بنك فلسطين
BANK OF PALESTINE

Established in 1960 تأسس عام

عاماً من الإستدامة المصرفية

Years of Sustainable Banking

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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 (74 branches), a paid up capital of $208 million, and assets of over USD 5.8 billion, with 1,749 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.

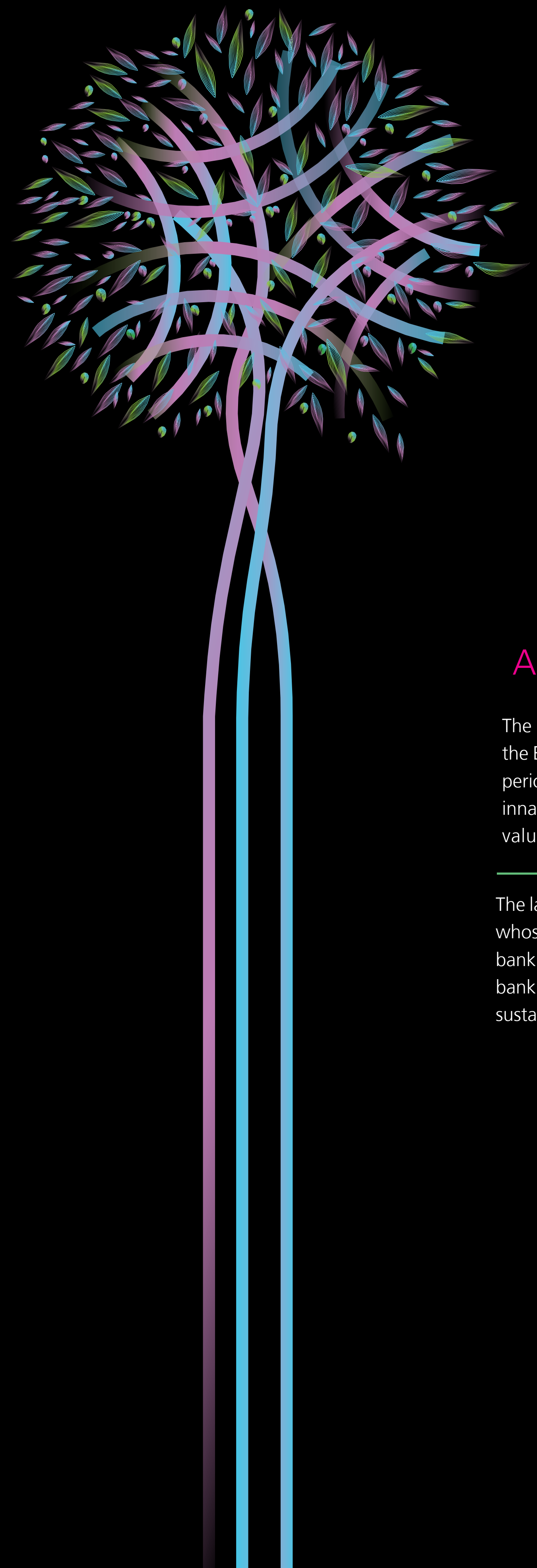
Bank of Palestine has adopted a strategic direction towards sustainability, digitization and constant development for the coming years. The strategy involves investing in its human resources, its customer service, its environment and stakeholders while continuing to enhance its digital services and platforms. 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 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 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 affecting the lives of 1200 women. The program provided access to more women jobs at the bank including senior positions; raising the number of women employees to 41.5%. BOP also conducted several financial awareness sessions for a total of 12,500 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. Recent additions to the group is a joint investment with NAPCO of APIC Holding in creating a solar energy company called Qudra Energy Solutions Co. The Group also created in 2020 Intersect, an innovation impact hub designed to help support the entrepreneurship eco system especially in the area of Fintech and social innovation.



A Tribute to our founders:

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.

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..

Our Vision

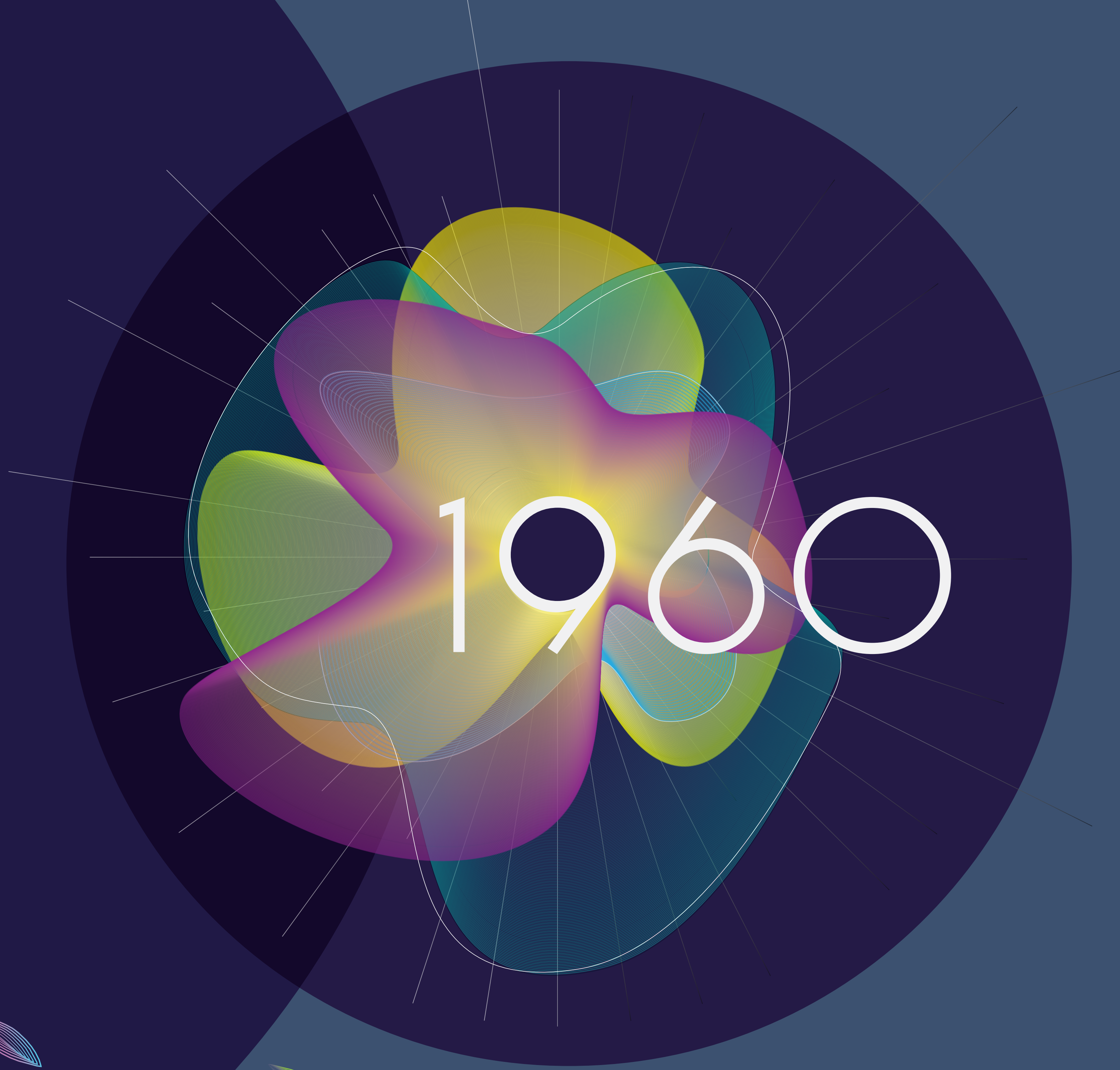
We aspire to be distinguished as the values based, sustainable and modernized financial and banking institution on both the local and regional levels.

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 & Sustainable banking with highest attention to 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.

2020 Financial Results Highlights

USD	2016	2017	2018	2019	2020
Gross Income	177,484,615	213,451,231	221,616,842	229,892,683	222,247,443
Profit before tax	67,999,090	72,983,244	69,825,341	51,795,049	40,160,368
Net profit	53,055,980	54,008,928	54,110,093	38,936,722	22,412,148
Total assets	4,121,322,946	4,884,822,851	4,657,182,978	5,264,944,640	5,809,809,988
Customer deposits	3,143,151,591	3,768,631,790	3,735,178,556	4,115,584,018	4,834,024,254
Loans	2,213,463,765	2,518,590,540	2,687,155,004	2,983,385,227	3,266,748,588
Total Shareholders Equity	403,574,797	449,961,687	416,380,548	430,664,193	433,520,671
Paid Up Capital	195,008,685	200,000,000	200,000,000	204,000,000	208,080,000
Net Intrest & Comission Revenue	149,135,734	182,781,606	196,598,248	203,104,797	197,457,949
Number of Employees	1,652	1,705	1,728	1,731	1,749
Number of Customers	542,474	528,513	560,513	617,966	669,740
Number of Branches	67	71	73	73	74
Market Ratio- Deposits	% 29.67	% 31.47	% 30.5	% 30.7	% 31.93
Market Ratio loans	% 32.68	% 31.37	% 32.97	% 34.5	% 34.12



Hashim Shawa

Chairman of the Group

On behalf of the Board of Directors of Bank of Palestine, its Executive Management and the entire Bank of Palestine Group's family, I would like to present the Annual Report for the bank's operations and financial results for the year ending December 31st, 2020.

This year Palestine had witnessed a double predicament, that of the Covid 19 pandemic and external political pressures. Both events had a toll on the economic performance with GDP contracting by 8% adversely impacting economic growth. Every economic sector was impacted because of the emergency measures and repeated lockdowns. This reality has deepened the economic stagnation affecting purchasing power and appetite for additional investments. The most affected was the SME sector, with rising Non Performing Loans forcing the bank to take on additional provisions. The bank in the face of this storm decided to look inward and outward to lead with responsibility for the benefit of all its stakeholders.

Leading in the Midst of Covid 19:

Certainly, the Covid -19 challenges and additional operational impact are things that we have not fully factored in our previously designed mitigation plans. However, we have upheld our values and treated our staff with the foremost attention to their safety and health and our customers with added attention to their wellbeing and financial health. We have strived to balance between safety and business continuity, sustaining our operations from day one with efficient management of the interruptions imposed by the health concerns with social distancing and digital connectivity.

We have implemented a multi-stakeholder strategy to assist national efforts to combat the virus and provided support to our health system, to the social welfare of exposed families and to assistance of unemployed laborers forced out of their daily bread winning. We have redirected our CSR budgets and raised funds from our diaspora networks and utilized the digital platforms of our group's e payments company PalPay to provide electronic payment solutions to the thousands of exposed families in a dignified manner. We are planning ahead and imbedding more resilience in our future strategies; especially in the digital domain with the licensing of the first E Wallet in the country for PalPay in 2020. The Bank in 2020 was granted the ISO 9001:2015 thus fulfilling the requirements for quality management systems becoming the first Palestinian bank to obtain this certificate.

We are proud to say that our banking group was able to maintain both shareholder and stakeholder value at the same footing. We are confident that our customers, our stakeholders and our community will shield us from the economic downturn because of the trust we have built and the values we have displayed during the covid -19 crisis.

Customer Services:

The pandemic helped us push forth with our aggressive digitization strategy. We have made available additional electronic channels and upgraded the interface of our mobile and internet banking platforms. During the pandemic and as result of aggressive customer outreach subscribers to these digital platforms doubled. We have provided incentives for customers to use these channels to avoid them coming to branches for their safety and the safety of our staff.

Customer segmentation into corporate, SME and retail continued to have effect in 2020 with designated Relation Managers (RMs) for corporates and Premier VIP services for Retail customers taking full shape. Our SME team together with the credit teams worked hard to re-evaluate the SME portfolio to help customers meet the challenges imposed by the pandemic; working to refinance and restructure the loan portfolio on a case by case basis. Retail customers increasingly embraced the digital services and showed increased use of the electronic channels and services during 2020.

Human Resources:

Taking care of our employees and especially in 2020 was an important aspect of crisis management during the Pandemic. We implemented measures that allowed staff to work from home and work in shifts while ensuring the environment at the work place is in line with health guidelines. We communicated regularly with the staff through circulars and videos and convened a Corona Task Force of senior management that met daily at the height of the health crisis. We are continuing to invest in our human resources through improved evaluation measures and reward systems that shall be implemented in full next year. We have managed to fulfill our commitment to be gender inclusive in our work force by raising the percentage of women staff at the bank to 41.5% while continuing to hire people with special needs as well.

Diaspora Relations during the Pandemic:

Bank of Palestine relations with the Palestinian diaspora community around the globe remains a focal point of our strategy. While we could not engage physically last year, we maintained a direct line with our diaspora shareholders and customers checking on their status and that of their businesses during the pandemic. Many of our diaspora communities in Chile and Saudi Arabia supported our donations to the Palestinian Ministry of Health by donating towards acquiring critically needed Ventilators for Covid 19 patients across the West Bank, Gaza and East Jerusalem hospitals.

International Recognitions during the Pandemic:

Our banking group managed to receive recognition for its banking services and sustainability practices towards the environment. The bank received an award for best bank in financing environmentally friendly projects and for promoting renewable energy. We also received the Leadership in Crisis Award in recognition of the banks measures and policies enacted during the Covid 19 crisis.

Subsidiary Companies

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

Arab Islamic Bank (AIB), Our Islamic banking arm, kept growing in comparison to its peers in the last 5 years doubling its indicators achieving a net profit of USD$8 million in 2020. AIB in 2020 has maintained an impressive growth trajectory across all financial indicators.

PalPay® – Palestine Payments – the leading payment platform company has supported the bank in its digitization strategy and worked in tandem with bank to support the emergency response because of Covid 19 in supporting key international agencies and government ministries in quick payment solutions to needy families and laborers who were impacted by the pandemic. The company successfully launched the first e wallet in Palestine in 2020. 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. The e wallet shall reduce the need for using cash especially during the ongoing pandemic.

Al-Wasata Securities was able to sustain its position among its peers for the 12th year in a row 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. The company has extended its services for portfolio investments in new markets such as the USA and GCC.

Qudra Energy Solutions is new joint investment company between Bank of Palestine Group and NAPCO Co. of the APIC Holding Group specialized in the Solar Energy field. Qudra aims to create solar energy in Palestine to replace the dependency on electricity bought from outside Palestine and aims to create 100 MW of solar energy in the near term.

Intersect Innovation Hub is powered by Bank of Palestine Group and is targeting the entrepreneurial eco system in Palestine with the objective of creating Fintech Start Ups and Social Entrepreneurs. The Hub will serve as a meeting point of innovators from within the bank and from outside the bank creating an environment for engagement and networking for the country's youth leveraging Bank of Palestine Group›s financial and digital expertise and stamina.

Financial results for 2020:

2020 results confirm the risk mitigation strategy adopted with increased provisions and a future focus on internal transformation and enhanced sustainability.

Our Group's consolidated financial results reported a gross income of USD 222 million in FY 2020, compared with USD 230 million in FY 2019, reflecting a decrease of 3.33%. The bank's Profit before tax is USD 40.1 million compared with USD 51.7 million in FY 2019, with a net profit of USD 22.4 million. Total assets increased to USD 5.8 billion compared with USD 5.26 billion at the end of 2019. The Bank's total shareholder's equity increased to USD 433 million compared with USD 431 million at the end of 2019.

The bank has taken a strategic position to increase provisions and maintain a healthy capital adequacy ratio. Our teams have focused on collection and safeguarding the health of our existing loan portfolio intensifying collection and working with credit customers on restructuring their portfolios to sustain operations in order to mitigate the impact of a pandemic that plagued the remaining 3 quarters of 2020.

Despite the 42% drop in net profit in FY 2020, the bank because of customer engagement and enhanced digital offerings reported an increase in deposits by 17.46%. This continues to indicate a sustained sign of confidence in the bank and its product lines. Credit facilities reached USD$3.26 billion with an increased of 9.50 % as a result of the bank's credit and business teams working together to help clients adjust their business needs in light of Covid-19 lockdowns and other interruptions.

The coverage ratio for these provisions reached 90% providing the bank with the ability to continue providing loans to the SME sector since it remains the locomotive for the local economy responsible for 87% of labor force. While the bank enjoys a healthy capital adequacy ratio of 14.25%, the bank will continue enhancing the capital base by additional distribution of share dividends. It is also studying new financial tools and has worked in 2020 with International Multilateral Banks to obtain new credit lines geared towards lending the SME, growth sectors and women sectors.

Future Outlook

Last year carried with it many challenges and placed on the group additional responsibilities towards all its stakeholders in a sustainable and proactive manner. We shall continue to base our future outlook for 2021 on further commitment to principles of sustainability and focus on our core values through the following actions:

- Deeper commitment to our customers; serving our customers and working with them to financially survive the impact of this pandemic.
- Deeper investment in our human resources and our employees with continued vigilance towards maintaining their safety first; while improving their on the job satisfaction towards increased productivity.
- Increased enhancement of our digital channels and services, onboarding additional customers and reaching more customers via these digital channels.
- Focusing the group's attention on women empowerment through our flagship women programs increasing the portfolio of women in business at the bank.
- Added investment in youth through the groups innovation hub Intersect and innovation fund Ibtikar with geographic and content diversification.
- Enhancing the group's sustainability practices with scientific measurement and reporting at par with international standards.
- Ensuring a sustained capital adequacy strategy to meet new challenges through international engagements andpartnerships.

Hashim Shawa
Group Chairman

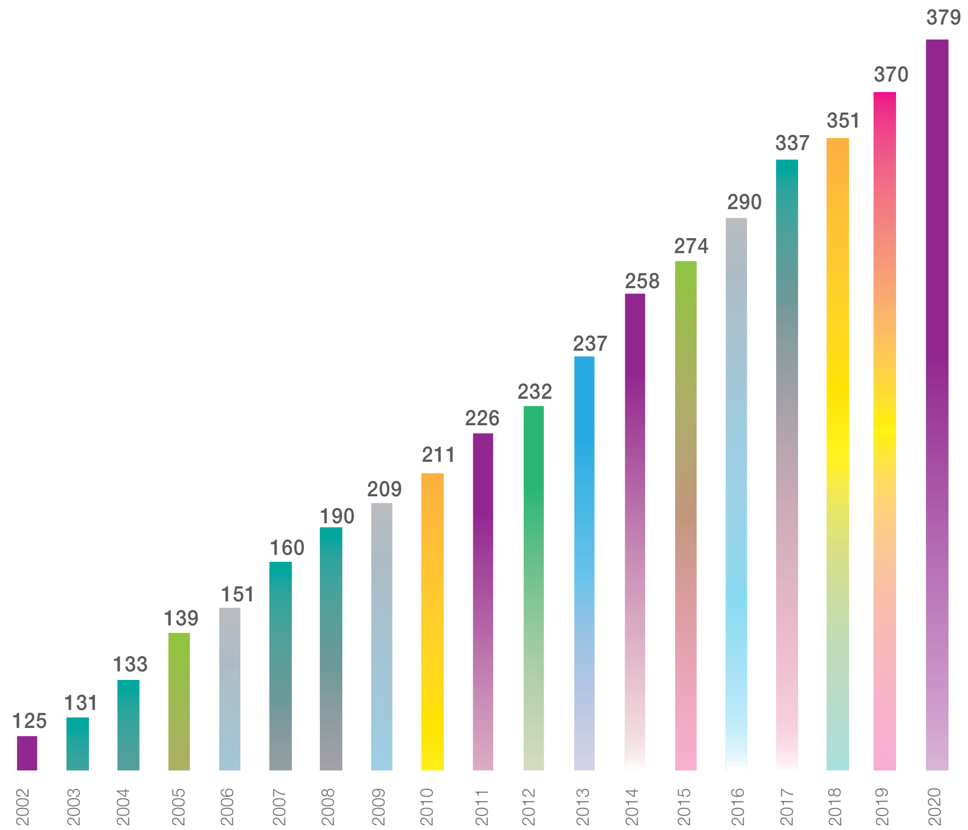
BOP has continued implementing its risk management strategy by enhancing the governance structure through having an active Risk committee and a Risk management function, and Compliance department strengthening its internal controls, spreading risk culture, developing and applying advanced internal rating 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. In 2020 the PMA launched Istidama Fund to finance MSME projects that were impacted by the pandemic through a USD$300 million fund. The program is implemented through local banks and microfinance agencies. PMA in 2020 licensed 4 electronic Wallet Companies to provide their services in the local market.

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 46 companies listed with a market value of USD$ 3.44 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 379 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 2020, the banking sector assets increased by 10.39%, deposits by 13.09%, and loans by 11.48%.

With 74 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.

BOP indicators Benchmarked to the Banking Sector- 2020

Total Assets (USD)	2016	2017	2018	2019	2020
Banking Sector	13,859,455,383	15,472,566,496	15,637,763,079	17,347,170,110	19,235,659,589
BOP	4,121,322,946	4,884,822,851	4,657,182,978	5,264,944,640	5,809,809,988
Deposits					
Banking Sector	10,595,777,751	11,973,385,261	12,227,327,064	13,384,708,641	15,137,396,074
BOP	3,143,151,591	3,768,631,790	3,735,178,556	4,115,584,018	4,834,024,254
Credit Facilities					
Banking Sector	6,865,906,898	8,025,978,869	8,437,900,129	9,037,905,231	10,075,069,420
BOP	2,240,844,838	2,554,216,880	2,782,226,225	2,983,385,227	3,266,748,588

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

Custemer Deposits	2016	2017	2018	2019	2020
Banking Sector	٪ 9.7	٪ 13	٪ 2.1	٪ 9.5	٪ 13.09
BOP	٪ 40.15	٪ 19.9	٪ 0.89-	٪10.2	٪ 17.46

Credit Facilities	2016	2017	2018	2019	2020
Banking Sector	٪ 17.9	٪ 16.9	٪ 5.1	٪ 7 .1	٪ 11.48
BOP	٪ 59.4	٪ 14	٪ 8.9	٪ 11.9	٪9.50

Bank of Palestine Market Share in the Palestine Exchange

% 10

Bank of Palestine Market Share in deposits in Banking Sector

% 31.93

Bank of Palestine Market Share in loans in Banking Sector

% 34.12

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

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.

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
1997 - 2002 Assistant Vice President and Project Manager for Operations & Technology, Citigroup Private Bank - London - UK.
2002 - 2005 Vice President and Senior Private Banker, Middle East Region Citigroup Private Bank, Geneva -Switzerland.
2005 - 2007 - Associate Director & Officer of Developing Banking Business, the Middle East & North Africa, HSBC Private in the Gulf -HSBC Private Bank, Geneva - Switzerland.
April 2007 to December 2017- Chairman and general manager of Bank of Palestine -PLC.
December 2017 to present- Chairman of Bank Of Palestine Group

Memberships
Member of the Institute of International Finance (IIF) Emerging Markets Advisory Council (EMAC).
Member of General Assembly - The Palestine Investment Fund (PIF).
Member of the Board of Trustees - Bethlehem University.
Chairman of the board of directors of Al-Wasata securities
Chairman of the board of directors of PalPay.
Member of the board of directors of Associate of Banks in Palestine.
Member of the board of directors of Pharmacare Pharmaceuticals PLC.
Member of the World Economic Forum in Geneva.

