PALESTINE ISLAMIC BANK

FINANCIAL STATEMENTS

DECEMBER 31, 2018

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

Opinion

We have audited the accompanying financial statements of Palestine Islamic Bank (the Bank), which comprise the statement of financial position as at December 31, 2018, and the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the statement of sources and uses of earnings prohibited by Sharia' for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018, and its financial performance and its cash flows, and earnings and disbursements prohibited by Shari'a for the year then ended in accordance with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, and in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Basis for Opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), 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.

Other Matters

The financial statements of the Bank as at December 31, 2017 were audited by another auditors who issued their unqualified report on March 25, 2018.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current year. These matters were addressed in the context of our audit of the 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 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 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 financial statements.

Key Audit Matter	Audit Procedures
Expected credit losses "ECL" allowance: The AAOIFI issued FAS 30 "Impairment, Credit Losses and Onerous Commitments. This Standard sets out the accounting treatment for the expected impairment and credit losses of financing, investments and high risk commitments in Islamic financial institutions. The standard requirements regarding the expected credit losses are very similar to those of IFRS 9. The date of mandatory application of the Standard is January 1, 2020, with early application permitted, The Bank has adopted IFRS 9. This is considered as a key audit matter as the Bank exercises significant judgement and estimates to determine when and how much to record as impairment. Direct Islamic financing form major portion of the Bank's assets, and there is a risk that inappropriate impairment provisions are booked, whether from the use of inaccurate underlying data, or the use of unreasonable assumptions due to the significance of the judgments used in classifying direct Islamic financing into various stages stipulated in IFRS (9) and determining related provision requirements. As at December 31, 2018, the Bank had direct Islamic financing amounted to U.S. $ 694,167,533 and the related ECL amounted to U.S. $ 13,035,093 and profit in suspense amounted to U.S. 1,180,580. ECL and the related accounting policies are presented in note (2) to the financial statements. The Bank has adopted IFRS (9): Financial Instruments on its mandatory effective date of January 1, 2018 and assessed the requirement of classification and measurement, impairment and hedge accounting template. The Bank has not restated comparative information of 2017. As presented in note (2) to the financial statements, the effect of adopting IFRS 9 amounted to U.S. $ U.S.$ 9,549,964 and has been recognized in the opening equity accounts.	Our audit procedures include: • We obtained an understanding of the Bank's key credit processes comprising granting and booking and tested the operating effectiveness of key controls over these processes. • We also assessed the Bank's impairment provisioning policy and compared it with the requirements of IFRS 9 as well as relevant regulatory instructions. • Assessed the Bank's ECL model, in particular focusing on its alignment with the requirements of IFRS (9). • We examined a sample of exposures, assessed on an individual basis and performed the following procedures: - Assessed the appropriateness of the Bank's staging (stage 1, 2 or 3). - Assessed the appropriateness of determining Exposure at Default (EAD), including the consideration of repayments in the cash flows and the resultant arithmetical calculations. - Assessed the appropriateness of the Probability of Defaults (PD), Exposure at Default (EAD) and Loss Given Defaults (LGD) used for different exposures at different stages. - Assessed soundness and mathematical integrity of the ECL Model. - For exposures moved between stages, we have checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. We also checked the timely identification of exposures with a significant deterioration in credit quality.

	Audit Procedures
	- For exposures determined to be individually impaired we re-preformed the ECL calculation, obtained an understanding of the latest developments on the counterparty's situation and estimated future cash flows, current financial position and any rescheduling or restructuring agreements. - For forward looking assumptions used by the Bank in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information. - Assessed the adequacy of disclosures, including accounting policies, significant accounting estimates and judgments to ensure compliance with IFRS 9. The accounting policies, significant accounting estimates and judgments are detailed in notes number (2, 4, 5, 8 and 41) in the accompanying financial statements.

Other information included in the Bank's 2018 Annual Report

Other information consists of the information included in the Bank's 2018 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2018 Annual Report is expected to be made available to us after the date of this auditor's report. Our opinion on the 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 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 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, and in accordance with AAOIFI, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 AAOIFI 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements as at December 31, 2018 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

A. M. Abushaaban

Ernst + Young

A. Maher Abushaaban
License # 155/1998

March 28, 2019
Ramallah – Palestine

STATEMENT OF FINANCIAL POSITION
As at December 31, 2018

		2018	2017
Assets	Notes	U.S. $	U.S. $
Cash and balances at Palestine Monetary Authority	3	213,512,859	223,544,810
Balances at banks and financial institutions	4	117,114,066	90,638,436
Direct Islamic financing	5	679,951,860	619,378,328
Financial assets at fair value through profit or loss	6	1,462,341	1,550,353
Financial assets at fair value through other comprehensive income	7	4,423,848	3,290,146
Financial assets at amortized cost	8	14,140,580	11,497,979
Investment in associates	9	11,450,784	11,335,987
Investment properties	10	12,742,899	7,958,529
Property and equipment	11	28,827,812	24,615,614
Projects in progress	12	1,419,676	2,583,848
Intangible assets	13	874,504	779,081
Other assets	14	18,474,908	13,196,306
Total assets		1,104,396,137	1,010,369,417
Liabilities, unrestricted investment accounts and equity			
Liabilities			
Banks and financial institutions' deposits	15	58,916,241	65,959,956
Customers' deposits	16	223,814,250	221,222,338
Cash margins	17	36,281,439	38,909,681
Sundry provisions	18	8,322,582	7,290,039
Tax provisions	19	1,762,414	5,836,407
Other liabilities	20	21,093,889	12,027,329
Total liabilities		350,190,815	351,245,750
Unrestricted investment accounts	21	644,386,756	549,498,014
Equity			
Paid-in share capital	1	74,000,000	69,000,000
Additional paid-in capital		3,200,000	3,200,000
Statutory reserve	22	8,152,436	6,639,276
General banking risk reserve	22	3,165,788	9,704,592
Pro-cyclicality reserve	22	11,283,744	9,403,142
Investment properties reserve	10	960,751	-
Cumulative change in fair value	7	(234,153)	250,325
Retained earnings		9,290,000	11,428,318
Net equity		109,818,566	109,625,653
Total liabilities, unrestricted investment accounts and equity		1,104,396,137	1,010,369,417

INCOME STATEMENT
For the year ended December 31, 2018

	Notes	2018 U.S. $	2017 U.S. $
Revenues			
Investment and financing revenues	23	46,518,669	41,530,091
Less: Return on unrestricted investment accounts	24	(6,106,828)	(4,325,517)
Bank's share of income from financing and investments		40,411,841	37,204,574
Net commissions	25	8,853,981	8,411,829
Foreign currency exchange gains		2,590,719	2,453,776
Bank's share of the associates' results of operations	9	677,002	746,560
Income from financial assets at amortized cost	8	772,047	385,960
Cash dividends		384,295	377,997
Recovery of other provisions	18	425,980	(92,164)
Recovery from expected credit losses allowance	29	5,839,943	1,215,500
Other revenues	26	440,402	687,355
Total revenues		60,396,210	51,391,387
Expenses			
Personnel expenses	27	(20,642,269)	(17,021,298)
Other operating expenses	28	(12,974,486)	(11,973,130)
Expected credit losses allowance	29	(4,627,886)	(1,290,303)
Depreciation and amortization	11&13	(4,182,299)	(2,263,022)
Losses on impairment of financial assets at fair value through profit or loss		(88,012)	(135,402)
Palestine Monetary Authority fines	30	(10,000)	-
Total expenses		(42,524,952)	(32,683,155)
Profit before taxes		17,871,258	18,708,232
Taxes expense	19	(2,739,654)	(4,177,094)
Profit for the year		15,131,604	14,531,138
Basic and diluted earnings per share	35	0.20	0.20

STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2018

	Notes	2018	2017
		U.S. $	U.S. $
Profit for the year		15,131,604	14,531,138
Other comprehensive income:			
Items to be reclassified to income statement in subsequent periods:			
Bank's share of the associates' other comprehensive income	7	(176,225)	610,344
Unrealized gains on revaluation of investment properties	10	1,311,143	-
Deferred taxes	10	(350,392)	-
Items will not be reclassified to income statement in subsequent periods:			
Change in fair value of financial assets	7	(200,573)	(211,184)
Bank's share of the associates' other comprehensive income	7	(107,680)	221,397
Total other comprehensive income		476,273	620,557
Total comprehensive income for the year		15,607,877	15,151,695

STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2018

			Reserves						
	Paid-in share capital	Additional paid-in capital	Statutory	General banking risk	Pro-cyclicality	Investment properties	Cumulative change in fair value	Retained earnings	Net equity
December 31, 2018	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year – before adjusted	69,000,000	3,200,000	6,639,276	9,704,592	9,403,142	-	250,325	11,428,318	109,625,653
Impact of applying IFRS 9 (note 2)	-	-	-	(9,549,964)	-	-	-	-	(9,549,964)
Balance, beginning of the year-adjusted	69,000,000	3,200,000	6,639,276	154,628	9,403,142	-	250,325	11,428,318	100,075,689
Profit for the year	-	-	-	-	-	-	-	15,131,604	15,131,604
Other comprehensive income	-	-	-	-	-	960,751	(484,478)	-	476,273
Total comprehensive income for the year	-	-	-	-	-	960,751	(484,478)	15,131,604	15,607,877
Transfer to reserves	-	-	1,513,160	3,011,160	1,880,602	-	-	(6,404,922)	-
Stock dividends distributions (note 31)	5,000,000	-	-	-	-	-	-	(5,000,000)	-
Cash dividends distributions (note 31)	-	-	-	-	-	-	-	(5,865,000)	(5,865,000)
Balance, end of the year	74,000,000	3,200,000	8,152,436	3,165,788	11,283,744	960,751	(234,153)	9,290,000	109,818,566
December 31, 2017									
Balance, beginning of the year	62,500,000	1,250,000	5,186,162	8,454,592	7,223,471	-	(370,232)	11,064,846	95,308,839
Profit for the year	-	-	-	-	-	-	-	14,531,138	14,531,138
Other comprehensive income	-	-	-	-	-	-	620,557	-	620,557
Total comprehensive income for the year	-	-	-	-	-	-	620,557	14,531,138	15,151,695
Capital payments	3,000,000	1,950,000	-	-	-		-	-	4,950,000
Transfer to reserves	-	-	1,453,114	1,250,000	2,179,671	-	-	(4,882,785)	-
Stock dividends distributions (note 31)	3,500,000	-	-	-	-	-	-	(3,500,000)	-
Cash dividends distributions (note 31)	-	-	-	-	-	-	-	(5,312,500)	(5,312,500)
The effect of the restatement of the associates' financial statements	-	-	-	-	-	-	-	(472,381)	(472,381)
Balance, end of the year	69,000,000	3,200,000	6,639,276	9,704,592	9,403,142	-	250,325	11,428,318	109,625,653

