2020, decided to recommend to the general assembly the distribution of dividends to shareholders by 10% of the paid in capital which is equivalent to U.S. $ 20,400,000, by U.S. $ 4,080,000 as stock dividends of and 16,320,000 as cash dividends of U.S. $ based on pro-rata ownership of the Bank's shareholders in the Bank's share capital.

Moreover, the board of directors of the Arab Islamic Bank (a subsidiary) decided during its meeting held on February 26, 2020 to recommend to the general assembly to increase the paid-in capital of the bank by U.S. $4,000,000 at a par value of $ 1 per share and to distribute 4.70% cash dividends of the par value of the shares.