Mr. Maher Jawad 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 Chairman of the International Contractor Group – Kuwait.
1997 – 2007 Chairman of the International Contracting Company – Palestine.

Memberships
Member of the Board of Directors – Birzeit Pharmaceutical Company (BPC) - Palestine.
Member of the Board of Directors – Abraj Real Estate Investment and Development Company - Palestine.
Member of the board of directors of Arab Islamic Bank.

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).

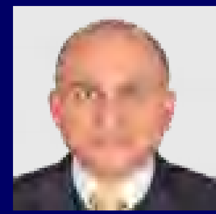
Memberships
Member of the Board of Directors - Palestine Investment Fund
Vice Chair - Palestine for a New Beginning.
Member of the Board of Directors of the Palestine Student Lending Fund.
Member of the Board of Trustees of Palestine Economic Policy Research Institute (MAS).
Member of the Board of Director 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. Tareq Taher 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).

Resigned: 31/08/2020



Mr. Faysal Ghazi 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.

Resigned: 09/04/2020

Dr. Hani Hassan 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).

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

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.

Dr. Tafeeda Jarbawi
Member
Education
PhD in Analytical Chemistry, minor in Biochemistry.
University of Cincinnati, Ohio, USA

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 Women's' 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
Advisory Board of the Palestinian Anti-Corruption Commission
Advisory and expert Board of Manar Community Engagement

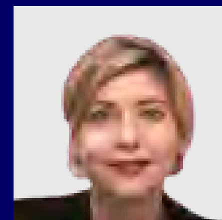
Mr. Eric Shehadeh
Member

Education
1995 - 1998 Ecole Superieure de Commerce de Paris (ESCP Business School) Paris, France
France's premier school of management
Majored in Finance and Management Control.
Classes in English and in French.
1991 – 1995 Point Park University Pittsburgh
BA in Political Science
1985 - 1990 College Ste Barbe Baccalaureate in Social Science and Economics
Experience
2017- present President & CEO of My Money Group Paris, France.
2012 – 2017 Chief Executive Officer GE Money Bank France & DOMs Paris, France.
2009 - 2012 Chief Financial Officer & Chief Operating Office Mubadala GE Capital Abu Dhabi, UAE.
2008 –2009 Managing Director & CFO - Strategy and BD/M&A, GE Capital Middle East Dubai, UAE.
2006 - 2008 Chief Financial Officer, GE Money Thailand, Bangkok, Thailand.
Sept. 2005 – Sept 2006 Financial Planning & Analysis Mgr –GE Money Asia, Bangkok. Thailand.
Feb 2004- Aug 2005 Chief Financial officer
GE Money New Zealand, Auckland, New Zealand
Feb 2003- Feb 2004 Financial Planning & Analysis Mgr –GE Money New Zealand, Auckland, New Zealand
Jan 2002- Feb 2003 Europe Finance Integration Mgr & Assistant Controller – GE Healthcare Europe Paris, France
Jun 2000-Jan 2002 Europe e-Finance Six Sigma Black Belt – GE Healthcare Europe Paris, France
Jul 1998 – Jun 2000 Financial Management Program (FMP) – GE Healthcare Europe

Memberships
Board Member of Association Française des Sociétés Financières
Board Member of My Partner Bank
Chairman of the Board of MMB Société de Credit Foncier
Chairman of the board of Banque des Caraibes

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)

• Mrs. Lana Abu Hijleh, Chairwomen

• Mrs. Maha Awad, Member

• Mr. Eric Shehadeh, 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.

Committee Members:

- Ms. Nada Shousha, Chairwomen
- Mrs. Lana Abu Hijleh, Member
- Mr. Eric Shehadeh, 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."

Committee Members:

- Mr. Hashim shawa, Chairman
- Dr. Maher Farah, 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
- Mr. Eric Shehadeh, 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 program 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.

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.

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

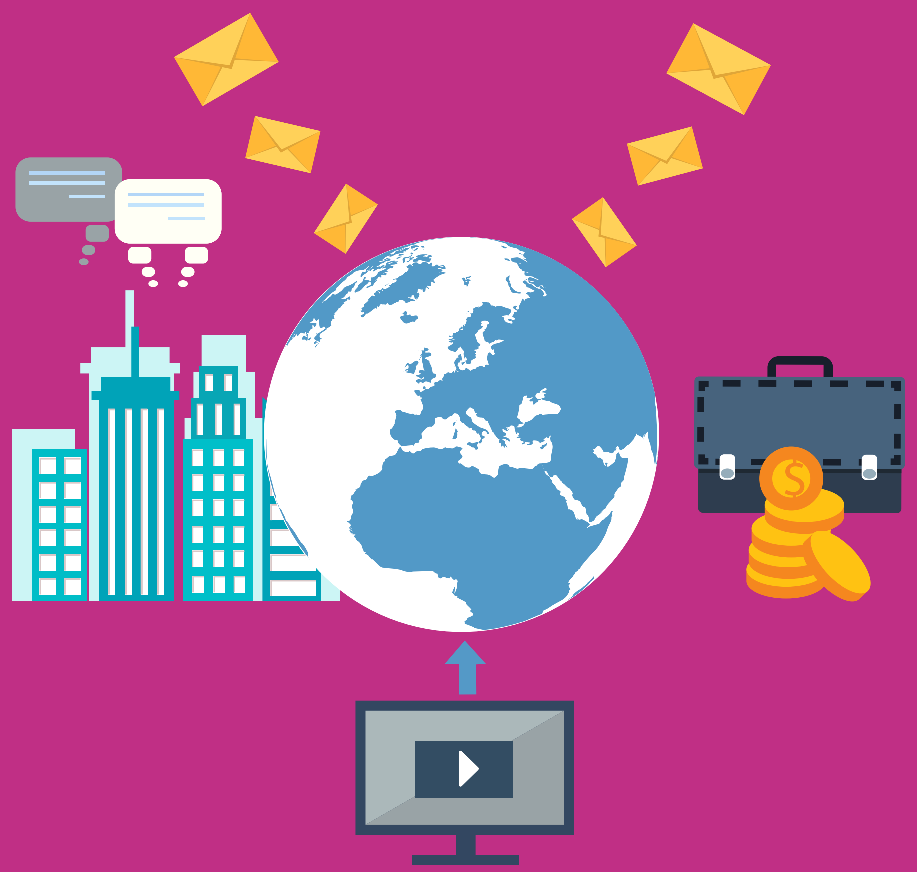
• Approval of the appointment of the Chief Risk Officer and senior risk officers and of the risk management organizational charter.

Board members	30/01/2020	27/02/2020	26/04/2020	31/05/2020	27/08/2020	27/09/2020	25/10/2020	29/11/2020	23/12/2020	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
Maher Farah	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Hani Nigim	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Tarek Aggad	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Abdullah Al- Ghanim	Present	Present	Present			Present	Present	Present	Present	7
Lana Abu Hijleh	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Maha Awad	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Nada Shousha	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Tafeeda Jarbawi	Present	Present	Present	Present	Present	Present	Present	Present	Present	9
Eric Shehadeh						Present	Present	Present	Present	4
Tareq Shaka	Present	Present	Present	Present	Present					5
Faysal Ghazi Shawa	Present	Present								2
Total number of meetings attended	11	11	10	9	9	10	10	10	10	

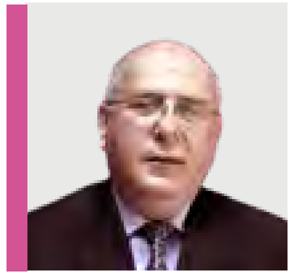
Bank of Palestine applies strict compliance to AML policies in conformity to Palestinian AML and CTF laws and international recommendations such as FATF 40, Basel Guidelines for AML and CTF, Wolfsburg Principles and as such implements KYC and CDD measures.

These measures includes transfers, analysis of accounts and transactions in compliance with laws and regulations. The AML Department constantly updates new regulations and circulars around AML and CTF on a constant basisi.

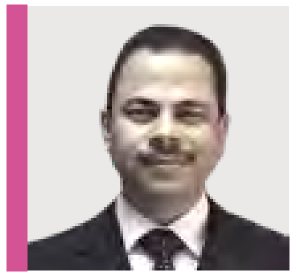
The AML Department enjoys independence as it falls under the Audit Committee of the Board of Directors, and its work is reviewed by the internal audit committee without compromising the confidentiality of the information.



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

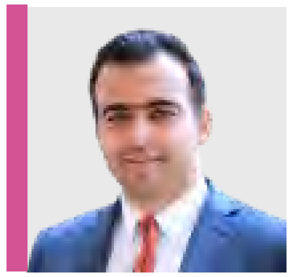


Mr. Alaa' El Din Mohammed Al-Redwan
Deputy General Manager
Chief Operations Officer
Bachelor of Accounting, Damascus University- Syria 1992
Masters of Business Administration, Van Holland University
Date of Birth: 22/06/1965
Joined BOP in 1993



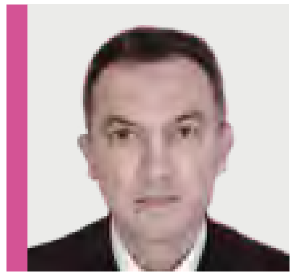
Mr. Wael AbdAllatif Al Sourani
Chief Gaza Business Oficer
Bachelor of Biology & Chemistry – Sana'a University, Yemen 1993
Date of Birth: 07/02/1967
Joined BOP in 1995

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

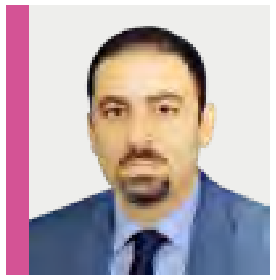
Mr. Mahmoud Maher Shawa
Chief Financial Officer
Master of Banking and Finance
University of Wales 2007
Date of Birth: 24/07/1982
Joined BOP in 2005



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

Mr. Hanna Basil Sahar
Chief Credit Officer
Master of Busines Administrater
Date of Birth: 06/01/1972
Joined BOP in 2020

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



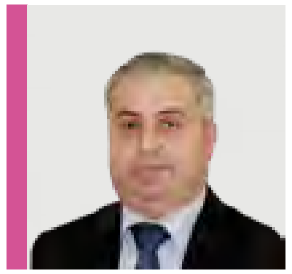
Mr. Najeeb J. N. Yaser
Chief Audit Officer
Master of Business Administration
University of North Carolina 2006
Date of Birth: 30/05/1978
Joined BOP in 2017

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.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

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

Disclosures

Senior Executive Management Salaries and Bonuses

General Manager, Deputy General Managers, and Assistant General Managers' salaries and bonuses amounted to USD 5,365,750 in 2020.

Seminars' Cost and Travel Expenses of Senior Executive Management

There is no travel and seminar expenses for Executive Management in the year 2020.

Loans Granted to Senior Executive Management:

Total loans granted to Senior Executive Management in 2020 was USD 1,540,024.

Proposed Remuneration to Board of Directors

Proposed Board of Directors remuneration based on profits for the year 2020 is USD 800,000.

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 (207) and (186), as at 31 December 2020 and 2019 respectively, which were considered part of the normal activity of the bank. Cases were equivalent to USD 62,029,218 and USD 40,336,275 as at 31 December 2020 and 2019 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 2020, 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 2020.

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 2020 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

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 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.

IR activities

2020 was an extraordinary year as the world was hit by the Covid 19 global pandemic putting a strain on physical communications and engagements. This year we made a point of calling our shareholders outside Palestine to check on their status and their well being during the Pandemic. We also insisted on convening the AGM for 2019 results in March 2020 during the first wave of the covid 19 in Palestine as a commitment to our shareholders. We also managed to distribute the cash dividends in a timely fashion the next day of the AGM.

The bank was recognized in 2020 by Global Finance for its Outstanding Crisis Leadership during Covid 19. Emeafinance awarded the bank with the Green Finance Award for its sustainability practices.

Bank of Palestine share Activity 2020

BOP share was listed for trading at PEX in 2005. The below table shows the share activity in 2020

Activity	2020	Notes
Number of shareholders	4,660	of total shareholders 4.71%
Number of shares traded	10,040,648	of total trading 11.614%
Value of traded shares	17,631,929	of total trading 9.275%
Number of deals	1,827	of total traded deals 10.596%
Average share turnover	٪ 4.83	average company circulation 4.83%
Number of sessions where share traded	194	of total trading sessions 88.18%
Market capitalization	343,332,000	of total market capitalization 9.96%
Highest share price USD	2.05	
Lowest share price USD	1.50	
Closing price USD	1.65	

Bank of Palestine shareholders reached 4,660 shareholders in 2020 compared to 4,650 shareholders in 2019. Below is a list of shareholders with 4% or more ownership as of Dec 31, 2020.

Major Shareholders

Name	Number of Shares - End of 2019	Ownership Percentage - End of 2019	Number of Shares - End of 2020	Ownership Percentage - End of 2020
AlMuhalab Real Estate Company	14,170,970	6.94%	15,181,997	7.30%
International Finance Corporation (IFC)	9,645,530	4.72%	9,838,440	4.73%

Members of the Board of Directors

Member of the Board of Directors	Citizenship	Number of Shares - End of 2019	Ownership Percentage - End of 2019	Number of Shares - End of 2020	Ownership Percentage - End of 2020
Hashim H. H. Shawa - Chairman of the Board	Palestinian	7,644,527	3.74%	7,797,417	3.75%
Maher J. Farah	French	954,537	0.47%	723,627	0.35%
Hani H. M. Nigim	Palestinian	221,340	0.10%	225,766	0.11%
Tarek Aggad	Palestinian	25,801	0.01%	26,317	0.01%
Lana Jamal Abu Hijleh	Palestinian	28,372	0.01%	28,939	0.01%
Abdullah Qais Abdullah Al-Ghanim	Kuwaiti	24,182	0.01%	24,665	0.01%
Nada Shousha	Egyptian	16,320	0.008	16,646	0.01%
Maha Subhi Awad	Palestinian	50,000	0.02%	72,975	0.04%
Tafeeda Jarbawi	Palestinian	150,000	0.07%	153,000	0.07%
Emad Eric Shehadeh	Palestinian	-	-	20,218	0.01%

Board of Directors First Degree Relatives Ownership

Name	Citizenship	Number of Shares - End of 2019	Number of Shares End of 2020 -
Huda Hani Shawa	Palestinian	5,770,916	5,886,334
Dina Hani Shawa	Palestinian	2,258,548	2,258,548
Linda Patrick Shawa	Palestinian	1,516,311	1,546,637
Bernardita Vigano Shawa	Swiss	152,296	155,341
Nabel Hani Qadoumi	Kuwaiti	3,232,105	3,296,747
Yasmeen Nabil Qaddoumi	Kuwaiti	1,512,407	1,542,655
Laila Nabil Qaddoumi	Kuwaiti	1,522,625	1,553,077
Omar Baheig	Palestinian	96,384	143,481
Genevieve Chantal Marie Boimond	French	201,270	455,295

Senior Management Ownership

Name	Title	Citizenship	Number of Shares - End of 2019	Number of Shares - End of 2020
Rushdi M. Ghalayini	General Manager	Palestinian	20,696	21109
Alaa M. Al Redwan	Deputy General Manager - COO	Palestinian	14,828	2,228
Mahmoud Maher Shawa	Chief Financial Officer	Palestinian	5,972	11,091
Kamel Aref Kamel Husseini	Chief International and InvestorS relations Officer	Palestinian	16,570	18,521
Hasan Majed Afifi	Assistant General Manager - Chief IT Officer	Palestinian	10,200	10,404
Wael AbdAllatif Al Sourani	Assistant General Manager - Gaza Branches	Palestinian	48,276	49,241
Suliman M. S. Naser	Chief Treasury Officer	Palestinian	9,690	9,883
Naser Mohamad Rushdi Bakeer	Chief Business Banking Officer	Palestinian	18,849	19,225
Randa Saliba Abdallah	Chief Human Resources Officer	Palestinian	4,120	3,202
Hanna B. G. Sahhar	Chief Credit Officer	Palestinian	10,353	10,560

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

Outstanding Crisis Leadership during Covid 19 by Global Finance.

Green Finance Award by Emeafinance

60 years of Sustainable Banking:

investing in sustainability,
modernity and development

Bank of Palestine celebrated its 60 years anniversary last year, but the Covid 19 pandemic forced itself on the agenda with our focus directed at the well-being of our staff and the service of our customers. We bore our responsibility towards all our stakeholders and community during the pandemic. We have started our journey in the year 1960 with deeply rooted values and principles of sustainability. These values evolved over the years to become entrenched and a corner stone of our strategy and business.

Review of Services and Customer Care:

The bank was able to double the usage of its customers and especially the youth segments of its electronic and digital services including the use of cards. This paves the way for further investment and promotion of these digital channels with targeted campaigns and data analytics to ensure proper customer services and customer satisfaction. The Covid 19 pandemic and lockdowns have helped the bank to promote the digital services and channels and create additional layers of customers for these services. Palpay, the Fintech arm of the group played an instrumental role in refining these services and provided the unbanked customers with access to the first e wallet in the country, allowing a new breed of unbanked customers to benefit from the e wallet services in conducting payments.

Putting in place the infrastructure for non-stop customer service:

2020 was interrupted by several lockdowns and closures under the Covid 19 emergency. This has put a strain on staff availability at branches forcing the bank to work with 30%-50% shifts. The bank invested in its digital platforms to help keep the same standards of services during lockdowns. It also expanded its call center and extended its working hours enabling the staff to work from home in responding to increased customer calls. This added investment in digital and IT infrastructure has enabled the bank to provide same level of service with more reliance on new digital channels for communications like business whatsapp.

Upgrade to Digital Services:

The pandemic have sped up plans for digital transformation to meet new demand for digital services. The bank had to upgrade these services while ensuring data protection and security of transactions.

• Bank e 3.0 & 3.1 versions were launched for the mobile banking app allowing better customer experience and enhanced satisfaction.

• Transaction alert features were introduced to the app to enable customers to follow on their all his or her transactions.

• Adding very competitive exchange rates on the app

• Enabling the app to recharge the balance on the e wallets

• Raising the ceiling for transfers to become at USD$ 10,000 levels through electronic services and app.

• Raising the ceiling for withdrawals and deposits through the ATMs to USD$4,000.

Lending with a Focus on ESG:

Digital inclusion is part of the overall inclusion strategy, similar to women and youth inclusion. These are the metrics for sustainability. The bank is giving more focus on sustainability and ESG in its loan portfolio and internal management processes. The year 2020 witnessed the launching of Qudra Energy Solutions Company, a dedicated entity for investing in solar energy. 2021 will see additional focus on sustainability strategy within the bank.

Mitigating NPL Risks through Restructuring of Loans:

The Pandemic has affected all economic sectors in Palestine driving NPLs especially in the SME sector. This has forced the bank to take additional provisions in the face of rising NPLs. The Bank has directed the energy of the credit department to follow up on these loans working with customers to refinance and restructure loans offering grace periods for most affected sectors like tourism.

Capital Adequacy:

To counter the retrenchment of operations as a result of economic stagnation and decrease in profits and in order to maintain healthy capital adequacy, the bank has implemented a proactive capital plan through distribution of share dividends. The plan also involved consideration of various financial tools to help keep adequate capital levels in order to meet new growth opportunities and mitigate against risk.

2020 witnessed the signing of loan agreements dedicated to SMEs and Women in Business with European Bank for Reconstruction and Development (EBRD). SME support agreements were also signed with the European Investment Bank and Arab Fund.

Governance and Sustainability:

In light of the risky environment caused by the pandemic and the economic implications, the bank conducted a review of operations and the different stakeholder engagements to refine its strategy. It also reviewed the internal processes and procedures to improve efficiency. It revaluated risks and implanted principles of sustainability in business practices and in its community engagements and in its dealings with the environment and governance. The board witnessed the joining of independent members with extensive banking and digital banking experience. The AML function also witnessed a major upgrade and review. Board Committees were enhanced with better engagement with executive management. The bank will see more thrust towards a well-rounded sustainability strategy in the years to come.

Outlook:

The bank continued to deal with the impact of 2020 with a focus on customer service through better customer relationship management and follow up to ensure reduction of the NPL levels. This customer centricity will be witnessing additional steps in 2021 with segmentation of customers and dedication of relationship managers and further investment in digital banking services.

%31.93
Bank of palestine market share in deposit in Banking sector

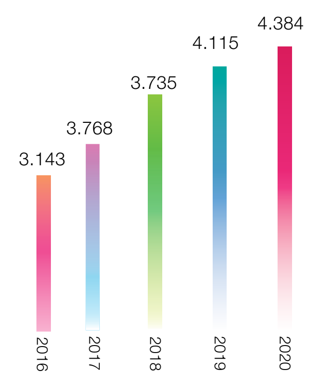
%34.12
Bank of palestine market share in loans in Banking sector

Despite the adverse economic situation caused by the pandemic and political pressures, Bank of Palestine achieved an operating income of USD 222,247,443 in 2020. The bank's net profit reached USD 22,412,148 decreasing by 42%. This drop is the result of implementing IFRS9 requiring additional provisions because of the Covid 19 impact and related economic pressures.

Performance indicators

Deposits

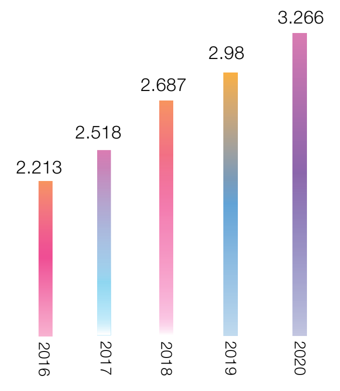
USD 4.834 billion



Bank of Palestine maintained a growing customer deposit base, which reached USD 4,834,024 at the end of 2020. This has been enabled by a variety of outreach campaigns including digital channels and marketing and is sign of confidence in the bank.

Loans

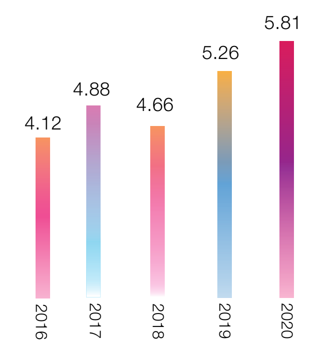
USD 3.66 billion



Despite the Covid 19 impact and resulting economic downturn, the overall loan portfolio in 2020 grew by 9.50% to reach USD 3,266,748,588. BOP continued to maintain a relatively industry standard Non Performing Loan Ratio of 4.56%.