STATEMENT OF CASH FLOWS
For the year ended December 31, 2018

	Notes	2018 U.S. $	2017 U.S. $
Operating activities			
Profit before taxes		17,871,258	18,708,232
Adjustments for:			
Loss on financial assets at fair value through profit or loss		88,012	135,402
Sundry provisions		1,682,197	1,165,255
Depreciation and amortization		4,182,299	2,263,022
Bank's share of the associates' results of operations		(677,002)	(746,560)
Provision for impaired Islamic financing		(1,212,057)	74,803
(Gain) loss on sale of property and equipment		(291,094)	45,826
Losses from financial assets at amortized cost		36,543	-
Gain from sale of investment properties		(19,427)	-
Other non-cash items		205,724	-
		21,866,453	21,645,980
Changes in assets and liabilities:			
Statutory cash reserve		12,157,106	(8,698,558)
Restricted balances with Palestine Monetary Authority		(1,000,000)	-
Balances at banks and financial institutions maturing after three months		-	1,061,602
Direct Islamic financing		(72,208,092)	(86,683,876)
Other assets		(5,278,602)	(1,280,161)
Customers' deposits		2,591,912	42,630,949
Cash margins		(2,628,242)	14,058,252
Other liabilities		8,688,432	(1,399,785)
Net cash flows used in operating activities before provisions and taxes		(35,811,033)	(18,665,597)
Taxes paid		(7,019,371)	(2,856,987)
Sundry provisions paid		(649,654)	(1,337,606)
Net cash flows used in operating activities		(43,480,058)	(22,860,190)
Investing activities			
Sales of investment properties		70,527	-
Investment in associates		278,300	(743,806)
Purchase of property, equipment and intangible assets		(7,474,984)	(8,150,345)
Sale of property and equipment		440,330	36,740
Maturity of financial assets at amortized cost		1,525,672	-
Sale of financial assets at amortized cost		674,814	-
Purchase of financial assets at amortized cost		(4,985,047)	(5,556,593)
Purchase of financial assets at fair value through profit or loss		(1,334,275)	(296,024)
Net cash flows used in investing activities		(10,804,663)	(14,710,028)
Financing activities			
Increase in capital		-	3,000,000
Additional paid-in capital		-	1,950,000
Cash dividends distributed		(5,865,000)	(5,312,500)
Unrestricted investment accounts		94,888,742	101,238,051
Net cash flows from financing activities		89,023,742	100,875,551
Increase in cash and cash equivalents		34,739,021	63,305,333
Cash and cash equivalents, beginning of the year		193,821,573	130,516,240
Cash and cash equivalents, end of the year	34	228,560,594	193,821,573

STATEMENT OF SOURCES AND USES OF EARNINGS PROHIBITED BY SHARIA'
For the year ended December 31, 2018

	Note	2018 U.S. $	2017 U.S. $
Earnings prohibited by Sharia'			
Balance, beginning of the year		13,516	5,784
Excess in cash		31,739	13,165
Profit from direct Islamic financing		10,068	9,688
Total earnings prohibited by Sharia' at the end of year		55,323	28,637
Disbursements of earnings prohibited by Sharia'			
Donations		(40,941)	(15,121)
Total disbursements of earnings prohibited by Sharia'		(40,941)	(15,121)
Balance of earnings prohibited by Sharia' at the end of year	20	14,382	13,516

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

1. General

Palestine Islamic Bank P.L.C. (the Bank) was incorporated in Gaza City on December 16, 1995 in accordance with the Companies Law of 1929, and was registered under registration number (563200922).

The Bank commenced operations in early 1997. The Bank is licensed to provide banking services, financing, trading and investing activities in accordance with the directives of the Islamic Shari'a Rules through its headquarters in Ramallah and its twenty branches and twenty-three offices that is spread through Palestine.

The Bank is a subsidiary of the National Islamic Investment Company (National Company), which in turn is affiliated to The National Bank Public Shareholding Company (The National Bank) with a controlling shares of 45.36%. Additionally, the National Company constitutes six out of eleven members of the Bank's board of directors. Accordingly, the Bank's financial statements are consolidated with the financial statements of the National Company and The National Bank.

The Bank's operations are subject to the supervision of A Shari'a Supervisory Board (the Board), consisting of four members appointed by the General Assembly of the Bank. The Board's role is to review the Bank's activities and transactions to ensure the Bank's compliance with Islamic Shari'a Rules and Principles.

The Bank carries out banking, financial, commercial and investment activities in accordance with Islamic Shari'a Rules and Principles. The Bank's authorized share capital is U.S. $ 100,000,000 at U.S. $ 1 par value each, while 2017 its Paid-in share capital increased to U.S. $ 69,000,000, and was raised again during 2018 to U.S. $ 74,000,000.

The total number of the Bank's staff is (700) and (638) as at December 31, 2018 and December 31, 2017, respectively.

The financial statements were authorized for issuance by the Bank's Board of Directors on March 12, 2019.

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with the Financial Accounting and Auditing Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Shari'a Rules and Principles as determined by the Bank's Shari'a Supervisory Board, prevailing laws in Palestine and Palestine Monetary Authority (PMA) regulations.

The financial statements have been prepared on a historical cost basis, the financial assets and financial liabilities that have been hedged for changes in their fair value are stated at their fair value.

The financial statements have been presented in U.S. Dollars, which is the functional currency of the Bank.

The standards issued by the International Accounting Standard Board and the interpretations issued by International Financial Reporting Interpretations Committee of the International Accounting Standards Board are applied in case of the absence of accounting standards issued by the Accounting and Auditing Organizations for Islamic Financial Institutions, until AAOIFI issues new relevant standards.

2.2 Changes in accounting policies

The accounting policies used in the preparation of the financial statements are consistent with those used in the preparation of the financial statements for the year ended December 31, 2017, except that the Bank applied certain amendments to the standards, which are effective for annual periods beginning on or after January 1, 2018:

IFRS 9 Financial Instruments

The Bank has adopted IFRS 9: Financial Instruments on its mandatory effective date of January 1, 2018 and assessed the requirement of classification and measurement, impairment and hedge accounting template. The Bank has implemented the first phase of IFRS 9 as issued during 2009. The date of initial implementation of the first phase of IFRS 9 was January 1, 2012.

The Standard has been applied retrospectively and in accordance with IFRS 9 Financial Instruments, and the Bank has not modified the comparative figures. The effect of the adoption of the Standard was recognized on January 1, 2018 through the equity statement. IAS 39) (Financial Instruments: Recognition and Measurement) and all previous versions of IFRS 9 have been cancelled under the final version of IFRS 9.

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The Bank assessed the effect of the adoption of IFRS 9 (2009): classification and measurement and the Bank's assets and liabilities on the date of mandatory implementation date of January 1, 2018, where the classification of financial assets and liabilities did not differ significantly from implementation of IFRS 9 (2014).

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all Islamic financing, other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, deposits and accounts receivable.

The impact of application of IFRS 9 on previous years has been shown by adjusting the opening balance of the equity items as of 1 January 2018.The impact of this change in accounting policies as at January 1, 2018 has to decrease equity by U.S. $ 9,549,964 as follows:

	IAS 39	IFRS 9	Change
	U.S. $	U.S. $	U.S. $
Balances at banks and financial institutions	90,638,436	90,608,200	(30,236)
Direct Islamic financing	619,378,328	609,976,414	(9,401,914)
Financial assets at amortized cost	11,497,979	11,453,085	(44,894)
Indirect Islamic financing	12,027,329	11,954,409	(72,920)
General banking risks reserve	9,704,592	154,628	(9,549,964)

The following table illustrates the beginning balances for the provisions after the implementation of IFRS (9):

	Balance in accordance with IAS 39	Re-measurement	Balance in accordance with IFRS 9
	U.S. $	U.S. $	U.S. $
Balances at banks and financial institutions	-	30,236	30,236
Direct Islamic financing	5,782,860	9,401,914	15,184,774
Financial assets at amortized cost	-	44,894	44,894
Indirect Islamic financing	-	72,920	72,920

Expected credit losses as of December 31, 2018 are as follows:

	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances at banks and financial institutions	94,521	-	-	94,521
Direct Islamic financing	3,247,092	4,005,141	5,782,860	13,035,093
Financial assets at amortized cost	105,181	237	-	105,418
Indirect Islamic financing	26,172	1,563	-	27,735

The new accounting policies in respect of IFRS 9 are presented under a summary of significant accounting policies.

The following table shows the effect of the adoption of IFRS 9 on retained earnings and general banking risk reserve as at January 1, 2018:

	Retained earnings	General banking risk reserve
	U.S. $	U.S. $
Balance as at January 31, 2018 – before adjustment	11,428,318	9,704,592
ECL on balances at banks and financial institutions	-	(30,236)
ECL on direct Islamic financing	-	(9,401,914)
ECL on financial assets at amortized cost	-	(44,894)
ECL on other liabilities	-	(72,920)
Balance as at January 31, 2018 – after adjustment	11,428,318	154,628

IFRS 7 Financial Instruments – Amendments on Disclosure

IFRS 7 was amended to include more qualitative and quantitative disclosures to accommodate IFRS 9 requirements such as classifications, impairment and hedge accounting.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Bank assessed that the impact of IFRS 15 is not material on the consolidated financial statements of the Bank.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

This Interpretation does not have any impact on the Bank's financial statements.

Amendments to IAS 12 Income Tax: Recognition of deferred tax assets arising from unrecognized losses

The amendments to the Standard require that the Bank consider whether the tax law restricts taxable profit sources that can be used to reduce temporary time differences when reversed, in additions to other limited adjustments.

Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which:

(a) the investment entity associates or joint venture is initially recognized;

(b) the associate or joint venture becomes an investment entity; and

(c) the investment entity associates or joint venture first becomes a parent.

These amendments do not have any impact on the Bank's financial statements.

Standards issued but not yet effective

The International Financial Reporting Standards are applied in case of the absence of accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions. The International Accounting Standards Board (IASB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued standards, amendments and interpretations but are not yet effective, and have not been adopted by the Bank. These amendments and interpretations will not have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt these amendments and interpretations when they become effective.

AAOIFI Financial Accounting Standard (30) – Impairment, Credit losses, Commitments, and Contingencies

The standard addresses the accounting treatment regarding the impairment and expected credit losses on Islamic financing, investments, and high-risk commitments at Islamic financial institutions. The requirements regarding expected credit losses are highly similar to those requirements of IFRS 9. The standard is effective for annual periods beginning on or after January 1, 2020, and early adoption is permitted.

IFRS 16 Leases

During January 2016, the IASB issued IFRS 16 "Leases" which sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Application of IFRS 16 - Transition period

The Bank may apply retrospectively IFRS 16 so that all prior periods are adjusted in the financial statements or in the retrospective effect method where the effect of the Standard is adjusted to the opening balance of the retained earnings. The Bank will apply the Standard to contracts previously designated as leases in accordance with IAS 17 and IFRIC 4.

The Bank will apply IFRS 16 retrospectively and due to the lack of sufficient information to disclose the quantitative impact of the standard as at December 31, 2018, the impact of the standard will not be disclosed in the financial statements for the year ended December 31, 2018.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Bank will apply these amendments when they become effective.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

2.3 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 a specific economic environment that are exposed to risks and returns different from those of other segments working in other economic environments.

Significant accounting policies

Revenues and expenses recognition

Financing revenues is recognized using the effective method, except for profit and commission from non-performing Islamic financing. Commission income is recognized when the services are rendered. Dividends income is recognized when the right to receive dividends is established.

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

Financial assets and liabilities

Financial assets at amortized cost

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

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

If either or both of the two conditions are not met the financial instrument is classified as at FVTPL. Even if the instrument meets the two conditions, the Bank has the option to classify the financial asset as at FVTPL if this designation reduces any inconsistency recognition.

Subsequent to initial recognition, debt instruments are measured at amortized cost using the effective profit method net of impairment losses, if any. Islamic Sukuk are measured at cost. The Bank determines whether there is any evidence that the financial assets are impaired. If this is the case, the Bank calculates the amount of impairment and recognizes the amount in the consolidated income statement. Profit revenue from the financial assets at amortized cost is recognized in the income statement.

Financial assets at fair value through profit or loss

These financial assets represent debt instruments that do not meet amortized cost conditions or financial instruments that meet amortized cost conditions but which the Bank has classified as fair value through profit or loss at initial recognition. The Bank has not classified any debt instrument that meets the terms of debt instruments at amortized cost as financial assets at fair value through profit or loss.

On initial recognition, the Bank classifies equity instruments at fair value as financial assets at fair value through profit or loss except for investments not held for trading where such assets can be classified at fair value through other comprehensive income.

Financial assets are measured at fair value through profit or loss and any gain or loss arising from changes in their fair value is recognized in the income statement.

Dividend income is recognized from the investment in the financial instruments of the investee when the right to receive it arises.

Financial assets at fair value through comprehensive income

Upon initial recognition, the Bank classified the equity instruments at fair value through other comprehensive income. This classification is on a non-reversible. The Bank can not classify an equity instruments held for trading as Financial assets at fair value through other comprehensive income.

Equity instruments through other comprehensive income are initially measured at fair value plus acquisition costs. These assets are subsequently measured at fair value and any gain or loss arising from changes in fair value through other comprehensive income is recognized in the fair value reserve when disposed of these assets, the gain or loss previously recognized in the fair value reserve is not reclassified to the income statement but is recognized directly in the retained earnings account.

Dividend income is recognized as an investment in the equity instruments of an investee when a right to receive it is recognized in the income statement, unless the proceeds are considered as a part of the investment.

Debt instruments can be classified as financial assets at fair value through comprehensive income if the following conditions are met:

- The debt instrument should be held in a business model intended to retain the asset to obtain and sell contractual cash flows
- The contractual terms of the instrument give on a fixed date the right to use cash flows that represent payments of principal and profit on the outstanding balance.

Reclassification of financial assets and liabilities

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

Impairment of financial assets

Overview of the ECL principles

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

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

Equity instruments are not subject to impairment under IFRS 9.

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

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

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

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

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

Stage 1	Financial instruments whose credit risk has not significantly increased since their initial recognition and which has not been impaired since being granted, the Bank has recorded a provision for impairment of ECL over a period of 12 months.
Stage 2	Financial instruments whose credit risk has significantly increased since their initial recognition and which has not been impaired since being granted, the Bank recorded a provision for impairment of ECL over the life of the financial instruments.
Stage 3	Financial instruments that considered credit-impaired. The Bank records a provision for impairment of ECL over the life of the financial instruments.

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

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

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

PD	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period.
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 profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit 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, an upside and a mild downside). Each of these is associated with different PDs, EADs and LGDs.

The mechanics of the ECL method are summarized below:

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

<u>Forward looking information</u>

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates

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

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets. The Bank's accounting policy for collateral 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 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 methods. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers.

Write-offs

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

Forborne and modified Islamic financing

The Bank sometimes makes concessions or modifications to the original terms of Islamic financing as a response to the customer financial difficulties, rather than taking possession or to the otherwise enforce collection of collateral. The Bank considers a forborne when such concessions or modifications are provided as a result of the customer present or expected financial difficulties. Conditions may include extension of payments or agreement on new financing terms. It is the Bank's policy to monitor forborne Islamic financing to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

Return on unrestricted investment accounts

Returns are distributed to unrestricted investment accounts according to the Bank's policy, after deducting the Bank's share as a Mudarib according to predetermined rates.

Profits from jointly financed Islamic financing and investments are distributed from unrestricted investment accounts and the Bank's own sources according to the average monthly balances of such investments. The distribution for all currencies is as follows:

	Deposits' share in profits %		Bank's share %		Unrestricted investment accounts' share %	
	2018	2017	2018	2017	2018	2017
Saving and cash margins sharing profits	40	40	70	70	30	30
Deposits maturing within 1 month	40	40	70	70	30	30
Deposits maturing within 3 months	40	40	70	70	30	30
Deposits maturing within 6 months	65	65	65	65	35	35
Deposits maturing within 1 year	75	75	35	35	65	65
Annual Islamic deposit certificates	75	75	35	35	65	65

The Bank bears all administrative costs. In addition, the executive management of the Bank adjusts the profit percentage distributed to unrestricted investment accounts according to the Bank's results as well as prevailing market rates.

Finance Contracts

Finance contracts are recorded at cost after deducting suspended profits and the provision for doubtful Islamic financing (net amount).

A provision for doubtful Islamic financing is made when it is not possible to collect the amounts owed to the Bank, when there is objective evidence that an event had an adverse impact on the future cash flows of finance contracts and when the impairment can be reasonably estimated. The impairment is recorded in the statement of comprehensive income.

According to PMA instructions, profits on non-performing finance contracts are suspended.

Finance contracts are written off when measures taken to collect these amounts are deemed impractical. Any excess in the provision is transferred to the statement of comprehensive income. Collected amounts already written off are recorded as revenues.

Murabaha

Murabaha is a sale contract between the Bank and the customer where the Bank sells the customer a product at a price above its cost after the difference is determined (Murabaha Rebeh). The Bank applies a binding promise in accordance with standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

Ijara contracts

Ijara is the benefit of ownership against compensation and is divided into two types:

Operating ijara: are lease contracts that do not end with the lessee owning the leased asset.

Ijara muntahia bittamleek: are lease contracts that end with the lessee owning the leased asset and take several forms in accordance with the Financial Accounting and Auditing Standards for Islamic Financial Institutions.

Ijara assets net of provision for doubtful Islamic financing and suspended profits are recorded at cost including direct cost to make ready for intended use. Income is distributed in proportion to the financial periods covered by the lease contract. Maintenance expenses are recorded in the financial period in which they occur.

Istisna'a financing

Istisna'a is a contract of sale between the Bank as maker or contractor and the owner of the contract (the buyer), where the Bank undertakes to build or manufacture the subject of the contract, upon request of the owner of the contract and according to buyer's specifications, for the right price and in a manner agreed upon payment, whether paid in advance or by installments or deferring payment to a specific date in the future. Istisna'a is recoded at fair value after deducting the suspended profits and provision for doubtful Islamic financing.