Assets

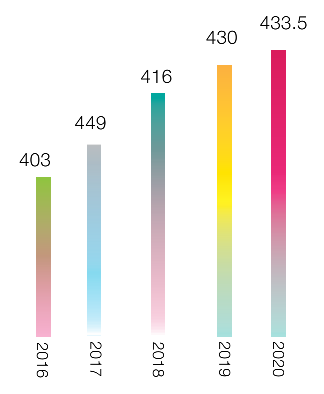
USD 5.81 billion



Bank of Palestine total assets reached USD 5,809,809,988 compared with US 5,264,944,640 at the end of 2019. The bank maintained its leadership position as the largest bank in Palestine in terms of assets and among the top 100 banks in the MENA region.

Shareholders' Equity

USD 433.5 million



The Bank's paid up capital grew by 2% to become USD 208,080,000 providing the bank with strong capital adequacy. However, total shareholders' equity reached USD 433,520,671 in 2020.

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.

Despite the economic conditions and rising NPLs caused by Covid 19, especially among the SME sector, Bank of Palestine continued to work with micro, small, and medium sized enterprises (MSMEs) in 2020, not ignoring the fact that SME sector remains the engine of growth in an emerging economy like Palestine constituting 87% of economic activity in the country.

This year the bank doubled its efforts in providing financial advisory services and worked with the Bank's credit department to restructure loans. Certain sectors will naturally suffer, but other sectors will show promise for growth in the health services, pharmaceutical, supply chains and digital domains. The Government and the Banking regulator PMA have also announced forming a $300 million SME financing fund in partnership with the banks. We are working towards sustaining our commitment to the real economy and providing SMEs with finance they need as this sector remains the engine for the economy and the most susceptible sector to the wrath of Covid-19. This included working with Loan Guarantee Programs like ARIZ and Renewable Energy Programs like SUNREF.

Partnerships and Agreements:

The bank signed a loan agreement with the European Bank for Reconstruction and Development-EBRD to support SME projects and Women in Business with a portfolio of USD$15 million.

SME Portfolio

2020	2019
$ 460m	$ 448m

فلسطينية . الك . لعيلتك . لشغلك
FELESTINEYA. FOR YOU,YOUR FAMILY & YOUR WORK

Women Financial Inclusion through "Felestineya" Program

Women and gender inclusion are mainstay of Bank of Palestine. As such, we continue to be proud of our main financial inclusion program targeting women segments. Bank of Palestine's flagship "Felestineya" program continued in 2020 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. Today we are proud to report that the total number of women beneficiaries from Felestineya program reach 12,500.

During Covid 19 Felestineya went online to continue working with beneficiaries. The existing platforms of Felestineya in social media, especially the Felestineya Facebook page came in handy during the pandemic. The Facebook page 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. A Felestineya Whatsapp Group was also launched this year to facilitate intergroup communications.

Mini-MBA Program Updates 2020

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 5th cohort of Felestineya's Mini-MBA of women entrepreneurs in 2020 through video conferencing in line with health conditions, raising the number of beneficiaries to 140 women.

This year with the rise of e commerce and internet shopping, Felestineya opened a store for graduates on eBay and an account on PayPal to help facilitate online business for these women.

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.

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 our women through the Felestineya program, MSMEs, youth, and people with disabilities.

Above 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.

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

Bank of Palestine continued in 2020 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. USD$ 6 million were given as loans funding 73 projects in renewable energy. 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.

The bank ahead of the Covid 19 lockdowns held several awareness workshops in Gaza on renewable energy and green loans in Gaza. These sessions continued online post the start of the emergency lockdowns.

The bank continued to work with SMEs and participated in the PMA led Istidama SME loan programs targeting businesses most affected by Covid 19. The program has reduced interest rates as a way to support owners of businesses to overcome the current market challenges.

The bank continues to work with the Global Alliance for Banking on Values (GABV) to produce its first scorecard as a testimony to the bank’s commitment to the real economy and the triple bottom line of planet, people and prosperity.

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 2020 during the Covid 19 pandemic rechanneling customers towards the online and mobile banking services.Awareness campaigns were launched providing incentives for customer to use the mobile banking app and online services with rewards in points and donations to the government effort to combat corona virus. Mobile Banking Branch was also deployed to remote villages during the emergency lockdowns to provide remote villages with access to ATM and cash.

Marketing and Public Relations

Covid 19 forced the marketing campaigns to be channeled towards promotion of electronic channels and digital banking. Measures were taken to support customers doing their businesses remotely by increasing the ceiling of wire transfers to reach USD$10,000. Also amounts for withdrawals and deposits at ATM were increased to USD4,000 supporting customers during the pandemic to meet their daily needs. All cards that were expiring were renewed automatically to allow customers the ability to use their cards at ease during the lockdown periods.

My bank at My Home Campaign:

To encourage customers not to come to the branches during the emergency periods and lockdown periods the bank launched a campaign to promote the use of the mobile banking app Bank e with a cash incentive for using the app of ILS 1000. The campaign also was connected to the pointCom campaign.

PointCom: the campaign aimed to encourage customers to use electronic banking services such as Banke mobile application, internet banking and all cards during their transactions continued in 2020. 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.

Special Campaign for Women in March 2020:

A special campaign to encourage women in business was launched for a prize of USD$ 50,000.

Electronic Services for Retail Customers:

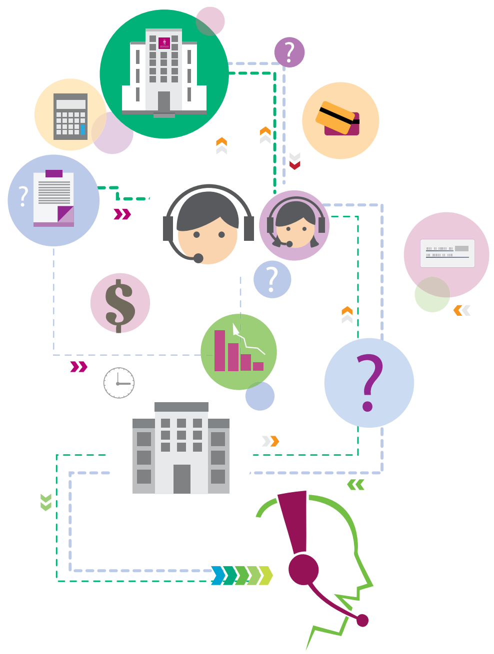
2020 was a pivotal year for digital transformation inside the bank of Palestine and its group. The Covid 19 pandemic offered an opportunity for a jump in customer usage of our electronic services.

Mobile Application Bank e 3.0 & 3.1:

Several improvements on the mobile App Bank e were introduced in 2020 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. The today has enhanced user-friendly experience in 2020. Improving the screen interface. Special foreign exchange rates were added to the app, in addition to enabling the app to charge the e wallet provided by our subsidiary company PalPay. Below are some indicators:

- Number of customers registered in Bank e are 243,450 approximately 43% of bank's total customers
- Decline of numbers of customers not registered in Bank e app from 71% to 57% in 2020
- Regular customers om Bank e jumped from 8% to 13%
- Customers executing transactions jumped from 3% to 6%

While the numbers are modest numbers; but evidence of a behavioral change in the habits of customers who always had preferred cash transactions to electronic transactions.



74 Branches and Offices

Branch & Network Footprint:

Although branch expansion 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 74 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.

Bank of Palestine Representative Offices

Santiago-Chile 2020

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.

2020 was a year where Chile also was subject to Covid 19 lockdowns. The Chile Rep continued therefore to strengthen bonds between Palestinian Diaspora in Latin America and Palestine.

The community in Chile was active in raising funds with the help of the Bank Rep Office in Chile and Tawoon to purchase 22 ventilators for hospitals in East Jerusalem Gaza and West Bank.

The Rep office sponsored the Maklube dinner, a focal fundraising event of the community in Santiago collecting funds for scholarships for Palestinian children a tradition that continued despite the Covid 19 Pandemic.

Community of chile donating medical equipment for covid -19 to ministry of Health in cooperation with tawoon

Bank of Palestine Representative Offices

Dubai, DIFC, UAE 2020

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 continues to serve 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 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. Some activities took place before the Covid 19 lockdowns. However, the office continued to promote the services at home providing Dubai customers with access to all digital electronic channels for their banking services at home. The rep office opened 150 new accounts for customers at home and attracted several key time deposits. The office maintained contacts with shareholders of the Bank residing in the UAE who represent 4.1% of the total shareholders of the bank.

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 2020 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 community responded to our appeal in support of efforts to combat Covid 19 in Palestine and donated towards these efforts from Chile and Saudi Arabia.

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

Communicating with our diaspora:

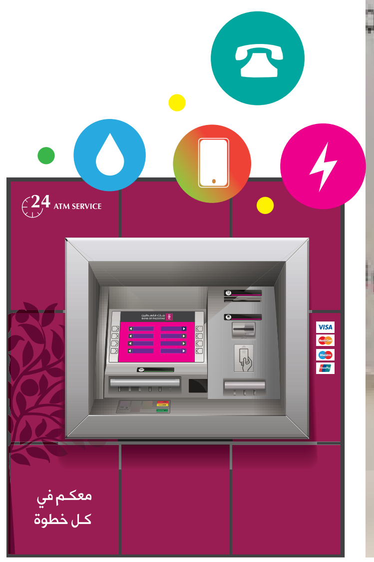
Today with the technology at hand, our diaspora enjoy the various digital platforms to get served by the bank: Online banking, Mobile App and the various communications channels. The diaspora team is a dedicated team often acting as account executives for diaspora clients on a 24-hour basis most of the time with the different time zones. Our department serves more than 2,961 diaspora client with a loan portfolio of USD$12 million and USD$105 in deposits.

Operations and Information Technology

The Covid 19 reality imposed itself on the Technology Department with a lot of strain on the teams to provide the technology infrastructure in support of the banking operations and remote working.

The Bank continued to upgrade the banking network and data center with remote operations and security measures introducing higher speeds and cloud connectivity. Upgrade of the VPN feature with added security features with double verification to meet the pressures of Covid 19 especially with remote working from home. The call center was also expanded; and equipped to enable staff to work from home during lockdowns.

Investments in upgrading the core banking system to conduct special operations such as system upgrade for KYC, system upgrade for diaspora clients, and customer segmentation. Rehabilitation of the Disaster Recovery Centers to be ready for any emergency.



Mobile and Internet Banking for Corporates

2020 ushered the full roll out of the mobile and internet banking features for corporates. The system allows companies to conduct internal and external transfers, dealing with credit cards and cheques, follow up of loans, payment of salaries and balance inquiries.

Operations continued implementing the electronic cheque clearing system with local banks optimizing this process and saving time and cost. Electronic transfers were also conducted for bulk government transfers; also impacting cost and speed.

Cards Business

Bank of Palestine continued to enhance its card business with promotion campaigns mainly the Pointcom campaign converting points from use of cards to cash or to credit in shops. Debit and credit cards are now easily printed in branches and with Covid 19 and as result of campaigns there is a higher percentage of usage of these cards.

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

In 2020 the PMO was also heavily involved in ensuring crisis management team and Corona Task Force were effectively working and managing the impact of the Covid 19 crisis. The onset of Covid 19 helped speed up some of the projects under the PMO especially in digitization and centralization.

The PMO was able to work on getting the ISO 9001:2015 certificate from Llyod's Register Quality Assurance whereby the bank has fulfilled applying international standards in quality control. This certificate is indicative of the fact that the bank is applying the "Risk Based Thinking", a new approach to identify risks and opportunities and achieve better-integrated management. The bank has become the first bank in Palestine to obtain this certificate.

The PMO office in 2020 continued overseeing the Centralization of 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 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.

Covid 19 was an important game changer in the way Human Resources department conducted its work and operations. The HR department was fast to adapt to the new realities with a focus on protecting the staff and ensuring their safety, working to limit the exposure of the staff to the virus and working with those staff affected to ensure they are properly taken care off.

Below are some of the measures taken in 2020:

• Initiate an awareness campaign on protection from Corona Virus

• Preparing the health protocol leaflet with a hotline for staff

• Appointment of a medical doctor to act as an advisor to the bank and staff who were eager tor receive first hand information about the virus

• Providing staff with all needed disinfectants, masks and other protective gear

• Applying a shift system in the work place to reduce congestion of staff

• Cancelation of face to face meetings and enhancing the culture of meetings over Teams Microsoft

• Assisting staff who were working from home with their technology needs

• Facilitating Corona tests for those staff who had any symptoms and or had mixed with Corona patients

With a total of 1749 staff in 2020, 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 2020. 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 increasing to 41.5% in 2020 in consistence with the policies of empowering women in the bank and especially in higher management positions.

Internal Well Being:

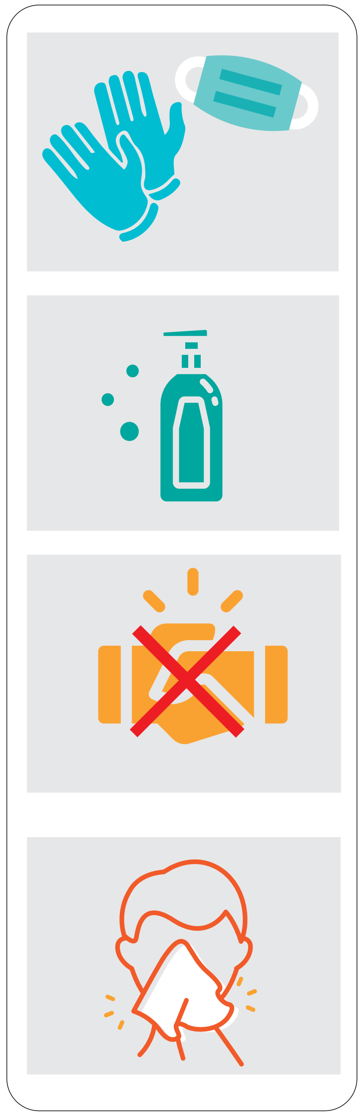
In 2020 the bank continued to pay increasing attention to a healthy environment under its internally designated theme program: “Health First in the First National Bank”. Under this program a weight loss competition was conducted to encourage staff to lose weight and be healthier providing financial incentives 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 in the days prior to Covid 19.

• 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.



Values.. Partnerships... Impact

Corporate Social Responsibility

2020 was the year Bank of Palestine redirected a bulk of its CSR budget towards combating the health and socio-economic impact of Covid 19 on Palestine.

Bank of Palestine Group unleashed a multi-faceted; multi-stakeholder strategy and approach in supporting the Palestinian Government to combat the spread of COVID-19 with an ILS 7 million (approx. USD$ 2 million) donation. The group deployed at the national effort; its financial resources, its media channels, its digital channels, its diaspora networks and in kind donations.

On the health awareness front, the bank engaged all the relevant stakeholders working with the Prime Minister's office, Ministry of Health –MOH, World Health Organization-WHO, UNCIEF, and the Palestinian International Cooperation Agency-PICA. The awareness campaign aimed to support the government's health and emergency instructions using influencer videos from local celebrities and Arab celebrities. The strategy then moved to include in kind donations, rallying up the diaspora network for donations, direct financial contributions to the government via redirecting existing commitments in sponsorship and CSR programs towards the COVID-19 emergency needs. We also created digital platforms for donation utilizing the bank's digital services and channels both to raise awareness for the stay home campaign providing incentives to customers to use the mobile banking application. In return for using the mobile app while staying at home customers get a daily prize of ILS 1000 (approx.: USD$ 280) and in turn the bank donates one ILS towards the government's and national efforts to combat the virus. Our staff as well also decided to chip into our effort and donated a day's salary"

Below is a recap of the different interventions the bank unleashed in the face of the Coronavirus crisis:

Health Awareness campaign:

A multitier awareness campaign was launched in partnership with the Palestinian Ministry of Health, WHO, UNICEF, Palestinian International Cooperation Agency-PICA with the theme and message of following the instructions of the Palestinian Ministry of health.

• The campaign led with a 25 video series with over 25 influencers from art, music, religious leaders, security officers, ambulance officers, laborers, & social media activists.

• The video campaign was aired on Palestine TV and broadcasted on radio stations and is sponsored on social media platforms and you tube channels of all the partners

• The video campaign was followed up by an information campaign with health content, tips and advice on the virus and how to combat it prepared by WHO, UNICE and MOH that is beamed in social media and digital media

• This campaign was deployed through the media channels of the bank: ATM Machines, Billboards, Digital News sites, Radios, TV channels and social media platforms with unlimited sponsorship budget.

The Palestinian government received praise from the World Health organization for its quick actions imposing lock down and social distancing and public health awareness campaigns in partnership with the private sector.

In-Kind Donations:

• Bank of Palestine donated 1,400 N95 masks to the ministry of health for use by frontline medical staff.

• Bank of Palestine donated 500 N95 masks to the emergency committee of the Ramallah Governorate to be used by police and frontline officers in the district.

Contributions via Digital Channels:

Leveraging the Bank's Mobile Application to raise donations towards the government effort. The bank has launched a campaign whereby every time customers use the mobile banking application "Banke" one ILS is donated by the bank towards the government's efforts to combat the pandemic. To encourage customers to use the App a daily prize is given to customers to stay home and use the app and avoid going out.

Redirecting parts of the Sponsorship and CSR budget towards Direct Financial Contributions:

The bank has part redirected budget items already allocated to certain sponsorship commitments and CSR commitments in 2020 to contribute directly from its financial resources to the government's effort to combat the virus and sustain the socio-economic fallout because of the crisis through direct donations to ministries of Health, Labor, and Social Development.

Group Companies: Arab Islamic Bank-AIB and the group's Electronic Payments Fintech Company PalPay contributed additional financial contributions to the public effort as part of the Bank of Palestine Group's commitment. Palpay is already working with International humanitarian agencies on issuing cash cards for food handouts from supermarkets and cash for work using the digital platform of the company.

Group Staff Donation:

Bank of Palestine Group Staff of 2,500 employees donated one day of their salary providing their own contribution to our institutional donation with a USD$140,000 donation of their own.

Contribution via the Palestinian Banking Association:

Bank of Palestine donated financially as well through contributing its share in the collective donation of USD$500,000 by the Association of Banks in Palestine to the Ministry of Health.

Leveraging the Diaspora Networks of the Bank:

Chile:

Key business leaders from Chile have been approached by the Bank and as such have expressed readiness to donate a significant amount towards the effort and stipulated their donations to go to support hospitals in East Jerusalem and Gaza with key equipment i.e. PPEs and Ventilators. This effort was coordinated with the Tawoon Organization. Additional efforts with Palestinian diaspora in other countries will continue, as the crisis remains a national priority.

Non-Corona 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.

Bank of Palestine continues to lead on creating awareness to support early detection and early testing to combat breast cancer. The bank converts all its media and communications channels towards this campaign during the month of October of every year.

Saving Lives: Pink Mobile Clinic

The Pink mobile continued to operate after its inauguration in 2018 year. The clinic goes to remote villages were women are deprived of the early detection examination of potential breast cancer and equipment. It is reported that chances of cure is 90% because of early detection.

First Banking on Values Conference in Palestine

Bank of Palestine in cooperation with the Global Alliance for Banking on Values hosted the first conference of Banking on Values in Palestine

Bank of Palestine is proud to be the first full member of the GABV in the entire MENA region. Perhaps other banks have joined the 70 strong Members of the movement, but we are proudly the first Arab and Palestinian Bank.

Banking on values puts people and purpose first ahead of profit. It focuses on the triple Bottom line: People, Planet and Prosperity. It focuses on the real economy, on sustainability, on transparency and on real impact.

Our deposits come from the real people, with little leveraging and borrowing from institutional lenders. Our loans to deposits ratio is 67.6%. Our lending activities goes to the real economy, with 14% going to SME lending. We continue to expand our outreach to clients in the real economy.

Our resilience and adaptability towards real needs of people have also helped speed up our digital banking services to be more inclusive of the youthful segments of the population who require more agility and more online services.

We continue to build real and long-term relations with our clients providing financial and non-financial advisory to SMEs and working with the clients in all aspects of the banking relationship. Our flagship Felestineya women's banking program has provided financial and non-financial advisory to over 12,000 women with the Mini MBA program for women with existing business moving into gear again for the 5th year.

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 28 branches Islamic Banking solutions to a growing segment of customers requiring such sharia' compliant solutions.

• The bank continues to carve its market share providing 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 is keen to achieve the following objectives:

o Preserve its Islamic banking identity

o Support national efforts in financial inclusion

o Augment efforts to support financing of MSMEs

o Strengthen the bank's contribution to the community

•The bank has achieved growth across all its indicators. Its assets increased to USD$ 1.558 billion with an increase of 139%. Deposits increased by 151% to reach USD$ 1.296 billion with net profits in 2020 of USD 8 million. Benchmarked against the banking sector AIB's direct financing grew by 204% clearly indicating the potential for growth for AIB in the coming years. Its market share compared to its peers grew by 23%. This growth trajectory took place despite the advent of Covid 19 and disruption to economic cycle in Palestine.

• AIB launched several campaigns in 2020:

o Easy Life Card

o Instant issuance of cards

o Contactless cards

o Savings cards

o Stay at home campaign to encourage digital services

o Insurance installment payments campaign

الوساطة
AL WASATA

الوسـاطة لـلأوراق المالية

• 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 with over 392 new accounts in 2020. It has a USD 79 million trading volume in local & regional markets, and more than USD 450 million worth of shares under management.

• As a result of Covid 19 and closure of the Palestine Exchange PEX the volume of trading in PEX decreased to USD 20.2 million compared to USD81 million in 2019.

• To reach customers during Covid 19 Al-Wasata employed new Multi-Markets services working with US markets and other regional markets. This has opened trading opportunities with new markets for Al-Wasata customers.

• Al-Wasata communicated with its customers electronically during Covid 19.

• 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.

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. PalPay was instrumental during the Covid 19 Pandemic in 2020 in supporting the Bank of Palestine digital services upgrades.

• The company continued to also serve its own client base achieving more than 1 ILS billion worth of electronic transactions during the year 2020 through PalPay®. 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 successfully launched the first E-Wallet in 2020 in the country serving the unbanked and penetrating the financial market with its tools. The new E-Wallet allows unbanked customers to wire money among themselves, pay merchants, withdraw money and pay the utility bills on the PalPay billers list. The launch of the E-Wallet was timely given the propensity of customers to use digital payment methods during Covid 19.

صندوق ابتكار
IBTIKAR FUND

Ibtikar fund was a created with an eye to close a funding gap in the Eco System. 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 funding solution. 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 been 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 Innovation Fund continued to play a role in the Entrepreneurial Eco System even during a difficult year like 2020 because of the imposition of Covid 19 and subsequent lockdowns locally and globally. Despite the Pandemic several of fund's companies continued to grow amassing additional investments from international investors who are first time investors in the Palestinian market. 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 whom are under the age of 30.

In 2020, Ibtikar commenced steps towards fundraising for its second fund with a size of USD$30 million, in order to build on this momentum and continue to support the most promising Palestinian tech startups.