Musharaka

Musharaka is when the Bank and the customer contribute capital in equal or different amounts for the purpose of constructing a new project or participating in an existing one. Each of the Bank and the owner become owners of shares in a fixed or declining manner earning the right to a share in profits. Loss is divided according to each partner's share of capital. Musharaka is recorded at fair value of the consideration paid net of suspended profits and provision for doubtful Islamic financing.

Mudaraba

Mudaraba is a partnership in which the Bank contributes capital whereas the other party (mudarib) invests it in a project or certain activity in exchange for a specified share in profits under the condition that the mudarib bears the loss in the case of neglect or violation of the terms of Mudaraba. Gains and losses are recorded on the accrual basis if they can be reliably measured. Otherwise, gain is recorded when the mudarib distributes it while losses are recognized in the income statement when announced by the mudarib. Mudaraba is recorded at fair value net suspended profits and provision for doubtful Islamic financing.

Musawama

Musawama is a contract to sell a commodity to the Bank's customer (the buyer) at a specified increase over cost after specifying this increase (Murabaha rebeh) where the Bank's capital does not appear to the buyer. The Bank applies the principal of binding promises in Musawama contracts in accordance with the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

Bad debts without a provision

Islamic financing related to died owners with insufficient guarantees are written off in accordance with PMA instructions.

Financial assets investments

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

<u>Financial assets at fair value</u>

They are equity instruments and financial derivatives that are recognized at FVTPL. The entity can irrevocably elect to designate equity instruments not held for trading through other comprehensive income items.

If the Bank elects to designate equity instruments at fair value through other comprehensive income (FVOCI), the Bank recognizes change in fair value in a special account in equity. Where the asset is disposed of, the gain or loss is not reclassified to the income statement, but is reclassified directly to retained earnings.

Dividends on these investments in equity instruments are recognized in the income statement when the Bank's right to receive the dividends is established.

Derecognition of financial assets

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

Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investment properties are stated at fair value and changes in fair value are recognized in the statement of comprehensive income. In case of decline in the carrying value of these properties a provision should be taken and recognized in the income statement in the period where the decline occurs.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the income statement as incurred. Land is not depreciated.

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

	Useful life (Years)
Real estate	33
Furniture, equipment and leasehold improvements	6-16
Motor vehicles	6
Computers	5

An item of property 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 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.

Projects in progress

Projects in progress represent all the cost related to preparing branches and offices, development costs of the new banking system and other projects not completed as of the date of the financial statements. Upon completion of each project it's transferred to the property and equipment or intangible assets.

A decrease in the carrying amount of projects in progress is carried out when there is evidence that the carrying amount of such projects cannot be recovered. If such indicators exist, the carrying amount of the projects is reduced to the expected recoverable amount.

Intangible assets

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Intangible assets acquired separately are measured on initial recognition at cost.

The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization expense on intangible assets with finite lives is recognized in the income statement. Intangible assets with indefinite useful lives are tested for impairment annually and the impairment expenses are recognized in the income statement.

Intangible assets resulting from the Bank's operations are not capitalized and should be recognized in the income statement during the period in which the expenditure incurred.

Intangible assets are reviewed for impairment at each reporting date. Also the economic useful lives for definite life intangible assets are reassessed and any adjustments are made in the subsequent periods.

Intangible assets comprise computer software. Bank's management estimates the useful lives of the intangibles. Intangibles are amortized using the straight line method based on the expected useful life of 5 years.

Earnings prohibited by Sharia'

The Bank records earnings prohibited by Sharia' in a special account that is shown in the statement of financial position within other liabilities. This amount is disbursed on charitable activities as determined by the Bank's Sharia' Supervisory Board.

Zakat

According to the Bank's articles of association, the Bank's shareholders are responsible to pay their zakat.

Offsetting

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

Provisions

Provisions are recognized when the Bank has a present 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 provisions

The Bank deducts tax provisions in accordance with International Accounting Standard No. (12) and the tax rates determined in accordance with the laws, regulations and instructions in force in Palestine.

IAS (12) recognizes temporary differences in time as at the balance sheet date, as deferred taxes. As a result, the Bank may have deferred tax assets or liabilities.

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

Taxable profits are calculated on the basis of taxable profits. The taxable profits differ from the profits declared in the financial statements because the declared profits include non-taxable income or non-deductible expenses in the financial period but in subsequent years or cumulative taxable losses or items not subject to Acceptable for tax purposes.

Deferred tax assets and liabilities are offset and the net amount is reported in the statement of consolidated financial position only when there is a legally enforceable 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.

Provision for employees' indemnity

Provision for employee's end of service benefits is provided for in accordance with the labor law prevailing in Palestine and the Bank's human resources policies. The Palestinian Social Security Law was expected to be implemented during 2018, but was suspended in accordance with a presidential decree on January 28, 2019, which states that the dialogue with the relevant parties will continue to arrive at a national consensus on the provisions of the law and the date of enforcement. The current law obliges the employer to settle the end of service benefits for the periods preceding the application of the provisions of the Law.

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Bank (after deducting income and any related expenses on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Cash and cash equivalents

Cash and cash equivalents represent cash and balances maturing within three months. It includes cash on hand and cash balances at PMA, cash at financial institutions, and investments at Islamic banks maturing within three months after subtracting banks and financial institutions' deposits that mature within three months and restricted balances.

Foreign currencies

Foreign currency transactions during the year are recorded using exchange rates that were in effect at the dates of transactions.Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the financial statements date as issued by PMA.

Non-monetary items measured at fair value denominated in foreign currencies are translated using the exchange rates prevailing at the date of determining their fair value.

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

Use of estimates

The preparation of financial statements In accordance with International Financial Reporting Standards require to use estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosures in the financial statements. Because of the use of these estimates and assumptions, actual results may differ from estimates and may require an adjustment to the carrying amount of assets or liabilities in the future.

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

- Risk management objectives and policies (note 41)
- Capital management (note 43)

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

Provision for expected credit losses

Financial assets are assessed for impairment on the basis described in the "Impairment of financial assets" section.

The provision for expected credit losses (ECL) is reviewed on the basis of the principles established by PMA and IFRS 9. The determination of ECL provision require the management of the Bank to make judgments and assumption to estimate the amounts and timing of future cash flows, as well as an estimate of any significant increase in the credit risk of financial assets after initial recognition, and taking into account future measurement information for expected credit losses.

Fair value of Investment properties

Investment properties are appraised by using real estate appraisers registered at Palestine Capital Market Authority.

Provision for legal cases

Provision for legal cases is established to provide for legal obligations, if any, based on the opinion of the Bank's lawyer.

Provisions for employees' indemnity

The Bank's management uses certain estimates to determine the amount of employees' indemnity. The Bank's management believes that these estimates and assumptions are reasonable.

The useful lives of tangible and intangible assets

The Bank's management reassess the useful lives of tangible and intangible assets and adjusts them, if necessary, at the end of each financial year.

Income tax Provision

The Bank's management uses certain estimates to determine the amount of the income tax provision. The Bank's management believes that these estimates and assumptions are reasonable.

Fair value of financial instruments

The determination of the ECL provision expected from the Banks's management requires significant judgment and assumption to estimate the amounts and timing of future cash flows, as well as any significant increase in the credit risk of financial assets after its initial recognition, and taking into account future measurement information for ECL.

The Bank's computes the provision for impairment of financial assets according to the International Financial Reporting Standards (IFRSs) and PMA instructions.

The Bank's policy of identifying the common elements (s) on which credit risk and ECL are measured on an individual basis are based on the following:

- Retail Portfolio: individual basis at facility level/customer
- Corporate Portfolio: individual basis at facility level/customer
- Banks Portfolio: individual basis at facility level /bank
- Debt instruments measured at amortized cost (sukuk): individual basis at debt instrument level

<u>**Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology**</u>
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 three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

  1. Management have established thresholds for significant increases in credit risk based on movement in the customer's internal credit grade and the related PDs relative to initial recognition.
  2. Restructuring and/or Rescheduling on the customers' accounts/ facilities during the assessment period is considered as indicator for SICR.
  3. IFRS 9 (Financial Instruments) includes an assumption that there is a significant increase in the credit risk of financial instruments that have been defaulted and have been matured for more than 30 days. In this regard, the Bank adopted a 30-day period.
  4. Government employees in the Gaza Strip.
  5. Two degrees decline in the credit rating of financial assets.

  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 (FLI) 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 variables.

The estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability- weighted estimate that considers the future macroeconomic scenarios for future years.

The base case scenario will be based on macroeconomic forecasts (e.g. GDP, unemployment rate and inflation, profit rate). Upside and downside scenarios will be set relative to our 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 Islamic financing 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 implementation Governance

To ensure proper governance of the IFRS9 implementation, a steering committee was formed consisting of the Risk Manager, Credit Manager , Financial Manager, and IT Manager 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 Bank Management and related Committees of the Board of Directors.

3. Cash and balances at Palestine Monetary Authority

This item represents the following:

	2018	2017
	U.S. $	U.S. $
Cash on hand	106,631,222	97,479,512
Balances at PMA:		
Current and demand accounts	63,637,026	71,663,581
Statutory cash reserve	42,097,611	54,254,717
Restricted balances	1,147,000	147,000
	213,512,859	223,544,810

- According to PMA circular number (67/2010), the Bank shall maintain statutory cash reserves with PMA at 9% of total customers' deposits. The statutory reserve is calculated at the end of each month.
- PMA does not pay profit on these statutory reserves and current and demand accounts.
- Restricted balances as at December 31, 2018 and 2017 amounted to U.S. $ 1,147,000 and U.S.$ 147,000, respectively.

4. Balances at banks and financial institutions

This item comprises the following:

	2018	2017
	U.S. $	U.S. $
Local banks and financial institutions:		
Current and demand accounts	59,199,487	54,251,708
Deposits maturing within 3 months or less	25,000,000	12,000,000
	84,199,487	66,251,708
Foreign banks and financial institutions:		
Current and demand accounts	9,958,131	12,334,542
Deposits maturing within 3 months or less	23,050,969	12,052,186
	33,009,100	24,386,728
	117,208,587	90,638,436
ECL allowance	(94,521)	-
	117,114,066	90,638,436

– Non-profit bearing balances at banks and financial institutions amounted to U.S. $ 69,157,618 and U.S. $ 66,586,250 as at December 31, 2018 and 2017, respectively.

Following is the movement for balances at banks and financial institutions:

	2018			
	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	90,638,436	-	-	90,638,436
Net change during the year	26,475,630	-	-	26,475,630
Balance, end of the year	117,114,066	-	-	117,114,066

Following is the movement of balances at banks and financial institutions ECL allowance as at December 31, 2018:

	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year				
Effect of IFRS 9 implementation	30,236	-	-	30,236
Balance, beginning of the year – Restated	30,236	-	-	30,236
ECL allowance	64,285	-	-	64,285
Balance, end of the year	94,521	-	-	94,521

Comparative figures for the year ended December 31, 2018 are presented in accordance with International Accounting Standard 39 (Financial Instruments: Recognition and Measurement).

5. Direct Islamic financing

This item represents the following:

	2018	2017
	U.S. $	U.S. $
Murabaha receivables	619,767,742	559,076,208
Islamic credit cards	21,557,905	18,564,269
Ijara muntahia bittamleek	3,552,214	3,753,155
Mudarabah financing	11,493,439	10,509,093
Istisna'a financing	17,040,913	14,643,608
Musawama financing	14,421,039	11,435,795
Musharaka financing	-	2,526,399
Qard Hasan	1,353,017	1,507,519
Current overdraft accounts	4,981,264	3,022,103
	694,167,533	625,038,149
Suspended profits	(1,180,580)	(528,118)
ECL allowance	(13,035,093)	(5,131,703)
	679,951,860	619,378,328

- Islamic financing net of unearned profits amounted to U.S. $ 92,248,835 and U.S. $ 84,688,113 as at December 31, 2018 and 2017, respectively.
- Downgraded Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 108,709,308 and representing 15.69% and U.S. $ 93,449,000 representing 14.96% of gross Islamic financing as at December 31, 2018 and 2017, respectively.
- Defaulted Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 21,163,783 representing 3.05% of gross Islamic financing and U.S. $ 13,696,226 representing 2.19% of gross Islamic financing as at December 31, 2018 and 2017, respectively.
- Direct Islamic financing granted to Palestine National Authority and by its guarantee amounted to U.S. $ 46,755,623 representing 6.74% of gross Islamic financing and U.S. $ 49,680,216 representing 7,95 % of gross Islamic financing as at December 31, 2018 and 2017, respectively.
- Fair value of customers' collaterals against direct Islamic financing according to PMA regulations amounted to U.S. $ 394,041,402 and U.S. $ 391,853,922 as at December 31, 2018 and 2017, respectively.
- Islamic financing granted to non-residents amounted to U.S. $ 1,071,424 and U.S. $ 332,382 as at December 31, 2018 and 2017, respectively.
- According to PMA circular number (1/2008), defaulted Islamic financing for more than 6 years were written off from financial statements. These defaulted Islamic financing amounted to U.S. $ 2,090,027 and U.S. $ 1,921,037 as at December 31, 2018 and December 31, 2017, respectively. The balance of provision and suspended profits for defaulted accounts amounted to U.S. $ 6,963,440 and U.S. $ 5,659,821 as at December 31, 2018 and December 31, 2017, respectively.

The movement on the direct Islamic financing is as follows:

	Stage 1 U.S. $	Stage 2 U.S. $	Stage 3 U.S. $	2018 U.S. $
Balance, beginning of the year	548,975,718	61,838,087	14,224,344	625,038,149
Net change during the year	(136,962,584)	213,359,267	(7,016,245)	69,380,438
Transferred to stage 1	6,964,478	(6,964,478)	-	-
Transferred to stage 2	(36,433,543)	36,433,543	-	-
Transferred to stage 3	(9,253,950)	(6,133,368)	15,387,318	-
Written off	-	-	(251,054)	(251,054)
	373,290,119	298,533,051	22,344,363	694,167,533

Following is the movement of direct Islamic financing ECL provision:

	Stage 1 U.S. $	Stage 2 U.S. $	Stage 3 U.S. $	2018 U.S. $	2017 U.S. $
Balance, beginning of the year	-	-	5,131,703	5,131,703	5,074,315
Effect of IFRS 9 implementation	3,322,324	6,079,590	-	9,401,914	-
Balance as at beginning of the year – Restated	3,322,324	6,079,590	5,131,703	14,533,617	5,074,315
Transferred to stage 1	36,541	(36,541)	-	-	-
Transferred to stage 2	(183,527)	183,527	-	-	-
Transferred to stage 3	(19,916)	(210,999)	230,915	-	-
Net re-measurement of ECL provision during the year	91,670	(2,010,436)	627,085	(1,291,681)	74,803
Excluding in default for more than 6 years	-	-	(251,054)	(251,054)	(17,415)
Foreign currency exchange differences	-	-	44,211	44,211	-
Balance, end of the year	3,247,092	4,005,141	5,782,860	13,035,093	5,131,703

Comparative figures for the year ended 31 December 2017 are presented in accordance with International Accounting Standard 39 (Financial Instruments: Recognition and Measurement).

Recoveries for Islamic financing classified as stage 1 and stage 2 in net during the year amounted to U.S. $ 85,232 and U.S. $ 2,074,449, respectively. While recoveries for defaulted Islamic financing classified as stage 3 amounted to U.S. $ 3,680,262.

The movement on the provision for doubtful Islamic financing default for more than 6 years was as follows:

	2018 U.S. $	2017 U.S. $
Balance, beginning of the year	1,921,037	1,962,246
Additions	251,054	17,415
Written off	(82,064)	(58,624)
Balance, end of the year	2,090,027	1,921,037

The movement on the suspended profits is as follows:

	2018	2017
	U.S. $	U.S. $
Balance, beginning of the year	528,118	280,197
Suspended profits during the year	942,543	678,924
Suspended profits recovered	(278,907)	(429,673)
Suspended profits written off for Islamic financing in default for more than 6 years	(11,174)	(1,330)
Balance, end of the year	1,180,580	528,118

- Following is the distribution of Islamic financing net of suspended profits by economic sector:

	2018	2017
	U.S. $	U.S. $
Public		
Palestine National Authority	46,755,623	49,680,216
Manufacturing and Agricultural		
Manufacturing	1,486,359	1,459,358
Agricultural	9,009,673	9,989,464
	10,496,032	11,448,822
Services	97,014	39,819
Trade		
Internal trade	239,183,105	189,478,882
External trade	15,618,617	12,041,983
	254,801,722	201,520,865
Real Estate and Construction		
Constructions	128,994,347	137,542,726
Permanent residence and houses improvement	40,417,333	38,205,557
	169,411,680	175,748,283
Lands	77,543,545	76,613,593
Consumers' Financing		
Cars	81,763,643	79,006,630
Consumable goods	13,055,538	14,494,945
	94,819,181	93,501,575
Private		
Others	39,062,156	15,956,858
	692,986,953	624,510,031

6. Financial assets at fair value through profit or loss

This item represents financial assets listed on the Palestine Exchange with an amount of U.S. $ 1,462,341 as at December 31, 2018 compared to U.S. $ 1,550,353 as at December 31, 2017.

7. Financial assets at fair value through other comprehensive income

This item represents the following:

	2018	2017
	U.S. $	U.S. $
Quoted shares	4,225,036	3,105,226
Unquoted shares	198,812	184,920
	4,423,848	3,290,146

Following is the movement on the cumulative change in fair value during the year:

	2018	2017
	U.S. $	U.S. $
Balance, beginning of the year	250,325	(370,232)
Change in fair value for financial assets	(200,573)	(211,184)
The Bank's share of the associate's other comprehensive items	(283,905)	831,741
Balance, end of the year	(234,153)	250,325

8. Financial assets at amortized cost

	2018	2017
	U.S. $	U.S. $
Financial securities quoted at foreign financial markets	5,193,808	6,677,105
Unquoted foreign financial securities	9,052,190	4,820,874
	14,245,998	11,497,979
ECL allowance	(105,418)	-
	14,140,580	11,497,979

Total gain recorded in the income statement on this investment for the year ended December 31, 2018 and 2017 is U.S. $ 772,047 and U.S. $ 385,960, respectively.

The movement on financial assets at amortized cost is as follows:

	Stage 1	Stage 2	Stage 3	2018
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at beginning of the year	11,497,979	-	-	11,497,979
Net change during the year	2,748,019	-	-	2,748,019
Transferred to stage 2	(4,175,657)	4,175,657	-	-
	10,070,341	4,175,657	-	14,245,998

Following is the movement of provision for financial assets at amortized cost ECL:

	Stage 1	Stage 2	Stage 3	2018
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at January 31 ,2018	-	-	-	-
Effect of IFRS 9 implementation	44,894	-	-	44,894
Balance as at January 31 ,2018 – Restated	44,894	-	-	44,894
Transferred to stage 2	(63)	63	-	-
Net re-measurement of ECL provision	60,350	174	-	60,524
Balance, as at December 31,2018	105,181	237	-	105,418

9. Investment in associates

The following table shows the Bank's investment in associates as at December 31, 2018 and December 31, 2017:

	Country of Incorporation	Ownership	2018	2017
		%	U.S. $	U.S. $
Al-Takaful Palestinian Insurance Company*	Palestine	27.83%	7,911,358	7,801,652
Palestine Ijara Company**	Palestine	33.33 %	3,539,426	3,534,335
			11,450,784	11,335,987

* Al-Takaful Palestinian Insurance Company (Al-Takaful) has been established at the end of 2006 in Ramallah. It provides in all insurance and reinsurance services according to Islamic Sharia' rules. Al-Takaful operates through its headquarter and branches in Palestine. Al-Takaful paid-in capital amounted to U.S. $ 10,000,000.