I btikar Companis Meeting Management of Fund on line

ICEP 2020

International Conference on Entrepreneurship - Palestine

Empowering the Digital Generation

Case Study: ICEP 2.0

ICEP 2.0 featured distinguished Thought Leaders, Leading Technology Companies, VC Fund Managers from Japan, USA, Europe, and MENA

Bank of Palestine alongside its partners sponsored the second version of Palestine International Conference for Entrepreneurship ICEP 2.0. the second version had speakers representing thought leaders, innovation experts, business leaders, development agencies, tech multinationals, investors, startups, entrepreneurs from USA, Europe, MENA, including, UAE, Germany, UK, France, Jordan, Norway, Japan, Switzerland, and Palestine.

The conference covered the Ecosystem for Innovation, the Funding Map, the R&D/Outsourcing potential, the Startup Generation in Palestine, Startup Pitches, closing with a Special Dialogue with Silicon Valley. Program included a session hosted by the World Economic Forum on the role the 4th Industrial Revolution is playing in socio economic fabric.

This is the first time organizers were able to gather such a distinguished panel of speakers from diverse backgrounds, important positions and countries. This is because of the success of the first conference, the partnership between government, private sector and international organizations in convening this event, plus the energy of the global shapers and community of entrepreneurs in Palestine. This was a testimony to a proactive and inclusive collaboration of the players in the innovative ecosystem leading the digital transformation in Palestine.

The second edition of the conference was held under the auspices of H.E. the Prime Minster of Palestine, represented by H.E Minister of Entrepreneurship & Empowerment, in cooperation with the Global Shapers Hubs in Palestine (a community of the World Economic Forum), and in partnership with Bank of Palestine Group, Consolidated Contractors Company, the World Bank, the International Finance Corporation and Paltel Group, with the support of Hubert Burda Media – Germany.

For more information visit Website of Conference: https://icep.ps/

قدرة
Qudra

Qudra Energy Solutions Co.

2020 witnessed the creation of Qudra Energy Solutions Co. Bank of Palestine Group and the National Aluminum and Profiles Company “NAPCO” (member of APIC Holding Group) announced their joint venture to set up “Qudra”; specialized in Renewable Energy Solutions serving Palestinian Territories in the West Bank and Gaza. The company will employ state of the art technology and international standards to provide turnkey solar assets in partnership with local Municipalities and Electricity Distribution Companies in addition to other partners.

“Qudra” has a strong position in the international and local supply chains of vendors and experienced contractors, giving it the ability to deliver cost-effective solar assets with market leading quality, with a target capacity of 100MW in the first phase of its short term plan. Future objectives include implementing modern power management systems as well as storage facilities for surplus solar energy.

This partnership is an important synergy of the values and commitment of founders to produce clean, affordable energy that would power the economy and public sector activities. This will provide Palestine with reliable and secure sources of energy. NAPCO will transfer its know-how and track record in solar energy production to Qudra endowing it with immediate expertise and revenue generating projects from the already ongoing pipeline.

Palestine imports 95.9% of its electricity needs from outside sources. Only 2.3% is generated from domestic solar sources. The electricity demand in Palestine is expected to grow even more with additional generation sources, by offering cheap renewable energy for commercial, industrial and agricultural consumers and thus stimulating economic growth. The deployment of solar assets can immediately replace at least 30% of the total annual imported consumption in daytime, with a total capacity of more than 500 MWp based on the current consumption levels.

This new company stems from the values based commitment at the Bank towards environmentally friendly investments and our contribution to the value chain of economic development by providing affordable energy to the Palestinian market place specially MSMEs and other business entities. Bank of Palestine will stand to benefit from PMA regulatory incentives, given the encouragement of the regulatory bodies for banks to invest in renewable energy sector. As a bank, we see financial innovation as an important lever to the economy and energy innovation as another; in a promising and nascent economy such as Palestine.

INTERSECT HUB INNOVATING IMPACT

Intersect Innovation Hub

2020 witnessed the launch of Intersect Innovation Hub by Bank of Palestine as another contribution to the innovative Eco system in the country. The Hub was registered as a Not for profit organization powered by the bank and opened to partnerships that are like minded in developing the eco system for innovation.

The Hub is designed to:

• Have Local Branches: Ramallah, Nablus, Hebron, Gaza

• Leverage Bank of Palestine's international & regional Networks

• Supports the Palestinian Technology Ecosystem

• Focuses on Fintech, Social Entrepreneurship, Global

• Exposure, Networking, though leadership, 4th industrial revolution,

• Support Green Economy & Circular Innovation

• Completing the circle: intersect a precursor of ideas and an incubation of talent feeding the Pipeline locally and globally Entrepreneurship

BACKGROUND

Entrepreneurship in Palestine is becoming more than just a job. It's the creation of new jobs. We have determined and talented individuals, but the problem remains in the gap between educational outcomes and job market needs, and the absence of skills.

To create a shift in the system, Intersect Hub will target the following areas through its programs and services.

• Up skilling & capacity building

• Women empowerment and inclusion

• Exposure, connection and global network

MISSION

Provide Palestinian innovators and entrepreneurs with a strong and resilient innovative platform,environment & network for entrepreneurial growth that combines business, research, growth, impact, and networking, ensuring that the integration of these five is more efficient and has a higher impact on innovation than standing alone.

Exposure to local and international mentors

Strengthen the support services required towards growth

Access to international models, mentors, entrepreneurial ecosystems

Access to resources to refine and develop ideas into businesses

To Serve as a sandbox for ideas, a place to test these innovation ideas and technologies and turn them into viable solutions rapidly and efficiently

To Mentor, and provide exposure to local and international mentors and international networks targeting the next generation

Strengthen the support services

To Expand the circle to target marginalized areas in Palestine

FLAGSHIP PROGRAM

- Ideation Phase: The Pre-Accelerator: 3x 3-day pre-accelerators, 360 entrepreneurs, 30 raw ideas
- Capacity Building Phase: 6-week program, 36 entrepreneurs, 9-11 startup ideas
- Acceleration Phase: Intersect Innovation Hub will host 9-11 startups
- Seeding Phase Intersect Alumni Network: 3-5 startups ready for the investment stage

E-COMMERCE Program

6 Cohort program to up skill and train women producers and women with disability to market their homemade products and others online, learn the entire process and generate income.

The end-to-end program is designed to guarantee maximum inclusion of women with disability and in marginalized areas and independent income generation

Consists of 6 cohorts/Duration:18 Months/40 Participant each cohort (120 in WB +120 in Gaza)/240 direct beneficiaries/720 indirect beneficiaries

Startup in Residence (STIR) program

Connects private sector, government agencies, Development financial institution's with startups to develop technology products that help the ecosystem become more collaborative, inventive, and responsive. Connecting the ecosystem with solution driven startups and collaborate together to co-develop custom solutions that address real civic challenges.

PARTNERSHIPS

Gaza Sky Geeks: Mentorship I Partner in Residence, Space Facilities.

SV Palestine: Resilience Accelerator Program/Palestine and Jordan.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

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Building a better working world

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, 2020, consolidated income statement, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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 (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at December 31, 2020. 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.

Building a better working world

Key Audit Matter	Audit Procedures
Expected Credit Losses "ECL" allowances: The estimation process of the expected credit losses of credit facilities and Islamic financing, balances at banks and financial institutions, and financial assets at amortized cost in accordance with IFRS (9) is important and complex as it requires significant judgement. IFRS (9) requires the use of the ECL model, which requires the bank's management to use various assumptions and estimates to determine both the time and value of ECL in addition to applying judgment in determining the inputs within the impairment measurement process, including collaterals and default date. The Coronavirus (COVID-19) pandemic has affected the expected credit losses calculation process. During the year, the Bank revised its microeconomic indicators and allocated more weight to the worst-case scenarios. In addition to studying the impact of the pandemic on the customers' economic sectors. Given the importance of the provisions applied in IFRS (9) and the credit exposures that form a major part of the Bank's assets, ECL is considered a significant audit risk. Net credit facilities and Islamic financing, balances at banks and financial institutions and financial assets at amortized cost amounted to U.S. $ 4,220,106,545 as at December 31, 2020 which compromises 73% of the Bank's total assets. The related ECL amounted to U.S. $ 156,105,486 as at December 31, 2020. Accounting policies estimates and significant accounting judgments, disclosures of the ECL, and credit risk management are detailed in notes (3, 6, 8, 10, 27, 47 and 55) to the consolidated financial statements.	Our audit procedures included assessing the controls on procedures for granting, recording and monitoring credit facilities and financing, and the process of measuring ECL, including the requirements of the Palestinian Monetary Authority (PMA) to verify the effectiveness of the main controls are in place, which determine the impairment in credit facilities and Islamic financing, balances at banks and financial institutions, financial assets at amortized cost and the required provisions against them. Our procedures for testing controls also included assessing whether key controls, in the aforementioned processes had been designed, applied and effectively implemented; in addition to performing the following assessment procedures: - The Bank's policies related to the ECL provision in accordance with IFRS (9). - Key assumptions and judgments related to the material increase in credit risk, the definition of default, and the use of macroeconomic inputs to verify that the ECL amounts recorded reflect the underlying credit quality and macroeconomic trends, including the impact of the Coronavirus (COVID-19). - The appropriateness of the Bank's staging. - The appropriateness of determining Exposure at Default (EAD), including the consideration of the cash flows repayments and the resultant arithmetical calculations. - The appropriateness of the Probability of Defaults (PD), Exposure at Default (EAD) and Loss Given Defaults (LGD) used for different exposures at different stages. - The appropriateness and objectivity of the internal evaluation of credit facilities and financing. - The accuracy and appropriateness of ECL calculation process - Credit facilities and Islamic financing transferred between stages, and the determination basis of significant increase in credit facilities and financing risk in regard to timely identification with a significant deterioration in credit quality. - ECL calculation for credit facilities and Islamic financing determined to be individually impaired. We also obtained an understanding of the latest developments in estimated future cash flows, current financial position and any rescheduling or restructuring agreements. - Procedures followed for collaterals valuation in accordance with the evaluation policies of the Bank. - Assessed the adequacy of the disclosures to the consolidated financial statements to ensure compliance with IFRS (9).

Other information included in the Bank's 2020 Annual Report

Other information consists of the information included in the Bank's 2020 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2020 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements as at December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young - Middle East
License # 206/2012

Sa'ed Abdallah
Ernst + Young

Sa'ed Abdallah
License # 105/2003

March 18, 2021
Ramallah - Palestine

Consolidated Statement of Financial Position
As at December 31, 2020

	Note	2020 U.S. $	2019 U.S. $
ASSETS			
Cash and balances with Palestine Monetary Authority	5	1,323,410,056	1,361,087,532
Balances at banks and financial institutions	6	747,858,727	396,006,755
Financial assets at fair value through profit and loss	7	18,735,305	19,072,028
Direct credit facilities and Islamic financing	8	3,266,748,588	2,983,385,227
Financial assets at fair value through other comprehensive income	9	28,559,024	28,899,933
Financial assets at amortized cost	10	205,499,230	242,744,683
Investment in associates	11	5,946,380	5,503,519
Investment properties	12	25,884,919	25,677,869
Property, plant and equipment and right of use assets	13	121,430,377	124,329,349
Projects in progress	14	2,680,297	3,175,677
Intangible assets	15	15,428,395	15,297,116
Other assets	16	47,628,690	59,764,952
Total assets		5,809,809,988	5,264,944,640
LIABILITIES AND EQUITY			
Liabilities			
Palestine Monetary Authority's deposits	17	168,347,302	243,522,869
Banks and financial institutions' deposits	18	82,088,201	238,742,403
Customers' deposits	19	4,580,935,374	3,871,986,081
Cash margins	20	253,088,880	243,597,937
Subordinated loan	21	75,000,000	75,000,000
Loans and borrowings	22	27,636,180	3,679,566
Istidama loans from Palestine Monetary Authority	23	9,134,926	-
Lease Liabilities	24	33,453,914	33,671,658
Sundry provisions	25	48,851,375	46,976,344
Taxes provisions	26	4,610,652	1,421,119
Other liabilities	27	93,142,513	75,682,470
Total liabilities		5,376,289,317	4,834,280,447
Equity			
Paid-in share capital	1	208,080,000	204,000,000
Additional paid-in capital	28	24,848,415	24,848,415
Statutory reserve	29	56,970,341	54,982,241
Voluntarily reserve	29	246,361	246,361
General banking risks reserve	29	10,311,877	9,749,949
Pro-cyclicality reserve	29	40,000,000	40,000,000
Fair value reserve	9	(4,999,792)	(3,854,902)
Retained earnings		43,763,159	46,828,335
Total equity holders of the Bank		379,220,361	376,800,399
Non-controlling interests	4	54,300,310	53,863,794
Total equity		433,520,671	430,664,193
Total liabilities and equity		5,809,809,988	5,264,944,640

Consolidated Income Statement
For the year ended December 31, 2020

	Note	2020 U.S. $	2019 U.S. $
Interest income	31	161,289,379	160,857,087
Interest expense	32	(42,650,597)	(43,830,406)
Net interest income		118,638,782	117,026,681
Net financing and investment income	33	35,662,682	37,000,873
Net commissions	34	43,156,485	49,077,243
Net interest, financing, investment and commissions income		197,457,949	203,104,797
Foreign currencies gains		16,745,839	17,978,791
Net gains from financial assets	35	611,729	2,214,059
Change in fair value of investment properties	12	48,050	1,186,495
Bank's share of results of associates	11	442,861	421,968
Other revenues	36	6,941,015	4,986,573
Gross profit		222,247,443	229,892,683
Expenses			
Personnel expenses	37	(73,595,572)	(73,379,864)
Other operating expenses	38	(48,620,126)	(54,968,234)
Depreciation and amortization	13&15	(18,858,916)	(17,780,549)
Expected credit losses on direct credit facilities and Islamic financing, net	8	(38,968,640)	(30,691,140)
(Provision) recovery of expected credit losses on investments	39	(489,146)	234,267
Credit facilities not previously provided for and written off		(1,532,623)	(1,497,114)
Palestine Monetary Authority's fines	40	(22,052)	(15,000)
Total expenses		(182,087,075)	(178,097,634)
Profit before taxes		40,160,368	51,795,049
Taxes expense	26	(17,748,220)	(12,858,327)
Profit for the year		22,412,148	38,936,722
Attributable to:			
Equity holders of the Bank		19,881,004	33,957,680
Non-controlling interests	4	2,531,144	4,979,042
		22,412,148	38,936,722
Basic and diluted earnings per share	42	0.10	0.16

Consolidated Statement of Comprehensive Income
For the year ended December 31, 2020

	Note	2020 U.S. $	2019 U.S. $
Profit for the year		22,412,148	38,936,722
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		(1,322,007)	(399,017)
Total other comprehensive income		(1,322,007)	(399,017)
Total comprehensive income for the year		21,090,141	38,537,705
Attributable to:			
Equity holders of the Bank		18,736,114	33,599,837
Non-controlling Interests	4	2,354,027	4,937,868
		21,090,141	38,537,705

Consolidated Statement of Changes in Equity

For the year ended December 31, 2020

2020	Paid-in share capital	Additional paid-in capital	Reserves: Statutory	Reserves: Voluntarily	Reserves: General banking risks	Reserves: Pro-cyclicality	Reserves: Fair value	Retained earnings	Equity holders of the Bank	Non-controlling interests	Total equity
	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	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
Profit for the year	-	-	-	-	-	-	-	19,881,004	19,881,004	2,531,144	22,412,148
Other comprehensive income	-	-	-	-	-	-	(1,144,890)	-	(1,144,890)	(177,117)	(1,322,007)
Total comprehensive income for the year	-	-	-	-	-	-	(1,144,890)	19,881,004	18,736,114	2,354,027	21,090,141
Transfers to reserves	-	-	1,988,100	-	561,928	-	-	(2,550,028)	-	-	-
Stock dividends (note 30)	4,080,000	-	-	-	-	-	-	(4,080,000)	-	-	-
Cash dividends (note 30)	-	-	-	-	-	-	-	(16,320,000)	(16,320,000)	(1,917,511)	(18,237,511)
Fractions of stocks	-	-	-	-	-	-	-	3,848	3,848	-	3,848
Balance, end of the year	208,080,000	24,848,415	56,970,341	246,361	10,311,877	40,000,000	(4,999,792)	43,763,159	379,220,361	54,300,310	433,520,671

2019	Paid-in share capital	Additional paid-in capital	Reserves: Statutory	Reserves: Voluntarily	Reserves: General banking risks	Reserves: Pro-cyclicality	Reserves: Fair value	Retained earnings	Equity holders of the Bank	Non-controlling interests	Total equity
	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 30)	4,000,000	-	-	-	-	-	-	(4,000,000)	-	-	-
Cash dividends (note 30)	-	-	-	-	-	-	-	(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

Consolidated Statement of Cash Flows
For the year ended December 31, 2020

	Note	2020 U.S. $	2019 U.S. $
Operating activities			
Profit for the year before taxes		40,160,368	51,795,049
Adjustments for:			
Depreciation and amortization		18,858,916	17,780,549
Net gains from financial assets		(1,068,787)	(2,869,558)
Expected credit losses on credit facilities and investments, net		39,457,786	30,456,873
Gain from revaluation of deposits at below market interest rate		(1,428,011)	-
Modification losses arising of Islamic financing of a subsidiary		3,364,410	-
Accrued finance cost on lease liabilities		1,011,795	1,028,101
Sundry provisions		5,982,147	6,292,825
Valuation gains on investment properties		(48,050)	(1,186,495)
Bank's share of results of associates		(442,861)	(421,968)
Credit facilities not previously provided for and written off		1,532,623	1,497,114
Losses on disposal of property, plant and equipment		1,119	93,808
Other non-cash items		915,298	(753,035)
		108,296,753	103,713,263
Changes in assets and liabilities:			
Direct credit facilities and Islamic financing		(327,313,987)	(328,559,307)
Statutory cash reserve		(33,417,361)	(28,526,680)
Other assets		12,136,262	5,173,295
Customers' deposits		708,949,293	337,224,853
Istidama loans from Palestine Monetary Authority		9,134,926	-
Cash margins		9,490,943	43,180,609
Other liabilities		16,625,073	18,234,822
Net cash flows from operating activities before taxes and sundry provision		503,901,902	150,440,855
Taxes paid		(14,558,687)	(15,072,078)
Sundry provision, paid		(4,107,116)	(2,329,205)
Net cash flows from operating activities		485,236,099	133,039,572
Investing activities:			
Purchase of financial assets at fair value through profit or loss and through other comprehensive income		(1,869,358)	(4,702,373)
Purchase of financial assets at amortized cost		(72,077,957)	(54,361,610)
Sale of financial assets at fair value		-	5,090,000
Maturated financial assets		109,383,656	87,185,613
Deposits at banks and financial institutions maturing in more than three months		4,954,104	(5,641,749)
Deposits at Islamic banks maturing in more than three months		(552,854)	(1,459,597)
Stocks dividends received		1,471,545	3,499,950
Intangible assets		(2,117,795)	(1,550,214)
Projects in progress		(5,753,272)	(4,282,009)
Purchase of investment properties		(159,000)	(5,741,544)
Purchase of property, plant and equipment		(4,907,468)	(9,079,517)
Sale of property, plant and equipment		216,172	95,887
Net cash flows from investing activities		28,587,773	9,052,837
Financing activities:			
Lease liabilities paid		(4,264,138)	(2,203,378)
Cash dividends paid		(17,457,248)	(24,110,034)
Loans and borrowings		23,947,092	-
Fractions of stock dividends sold		3,848	4,307
Net cash flows from (used in) financing activities		2,229,554	(26,309,105)
Increase in cash and cash equivalents		516,053,426	115,783,304
Cash and cash equivalents, beginning of the year		906,530,732	790,747,428
Cash and cash equivalents, end of the year	39	1,422,584,158	906,530,732
Interest expense paid		42,610,762	52,538,996
Interest revenue received		167,229,395	206,525,647

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 26, 2020, the general assembly approved increasing the Bank's paid-in share capital by U.S. $ 4,080,000 through stock dividends. The Bank's authorized and paid in capital amounted to U.S. $ 208,080,000 and U.S. $ 204,000,000 at U.S. $ 1 par value each as at December 31, 2020 and 2019, 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 (29) 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 (a subsidiary) was (21) branches in addition to (6) offices and a mobile office.

The Bank's personnel (head quarter and branches) reached (1,749) and (1,731) as at December 31, 2020 and 2019, respectively. The number of employees of subsidiaries are (693) and (639) as at December 31, 2020 and 2019, respectively.

The consolidated financial statements were authorized for issuance by the Bank's Board of Directors during their meeting number (383) dated February 28, 2021 and were approved by PMA on March 16, 2021.

2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at December 31, 2020.

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

	Country of incorporation and operations	Ownership %		Subscribed capital U.S. $	
		2020	2019	2020	2019
Arab Islamic Bank*	Palestine	52.06	52.06	88,469,252	84,919,252
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 general assembly of Arab Islamic Bank, decided in its meeting held on March 25, 2020, to distribute cash dividends to shareholders at a rate of4.71% of the par value of the share, with a total amount of U.S $ 4,000,000, and to distribute stock dividends to shareholders at a rate of 4.18% of the par value of the share, with a total amount of U.S. $ 3,550,000.

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, 2020 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, 2020. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

The non-controlling interest's share of losses is recorded even if there is a deficit in the non-controlling interest's equity.

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

3.3 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, 2019, except for the adoption of new standards effective as of 1 January 2020 shown below:

Amendments to IFRS (3): "Definition of a Business"

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

The amendments have been applied to transactions that are either a business merger or the acquisition of assets whose acquisition date is on or after the beginning of the first annual reporting period that began on or after January 1, 2020. Thus, the Bank has not had to reconsider these transactions that occurred on Earlier periods.

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

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

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

These amendments had no impact on the consolidated financial statements of the Bank.

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

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

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

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

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

Amendments to IAS (19): amendment, curtailment or settlement of the plan

Amendments to IAS (19) clarify the accounting treatment when the plan's amendment, curtailment, or settlement occurs during the fiscal year. The amendments also clarify that the Bank must first determine any past service cost, profit or loss from settlement, without taking into account the impact of the asset ceiling. This amount is recognized in the consolidated income statement.

Then the effect on the asset ceiling is determined after modifying, reducing or settling the plan. Any change, except for amounts, is recognized in the net interest in the consolidated statement of comprehensive income.

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

Amendments to IFRS (16): Covid-19 Related Rent Concessions

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

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

Standards issued but not effective

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

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

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

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

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

Reference to the Conceptual Framework – Amendments to IFRS (3) "Business Combinations

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

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

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

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

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

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

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

The amendments are not expected to have a material impact on the consolidated financial statements of the Bank.

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

In May 2020, the IASB issued amendments to IAS (37) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities.

The non-controlling interest's share of losses is recorded even if there is a deficit in the non-controlling interest's equity. In the event that the Bank loses control over its subsidiaries, the assets (including goodwill) and the liabilities of the subsidiary in addition to the book value of non-controlling interests are excluded. The surplus or deficit from disposal is recorded in the consolidated income statement. Any remaining investments are recorded at fair value.

General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.
The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The amendments are not expected to have a material impact on the consolidated financial statements of the Bank.