** Palestine Ijara Company (PIC), which mainly provides Islamic leases for small and medium institutions according to Islamic Sharia' rules, has been established in Ramallah. As at December 31, 2018, PIC's paid-in capital amounted to U.S. $ 12,000,000.

The movement on the value of the investment in associates was as follows:

	2018	2017
	U.S. $	U.S. $
Balance, beginning of the year	11,335,987	9,486,257
Bank's share of the associate's results of operations	677,002	746,560
Bank's share of the associate's other comprehensive income	(283,905)	610,344
Cash dividends	(278,300)	(250,980)
Additions	-	743,806
Balance, end of the year	11,450,784	11,335,987

The following table summarized the financial information related to the Bank's investment in its associates as at December 31, 2018 and December 31 , 2017 :

	Al-Takaful		PIC	
	2018	2017	2018	2017
The financial position of associates:	U.S. $	U.S. $	U.S. $	U.S. $
Total assets	62,125,264	57,088,898	18,583,905	15,167,912
Total liabilities	44,566,959	40,249,774	7,965,627	4,564,905
Total equity	17,558,305	16,839,124	10,618,278	10,603,007
Book value before adjustments	4,886,476	4,686,328	3,539,426	3,534,335
Adjustments	3,024,882	3,115,324	-	-
Book value after adjustments	7,911,358	7,801,652	3,539,426	3,534,335
Revenues and results of operations:				
Net revenues	8,938,325	9,838,994	1,271,752	883,119
Operational, administrative and general expenses	(4,671,766)	(6,741,989)	(1,111,371)	(717,051)
Depreciation and amortization	(484,326)	(409,609)	(39,682)	(58,495)
Finance costs	(22,407)	(49,656)	(156,472)	(6,944)
Other revenues	420,767	347,987	50,390	36,972
Income before tax	4,180,593	2,985,727	14,617	137,601
Tax expense	(1,441,267)	(792,143)	-	-
Net income for year after tax	2,739,326	2,193,584	14,617	137,601
Bank's share from the year results	671,917	610,474	5,085	45,867
Bank's share from other comprehensive income	(283,905)	610,344	–	–

10. Investment properties

Following is the movement on Investment properties:

	2018	2017
	U.S. $	U.S. $
Balance, beginning of the year	7,958,529	776,893
Additions	3,524,327	7,181,636
Investment properties sold	(51,100)	-
Change in fair value during the year	1,311,143	-
Balance, end of the year	12,742,899	7,958,529

Following is the movement on investment properties reserve:

	2018	2017
	U.S. $	U.S. $
Balance, beginning of the year	-	-
Unrealized gains on revaluation	1,311,143	-
Deferred tax liabilities	(350,392)	-
Balance, end of year	960,751	-

11. Property and equipment

December 31, 2018	Real estate	Furniture, equipment and leasehold improvements	Motor vehicles	Computers	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:					
Balance, beginning of the year	14,776,821	15,886,352	529,138	4,201,071	35,393,382
Additions	1,056,807	2,307,948	145,343	424,123	3,934,221
Transferred from projects in progress (note 12)	-	2,707,852	-	-	2,707,852
Disposals	-	(162,948)	(241,532)	(18,897)	(423,377)
Balance, end of the year	15,833,628	20,739,204	432,949	4,606,297	41,612,078
Accumulated depreciation:					
Balance, beginning of the year	2,086,459	5,317,213	339,767	3,034,329	10,777,768
Depreciation for the year	424,936	1,336,944	60,916	457,843	2,280,639
Disposals	-	(113,566)	(141,678)	(18,897)	(274,141)
Balance, end of the year	2,511,395	6,540,591	259,005	3,473,275	12,784,266
Net book value as at December 31, 2018	13,322,233	14,198,613	173,944	1,133,022	28,827,812
Net book value as at December 31, 2017	12,690,362	10,569,139	189,371	1,166,742	24,615,614

12. Projects in progress

	2018	2017
	U.S. $	U.S. $
Balance, beginning of the year	2,583,848	685,357
Additions during the year*	3,329,851	1,974,277
Transferred to property and equipment (note 11)	(2,707,852)	(75,786)
Transferred to intangible assets (note 13)	(1,786,171)	-
Balance, end of the year	1,419,676	2,583,848

* The additions to projects in progress represent payments for preparing new branches up to the date of preparation of these financial statements. These branches are still under the preparation to be used.

13. Intangible assets

Intangible assets comprise computer software and programs. Following are details of the movement on intangible assets:

	2018	2017
	U.S. $	U.S. $
Balance, beginning of the year	779,081	822,935
Additions	210,912	315,555
Transferred from projects in progress (note 12)	1,786,171	-
Amortization	(633,094)	(359,409)
Disposals	(1,268,566)	
Balance, end of the year	874,504	779,081

14. Other assets

This item represents the following:

	2018	2017
	U.S. $	U.S. $
Clearing checks	13,033,488	10,486,865
Receivables, advances and temporary accounts	3,117,686	483,901
Prepaid expenses	1,133,413	706,973
Stationery and printings	541,566	230,376
Accrued revenues	307,747	377,411
Others	341,008	910,780
	18,474,908	13,196,306

15. Banks and financial institutions' deposits

	2018	2017
	U.S. $	U.S. $
Banks and financial institutions inside Palestine:		
Current and demand account	58,916,241	48,618,003
Deposits maturing within 3 months	-	17,341,953
	58,916,241	65,959,956

16. Customers' deposits

	2018	2017
	U.S. $	U.S. $
Current and demand account	223,814,250	221,222,338

- Total deposits comprise customers' deposits (note 16), cash margins (note 17) and unrestricted investment accounts (note 21), amounting to U.S. $ 904,482,445 and U.S. $ 809,630,033 as at December 31, 2018 and 2017, respectively.
- Governmental deposits amounted to U.S. $ 13,633,189 and U.S. $ 13,758,443 representing %1.51 and %1.70 of the total deposits as at December 31, 2018 and 2017, respectively.
- Quasi-governmental deposits amounted to U.S. $ 3,751,991 and U.S. $ 2,308,189 representing %0.41 and %0.29 of the total deposits as at December 31, 2018 and 2017, respectively.
- Dormant deposits amounted to U.S. $ 19,367,737 and U.S. $ 10,291,100 representing %2.14 and %1.27 of the total deposits as at December 31, 2018 and 2017, respectively.
- Non-profit bearing deposits amounted to U.S. $ 244,735,653 and U.S. $ 246,753,611 representing %27.06 and %30.48 of the total deposits as at December 31, 2018 and December 31, 2017, respectively.

17. Cash margins

This item represents cash margins against the following:

	2018	2017
	U.S. $	U.S. $
Direct Islamic financing*	15,360,036	13,378,408
Indirect Islamic financing	5,191,063	6,359,129
Others	15,730,340	19,172,144
	36,281,439	38,909,681

* Cash margins on direct Islamic financing are cash margins participating in profits.

18. Sundry provisions

This item represents the following provisions:

	Balance, beginning of the year	Additions for the year	Recovered during the year	Payments during the year	Balance, end of the year
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2018					
Provision for employees' indemnity	6,090,009	2,108,177	-	(549,337)	7,648,849
Provision for legal cases	1,200,030	84,020	(510,000)	(100,317)	673,733
	7,290,039	2,192,197	(510,000)	(649,654)	8,322,582
December 31, 2017					
Provision for employees' indemnity	6,087,279	1,217,706	-	(1,214,976)	6,090,009
Provision for legal cases	1,375,111	92,164	-	(267,245)	1,200,030
	7,462,390	1,309,870	-	(1,482,221)	7,290,039

Provision for employee's end of service benefits is provided for in accordance with the labor law prevailing in Palestine and the Bank's human resources policies. The Palestinian Social Security Law was expected to be implemented during 2018, but was suspended in accordance with a presidential decree on January 28, 2019, which states that the dialogue with the relevant parties will continue to arrive at a national consensus on the provisions of the law and the date of enforcement. The current law obliges the employer to settle the end of service benefits for the periods preceding the application of the provisions of the Law.

19. Tax provisions

The movement on tax provisions during the years ended December 31, 2018 and 2017 was as follows:

	2018	2017
	U.S. $	U.S. $
Balance, beginning of the year	5,836,407	4,516,300
Provision for the year	2,739,654	4,177,094
Payments	(6,813,647)	(2,856,987)
Balance, end of the year	1,762,414	5,836,407

- The reconciliation between accounting income and taxable income is as follows:

	2018	2017
	U.S. $	U.S. $
Bank's accounting profit before taxes	17,871,258	18,708,232
Profit subject to Value Added Tax (VAT)	16,401,567	9,237,723
VAT on income	(2,262,277)	(2,400,953)
Profit subject to income tax	11,929,310	13,086,065
Income tax	1,714,396	1,962,910
Total taxes (VAT and income tax)	3,976,673	3,279,645
Provision for the year	2,739,654	4,177,094
Excess in tax provision from prior years	1,376,970	-
Effective tax rate	%15.33	%22.33

During the year, the Bank reached a final settlement with the tax departments with regard to the Bank's results of operations for the years up to 2016. The Bank has not reached a final settlement with the Income Tax Department and the Value Added Tax on the results of its operations for the year 2017.

The Bank has submitted the tax declaration for the year 2017 during the legal period. The actual amounts of taxes that may be paid are dependent on final clearance results with the tax services.

As of December 31, 2018, income tax rates 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.

20. Other liabilities

This item represents the following:

	2018	2017
	U.S. $	U.S. $
Bank's transfers and certified checks	12,164,746	2,570,889
Accrued expenses	3,930,168	3,483,899
Temporary accounts and intermediary accounts	1,891,710	3,106,358
Return on unrestricted investment accounts	866,269	1,092,725
Palestinian Deposit Insurance Corporation insurance provision	655,914	524,755
Board of Directors' bonuses	496,663	456,500
Deferred tax liabilities	350,392	-
Provision for indirect Islamic financing ECL	27,735	-
Earnings prohibited by Sharia'	14,382	13,516
Other credit balances	695,910	778,687
	21,093,889	12,027,329

Following the movement on the indirect Islamic financing ECL provision as at December 31, 2018:

	Stage 1	Stage 2	Stage 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $
As at January 1 , 2018	-	-	-	-
Effect of IFRS 9 implementation	46,384	26,536	-	72,920
As at January 1 , 2018 – Restated	46,384	26,536	-	72,920
Transferred to stage 1	2,023	(2,023)	-	-
Transferred to stage 2	(1,520)	1,520	-	-
Net re-measurement of ECL provision	(20,715)	(24,470)	-	(45,185)
As at December 31,2018	26,172	1,563	-	27,735

The balance of deferred tax liabilities represents the result of the valuation of the investment properties which is included under the investment properties reserve in statement of changes in equity. Following is the movement on deferred tax liabilities:

	2018	2017
	U.S. $	U.S. $
Balance beginning of the year	-	-
Additions	350,392	-
Balance End of the year	350,392	-

21. Unrestricted investment accounts

This item represents the following:

	2018	2017
	U.S. $	U.S. $
Saving deposits	427,426,899	372,487,617
Time deposits	216,959,857	177,010,397
	644,386,756	549,498,014

22. Reserves

Statutory reserve dividends

As required by the Companies' Law and Banking Law, 10% of the net profit is transferred to the statutory reserve. This transfer will continue until the total reserve balance equals the Bank's paid-in share capital. This reserve is not available for distribution to shareholders, and cannot be utilized without the prior approval of PMA.

General banking risk reserve

This 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 Islamic financing after deducting impairment allowance for Islamic financing and suspended profits and 0.5% of indirect Islamic financing. According to PMA's instruction number (53/2013), no general banking risks reserve is required against the direct Islamic financing granted to small and medium size entities if these entities meet the conditions in this instruction. Direct Islamic financing granted to small and medium size entities amounted to U.S. $ 7,023,559 as at December 31, 2018, The reserve is not to be utilized this reserve for ECL for stage 1 and 2 in accordance with the instructions of PMA Number (2/2018).

Pro-cyclicality reserve

This reserve represents 15% of net profit in accordance with PMA instruction (1/2011) to support the Bank's capital against banking risks. The reserve is not to be utilized or reduced without PMA's prior approval. Transfers to this reserve shall not cease until the total balance of this reserve reaches 20% of the Bank's share capital. During 2018, PMA issued instructions number (1/2018) regarding the calculation of the Pro- cyclicality reserve, which will be calculated as a percentage of the risk weighted assets determined by PMA ranging between (2.5% -0%). In 2018 this percentage determined to be 0.57% of risk weighted assets. The Bank obtained approval from PMA to deduct U.S. $ 1,880,602 to the Pro-cyclicality reserve.

23. Investment and financing revenues

This item represents revenues from the following:

	2018	2017
	U.S. $	U.S. $
Murabaha financing	42,665,589	38,846,925
Istisna'a financing	1,093,990	848,132
Musharaka financing	873,601	-
Musawama financing	867,774	642,286
Investment in Islamic institutions	645,864	472,184
Ijara muntahia bittamleek	264,590	308,317
Mudaraba	107,261	412,247
	46,518,669	41,530,091

24. Return on unrestricted investment accounts

This item represents revenues as following:

	2018	2017
	U.S. $	U.S. $
Saving deposits	5,117,078	3,389,363
Time deposits	933,562	890,847
Profits sharing cash margins	56,188	45,307
	6,106,828	4,325,517

25. Net Commissions

This item represents the following:

	2018	2017
	U.S. $	U.S. $
Commissions received on:		
Accounts' management	2,648,984	2,605,293
Issuing cards	3,342,276	2,815,653
Returned and post-dated checks	1,693,945	1,552,968
Indirect financing	803,642	753,989
Other banking services	806,437	659,830
Cash deposits	361,692	400,244
Transfers	185,373	199,902
	9,842,349	8,987,879
Commissions paid	(988,368)	(576,050)
	8,853,981	8,411,829

26. Other revenues

This item represents revenues from the following:

	2018	2017
	U.S. $	U.S. $
Recovery of suspended profits	278,897	429,673
Safety deposit box rental income	89,576	68,019
Others	71,929	189,663
	440,402	687,355

27. Personnel expenses

This item represents the following:

	2018	2017
	U.S. $	U.S. $
Salaries and related benefits	13,860,175	11,688,516
Provision for employees' indemnity	2,108,177	1,217,706
VAT on salaries	1,902,484	1,126,784
Bank's contribution to the provident fund*	763,058	666,316
Medical insurance	761,691	517,729
Training expenses	207,611	412,046
Travel and accommodation	581,497	402,837
Clothing allowances	290,829	282,499
Other expenses	166,747	706,865
	20,642,269	17,021,298

* The Bank contributes 10% of the basic salary of the employee and the employee contributes between 5% and 10% of its basic salary to the provident fund according to the years of service. The provident fund balance is shown in the customer deposits.

28. Other operating expenses

This item represents the following:

	2018	2017
	U.S. $	U.S. $
Subscription fees for Palestine Insurance Deposit Corporation*	2,438,096	2,041,648
Fees, license and subscriptions	1,545,326	1,491,975
Rents	1,038,943	851,215
Maintenance and cleaning	1,467,988	1,075,103
Telephone, fax and postage	989,782	753,889
Cash and in-kind awards	826,000	543,000
Professional and consultancy fees	730,545	639,077
Advertisements and marketing	725,597	1,402,051
Board of Directors' bonuses and expenses	681,827	655,641
Utilities	623,685	598,612
Social responsibility**	559,021	849,562
Stationery and printings	454,625	407,072
Guarding	308,570	201,102
Insurance	184,897	183,820
Hospitality	135,266	123,295
Sundry	264,318	156,068
	12,974,486	11,973,130

* Palestine Deposit Insurance Corporation was established in accordance with Law number (7) of the year 2013. Under the Law and starting from the year 2014, banks are required to accrue and account for an annual fee of %0.3 of total deposits specified by the Law.

** The Bank provides donations in areas of social, religious and others as part of social responsibility policy. The percentage of donations reached %3.69 and %5.85 of net income as at December 31, 2018 and 2017, respectively.

29. Expected credit losses allowance

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

	Stage 1	Stage 2	Stage 3	2018	2017
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balances at Banks and financial institutions	64,285	-	-	64,285	-
Direct Islamic financing*	91,670	(2,010,436)	627,085	(1,291,681)	(74,803)
Financial assets at amortized cost	60,350	174	-	60,524	-
Indirect Islamic financing	(20,715)	(24,470)	-	(45,185)	-
As at December 31,2018	195,590	(2,034,732)	627,085	(1,212,057)	(74,803)

* Recoveries for direct Islamic financing classified as stage 1 and stage 2 during the year amounted to U.S. $ 85,232 and U.S. $ 2,074,449, respectively. While recoveries for direct Islamic financing classified as Stage 3 amounted to U.S. $ 3,680,262

30. Palestine Monetary Authority fines

This item represents fines imposed by PMA on the Bank during 2018 due to the Bank's noncompliance with PMA instructions of article number (54) of the Banking law number(9) of the year 2010 and the purchase of the headquarters of the Banking office in Nablus without obtaining the prior written approval from PMA, and the Bank's noncompliance of article (17) of the Banking law and the instructions of the article number (6) and number (7) of the Instructions Number (6/2014) and granting Islamic financing to the related parties without obtaining the prior approval of PMA.

31. Cash and stocks dividends

At its meeting held on April 16, 2018, the Bank's General Assembly approved the distribution of cash dividends at a rate of 8.5% of the share par value for a total amount of U.S. $ 5,865,000. At the same meeting, the Bank's General Assembly approved the distribution of stock dividends at a rate of 7.246% of the share par value for a total amount of U.S. $ 5,000,000 for the Bank's 2017 business results.

At its meeting held on March 29, 2017, the General Assembly of the Bank approved the distribution of cash dividends at a rate of 8.5% of the share par value for a total amount of U.S.$ 5,312,500. At the same meeting its also approved the distribution of stock dividends at a rate of 5.6% of the share par value for a total amount of U.S. $ 3,500,000 for the Bank's 2016 business results.

32. Zakat

Each shareholder bears the responsibility for Zakat payment. The Bank, with the consent of Shari'a Supervisory Board, annually informs the shareholders of the amount of Zakat due on each share. The Zakat per share for 2018 and 2017 amounted to 0.0429 and 0.0478, respectively.