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

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS (9). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The Bank applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the consolidated financial statements of the Bank.

IBOR reform Phase 2

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

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis .IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation.

This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero.

The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months.

For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

The Bank did not early adopt the amendments as the uncertainty arising from the amendment does not affect the hedging relationships to the extent that the relationship is required to be terminated.

3.4 Summary of Significant Accounting Policies

Revenues recognition

The effective interest rate method

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

The EIR (and therefore, the amortized cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

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

Interest and similar income and expense

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

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

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

Fees and commission income

Fees income can be divided into the following two categories:

- Fees income earned from services that are provided over a certain period of time. Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and private wealth and asset management fees, custody and other management fees.
- Fee income forming an integral part of the corresponding financial instrument

Fees that the Bank considers to be an integral part of the corresponding financial instruments include loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees.

Dividend income

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

Service and rent revenues

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

Financial Instruments – Initial Recognition

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

Initial measurement of financial instruments

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

Day 1 profit or loss

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

Measurement categories of financial assets and liabilities

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

- Amortized cost
- FVOCI
- FVTPL

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

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

Financial Assets and Liabilities

The Bank only measures due from banks, loans and advances to customers and other financial investments at amortized cost if both of the following conditions are met:

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

The details of these conditions are outlined below:

Business model assessment

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

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed

- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The Business model assessment depends on reasonably expected scenarios without taking into consideration the "worse case" or "stress test" scenarios.
If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test
As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.
'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).
The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.
In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Derivatives recorded at fair value through profit or loss
A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

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

Financial assets at fair value through profit or loss

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

Financial guarantees, letters of credit and unutilized facilities ceilings

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

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

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

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

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

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

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

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

Derecognition other than for substantial modification

A. Financial assets

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

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

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

Or

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

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

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

A transfer only qualifies for derecognition if either:

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

Or

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

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

B. Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in consolidated income statement.

Impairment of financial assets

Overview of the ECL principles

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

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

The ECL allowance is based on the credit losses expected to arise 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 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:

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

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

The calculation of ECLs

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

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

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:

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

Loan commitments and letters of credit	When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the financial asset is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the commitment.

<u>Credit cards and other revolving facilities</u>

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.

<u>Bade debt not previously provided for and written off</u>

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

<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.

<u>Collateral valuation</u>

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 instructions.

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

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

Collaterals repossessed

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

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

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery taking into consideration PMA instructions with regard to this matter.
If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are deducted from expected credit loss expense.

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. Modifications may include extension of payments or agreeing to new financing terms. Classification decisions between Stage (2) and Stage (3) are determined on a case-by-case basis.

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.

Government grants
The Bank recognizes the government grant revenue if there is a reasonable assurance that it will be received, and the Bank will comply with the conditions associated with the grant. Government loan interest is considered as lower than market interest rate as a government income grant. The loan that carries a lower than market interest rate is recorded and measured in accordance with IFRS (9) 'Financial Instruments'. The interest income earned on this loan is measured by calculating the difference between the initial carrying amount of the loan in accordance with IFRS (9) and the amounts received. Grant revenue is calculated in accordance with IAS (20) “Accounting for Government Grants and Disclosures related to them.” Government grant revenue is recognized in the consolidated income statement on a regular basis over the periods in which the Bank establishes the losses that the grant aims to compensate. Grant income is recognized only when the ultimate beneficiary is the Bank. If the final beneficiary is a third party and not the Bank, then the cash received from donors is recorded as liabilities when it exceeds the sums transferred to the beneficiaries, while it is recorded as due from donors when it is less than what was transferred to the beneficiaries.

The below market rate loan is recognized and measured in accordance with IFRS (9) “financial instruments”. The benefit of the below market rate of interest is measured as the difference between the initial carrying value of the loan determined in accordance with IFRS (9) and the proceeds received.

The benefit is accounted for in accordance with IAS (20) “Accounting for government grants and disclosure of government assistance”. Government grant is recognized in the consolidate income statement on a systematic basis over the period in which the grant recognizes related costs for which the grant is intended compensate. The grant income is only recognized when the beneficiary is the Bank. Where the customer is the beneficiary, the Bank only records the respective receivable and payable amounts.

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

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

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

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

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 the 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 and their carrying value, then recognizes the difference in the consolidated income statement.

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.

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 bank 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.

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 measured at fair value and changes in fair value are recognized in the consolidated income statement.

Impairment of non-financial assets

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

Intangible Assets

A- Goodwill

- Goodwill is recorded at cost, and represents the excess amount paid to acquire or purchase the investment in an associate or a subsidiary on the date of the transaction over the fair value of the net assets of the associate or subsidiary at the acquisition date. Goodwill resulting from the investment in a subsidiary is recorded as a separate item as part of intangible assets, subsequently, the cost of goodwill is reduced by any impairment in the investment value.
- Goodwill is distributed over the cash generating units for the purpose of testing the impairment in its value.
- The value of goodwill is tested for impairment on the date of the consolidated financial statements. Goodwill value is reduced when there is evidence that its value has declined or the recoverable value of the cash generating units is less than book value. The decline in the values is recoded in the consolidated income statement as impairment loss.

B- Other intangible assets

- Other intangible assets acquired through mergers are stated at fair value at the date of acquisition, while other intangible assets (not acquired through mergers) are recorded at cost.
- Intangible assets are to be classified on the basis of either definite or indefinite useful life. Intangible assets with definite useful economic lives are amortized over their useful lives using the straight-line method and recorded as an expense in the consolidated income statement.
- Intangible assets with indefinite lives are reviewed in statement income for impairment as of the consolidated financial statements date, and impairment loss is recorded in the consolidated income statement.

Intangible assets resulting from the Bank's operations are not capitalized. They are rather recorded in the consolidated income statement in the same period.

Any indications of impairment in the value of intangible assets as of the consolidated financial statements date are reviewed. Furthermore, the estimated useful lives of the impaired intangible assets are reassessed, and any adjustment is made in the subsequent period.

Intangible assets with a finite life are recorded at cost less annual amortization. Intangible assets include computer software. These assets are amortized using the straight-line method over the useful life using rates estimated by the Bank and range from five to ten years.

Financial derivatives

Derivative financial instruments (such as foreing currencies forward deals, future interest contracts, swap contracts, foreign exchange options rights) are recognized in the consolidated statement of financial position at fair value .

Derivatives held for hedging purposes

Hedging of a net investment: If the hedging conditions apply to the net investment in foreign units, the profits or losses resulting from the change in the fair value of the hedging instrument are recorded within the items of other comprehensive income, and are transferred to the consolidated income statement when the investment in the foreign unit is sold. .

Hedges for which the conditions for effective hedging do not apply to the gains or losses arising from the change in the fair value of the hedging instrument are recorded in the consolidated income statement .

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.

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 consolidated 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.

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.

Capital cost of issuing or buying the Bank's shares

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

Assets under management on behalf of customers

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

Provisions

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

Taxes provision

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

Income tax expense represents the accrued income tax, which is calculated based on the 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.

Provision for end of service indemnity

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

Foreign currencies

The consolidated financial statements have been presented in US Dollar, which is the functional currency of the Bank. The Bank's subsidiaries determine their functional currency. Items in the financial statements of the subsidiaries are measured using the subsidiaries functional currencies.

Earnings per share

The basic earnings per share is calculated by dividing the profit for the year attributable to Equity holders of the Bank by the weighted average number of ordinary shares during the year.

The diluted earnings per share is calculated by dividing the profit for the year attributable to Equity holders of the Bank by the weighted average of the number of ordinary shares during the year plus the weighted rate of the number of ordinary shares that would have been issued if the convertible shares were converted into ordinary shares (after the treasury shares were deducted) .

Cash and cash equivalents

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

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.

Use of estimates

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 the consolidated financial statements. Due to the use of these estimates and assumptions, actual results may differ from estimates and may require an adjustment to the carrying amounts of future assets or liabilities. The Bank's management is responsible to set, apply and assess the estimates and assumptions

Other disclosures that indicate the Bank's exposure to risks include the following clarifications:

- Risk management (note 47)
- Capital management (note 50)

Details of the Bank's significant judgments are as follows:

Impairment of goodwill

The determination of impairment of goodwill is based on an estimation of the value in use of the cash-generating units over which goodwill has been distributed. This requires estimating the future cash flows from the cash-generating units and choosing the proper discount rates to calculate the present value of those future cash flows.

Useful lives of tangible and intangible assets

The Bank's management reassesses the useful lives of tangible and intangible assets. Regularly to determine the annual depreciation and amortization according to the condition of these assets and the expected future useful lives, any impairment is recognized in the consolidated income statemen, and makes adjustments if applicable, at each financial year end.

Legal case provision

The legal cases brought against the Bank are allocated to meet any legal liabilities based on the opinion of the Bank's legal advisor.

Provision for employees' benefits

The Bank management uses certain estimates and assumptions to determine the amount of employee benefits. Management believes that these estimates and assumptions are reasonable. Employees benefits expense for the year was charged in accordance with the Palestinian Labor Law and in line with international accounting standards.

Provision for income tax

The Bank's management uses certain estimates in determining the provision for income tax. The Bank's management believes that the estimates and assumptions used are reasonable. Provisions for income tax expense for the year was charged in accordance with the laws and regulation of the region at which the Bank operates, and in line with international accounting standards.

Fair Value of financial instruments

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

Investments properties

The management depends on the assumptions of accredited and licensed appraisers for the valuation of investment properties.

Provision for expected credit losses (ECL)

Financial assets are assessed for impairment on the basis described in "impairment of financial assets". The provision for ECL is reviewed in accordance with the principles established by the Palestinian Monetary Authority and IFRS (9). The determination of provision for ECL expected from management requires judgments and judgments to be made to estimate the amounts and timing of future cash flows, as well as to estimate any significant increase in the credit risk of financial assets after initial recognition, taking into consideration future measurement information for ECL.
The Bank has calculated the provision for ECL for financial assets in accordance with international reporting standards and is consistent with the instructions of the PMA.

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

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

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

Key concepts 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):

- 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.
- Restructuring and/or rescheduling on the customers' accounts/ facilities during the assessment period is considered as indicator for SICR.
- Instruments which are 30 days past due have experienced a significant increase in credit risk as per the standard rebuttable presumption.

- Government employees in Gaza.
- Two notches decrease in the financial assets rating.
- 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 and unemployment 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	2020 %	2019 %
Arab Islamic Bank	Palestine	47.94	47.94
PalPay	Palestine	15	15

Accumulated balances of material non-controlling interests:

	2020 U.S. $	2019 U.S. $
Arab Islamic Bank	53,959,399	53,535,711
PalPay	340,911	328,083
	54,300,310	53,863,794

Profit allocated to material non-controlling interest:

	2020 U.S. $	2019 U.S. $
Arab Islamic Bank	2,518,316	4,888,335
PalPay	12,828	90,707
	2,531,144	4,979,042
Share of non-controlling interest in comprehensive income items	(177,117)	(41,174)
	2,354,027	4,937,868

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

Summarized statement of financial position information as at December 31, 2020:

	Arab Islamic Bank U.S. $	PalPay U.S. $
Total assets	1,557,048,782	4,898,138
Total liabilities	(1,436,805,052)	(863,197)
Total equity	120,243,730	4,034,941
Attributable to:		
Bank's shareholders	66,284,331	3,694,030
Non-controlling interests	53,959,399	340,911
	120,243,730	4,034,941

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

	Arab Islamic Bank	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 income statement information for the year ended December 31, 2020:

	Arab Islamic Bank	PalPay
	U.S. $	U.S. $
Revenues	46,926,705	2,042,880
General and administrative expenses	(32,067,548)	(1,841,172)
Depreciation and amortization	(4,420,371)	(198,801)
Other revenues	525,550	180,676
Profit before tax	10,964,336	183,583
Income tax	(2,950,000)	(98,063)
Profit of the year	8,014,336	85,520
Other comprehensive income	(334,246)	-
Total comprehensive income of the year	7,680,090	85,520

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

	Arab Islamic Bank	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 statement of cash flows information for the year ended December 31, 2020:

	Arab Islamic Bank	PalPay
	U.S. $	U.S. $
Operating activities	(61,087,098)	616,919
Investing activities	(4,784,574)	(358,260)
Financing activities	180,025,035	165,999
Increase in cash and cash equivalents	114,153,363	424,658

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

	Arab Islamic Bank	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

5. Cash and balances with Palestine Monetary Authority

This item comprises the following:

	2020	2019
	U.S. $	U.S. $
Cash on hand*	808,067,767	934,725,363
Balances with Palestine Monetary Authority:		
Current and demand accounts	81,021,861	45,043,807
Deposits maturing within 3 months or less	-	10,719,323
Swap deposits maturing within 3 months or less	46,191,819	15,937,941
Statutory cash reserve	388,128,609	354,711,248
	1,323,410,056	1,361,137,682
Less: provision for expected credit losses	-	(50,150)
	1,323,410,056	1,361,087,532

* This item includes an amount of U.S. $ 43,230,505 which represents safeguard cash shipping for the Bank and its subsidiary, and other local banks held at the Israeli Cash Center as of December 31, 2020. This item also includes an amount of U.S. $ 13,450,421 deposited with Aman Money Transportation Company as of December 31, 2020.

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.

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

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	426,412,319	-	-	426,412,319
Net change during the year	88,929,970	-	-	88,929,970
Balance, end of the year	515,342,289	-	-	515,342,289

	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 provision for Expected credit loss on balances at Palestine Monetary Authority is as follows:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	50,150	-	-	50,150
Recovery of expected credit loss provision for the year	(50,150)	-	-	(50,150)
Balance, end of the year	-	-	-	-

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	-	-	-	-
Net expected credit loss 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:

	2020	2019
	U.S. $	U.S. $
Local banks and financial institutions:		
Current accounts	485,479	211,353
Deposits maturing within 3 months or less	-	14,504,951
Swap deposits	-	13,988,717
	485,479	28,705,021
Foreign banks and financial institutions:		
Current and demand accounts	326,802,075	174,635,635
Deposits maturing within 3 months or less	408,122,624	111,706,273
Deposits maturing after 3 months	9,167,842	12,693,935
Swap deposits	-	60,000,000
	744,092,541	359,035,843
Investments at foreign Islamic banks:		
Investments maturing within 3 months	2,328,036	7,322,641
Investments maturing after 3 months	4,062,368	3,509,514
	6,390,404	10,832,155
Less: provision for expected credit losses	(3,109,697)	(2,566,264)
	747,858,727	396,006,755

Non-interest or profits bearing balances at banks and financial institutions as at December 31, 2020 and 2019 amounted to U.S.$ 326,217,546 andU.S.$ 188,630,559, respectively.

Restricted balances at banks and financial institutions as at December 31, 2020 and 2019 amounted to U.S. $ 147,386,086 and U.S. $ 123,375,156, respectively.

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

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	395,400,199	872,820	2,300,000	398,573,019
Net change during the year	52,395,405	-	-	352,395,405
Transfer to stage (2)	(14,688,782)	14,688,782	-	-
Balance, end of the year	733,106,822	15,561,602	2,300,000	750,968,424

	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

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

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	265,005	1,259	2,300,000	2,566,264
Net expected credit loss for the year	543,433	-	-	543,433
Transfer to stage (2)	(105,994)	105,994	-	-
Balance, end of the year	702,444	107,253	2,300,000	3,109,697

	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 expected credit loss 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

7. Financial assets at fair value through profit or loss

This item comprises investment in shares of companies listed in Palestine Securities Exchange with a fair value of U.S. $ 18,735,305 and U.S. $ 19,072,028 as at December 31, 2020 and 2019, respectively.

	2020	2019
	U.S. $	U.S. $
Quoted stocks at the Palestinian stock market	9,738,538	10,654,320
Quoted stocks at foreign stock markets	638,427	-
Investment portfolio*	3,358,340	3,417,708
Unquoted stocks*	5,000,000	5,000,000
	18,735,305	19,072,028

* These items were reclassified from financial assets at fair value through comprehensive income to correct the classification of investments in accordance with the International Financial Reporting Standards. The reclassification did not have an effect on the consolidated income statement for the year 2019.

8. Direct credit facilities and Islamic financing

This item comprises the following:

	2020	2019
	U.S. $	U.S. $
Retail		
Loans*	665,677,207	672,223,256
Overdraft accounts	2,438,684	15,582,810
Credit cards	26,694,615	32,786,240
Current overdrafts	57,628,922	58,640,098
Financing	274,538,884	243,842,688
Corporate and institutions		
Loans	922,183,267	858,725,414
Overdraft accounts	160,089,586	180,008,032
Current overdrafts	10,478,676	14,266,324
Financing	508,504,002	453,661,879
Public sector		
Loans	360,644,691	310,607,985
Overdraft accounts	281,291,287	207,539,056
Financing	167,703,598	65,740,052
	3,437,873,419	3,113,623,834
Suspended interests, commissions and profits	(20,413,098)	(16,656,102)
provision for expected credit losses on direct credit facilities and Islamic financing	(150,711,733)	(113,582,505)
	3,266,748,588	2,983,385,227

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

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	16,656,102	11,242,052
Suspended interest and profits during the year	8,257,741	6,357,696
Recovered suspended interest and profit during the year	(2,922,628)	(570,748)
Suspended interest and profits related to credit facilities and Islamic financing being default for more than 6 years	(1,367,928)	(301,986)
Suspended interest written off	(140,000)	(90,315)
currency variance	(70,189)	19,403
Balance, end of the year	20,413,098	16,656,102

A summary on the movement of gross carrying amount on direct credit facilities and Islamic financing is as follows:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	2,328,600,967	618,647,852	166,375,015	3,113,623,834
Net change during the year	176,718,468	155,343,770	(5,902,084)	326,160,154
Transfers to stage (1)	94,085,232	(88,113,506)	(5,971,726)	-
Transfers to stage (2)	(272,726,483)	281,071,283	(8,344,800)	-
Transfers to stage (3)	(26,587,217)	(23,122,479)	49,709,696	-
Write off	-	-	(1,910,569)	(1,910,569)
Balance, end of the year	2,300,090,967	943,826,920	193,955,532	3,437,873,419

	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

A summary of the movement on allowance for expected credit losses on direct credit facilities and Islamic financing is as follows:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	13,072,696	25,252,147	75,257,662	113,582,505
Transfer to stage (1)	1,279,190	(487,036)	(792,154)	-
Transfer to stage (2)	(1,869,700)	2,279,381	(409,681)	-
Transfer to stage (3)	(127,877)	(1,057,062)	1,184,939	-
Net expected credit loss for the year	13,635,825	9,954,446	34,221,769	57,812,040
Recovery of expected credit loss during the year	(2,954,819)	(6,789,883)	(9,098,698)	(18,843,400)
Defaulted direct credit facilities and Islamic financing for more than 6 years	-	-	3,381	3,381
Recovery from defaulted credit facilities and Islamic financing for more than 6 years	-	-	(1,996,162)	(1,996,162)
Write off	-	-	(1,773)	(1,773)
Foreign currency exchange differences	-	-	155,142	155,142
Balance, end of the year	23,035,315	29,151,993	98,524,425	150,711,733

	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 expected credit loss for the year	670,086	6,291,559	23,729,495	30,691,140
Defaulted direct credit facilities and Islamic financing for more than 6 years	-	-	(1,139,810)	(1,139,810)
Recovery from defaulted credit facilities and Islamic financing 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

The recoveries of defaulted credit facilities and Islamic financing included in stage (3) as at December 31, 2020 and 2019 amounted to $ 9,098,698 and $ 9,644,856, respectively.

A summary of 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:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	13,845,732	12,902,412
Additions	1,996,162	1,139,810
Recovered during the year	(320,698)	(396,257)
written off	(15,767)	(4,723)
Currency variances	(26,849)	204,490
Balance, end of the year	15,478,580	13,845,732

- Loans are presented net of their related interest and commission received in advance which amounted to U.S. $ 3,730,032 and U.S. $ 10,260,992 as at December 31, 2020 and 2019, respectively. In addition, direct Islamic financing presented net of unearned profits amounted to U.S. $ 92,360,279 and U.S. $ 82,478,277 as at December 31, 2020 and 2019.
- Non-performing direct credit facilities and Islamic financing net of suspended interest, commissions and profits according to PMA regulations as at December 31, 2020 and 2019 amounted to U.S. $249,644,829 and U.S. $ 189,183,999 representing (7.30%) and (6.11%) of direct credit facilities and Islamic financing net of suspended interests, commissions and profits, respectively.
- Defaulted direct credit facilities and Islamic financing net of suspended interests, commissions and profits as at December 31, 2020 and 2019 amounted to U.S. $ 167,085,022 and U.S. $ 141,109,198 representing (4.89%) and (4.56%) of direct credit facilities and Islamic financing net of suspended interests, commissions and profits, respectively.
- According to PMA instructions number (1/2008), defaulted credit facilities and Islamic financing for more than 6 years were excluded from the consolidated financial statements. These defaulted credit facilities and Islamic financing amounted to U.S. $ 29,336,902 and U.S. $ 26,906,789 as at December 31, 2020 and 2019 and the balance of impairment provision and suspended interest and profits for defaulted accounts amounted to U.S. $ 28,055,393 and U.S. $ 25,571,139, respectively.

- Direct credit facilities and Islamic financing granted to the public sector as at December 31, 2020 and 2019 amounted to U.S. $ 809,657,576 and U.S. $ 583,887,093 representing (23.53%) and (19%) of gross direct credit facilities and Islamic financing, respectively.
- Direct credit facilities and Islamic financing guaranteed by Palestine National Authority as at December 31, 2020 and 2019 amounted to U.S. $ 167,703,598 and U.S. $ 28,830,910 representing (4.88%) and (0.93%) 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. $ 1,236,098,141 and U.S. $ 1,208,094,107 as at December 31, 2020 and 2019, respectively.
- Credit facilities and Islamic financing granted to non-residents amounted to U.S. $16,610,904 and U.S. $ 13,632,544 as at December 31, 2020 and 2019, respectively.
- Credit facilities and Islamic financing written-off during the year that weren't provisioned before amounted to U.S. $ 1,532,623 and U.S. $ 1,497,114 as at December 31, 2020 and 2019, respectively.

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

	2020	2019
	U.S. $	U.S. $
Manufacturing	159,632,413	149,705,402
Services sector	416,159,932	380,086,716
Retail and wholesale	485,736,373	472,501,366
Real estate and construction	753,622,832	709,455,375
Transportation	15,718,522	14,491,852
Agricultural	51,255,021	46,523,293
Tourism	33,887,589	33,777,704
Financial sector	26,553,640	28,778,477
Public sector	809,639,576	583,887,093
Consumer commodities	665,254,423	677,760,454
	3,417,460,321	3,096,967,732

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

	December 31, 2020			
	Granted	Outstanding balance	Guarantor share	Defaulted
Type of credit facilities	U.S. $	U.S. $	%	U.S. $
Production loans	15,256,195	11,621,662	70	3,208,357
Operating loans	9,232,231	7,331,352	60	830,942
Development loans	23,844,516	18,770,356	50	1,622,809
SME loans	4,189,124	2,896,134	100 - 35	231,432
	52,522,066	40,619,504		5,893,540

	December 31, 2019			
	Granted	Outstanding balance	Guarantor share	Defaulted
Type of credit facilities	U.S. $	U.S. $	%	U.S. $
Production loans	15,285,666	11,165,418	70	465,090
Operating loans	14,969,671	6,048,966	60	1,055,051
Development loans	32,459,025	21,657,419	50	1,102,666
SME loans	6,221,323	3,824,031	100 - 35	515,952
	68,935,685	42,695,834		3,138,759

9. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise of the following:

	Quoted shares	Unquoted financial assets	Total
	U.S. $	U.S. $	U.S. $
December 31, 2020			
Local	7,483,575	3,450,180	10,933,755
Foreign	16,077,517	1,547,752	17,625,269
	23,561,092	4,997,932	28,559,024
December 31, 2019			
Local	7,880,890	3,432,493	11,313,383
Foreign	17,273,366	313,184	17,586,550
	25,154,256	3,745,677	28,899,933

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

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	(3,854,902)	(3,467,059)
Change in fair value through other comprehensive income items	(1,144,890)	(357,843)
Gains on sold financial assets recognized in retained earnings	-	(30,000)
Balance, end of the year	(4,999,792)	(3,854,902)

10. Financial assets at amortized cost

Financial assets at amortized cost compromise of the following:

	Treasury bills	Quoted bonds	Unquoted bonds	Islamic Sukuk	Provision for ECL	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2020						
Local	30,138,004	-	8,000,000	-	(526,487)	37,611,517
Foreign	76,803,680	62,328,177	-	30,513,425	(1,757,569)	167,887,713
	106,941,684	62,328,177	8,000,000	30,513,425	(2,284,056)	205,499,230
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

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

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	199,695,219	44,130,341	1,263,425	245,088,985
Net change during the year	(14,731,458)	(22,574,241)	-	(37,305,699)
Transfer to stage (1)	2,638,871	(2,638,871)	-	-
Transfer to stage (2)	(7,156,337)	7,156,337	-	-
Balance, end of the year	180,446,295	26,073,566	1,263,425	207,783,286

	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

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

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	770,578	310,299	1,263,425	2,344,302
Net (recovery) of expected credit loss	199,294	(259,540)	-	(60,246)
Transfer to stage (1)	72	(72)	-	-
Transfer to stage (2)	(17,040)	17,040	-	-
Balance, end of the year	952,904	67,727	1,263,425	2,284,056

	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 (recovery) expected credit loss 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

Interest on U.S. Dollar financial assets at amortized cost ranges between 2.58% and 8.13%.

Interest on Jordanian Dinar financial assets at amortized cost ranges between 5.01% and 6.49%.

Interest on Kuwaiti Dinar financial assets at amortized cost ranges 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 ranges between 2.55% and 7.44%.

Financial assets at amortized cost mature within a period from one month to 9 years.

11. Investment in associates

Following are the details of investments in associates, as at December 31, 2020 and 2019:

		Ownership		Subscribed Capital	
	Country of	2020	2019	2020	2019
	Incorporation	%	%	U.S. $	U.S. $
Abraj Co, for Development & Investment (Abraj) *	Palestine	21	21	4,904,368	4,758,223
The Palestinian Company for Money Transportation and Valuables and Banking Services (Aman) **	Palestine	30	30	1,042,012	745,296
				5,946,380	5,503,519

* 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	
	2020	2019	2020	2019
	U.S. $	U.S. $	U.S. $	U.S. $
The financial position of associates:				
Total assets	36,118,581	35,079,153	4,287,251	2,908,831
Total liabilities	(7,458,991)	(7,289,476)	(1,104,391)	(764,615)
Total equity	28,659,590	27,789,677	3,182,860	2,144,216
Bank's share	6,018,514	5,835,832	954,858	643,265
Book value before adjustments	6,018,514	5,835,832	954,858	643,265
Adjustments	(1,114,146)	(1,077,609)	87,154	102,031
Book value after adjustments	4,904,368	4,758,223	1,042,012	745,296
Revenues and results of operations:				
Net revenues	1,667,037	1,653,710	1,676,168	1,588,379
Operational, administrative and general expenses	(493,775)	(547,843)	(428,930)	(484,655)
Depreciation and amortization	(6,838)	(9,336)	(112,831)	(72,907)
Finance costs	(290,182)	(372,416)	(19,777)	(4,392)
Other revenues (expenses), net	(6,329)	(70,203)	109,350	102,633
Profit before tax	869,913	653,912	1,223,980	1,129,055
Tax expense	(173,983)	(56,611)	(185,336)	(180,829)
Profit after tax	695,930	597,301	1,038,644	948,226
Other comprehensive income	-	-	-	-
Total comprehensive income	695,930	597,301	1,038,644	948,226
Bank's share	146,145	125,433	296,716	284,475

12. Investment properties

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

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	25,677,869	17,800,433
Additions during the year	159,000	5,741,544
Transfers from assets obtained by the Bank by calling on collateral- (note 16)	-	949,397
Change in fair value during the year	48,050	1,186,495
Balance, end of the year	25,884,919	25,677,869

13. Property, Plant and Equipment and right of use assets

2020	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	101,088,313	16,066,003	13,038,789	4,830,321	38,741,538	220,472,969
Additions	1,071,275	1,896,408	1,652,236	145,705	141,844	3,034,599	7,942,067
Transfers from projects in progress (note 14)	-	5,965,425	-	283,227	-	-	6,248,652
Disposals	-	(1,100,760)	(232,882)	-	(261,654)	-	(1,595,296)
Balance, end of the year	47,779,280	107,849,386	17,485,357	13,467,721	4,710,511	41,776,137	233,068,392
Accumulated Depreciation:							
Balance, beginning of the year	7,747,357	63,052,617	12,945,690	7,010,888	1,439,793	3,947,275	96,143,620
Depreciation for the year	609,242	9,120,864	1,443,382	1,082,405	396,982	4,219,525	16,872,400
Disposals	-	(998,651)	(232,765)	-	(146,589)	-	(1,378,005)
Balance, end of the year	8,356,599	71,174,830	14,156,307	8,093,293	1,690,186	8,166,800	111,638,015
Net book value	39,422,681	36,674,556	3,329,050	5,374,428	3,020,325	33,609,337	121,430,377

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	-	6,126,788	1,419,554	833,872	699,303	-	9,079,517
Transfers from projects in progress (note 14)	-	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	101,088,313	16,066,003	13,038,789	4,830,321	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	7,874,748	1,298,267	1,787,293	368,082	3,947,275	15,853,987
Disposals	-	(161,593)	(44,952)	-	(332,245)	-	(538,790)
Balance, end of the year	7,747,357	63,052,617	12,945,690	7,010,888	1,439,793	3,947,275	96,143,620
Net book value December 31, 2019	38,960,648	38,035,696	3,120,313	6,027,901	3,390,528	34,794,263	124,329,349

* Buildings and real estate include parcels of land owned by the Bank to carry out its banking activities amounted to U.S. $ 15,700,255 as at December 31, 2020 and 2019.

Property, plant and equipment include U.S. $ 59,386,780 and U.S. $ 48,750,288 of fully depreciated assets that are still operational as at December 31, 2020 and 2019, respectively.

14. Projects in progress

The item includes the cost of the construction, expansion, renovation and improvements of the Banks' new branches, and construction, expansion, renovation and leasehold improvements of the Arab Islamic Bank (subsidiary). Following is the movement on the projects in progress during the year:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	3,175,677	6,270,572
Additions	5,753,272	4,282,009
Transfers to intangible assets (note 15)	-	(868,036)
Transfers to property, plant and equipment and right of use assets (note 13)	(6,248,652)	(6,508,868)
Balance, end of the year	2,680,297	3,175,677

As at December 31, 2020 the estimated cost to complete projects in progress amounted to U.S. $ 2,436,024. Projects are expected to be completed during the year 2022.

15. Intangible assets

	Goodwill	Computer software	Total
	U.S. $	U.S. $	U.S. $
Cost			
Balance as at January 1, 2020	3,774,558	22,423,297	26,197,855
Additions	-	2,117,795	2,117,795
Balance as at December 31, 2020	3,774,558	24,541,092	28,315,650
Amortization			
Balance as at January 1, 2020	-	10,900,739	10,900,739
Additions	-	1,986,516	1,986,516
Balance as at December 31, 2020	-	12,887,255	12,887,255
Net Book Value			
As at December 31, 2020	3,774,558	11,653,837	15,428,395

	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 (note 13)	-	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

The net realizable value of goodwill resulted from the acquisition of Arab Islamic Bank was assessed for impairment based on fair value less cost to sell according to Arab Islamic Bank quoted shates (level one) as at December 31, 2020 and 2019.

16. Other assets

This item comprises the following:

	2020	2019
	U.S. $	U.S. $
Clearing checks	12,571,202	13,400,622
Accrued interest and commissions	9,630,871	3,690,855
Account receivable, advances and temporary expense	9,815,677	6,983,581
In advance payments	6,954,133	7,459,750
Stationery and printings material and equipment in stores	2,160,781	2,576,861
Assets obtained by the Bank by calling on collateral	1,867,160	677,531
Tax advances and deferred tax assets	128,456	6,589,264
Other debit balances	4,500,410	18,386,488
	47,628,690	59,764,952

17. Palestine Monetary Authority's deposits

This item comprises the following:

	2020	2019
	U.S. $	U.S. $
Current accounts	-	2,514,245
Term deposits maturing within 3 months	149,775,313	212,079,298
Motivational deposits maturing in more than 3 months*	18,571,989	-
Term deposits maturing in more than 3 months	-	28,929,326
	168,347,302	243,522,869

*This item represents the value of motivational deposits from the Palestinian Monetary Authority to the Arab Islamic Bank (a subsidiary) to mitigate the economic impacts of the Coronavirus (COVID 19) crisis on the subsidiary's activities and the accompanied losses resulted from the deferral of customers installments during the year 2020. Motivational deposits mature within three years. PMA collects an interest rate that is below market interest rate at 0.5%. The Bank treated the effect of the difference between the interest rate of these deposits and the market interest rate in accordance with IAS (20)- "Accounting for Government Grants and Disclosure of Government Aid", and recorded a gain of U.S. $ 1,428,011 to the consolidated income statement in financing and investment income (note 33).

18. Banks and financial institutions' deposits

This item comprises the following:

	Current and demand accounts	Term deposits maturing within 3 months	SWAP deposits	Total
	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2020				
Local	*32,582,614	4,820,874	-	37,403,488
Foreign	16,076,862	28,607,851	-	44,684,713
	48,659,476	33,428,725	-	82,088,201
December 31, 2019				
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

* This item includes cash shipping safeguards to some local banks which amounted to U.S. $ 30,473,580 as of December 31, 2020.

19. Customers' deposits

	2020 U.S. $	2019 U.S. $
Customers' deposits		
Current and demand deposits	1,780,702,941	1,458,415,462
Saving deposits	1,060,677,761	955,104,120
Time deposits	809,683,606	724,203,985
Debit balances – temporarily credit	34,573,077	19,737,692
	3,685,637,385	3,157,461,259
Unrestricted investment accounts		
Saving deposits	387,933,636	292,477,505
Time deposits	507,364,353	422,047,317
	895,297,989	714,524,822
	4,580,935,374	3,871,986,081

- Public sector deposits amounted to U.S. $ 150,023,920 and U.S. $ 138,914,884 representing 3.27% and 3.59% of total deposits as at December 31, 2020 and 2019, respectively.
- Non-interest and non-profit bearing deposits amounted to U.S. $ 2,764,362,450 and U.S. $ 2,353,651,882 representing 60.34% and 60.79% of total deposits as at December 31, 2020 and 2019, respectively.
- Dormant deposits amounted to U.S. $ 77,032,004 and U.S. $ 77,840,805 representing 1.68% and 2.01% of total deposits as at December 31, 2020 and 2019, respectively.
- Restricted deposits amounted to U.S. $ 65,237,219 and U.S. $ 36,870,100 representing 1.42% and 0.95% of total deposits as at December 31, 2020 and 2019, respectively.

20. Cash margins

This item represents cash margins against:

	2020 U.S. $	2019 U.S. $
Direct credit facilities and financing	185,005,213	173,938,708
Indirect credit facilities and financing	33,413,859	40,890,777
Others	34,669,808	28,768,452
	253,088,880	243,597,937

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. Loans and borrowings

	2020	2019
	U.S. $	U.S. $
Arab Fund for Economic and Social Development *	15,000,000	-
French Agency for Development **	12,636,180	3,679,566
	27,636,180	3,679,566

* During the year, the Bank signed an agreement with the Arab Fund for Economic and Social Development for an amount of U.S. $ 15,000,000 to finance credit facilities of small and medium enterprises. The loan is to be settled through 15 semiannual installments with a grace period of 36 months. The first installment is due on June 1, 2023 and the last installment will become due on June 1, 2030. The loan is subject to annual interest rate of 3%.** During 2018, the Bank signed a green project financing agreement with the French Agency for development (the Agency) and accordingly, the Bank initiated the "Sunref Palestine" project. The project aims to introduce the Agency's green project initiative which is supported by the European Union. The agreement grants the Bank facilities at a maximum amount of Euro 12,500,000. The loan is to be settled through semiannual installments with a grace period of 36 months of. The first installment is due on November 30, 2021 and the last installment will become due on May 31, 2031. The loan is subject to annual interest rate of 2.62%.

The utilized amount as of December 31, 2020 and 2019 amounted to U.S. $ 12,636,180 and 3,679,566, respectively.

23. Istidama loans from Palestine Monetary Authority

This item represents PMA's deposits as per PMA instructions number (22/2020) to mitigate the economic impacts of Coronavirus (COVID-19) outbreak on the economic activities and projects especially the small and medium enterprises. PMA charges an interest of 0.5% on the credit facilities granted and the Bank earns a declining interest at a maximum rate of 3%. Istidama loans amounted to U.S. $ 9,134,926 as of December 31, 2020.

24. Lease liabilities

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

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	33,671,658	-
Effect of IFRS (16) implementation	-	34,846,935
Adjusted beginning balance	33,671,658	34,846,935
Additions during the year	3,034,599	-
Finance costs during the year	1,011,795	1,028,101
Payments	(4,264,138)	(2,203,378)
Balance, end of the year	33,453,914	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 liabilities related to rent contracts are deducted using a discount rate of 3.01%.

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, 2020 amounted to U.S. $ 909,304 (note 38).

25. 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, 2020				
end of service provision	45,056,909	5,982,147	(4,107,116)	46,931,940
Lawsuits provision	1,919,435	-	-	1,919,435
	46,976,344	5,982,147	(4,107,116)	48,851,375
December 31, 2019				
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

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.

26. Taxes provisions

Movement on taxes provisions during the year 2020 and 2019 are as follows:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	1,421,119	3,634,870
Addition	17,748,220	12,858,327
Advances	(14,339,725)	-
Payments during the year	(218,962)	(15,072,078)
Balance, end of the year	4,610,652	1,421,119

Details of taxes provision are as follows:

	2020	2019
	U.S. $	U.S. $
Provision for the year	18,619,982	20,095,339
Prior years settlements	-	(6,047,698)
Tax discounts and other settlements	(871,762)	(1,189,314)
Tax expenses presented in the consolidated income statement for the year	17,748,220	12,858,327

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

	2020	2019
	U.S. $	U.S. $
Accounting profit	40,160,368	51,795,049
Profit not subject to value added tax	(15,879,892)	(12,601,089)
Non-deductible tax expenses	25,286,539	22,753,694
Gross profit subject to value added tax	49,567,015	61,947,654
Net profit subject to value added tax	49,567,015	61,947,654
Deduct: value added tax	(6,836,830)	(8,544,504)
value added tax on salaries	(7,652,138)	(7,552,252)
Adjustment for tax calculation purpose	(1,753,511)	(820,111)
Taxable income	33,324,536	45,030,787
Tax expenses	4,998,680	5,608,552
Taxes payable for the year	11,835,510	14,153,056
Taxes provisions for the year	18,619,982	20,095,339
Effective tax rate	46.36%	39%

The Bank records provisions for taxes in accordance with the laws in effect- article No. (22) for the year 2017 and article No. (10) for the year 2017.

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

The Bank did not reach a final settlement with the Income Tax and the Value Added Tax Departments on the results of its operations for the year 2019. The Bank submitted its tax declaration on the results of its operations for the year 2019 on time, and the tax consultant is following up on the final treatment.

As at December 31, 2020, 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.

27. Other liabilities

	2020	2019
	U.S. $	U.S. $
Certified checks	23,422,336	19,636,218
Negative financial derivatives (Transactions between banks)	12,564,464	1,246,009
Accounts payable of subsidiaries' customers	13,364,659	6,049,978
Outward Transfers	8,985,958	7,962,931
Accrued and not paid interests	7,466,146	7,426,311
Dividends payable	6,503,254	5,722,991
Temporary deposits	3,692,379	9,420,974
Return on unrestricted investment accounts	2,602,245	1,891,797
Board of Directors bonuses	1,020,000	1,227,000
Taxes payable	1,308,279	769,541
Provision for expected credit loss on indirect credit facilities and financing (note 51)	302,153	246,044
Others	11,910,640	14,082,676
	93,142,513	75,682,470

* 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.

28. 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.

29. 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 and financing after deducting impairment allowance for credit facilities and financing and suspended gain and interest and 0.5% of indirect credit facilities and financing. In accordance with PMA's circulation number (53/2013), no general banking risk reserve is created against the direct credit facilities and financing granted to small and medium enterprises if the conditions mentioned in the circular are met. 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). The reserve will not to be utilized or reduced without PMA's prior approval.

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. It is not permissible to seize the deduction before the accumulated amount reaches the equivalent of 20% of the Bank's capital. 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 2019, PMA issued instructions number (13/2019) regarding the pro-cyclicality 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 2019 at 0.66% of risk-weighted assets. The Bank will be obligated to disclose the counter cyclical capital source in its financial statements starting from December 2023. The Bank did not deduct pro-cyclicality reserve for the year based on understandings with PMA.

30. Dividends

The Bank's General Assembly, during its meeting held on March 26, 2020, approved dividends distribution of U.S. $ 20,400,000, as stock dividends of U.S. $ 4,080,000 and as cash dividends of U.S. $ 16,320,000 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 28, 2019, approved dividends distribution of U.S. $ 27,000,000, 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 Arab Islamic Bank's General Assembly (a subsidiary), during its meeting held on March 25, 2020, approved cash dividends at 4.71% of the par value of its stocks for an amount of U.S. $ 4,000,000. The general assembly of Arab Islamic Bank, decided at its extraordinary meeting held on March 25, 2020, to distribute stock dividends to shareholders at 4.18% for an amount of U.S. $ 3,550,000.

31. Interest income

This item comprises interest revenues earned on the following accounts:

	2020	2019
	U.S. $	U.S. $
Loans	106,496,865	99,513,384
Overdraft accounts	27,246,987	27,903,342
Overdrawn	11,137,370	12,732,295
Financial assets at amortized cost	7,433,087	10,394,891
Credit cards	4,360,528	5,186,561
Balances at banks and financial institutions	4,426,409	4,969,190
Balances with Palestinian Monetary Authority	188,133	157,424
	161,289,379	160,857,087

32. Interest expense

This item comprises interest incurred on the following accounts:

	2020	2019
	U.S. $	U.S. $
Interest on customers' deposits		
Time deposits	29,936,376	27,033,180
Saving accounts	1,326,084	2,162,897
Current and demand accounts	246,168	173,360
	31,508,628	29,369,437
Interest on banks and financial institutions' deposits	8,138,694	9,967,344
Interest on Palestinian Monetary Authority's deposits	1,991,480	3,465,524
Interest on lease liabilities	1,011,795	1,028,101
	42,650,597	43,830,406

33. Net financing and investment income

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

	2020	2019
	U.S. $	U.S. $
Revenues from financing *	43,348,373	42,729,664
Investment returns	2,584,535	2,484,778
	45,932,908	45,214,442
Less: return of unrestricted investment accounts	(10,270,226)	(8,213,569)
The Bank's share of financing and investment income	35,662,682	37,000,873

* Financing and investment income is presented in net of modification losses of Islamic financing of a subsidiary (Arab Islamic Bank) for an amount of U.S. $ 3,364,410 in additions to gains from the government grants for an amount of U.S. $ 1,428,011 related to the compensation for modification losses and all related costs (note 55).

34. Net commissions

This item comprises commissions against the following:

	2020	2019
	U.S. $	U.S. $
Commissions income:		
Direct credit facilities	10,510,904	11,609,449
Credit cards commissions revenue, net	6,559,130	8,021,665
Accounts' management	7,238,433	6,839,290
Checks	5,700,480	8,357,444
Banks transfers	5,371,148	5,488,501
Indirect credit facilities	3,470,702	4,506,433
Salaries commission	3,775,575	3,590,040
Other banking services	3,983,597	4,620,241
	46,609,969	53,033,063
Less: commissions expense	(3,453,484)	(3,955,820)
	43,156,485	49,077,243

35. Net gains from financial assets

This item comprises the following:

	2020	2019
	U.S. $	U.S. $
Dividend from financial assets at fair value through profit and loss	1,471,545	924,306
Dividend from financial assets at fair value through other comprehensive income	-	2,184,337
Gains (losses) from sale of financial assets at amortized cost	820,823	(55,817)
Unrealized losses from revaluation of financial assets through profit or loss	(1,223,581)	(183,268)
Investment management fees	(457,058)	(655,499)
	611,729	2,214,059

36. Other revenues

	2020	2019
	U.S. $	U.S. $
Safe boxes rental	205,875	203,676
Recovery of suspended interest	2,922,628	570,748
Sundry	3,812,512	4,212,149
	6,941,015	4,986,573

37. Personnel expenses

	2020	2019
	U.S. $	U.S. $
Salaries and related benefits	49,195,022	48,345,507
Value added tax on salaries	7,652,138	7,552,252
Provision for employees' end of service	5,982,147	6,292,825
Medical and insurance expenses	3,341,861	3,260,387
Bonuses and rewards	3,307,283	3,368,711
Bank's contribution to saving fund	2,139,786	2,067,636
Clothing allowances	983,227	958,649
Training expenses	608,258	826,524
Transportation	385,850	707,373
	73,595,572	73,379,864

38. Other operating expenses

	2020	2019
	U.S. $	U.S. $
Palestine Deposit Insurance Corporation fees*	6,905,465	10,725,278
Telephone, postage and fax	6,239,107	5,791,786
Maintenance and repairs	5,879,385	5,447,438
Advertising and promotions	3,683,130	5,099,345
Cash shipping expense	3,061,256	3,763,386
Professional fees	3,106,446	3,562,216
Social responsibility **	2,316,929	1,928,878
Utilities	2,229,688	2,194,633
Board of Directors bonuses	1,987,198	1,982,420
Stationery and printing	1,658,676	1,703,972
License fees	1,261,751	1,209,000
Insurance fees	1,265,049	1,290,691
Subscriptions fees	1,264,078	1,249,271
Fuel	1,005,719	986,202
Rent	909,304	1,257,039
Travel and seminars	289,094	888,516
Hospitality and ceremonies	319,315	437,810
Vehicles expense	282,277	267,128
Sundry	4,956,259	5,183,225
	48,620,126	54,968,234

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

** The Bank 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 11.4% and 5% of profit for the years 2020 and 2019, respectively.

39. (Provision) recovery 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:

	2020				
	Stage (1)	Stage (2)	Stage (3)	Total	2019
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balances with Palestine Monetary Authority (note 5)	(50,150)	-	-	(50,150)	50,150
Balances at banks and financial institutions (note 6)	543,433	-	-	543,433	167,183
Financial assets at amortized cost (note 10)	199,294	(259,540)	-	(60,246)	(361,580)
Indirect credit facilities (note 51)	56,109	-	-	56,109	(90,020)
Total	748,686	(259,540)	-	489,146	(234,267)

40. Palestinian Monetary Authority fines

This item represents fines imposed by PMA on the Bank and its subsidiary amounted to U.S. $ 22,052 for the year ended December 31, 2020 related to non-compliance with PMA instructions and the related laws and regulations.

41. 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:

	2020	2019
	U.S. $	U.S. $
Cash and balances with Palestine Monetary Authority	1,323,410,056	1,361,137,682
Add:		
Balances at banks and financial institutions	750,968,424	398,573,019
	2,074,378,480	1,759,710,701
Less:		
Balances at banks and financial institutions Maturing in more than three months	(9,167,842)	(12,693,935)
Investment maturing in more than three months	(4,062,368)	(3,509,514)
Balances with Palestine Monetary Authority	(168,347,302)	(243,522,869)
Banks and financial institutions' deposits	(82,088,201)	(238,742,403)
Statutory cash reserve	(388,128,609)	(354,711,248)
	1,422,584,158	906,530,732

42. Basic and diluted earnings per share

	2020	2019
	U.S. $	U.S. $
Profit for the year attributable to equity holders of the Bank	19,881,004	33,957,680
	Shares	Shares
Weighted average of subscribed shares	208,080,000	208,080,000
	U.S. $	U.S. $
Basic and diluted earnings per share attributable to equity holders of the Bank	0.15	0.16

43. 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 and financing are as follows:

2020	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	4,657,378	-	67,251,018	34,927,753	106,836,149
Including: non-performing credit facilities	-	-	-	209,034	209,034
Deposits	-	-	20,183,964	22,064,489	42,248,453
Subordinated loan	-	75,000,000	-	-	75,000,000
Financial assets at amortized cost	-	-	8,000,000	-	8,000,000
Board of Directors renumerations	-	-	1,020,000	-	1,020,000
Commitments and contingencies					
Letters of guarantees	211,566	-	19,910,341	1,036,153	21,158,060
Letters of credit	-	-	-	614,400	614,400
Unutilized limits	-	-	258,003	6,422,735	6,680,738
Consolidated Income statement items:					
Interest and commissions earned	-	-	1,905,022	-	1,905,022
Interest and commissions paid	-	5,855,620	668,893	-	6,524,513

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	-	-	2,081,495	184,745	2,266,240
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

* 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, 2020 and 2019 represent 3.27% and 3.07% 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, 2020 and 2019 represent 21.37% and 19.61% respectively, from the Bank's regulatory capital.
- Provisions of U.S. $ 114,157 and U.S. $ 90,574 were recorded against non-performing credit facilities of related parties as of December 31, 2020 and 2019, respectively.
- 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 1% to 5.25%.

Compensation (salaries, bonuses and other compensation) of key management personnel:

	2020	2019
	U.S. $	U.S. $
Executive management's salaries and related benefits (short term benefits)	4,945,839	4,421,900
Executive management's end of service provision (long term benefits)	419,911	281,214
Board of Directors' bonuses and expenses *	1,020,000	1,227,000
Chairman allowances	480,000	480,000

* This item includes the board of directors' remuneration of Bank of Palestine in the amount of U.S. $ 800,000 and U.S. $ 990,000 for the year 2020 and 2019, respectively.

Following are the details of Board of Director remuneration for December 31, 2020 and 2019.

	2020	2019
	U.S. $	U.S. $
Hashim Hani Shawa	80,000	94,787
Faysal Ghazi Alshawa	17,778	94,787
Hani Hasan Nigim	80,000	94,787
Maher Jawad Farah	80,000	94,787
Tareq Al Shakaa	44,444	94,787
Abdullah Al-Ghanim	62,222	94,787
Lana Abu Hijleh	80,000	94,787
Nada Shousha	80,000	94,787
Maha Awad	80,000	94,787
Tariq Aqgad	80,000	84,255
Nabil Kadomi	-	42,128
Tafeeda Jarbawi	80,000	10,534
Erik Shehadeh	35,556	-
	800,000	990,000

Article no. (56) of the Bank's bylaw, states that 5% of the Banks' annual net income shall be distributed to the members of the Board of Directors. Actual bonuses distributed were 3.57% and 2.54% of profit for the years 2020 and 2019, respectively.

44. 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, 2020 and 2019:

	Carrying amount		Fair value	
	2020	2019	2020	2019
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Cash and balances with Palestine Monetary Authority	1,323,410,056	1,361,087,532	1,323,410,056	1,361,087,532
Balances at banks and financial institutions	747,858,727	396,006,755	747,858,727	396,006,755
Financial assets at fair value through profit or loss	18,735,305	10,654,320	18,735,305	10,654,320
Direct credit facilities and Islamic financing	3,266,748,588	2,983,385,227	3,266,748,588	2,983,385,227
Financial assets at fair value through other comprehensive income:				
Quoted stocks	23,561,092	28,062,178	23,561,092	28,062,178
Unquoted stocks	4,997,932	9,255,463	4,997,932	9,255,463
Financial assets at amortized cost:				
Treasury bills	106,372,103	90,791,719	106,941,618	91,545,854
Quoted bonds	62,247,819	115,264,560	64,399,222	111,272,671
Unquoted bonds	7,830,904	6,746,142	8,000,000	6,910,000
Islamic sukuk	29,048,404	29,942,262	30,513,425	29,942,262
Other financial assets	36,518,160	42,461,546	36,518,160	42,461,546
Total assets	5,627,329,090	5,073,657,704	5,631,684,125	5,070,583,808
Financial liabilities				
Palestine Monetary Authority deposits	168,347,302	243,522,869	168,347,302	243,522,869
Banks and financial institutions' Deposits	82,088,201	238,742,403	82,088,201	238,742,403
Customers' deposits	4,580,935,374	3,871,986,081	4,580,935,374	3,871,986,081
Cash margins	253,088,880	243,597,937	253,088,880	243,597,937
Subordinated loan	75,000,000	75,000,000	75,000,000	75,000,000
Loans and borrowings	27,636,180	-	27,636,180	-
Istidama loans	9,134,926	-	9,134,926	-
Leased Liabilities	33,453,914	33,671,658	33,453,914	33,671,658
Other financial liabilities	92,840,360	79,115,992	92,840,360	79,115,992
Total liabilities	5,322,525,137	4,785,636,940	5,322,525,137	4,785,636,940

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, 2020.

45. 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, 2020 and 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, 2020	18,735,305	13,735,305	-	5,000,000
Quoted	December 31, 2020	13,735,305	13,735,305	-	-
Unquoted	December 31, 2020	5,000,000	-	-	5,000,000
Financial assets at fair value through other comprehensive income (note 9):					
Quoted	December 31, 2020	23,561,092	23,561,092	-	-
Unquoted	December 31, 2020	4,997,932	-	-	4,997,932
Investment properties (note 12)	December 31, 2020	25,884,919	-	-	25,884,919
Financial assets accounted for in its fair value:					
Financial assets at amortized cost (note 10):					
Treasury bills	December 31, 2020	106,941,618	76,803,682	-	30,137,936
Quoted bonds	December 31, 2020	64,399,222	64,399,222	-	-
Unquoted bonds	December 31, 2020	8,000,000	-	-	8,000,000
Islamic Sukuk	December 31, 2020	30,513,425	30,513,425	-	-

			Measurement of fair value by		
			Quoted prices in active markets	Significant observable input	Significant non-observable inputs
		Total	(Level 1)	(Level 2)	(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	25,154,256	25,154,256	-	-
Unquoted	December 31, 2019	3,745,677	-	-	3,745,677
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):					
Treasury bills	December 31, 2019	91,545,854	60,072,100	-	31,473,754
Quoted bonds	December 31, 2019	111,272,671	111,272,671	-	-
Unquoted bonds	December 31, 2019	6,910,000	-	-	6,910,000
Islamic Sukuk	December 31, 2019	29,942,262	29,942,262	-	-

The Bank has not made any transfers between the above levels during 2020 and 2019.

- 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.

The following table represents the fair value sensitivity of investment properties:

	Increase/ decrease in fair value	Effect on fair value
	%	U.S. $
2020		
Fair value per square meter	5+	1,294,246
Fair value per square meter	5-	(1,294,246)
2019		
Fair value per square meter	5+	1,283,893
Fair value per square meter	5-	(1,283,893)

46. 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:

	2020			2019		
	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	4,796,397,240	5,562,040,032	563,175,088	4,671,014,294	4,985,377,437	430,555,421
Israel	144,234,582	-	241,416	44,732,079	-	2,878,406
Jordan	307,442,054	(4,115,244)	1,139,345	192,145,076	3,619,939	1,748,583
Europe	361,719,570	41,244,031	18,938,689	185,007,828	120,069,693	55,531,180
USA	27,122,880	75,000,000	-	21,693,087	100,374,894	4,770,846
Others	172,893,662	135,641,169	17,337,247	150,352,276	55,502,677	23,410,231
Total	5,809,809,988	5,809,809,988	600,831,785	5,264,944,640	5,264,944,640	518,894,667
By sector						
Retail	972,687,296	3,053,932,599	88,927,009	927,854,503	2,577,962,114	32,603,039
Corporate, institutions and public sector	2,294,061,292	1,900,541,636	511,904,776	2,055,530,724	1,656,829,608	486,291,628
Treasury	2,330,008,722	358,409,081	-	2,067,852,302	529,966,989	-
Others	213,052,678	496,926,672	-	213,707,111	500,185,929	-
Total	5,809,809,988	5,809,809,988	600,831,785	5,264,944,640	5,264,944,640	518,894,667

47. 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 are 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. <u>Credit Risk</u>

Credit risks are those risks resulting from the default or inability of counterparties to the financial instrument to repay their commitment to the Bank which leads to incurring losses. The Bank, 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):

	2020	2019
	U.S. $	U.S. $
Consolidated statement of financial position items		
Balances with Palestinian Monetary Authority	515,342,289	426,362,169
Balances at banks and financial institutions	747,858,727	396,006,755
Direct credit facilities and Islamic financing:		
Retail	972,687,296	927,854,503
Corporates and institutions	1,496,499,973	1,476,790,115
Public sector	797,561,319	578,740,609
Financial assets at amortized cost	205,499,230	242,744,683
Other financial assets	36,518,160	42,461,546
	4,771,966,994	4,090,960,380
Commitments and contingencies		
Letters of guarantees	191,064,802	191,432,299
Letters of credit	32,823,758	44,331,976
Acceptances	12,810,821	22,039,772
Unutilized credit facilities limits	363,743,554	260,620,520
Other	388,850	470,100
	600,831,785	518,894,667

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

2020	Total value of exposure	Fair value of collaterals: Cash margins	Precious metals	Quoted stocks and letter of guarantees	Vehicles and other equipment	Real estate	Total value of collaterals	Net exposure after collaterals	Expected credit loss
	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	515,342,289	-	-	-	-	-	-	515,342,289	-
Balances at banks and financial institutions	747,858,727	-	-	-	-	-	-	747,858,727	3,109,697
Direct credit facilities and Islamic financing:	-	-	-	-	-	-	-	-	-
Retails	1,021,872,542	28,963,365	349,045	13,167,151	79,890,197	144,123,970	266,493,728	755,378,814	49,185,246
Corporate and institutions	1,585,063,494	135,708,682	235,016	42,794,581	228,517,370	562,348,764	969,604,413	615,459,081	88,563,521
Government and public sector	810,524,285	-	-	-	-	-	-	810,524,285	12,962,966
Financial assets at amortized cost	205,499,230	-	-	-	-	-	-	205,499,230	2,284,056
Other financial assets	36,518,160	-	-	-	-	-	-	36,518,160	-
Total	4,922,678,727	164,672,047	584,061	55,961,732	308,407,567	706,472,734	1,236,098,141	3,686,580,586	156,586,334
									-
Credit exposure related to off-balance sheet items	600,831,785	46,450,829	-	1,346,872	1,073,774	9,923,021	58,794,497	542,037,288	302,153

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

2020	Total exposure	Fair value of collaterals: Cash margins	Precious metals	Real estate	Quoted stocks	Vehicles and other equipment	Total value of collaterals	Net exposure after collaterals	Expected credit loss
	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:									
Direct credit facilities and Islamic financing:									
Retail	32,586,904	1,383,586	92,245	3,905,741	-	1,376,082	6,757,654	25,829,250	22,804,359
Corporate and institutions	134,221,808	13,843,683	27,660	40,516,124	8,540	910,333	55,306,340	78,915,468	75,720,066
Total	166,808,712	15,227,269	119,905	44,421,865	8,540	2,286,415	62,063,994	104,744,718	98,524,425

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

2019	Total value of exposure	Fair value of collaterals: Cash margins	Precious metals	Quoted stocks and letter of guarantees	Vehicles and other equipment	Real estate	Total value of collaterals	Net exposure after collaterals	Expected credit loss
	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 and institutions	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
Credit exposure related to off-balance sheet items	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 other equipment	Total value of collaterals	Net exposure after collaterals	Expected credit loss
	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:									
Direct credit facilities and Islamic financing:									
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 and institutions	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

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

December 31, 2020	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 Palestinian Monetary Authority	515,342,289	-	-	-	-	-	515,342,289
Balances at banks and financial institutions	376,686	218,020,738	139,993,738	348,059,727	10,425,910	30,981,928	747,858,727
Direct credit facilities and Islamic financing	3,193,390,118	56,064,541	4,240,844	3,383,645	2,039,445	7,629,995	3,266,748,588
Financial assets at amortized cost	37,611,449	103,275,580	-	9,047,398	9,019,099	46,545,704	205,499,230
Other financial assets	36,518,160	-	-	-	-	-	36,518,160
Total as at December 31, 2020	3,783,238,702	377,360,859	144,234,582	360,490,770	21,484,454	85,157,627	4,771,966,994
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

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

	Stage (1)	Stage (2)	Stage (3)	2020
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	2,784,485,608	930,463,805	68,289,289	3,783,238,702
Arab countries	367,079,438	10,281,421	-	377,360,859
Israel	144,234,582	-	-	144,234,582
Europe	358,417,615	2,073,155	-	360,490,770
USA	21,484,454	-	-	21,484,454
Others	76,954,779	8,202,848	-	85,157,627
Total	3,752,656,476	951,021,229	68,289,289	4,771,966,994

	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

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

2020	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 Palestinian Monetary Authority	515,342,289	-	-	-	-	-	-	515,342,289
Balances at banks and financial institutions	747,858,727	-	-	-	-	-	-	747,858,727
Direct credit facilities and Islamic financing	26,212,972	214,221,972	464,595,712	741,349,705	-	797,561,423	1,022,806,804	3,266,748,588
Financial assets at amortized cost	26,772,115	45,110,894	-	2,790,030	-	106,372,103	24,454,088	205,499,230
Other financial assets	-	-	-	-	-	-	36,518,160	36,518,160
December 31, 2020	1,316,186,103	259,332,866	464,595,712	744,139,735	-	903,933,526	1,083,779,052	4,771,966,994
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

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

	Stage (1)	Stage (2)	Stage (3)	2020
	U.S. $	U.S. $	U.S. $	U.S. $
Financial	1,295,140,453	20,901,868	143,782	1,316,186,103
Industrial	172,083,704	82,132,434	5,116,728	259,332,866
Commercial	295,620,054	143,627,776	25,347,882	464,595,712
Real estate	327,093,891	398,380,341	18,665,503	744,139,735
Securities	-	-	-	-
Public sector	903,933,526	-	-	903,933,526
Others	758,784,848	305,978,810	19,015,394	1,083,779,052
Total	3,752,656,476	951,021,229	68,289,289	4,771,966,994

	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

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

Macro-economic variables	Scenario used	Assigned weight for each scenario	Percentage change in macro-economic variables (%)	Percentage change in macro-economic variables (%)	Percentage change in macro-economic variables (%)	Percentage change in macro-economic variables (%)	Percentage change in macro-economic variables (%)	Percentage change in macro-economic variables (%)
		(%)	2020	2021	2022	2023	2024	2025
GDP	Base case	50	(19.10)	5.69	2.70	(0.31)	(0.26)	(0.23)
	Best case	-	(11.39)	13.40	10.41	7.40	7.45	7.48
	Worst case	50	(22.96)	1.84	(1.16)	(4.17)	(4.12)	(4.09)
Unemployment rates								
	Base case	50	26.77	(12.42)	(7.80)	0.77	0.76	0.76
	Best case	-	19.37	(13.19)	(8.36)	0.83	0.82	0.82
	Worst case	50	30.47	(12.07)	(7.55)	0.74	0.74	0.73

Except for what is mentioned above, a weight of 100% of the worst-case scenario was taken at 100% on the facilities of government employees in Gaza Strip and specific customers of financial sectors effected by the outbreak of Covid-19 pandemic, and the worst-case scenario was taken a weight of 60% on public sector credit facilities.

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

Macro-economic variables	Scenario used	Assigned weight for each scenario (%)	Percentage change in macro-economic variables (%) 2019	Percentage change in macro-economic variables (%) 2020	Percentage change in macro-economic variables (%) 2021	Percentage change in macro-economic variables (%) 2022	Percentage change in macro-economic variables (%) 2023	Percentage change in macro-economic variables (%) 2024
GDP	Base case	80	1	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
	Best case	10	1	0.58	0.58	0.58	0.58	0.58
	Worst case	10	1	(2.18)	(2.18)	(2.18)	(2.18)	(2.18)
Unemployment rates								
	Base case	80	(1.53)	(2.71)	(2.71)	(2.71)	(2.71)	(2.71)
	Best case	10	(1.53)	(4.59)	(4.59)	(4.59)	(4.59)	(4.59)
	Worst case	10	(1.53)	(0.83)	(0.83)	(0.83)	(0.83)	(0.83)

Except for what is mentioned above, the worst-case scenario was taken a weight of 100% on the facilities of government employees in Gaza Strip and specific customers.

Classification of debt securities 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:

	2020	2019
	Financial assets at amortized cost	Financial assets at amortized cost
Credit rating	U.S. $	U.S. $
Private sector:		
A- to AAA	48,962,473	79,502,953
B- to BBB+	43,879,195	60,735,766
Unrated	8,000,000	13,492,498
Governments and public sector	106,941,618	91,357,768
Total	207,783,286	245,088,985

II. <u>Market risk</u>
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:

	2020		2019	
	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	711,581	10	606,124
Jordanian Dinar	10	244,744	10	216,984
New Israeli Shekels	10	802,422	10	303,366
Other currencies	10	15,781	10	20,325

Interest rate re-pricing sensitivity gap

December 31, 2020	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 Palestinian Monetary Authority	1,323,410,056	-	-	-	-	-	1,323,410,056
Balances at banks and financial institutions	313,539,051	89,828,463	-	18,273,667	-	326,217,546	747,858,727
Financial assets at fair value through profit or loss	-	-	-	-	-	18,735,305	18,735,305
Direct credit facilities and Islamic financing	440,955,677	559,129,244	369,321,204	739,579,201	1,157,763,262	-	3,266,748,588
Financial assets at fair value through other comprehensive income	-	-	-	-	-	28,559,024	28,559,024
Financial assets at amortized cost	5,003,214	9,144,037	7,419,893	31,193,954	152,738,132	-	205,499,230
Investment in associates	-	-	-	-	-	5,946,380	5,946,380
Investment properties	-	-	-	-	-	25,884,919	25,884,919
Property, plant and equipment and right of use assets	-	-	-	-	-	121,430,377	121,430,377
Projects in progress	-	-	-	-	-	2,680,297	2,680,297
Intangible assets	-	-	-	-	-	15,428,395	15,428,395
Other assets	-	-	-	-	-	47,628,690	47,628,690
Total assets	2,082,907,998	658,101,744	376,741,097	789,046,822	1,310,501,394	592,510,933	5,809,809,988
Liabilities							
Palestinian Monetary Authority deposits	54,915,741	113,431,561	-	-	-	-	168,347,302
Banks and financial institutions' deposits	82,088,201	-	-	-	-	-	82,088,201
Customers' deposits	237,523,673	259,184,069	397,792,876	366,419,191	522,841,898	2,797,173,667	4,580,935,374
Cash margins	18,861,878	14,611,855	22,098,100	43,427,650	118,535,931	35,553,466	253,088,880
Subordinated loan	-	-	-	-	75,000,000	-	75,000,000
Loans and borrowings	-	-	-	-	27,636,180	-	27,636,180
Istidama loans	321,123	35,625	360,314	1,195,666	7,222,198	-	9,134,926
Sundry provisions	-	-	-	-	-	48,851,375	48,851,375
Taxes provisions	-	-	-	-	-	4,610,652	4,610,652
Lease liabilities	-	-	-	-	-	33,453,914	33,453,914
Other liabilities	-	-	-	-	-	93,142,513	93,142,513
TOTAL LIABILITIES	393,710,616	387,263,110	420,251,290	411,042,507	751,236,207	3,012,785,587	5,376,289,317
Equity							
Paid-in share capital	-	-	-	-	-	208,080,000	208,080,000
Additional paid-in capital	-	-	-	-	-	24,848,415	24,848,415
Statutory reserve	-	-	-	-	-	56,970,341	56,970,341
Voluntarily reserve	-	-	-	-	-	246,361	246,361
General banking risks reserve	-	-	-	-	-	10,311,877	10,311,877
Pro-cyclicality reserve	-	-	-	-	-	40,000,000	40,000,000
Fair value reserve	-	-	-	-	-	(4,999,792)	(4,999,792)
Retained earnings	-	-	-	-	-	43,763,159	43,763,159
Total equity holders of th Bank	-	-	-	-	-	379,220,361	379,220,361
Non-controlling interests	-	-	-	-	-	54,300,310	54,300,310
Total equity	-	-	-	-	-	433,520,671	433,520,671
Total liabilities and equity	393,710,616	387,263,110	420,251,290	411,042,507	751,236,207	3,446,306,258	5,809,809,988
Interest rate re-pricing sensitivity gap	1,689,197,382	270,838,634	(43,510,193)	378,004,315	559,265,187	(2,853,795,325)	-
Cumulative gap	1,689,197,382	1,960,036,016	1,916,525,823	2,294,530,138	2,853,795,325	-	-

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. $
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
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	-	-

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:

	2020		2019	
Currency	Increase in currency rate (%)	Effect on consolidated income statement U.S. $	Increase in currency rate (%)	Effect on consolidated income statement U.S. $
New Israeli Shekels	10	(74,376)	10	1,330,148
Other currencies	10	1,268,690	10	1,323,731

Following is the foreign currencies position of the Bank:

	JOD	ILS	Others	Total
December 31, 2020	U.S. $	U.S. $	U.S. $	U.S. $
Assets				
Cash and balances with Palestinian Monetary Authority	163,201,759	828,331,425	9,980,304	1,001,513,488
Balances at banks and financial institutions	200,918,324	145,330,546	99,449,770	445,698,640
Financial assets at fair value through profit and loss	8,305,915	-	-	8,305,915
Direct credit facilities and Islamic financing	446,622,526	1,505,518,677	51,284,476	2,003,425,679
Financial assets at fair value through other comprehensive Income	19,936,322	-	1,547,752	21,484,074
Financial assets at amortized cost	69,787,476	17,064,747	7,555,847	94,408,070
Other assets	5,584,891	16,411,299	372,001	22,368,191
Forward contracts	-	42,756,968	816,735	43,573,703
Total assets	914,357,213	2,555,413,662	171,006,885	3,640,777,760
Liabilities				
Palestinian Monetary Authority deposits	-	121,960,651	27,814,662	149,775,313
Banks and financial institutions' deposits	3,621,594	59,618,915	-	63,240,509
Customers' deposits	885,267,209	1,740,313,051	107,931,973	2,733,512,233
Cash margins	22,128,716	136,463,931	7,189,668	165,782,315
Loans and borrowings	-	-	12,636,180	12,636,180
Other liabilities	2,593,432	109,156,953	2,646,255	114,396,640
Forward deals	-	388,643,806	101,248	388,745,054
Total liabilities	913,610,951	2,556,157,307	158,319,986	3,628,088,244
Consolidated statement of financial position concentration	746,262	(743,645)	12,686,899	12,689,515
Commitments and contingencies	37,778,173	208,168,239	42,001,347	287,947,759

December 31, 2019

	JOD	ILS	Others	Total
Total assets	831,906,982	2,297,409,355	148,291,317	3,277,607,654
Total liabilities	832,596,052	2,284,107,877	135,054,010	3,251,757,939
Consolidated 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

Equity price risk

Equity price risk results from changes in fair value of equity instruments. The effect of the expected decrease in equity instrument prices is equal and opposite to the effect of the increase stated below:

		2020		2019	
	Increase in index	Effect on consolidated income statement	Effect On equity	Effect on consolidated income statement	Effect on equity
Market index	(%)	U.S. $	U.S. $	U.S. $	U.S. $
Palestine Securities Exchange	10	1,873,531	748,358	1,065,432	1,078,881
Foreign markets	10	-	1,607,752	-	1,727,337

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, 2020 and 2019, respectively:

December 31, 2020	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 Palestinian Monetary Authority	1,323,410,056	-	-	-	-	-		1,323,410,056
Balances at banks and financial institutions	562,165,994	91,086,680	-	18,273,667	-	-	76,332,386	747,858,727
Financial assets at fair value through profit and loss	-	-	-	-	-		18,735,305	18,735,305
Direct credit facilities and Islami financing	620,954,494	222,027,670	128,490,920	347,312,596	797,016,967	1,150,945,941	-	3,266,748,588
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	28,559,024	28,559,024
Financial assets at amortized cost	5,003,214	9,144,037	7,419,893	31,193,954	74,169,222	78,568,910	-	205,499,230
Investment in associates	-	-	-	-	-	-	5,946,380	5,946,380
Investment properties	-	-	-	-	-	-	25,884,919	25,884,919
Property, plant and equipment right of use assets	-	-	-	-	-	-	121,430,377	121,430,377
Projects in progress	-	-	-	-	-	-	2,680,297	2,680,297
Intangible assets	-	-	-	-	-	-	15,428,395	15,428,395
Other assets	-	-	-	-	-	-	47,628,690	47,628,690
Total assets	2,511,533,758	322,258,387	135,910,813	396,780,217	871,186,189	1,229,514,851	342,625,773	5,809,809,988
Liabilities								
Palestinian Monetary Authority deposits	44,302,800	54,079,649	69,964,853		-	-	-	168,347,302
Banks and financial institutions' deposits	82,088,201	-	-		-	-	-	82,088,201
Customers' deposits	3,112,344,124	259,184,069	397,792,876	288,772,405	207,113,578	315,728,322	-	4,580,935,374
Cash margins	18,861,866	14,611,855	22,098,100	43,427,650	41,198,799	77,337,132	35,553,478	253,088,880
Subordinated loan	-	-	-	-	22,500,000	52,500,000	-	75,000,000
Loans and borrowings	-	-	-	-	1,000,000	26,636,180	-	27,636,180
Istidama loans	321,123	35,625	360,314	1,195,666	7,222,198	-	-	9,134,926
Sundry provisions	-	-	-	-	-	-	48,851,375	48,851,375
Taxes provisions	-	-	-	4,610,652	-	-	-	4,610,652
Lease liabilities	-	-	-	-	-	-	33,453,914	33,453,914
Other liabilities	92,840,360	-	-	-	-	-	302,153	93,142,513
Total liabilities	3,350,758,474	327,911,198	490,216,143	338,006,373	279,034,575	472,201,634	118,160,920	5,376,289,317
Equity								
Paid-in share capital	-	-	-	-	-	-	208,080,000	208,080,000
Additional paid-in capital	-	-	-	-	-	-	24,848,415	24,848,415
Statutory reserve	-	-	-	-	-	-	56,970,341	56,970,341
Voluntarily reserve	-	-	-	-	-	-	246,361	246,361
General banking risks reserve	-	-	-	-	-	-	10,311,877	10,311,877
Pro-cyclicality reserve	-	-	-	-	-	-	40,000,000	40,000,000
Fair value reserve	-	-	-	-	-	-	(4,999,792)	(4,999,792)
Retained earnings	-	-	-	-	-	-	43,763,159	43,763,159
Total equity holders of the Bank	-	-	-	-	-	-	379,220,361	379,220,361
Non-controlling interests	-	-	-	-	-	-	54,300,310	54,300,310
Total equity	-	-	-	-	-	-	433,520,671	433,520,671
Total liabilities and equity	3,350,758,474	327,911,198	490,216,143	338,006,373	279,034,575	472,201,634	551,681,591	5,809,809,988
Maturity gap	(839,224,716)	(5,652,811)	(354,305,330)	58,773,844	592,151,614	757,313,217	(209,055,818)	-
Cumulative gap	(839,224,716)	(844,877,527)	(1,199,182,857)	(1,140,409,013)	(548,257,399)	209,055,818	-	-

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. $
Assets								
Cash and balances with Palestinian Monetary Authority	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	-	-	-	-	-	-	19,072,028	19,072,028
Direct credit facilities and Islami 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	-	-	-	-	-	-	28,899,933	28,899,933
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 and right of use assets	-	-	-	-	-	-	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								
Palestinian Monetary Authority 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
Taxes 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)	-	-

The table below summarizes the assets and liabilities on the basis of undiscounted contractual maturities as at December 31, 2020 and 2019, respectively:

December 31, 2020	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. $
Liabilities								
Palestinian Monetary Authority deposits	49,953,381	56,620,380	71,014,326	-	-	-	-	177,588,087
Banks and financial institutions' deposits	82,432,474	2,056,852	-	-	-	-	-	84,489,326
Customers' deposits	3,135,945,319	270,847,097	416,412,216	301,414,545	212,979,173	324,568,715	-	4,662,167,065
Cash margins	19,031,623	14,743,362	22,599,328	44,572,274	42,481,631	79,088,451	35,873,447	258,390,116
Subordinated loan	-	-	-	-	24,255,000	56,595,000	-	80,850,000
Loans and borrowings	-	-	-	-	1,030,000	27,435,265	-	28,465,265
Istidama loans	322,729	35,803	362,116	1,201,644	7,242,378	-	-	9,164,670
Sundry provisions	-	-	-	-	-	-	41,423,327	41,423,327
Taxes provisions	-	-	-	1,439,197	-	-	-	1,439,197
Lease liabilities	-	-	-	-	-	-	24,693,477	24,693,477
Other liabilities	67,062,175	-	-	-	-	-	125,341	67,187,516
Total liabilities	3,354,747,701	344,303,494	510,387,986	348,627,660	287,988,182	487,687,431	102,115,592	5,435,858,046
Total assets according to expected maturity	2,511,533,758	322,258,387	135,910,813	396,780,217	871,186,189	1,229,514,854	342,625,770	5,809,809,988

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. $
Liabilities								
Palestinian Monetary Authority 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
Taxes 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	-	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, 2020:

	Amount before discount rates / average flows	Amount after discount rates / average flows
	U.S. $	U.S. $
High quality liquid assets	1,520,620,997	1,438,616,130
Retail deposits including small and medium corporates:		
A- Stable deposits	2,177,506,688	132,692,626
B- Less stable deposits	1,481,602,842	114,412,848
Deposits and other unguaranteed facilities for companies without retail and small business customers:		
A- Operating deposits	205,649,214	51,412,303
B- Non-operating deposits	1,287,438,836	421,793,585
Guaranteed financing and deposits	5,152,197,580	720,311,362
Non-cancelled credit lines and required liquidity within 30 days	473,124,725	143,678,057
Any other cash outflows	191,716,240	
Gross cash outflows	5,817,038,546	873,997,978
Guaranteed credit facilities	87,191,770	43,595,885
Cash inflow from working credit		
Gross cash inflow	682,911,671	383,500,665
Net cash outflow after adjustments		490,497,313
Total high-quality liquid assets after adjustments		1,438,616,130
Net cash outflow after adjustment		490,497,313
Liquidity Coverage Ratio		%293

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:		
Stable deposits	1,907,131,521	112,517,154
Less stable deposits	1,337,916,952	102,519,703
Deposits and other unguaranteed facilities for companies without retail and small business customers:		
Operating deposits	52,386,284	13,096,571
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

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, 2020:

Description	2020
	U.S. $
Regulatory capital	511,170,112
Stable retail deposits	1,083,928,803
Un-stable retail deposits	2,188,699,326
Guaranteed and unguaranteed financing	534,997,068
Other funding	27,636,180
Others	179,346,245
Gross funding available	4,525,777,734
Level 1 unrestricted high liquidity assets	107,890
Level 2 -type (A) unrestricted high liquidity assets	17,101,256
Level 2 -type (B) unrestricted high liquidity assets	40,522,545
Loans	1,210,775,780
Housing loans not mortgaged	136,646,352
Financial assets issued or guaranteed by banks and financial institutions	36,778,100
Other unquoted financial assets	54,911,030
Other quoted financial assets	88,652,117
Non-performing credit facilities	11,820,678
Other assets	455,336,141
Non-performing credit facilities and line of credits	18,187,177
Other contingent liabilities	9,762,041
Other non-contractual obligations	2,072,928
Off balance sheet exposures not included in the previous categories	19,442
Gross financing required	2,082,693,477
Net Stable Funding Ratio	%217

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 -type (A) unrestricted high liquidity assets	13,068,286
Level 2 -type (B) 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
Other unquoted financial assets	56,372,066
Other quoted financial assets	97,014,945
Non-performing credit facilities	15,264,029
Other assets	488,054,314
Non-performing credit facilities and line of credits	13,731,270
Other contingent liabilities	12,601,212
Gross financing required	1,788,320,699
Net Stable Funding Ratio	%217

48. Maturities of assets and liabilities

The following table depicts the analysis of assets and liabilities according to their maturities:

	December 31, 2020			
	Less than a year	More than a year	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Assets				
Cash and balances with Palestinian Monetary Authority	1,323,410,056	-	-	1,323,410,056
Balances at banks and financial institutions	671,526,341	-	76,332,386	747,858,727
Financial assets at fair value profit and loss	-	-	18,735,305	18,735,305
Direct credit facilities and Islamic financing	1,318,785,680	1,947,962,908	-	3,266,748,588
Financial assets at fair value through other comprehensive income	-	-	28,559,024	28,559,024
Financial assets at amortized cost	52,761,098	152,738,132	-	205,499,230
Investment in associates	-	-	5,946,380	5,946,380
Investment properties	-	-	25,884,919	25,884,919
Property, plant and equipment and right of use assets	-	-	121,430,377	121,430,377
Projects in progress	-	-	2,680,297	2,680,297
Intangible assets	-	-	15,428,395	15,428,395
Other assets	36,518,160	-	11,110,530	47,628,690
Total assets	3,403,001,335	2,100,701,040	306,107,613	5,809,809,988
Liabilities				
Palestinian Monetary Authority deposits	168,347,302	-	-	168,347,302
Banks and financial institutions' deposits	82,088,201	-	-	82,088,201
Customers' deposits	4,058,093,474	522,841,900	-	4,580,935,374
Cash margins	98,999,471	118,535,931	35,553,478	253,088,880
Subordinated loan	-	75,000,000	-	75,000,000
Loans and borrowings	-	27,636,180	-	27,636,180
Istidama loans	1,912,728	7,222,198	-	9,134,926
Sundry Provisions	-	-	48,851,375	48,851,375
Taxes provisions	4,610,652	-	-	4,610,652
Lease liabilities	-	-	33,453,914	33,453,914
Other liabilities	92,840,360	-	302,153	93,142,513
Total liabilities	4,506,892,188	751,236,209	118,160,920	5,376,289,317
Equity				
Paid-in share capital	-	-	208,080,000	208,080,000
Additional paid-in capital	-	-	24,848,415	24,848,415
Statutory reserve	-	-	56,970,341	56,970,341
Voluntarily reserve	-	-	246,361	246,361
General banking risks reserve	-	-	10,311,877	10,311,877
Pro-cyclicality reserve	-	-	40,000,000	40,000,000
Fair value reserve	-	-	(4,999,792)	(4,999,792)
Retained earnings	-	-	43,763,159	43,763,159
Total equity holders of the Bank	-	-	379,220,361	379,220,361
Non-controlling interests	-	-	54,300,310	54,300,310
Total equity	-	-	433,520,671	433,520,671
Total liabilities and equity	4,506,892,188	751,236,209	551,681,591	5,809,809,988
Maturity gap	(1,103,890,853)	1,349,464,831	(245,573,978)	-
Cumulative maturity gap	(1,103,890,853)	245,573,978	-	-

	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 Palestinian Monetary Authority	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	-	-	19,072,028	19,072,028
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	-	-	28,899,933	28,899,933
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 and right of use assets	-	-	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				
Palestinian Monetary Authority 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
Taxes 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)	-	-

49. Segment information

Information on the Bank's business segments

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

Retails banking: Includes handling individual customers' deposits, and providing consumer type loans, overdrafts, credit cards facilities and other services.

Corporates, 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 investments.

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

December 31, 2020	Retail	Corporate, institutions and public sector	Treasury	Other	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	105,703,929	151,329,296	21,062,975	525,550	278,621,750
Provision of expected credit loss	(6,135,988)	(32,954,163)	(367,635)	-	(39,457,786)
Credit facilities not previously provided for and written off	(1,532,623)	-	-	-	(1,532,623)
Segment results					181,257,034
Unallocated expenses					(141,096,666)
Profit before taxes					40,160,368
Taxes expense					(17,748,220)
Profit for the year					22,412,148
Other segment information:					
Depreciation and amortization					18,858,916
Capital expenditures					15,813,134
Total segment assets	943,686,036	2,061,048,261	2,321,130,346	483,945,345	5,809,809,988
Total segment liabilities	2,833,576,861	1,703,341,785	385,159,526	454,211,145	5,376,289,317

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
(Provision) recovery of expected credit loss	(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

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	
	2020	2019	2020	2019	2020	2019
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	262,541,874	268,295,166	16,079,876	18,302,369	278,621,750	286,597,535
Total assets	4,796,397,240	4,671,014,294	1,013,412,748	593,930,346	5,809,809,988	5,264,944,640
Capital expenditures	15,813,134	14,911,740	-	-	15,813,134	14,911,740

50. 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. On its meeting held on March 26, 2020 the general assembly approved on raising the paid in capital of the bank by U.S. $ 4,080,000 through stock dividends.

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 approved by the Board of Directors of the PMA.

The capital adequacy ratio for the year 2020 is computed in accordance with the PMA's instructions No. (8/2018) derived from Basel III international regulations.

The following are the capital adequacy rates for 2020 compared to 2019:

	2020			2019		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S. $	%	%	U.S. $	%	%
Regulatory capital	499,707,546	8.60	14.24	463,958,360	8.81	14,12
Basic capital	376,912,943	6.49	10.74	375,776,941	7.14	11,44

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

	December 31, 2020
	U.S. $
Net common stocks (CET 1)	370,779,348
The first bracket of capital	376,912,943
The second bracket of capital	122,794,604
Capital base	499,707,545
Credit risk	3,018,930,340
Market risk	66,781,049
Operational risk	422,705,856
Total risk weighted assets	3,508,417,246
	%
Percentage of net common stocks (CET 1) to risk weighted assets	10.57
Percentage of the first bracket of capital to risk weighted assets	10.74
Percentage of the second bracket of capital to risk weighted assets	3.50
Percentage of the first bracket to assets	6.49
Percentage of regulatory capital to assets	8.60
Capital adequacy ratio	**14.24**

51. Commitments and contingent liabilities

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

	2020	2019
	U.S. $	U.S. $
Letters of guarantees	191,064,802	191,432,299
Letters of credit	32,823,758	44,331,976
Acceptances	12,810,821	22,039,772
Unutilized credit facilities limits	363,743,554	260,620,520
Others	388,850	470,100
	600,831,785	518,894,667

Outstanding forward deals contracts as at December 31, 2020 and December 31,2019 amounted to U.S.$ 26,491,040 and U.S. $ 4,280,353, 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 summary of the movement on the gross carrying amount of indirect credit facilities is as follows:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	518,894,667	-	-	518,894,667
Net change during the year	81,937,118	-	-	81,937,118
Balance ending of the year	600,831,785	-	-	600,831,785

The movement of expected credit loss allowance on indirect credit facilities is as follows:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	246,044	-	-	246,044
Net expected credit loss for the year	56,109	-	-	56,109
Balance ending of the year	302,153	-	-	302,153

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	336,064	-	-	336,064
Net expected credit loss for the year	(90,020)	-	-	(90,020)
Balance ending of the year	246,044	-	-	246,044

The related provision is recorded in other liabilities (note 27).

52. Lawsuits against the Bank

The number of lawsuits filed against the Bank as at December 31, 2020 and 2019 was (207) and (168) in the normal course of business with a total amount of U.S. $ 62,029,218 and U.S. $ 40,336,275, 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.

Subsequently, 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 issue a written decision on the motion within the first half of 2021.

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 and 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.

53. 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.

54. 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.

55. The impact of Coronavirus (Covid-19) on the calculation of expected credit loss allowance and the relevant instructions of the Palestinian Monetary Authority

Expected credit loss allowance calculation

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

According to IFRS (9), credit facilities and Islamic financing to be transferred from stage (1) to stage (2) if, and only if, there has been a significant increase in credit risk after initial recognition.The Bank evaluated its borrowers for other indications of unwillingness to pay, considering the underlying cause of any financial difficulty, and whether it is likely to be temporary as a consequence of the spread of COVID-19 or as a long-term financial difficulty.

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

Relevant PMA instructions

As a result of the spread of Coronavirus (COVID-19), PMA issued instructions No. (4/2020) on March 15, 2020 related to the PMA’s measures to mitigate the effects of the health crisis. The instructions included a set of decisions to instruct the banks to postpone customers installments for four months, and six months for the tourism sector. Banks were prohibited from collecting any additional fees, commissions or additional interest on the differed installments. In accordance with the instructions, the bank postponed installments of its customers. Additionally, on June 30, 2020, PMA issued instructions No. (23/2020) which obligates Islamic banks to grant customers, whose installments have been postponed, a grace period to pay the deferred installments until December 31, 2021. The instructions also included other measures taken by the Palestinian Government and PMA (which had an impact on the banking sector and the operations of the Bank) such as not to classify customers with returned checks for financial reasons as defaulted and not to charge them with the related commissions.

On July 22, 2020, PMA issued instructions No, (27/2020) regarding mitigating the effects of the financial crisis and the Coronavirus crisis, under which the Bank restructured and rescheduled the credit facilities and Islamic financing, or granted the customers a temporary Tawarruq limits in the amount of the deferred installments or restructuring the finance lease in ownership in addition to granting the customer (based on his request) Tawarruq limit (Tawarruq) for the value of his obligations during the period from July 1, 2020 to January 1, 2021.

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

Additionally, Arab Islamic Bank (subsidiary) has postponed/ restructured the financing installments for customers of the affected economic sectors both companies and individuals, without additional returns in accordance, with PMA instructions No. (23/2020). The deferred profits are amortized over the extended contractual term of the financing. Based on the foregoing, the Bank has unified the accounting policies of its subsidiary when preparing the consolidated financial statements. This amendment has been treated with in accordance with IFRS (9). Modification of financing, such that the difference between the present value of future cash flows and the book value was recognized as losses resulting from modification of the Islamic financing of the subsidiary under net financing and investment income at an amount of U. S. $ 3,364,410 in the consolidated income statement as of December 31, 2020 (note 33).

To compensate for these losses, Arab Islamic Bank received during the year a deposit of U.S. $ 20 million from PMA at a below market interest rate maturing in 2023. The deposit was classified as a governmental grant. This deposit is a compensation for modification of losses and all other related costs due to deferral of installments. The subsidized financing interest rate was calculated on a systematic basis in accordance with the accounting for government grants. Accordingly, a total income of U. S. $ 1,428,011 has been recognized in the consolidated income statement under net financing and investment income (note 33). The calculation included the management judgement and estimates in the recognition and measurement of income from the grant.

Istidama Program Loans

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

56. Comparative figures

Certain comparative figures of the consolidated financial statements as of December 31, 2019 were reclassified to conform with presentation as of December 31, 2020. These reclassifications had no effect on the net income and equity of prior year.

57. Subsequent events

Subsequent to the consolidated financial statements date, the Bank's Board of Directors, during its meeting held on February 28, 2021, decided to recommend to the general assembly the distribution of dividends to shareholders by 5% of the paid in capital equivalent to U.S. $ 10,404,000, by distributing U.S. $ 2,080,000 as stock dividends of and by U.S $ 8,323,200 as cash dividends based on pro-rata ownership of the Bank's shareholders in the Bank's share capital.

Moreover, the Board of Directors of Arab Islamic Bank (AIB) decided during its meeting held on February 25, 2021 to recommend to the general assembly to increase the paid-in capital of AIB by U.S. $3,250,000 at a par value of U.S $ 1 per share and to distribute 2.9% cash dividends of the par value of the shares.