33. Commitments and contingencies

Total outstanding commitments and contingencies as at the financial statements date are as follows:

	2018	2017
	U.S. $	U.S. $
Unutilized limits of Islamic financing	41,814,338	21,030,364
Letters of guarantee	42,474,837	46,088,913
Letters of credits	3,091,891	5,719,165
	87,381,066	72,838,442

34. Cash and cash equivalents

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

	2018	2017
	U.S. $	U.S. $
Cash and balances at PMA	213,512,859	223,544,810
Balances at banks and financial institutions	117,208,587	90,638,436
Less: statutory cash reserve and restricted balances at PMA	(42,097,611)	(54,254,717)
Banks and financial institutions' deposits maturing within three months	(58,916,241)	(65,959,956)
Restricted balances at PMA	(1,147,000)	(147,000)
	228,560,594	193,821,573

35. Basic and diluted earnings per share

This item represents the following:

	2018	2017
	U.S. $	
Profit for the year	15,131,604	14,531,138
	Shares	
Weighted average number of subscribed shares	74,000,000	74,000,000
	U.S. $	
Basic and diluted earnings per share	0.20	0.20

36. Sources of financing the Bank's assets and investments

This item represents the following:

	2018			2017		
	Joint financing	Self-financing	Total	Joint financing	Self-financing	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances at PMA	213,512,859	–	213,512,859	223,544,810	–	223,544,810
Balances at banks and financial institutions	117,114,066	–	117,114,066	90,638,436	–	90,638,436
Direct Islamic financing	679,951,860	–	679,951,860	619,378,328	–	619,378,328
Financial assets at fair value through profit and loss	–	1,462,341	1,462,341	–	1,550,353	1,550,353
Financial assets at fair value through other comprehensive income	–	4,423,848	4,423,848	–	3,290,146	3,290,146
Financial assets at amortized cost	–	14,140,580	14,140,580	–	11,497,979	11,497,979
Investment in associates	–	11,450,784	11,450,784	–	11,335,987	11,335,987
Investment properties	–	12,742,899	12,742,899	–	7,958,529	7,958,529
Property and equipment	–	28,827,812	28,827,812	–	24,615,614	24,615,614
Projects in progress	–	1,419,676	1,419,676	–	2,583,848	2,583,848
Intangible assets	–	874,504	874,504	–	779,081	779,081
Other assets	–	18,474,908	18,474,908	–	13,196,306	13,196,306
	1,010,578,785	93,817,352	1,104,396,137	933,561,574	76,807,843	1,010,369,417

37. Related party transactions

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

	Nature of relationship	2018 U.S. $	2017 U.S. $
Statement of financial position items:			
Direct Islamic financing	Associate	2,168,379	471,935
	Executive Management	768,442	918,928
	Chairman and Board of Directors Members	–	2,493,644
	Others	19,341,302	13,909,150
Customers deposits	Associate	9,598,348	10,102,577
	Executive Management	157,204	151,374
	Chairman and Board of Directors Members	4,671,798	1,469,744
	Others	17,466,212	6,737,956
Cash margins	Associate	12,250	16,555
	Others	29,354	53,558

		2018 U.S. $	2017 U.S. $
Income statement items:			
Financing income	Associate	57,300	55,969
	Executive Management	26,805	33,501
	Chairman and Board of Directors Members	–	177,858
	Others	524,091	449,046
Return on unrestricted investment accounts	Associate	559	989
	Executive Management	614	407
	Chairman and Board of Directors Members	–	1,225
	Others	13,525	19,449

		2018 U.S. $	2017 U.S. $
Commitments and contingencies:			
Indirect Islamic financing	Associate	24,600	39,681
	Chairman and Board of Directors Members	–	688,849
	Others	775,001	424,910

- Direct Islamic financing granted to related parties as at December 31, 2018 and 2017 represent %3.29 and %2.87 of the net Islamic financing, respectively.
- Direct Islamic financing granted to related parties as at December 31, 2018 and 2017 represent %22.87 and %20.68 of the Bank's regulatory capital, respectively.
- Returns on Islamic financing granted to related parties ranges between %0.50 to %7 during 2018.

Board of Directors and key management remuneration (salaries, bonuses and other benefits) are as follows:

	2018	2017
	U.S. $	U.S. $
Board of Directors' members expenses	681,827	655,641
Executive management salaries and related benefits	693,258	680,312
Executive management end of service benefits	56,551	49,235

The Board of Director's bonuses for 2018 and 2017 are as follows:

	2018	2017
	U.S. $	U.S. $
National Islamic Investment Company represented by Mr. Maher Al-Masri	74,444	–
National Islamic Investment Company represented by Mr. Salem Abu khaizaran	44,444	–
National Islamic Investment Company represented by Mr. Salah Al-Daghmeh	44,444	–
Institution of Management and Development of Orphans Money represented by Mr. Rafiq Shaker Al-Natsheh	44,444	44,382
Mr .Ali Zeidan Abu Zuhri	44,444	44,382
Mr. Abdulhameed Fayez Al-Obweh	44,444	–
Mr. Majid Al-Helu	37,037	44,382
Mr. Anees Al-Hajjeh	37,037	44,382
National Islamic Investment Company represented by Mr. Talal Nassereddine	37,037	–
National Islamic Investment Company represented by Mr. Ahmad Al haj Hassan	37,037	–
National Islamic Investment Company represented by Mr. Omar Al-Masri	37,037	–
Palestine Investment Fund represented by Mr. Mahmoud Fareed Abu Al-Rob	7,407	44,382
Aswaq Company for Investment Portfolios represented by Mr. Mazen Tawfiq Sunokrot	7,407	44,382
Palestine Investment Fund represented by Mr. Maher Al-Masri	–	44,382
Aswaq Company for Investment Portfolios represented by Mr. Abdulhameed Fayez Al-Obweh	–	44,382
Al Quds Bank represented by Mr. Iyad Mohammad Masrouji	–	12,680
Al Quds Bank represented by Mr. Mohannad Akram Jerab	–	6,340
Razan Medical Center for Infertility and I.V.F represented by Mr. Salem Abu khaizaran	–	44,382
Mr. Salah Al-Daghmeh	–	38,042
	496,663	456,500

Policy of remuneration and bonuses

According to PMA instructions number (1/2012), the Bank prepared policies governing rules of practice of remuneration and bonuses associated with the level of performance and risk. Members of the Board of Directors are committed to assume full responsibility for the promotion of effective corporate governance principles and best practices for the financial rewards and to ensure transparency and objectivity in the granting of bonuses. The Bank has adopted quantitative criteria which can be measured and ensures that all employees are motivated and appreciated. These incentives have been split to moral incentives that are intended for continuous communication with employees and to appreciate their efforts, and financial incentives based on results and achievements. The policy takes into account all kinds of risks that the Bank can be exposed to, the profit earned, percentage of bonuses to profits and compliance with the Bank's bylaws.

38. Concentration of assets and off statement of financial position items

Following is breakdown of the Bank's assets and off balance sheet items by geographical area:

December 31, 2018	Palestine	Jordan	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances at Palestine Monetary Authority	213,512,859	–	–	213,512,859
Balances at banks and financial institutions	84,175,461	1,671,321	31,267,284	117,114,066
Direct Islamic financing	678,880,436	–	1,071,424	679,951,860
Financial assets at fair value through profit or loss	1,462,341	–	–	1,462,341
Financial assets at fair value through other comprehensive items	4,423,848	–	–	4,423,848
Financial assets at amortized cost	–	6,947,103	7,193,477	14,140,580
Investment in associates	11,450,784	–	–	11,450,784
Investment properties	12,742,899	–	–	12,742,899
Property and equipment	28,827,812	–	–	28,827,812
Projects in progress	1,419,676	–	–	1,419,676
Intangible assets	874,504	–	–	874,504
Other assets	18,474,908	–	–	18,474,908
	1,056,245,528	8,618,424	39,532,185	1,104,396,137
Commitments and contingencies:				
Unutilized limits of Islamic financing	41,814,338	–	–	41,814,338
Letters of guarantee	42,474,837	–	–	42,474,837
Letters of credit	3,091,891	–	–	3,091,891
	87,381,066	–	–	87,381,066

December 31, 2017	Palestine	Jordan	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances at Palestine Monetary Authority	223,544,810	–	–	223,544,810
Balances at banks and financial institutions	66,251,708	7,888,168	16,498,560	90,638,436
Direct Islamic financing	619,045,946	–	332,382	619,378,328
Financial assets at fair value through profit or loss	1,550,353	–	–	1,550,353
Financial assets at fair value through other comprehensive items	3,290,146	–	–	3,290,146
Financial assets at amortized cost	–	2,820,874	8,677,105	11,497,979
Investment in associates	11,335,987	–	–	11,335,987
Investment properties	7,958,529	–	–	7,958,529
Property and equipment	24,615,614	–	–	24,615,614
Projects in progress	2,583,848	–	–	2,583,848
Intangible assets	779,081	–	–	779,081
Other assets	13,196,306	–	–	13,196,306
	974,152,328	10,709,042	25,508,047	1,010,369,417
Commitments and contingencies:				
Unutilized limits of Islamic financing	21,030,364	–	–	21,030,364
Letters of guarantee	46,088,913	–	–	46,088,913
Letters of credit	5,719,165	–	–	5,719,165
	72,838,442	–	–	72,838,442

	2018			2017		
	Assets	Liabilities and unrestricted investment accounts and equity	Commitments and contingencies	Assets	Liabilities and unrestricted investment accounts and equity	Commitments and contingencies
According to segment	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Retail accounts	451,599,864	752,421,295	18,369,525	411,369,076	673,515,425	15,312,328
Corporates and institutions	228,351,996	152,061,150	69,011,541	208,009,252	136,114,608	57,526,114
Treasury	350,653,694	58,916,241	–	330,521,724	65,959,956	–
Others	73,790,583	31,178,885	–	60,469,365	25,153,775	–
Total	1,104,396,137	994,577,571	87,381,066	1,010,369,417	900,743,764	72,838,442

39. 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 Bank has not made any transfers between the above levels during 2018 and 2017.

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2018:

			Fair value Measurement using		
	Date of Measurement	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		U.S. $	U.S. $	U.S. $	U.S. $
Assets measured at fair value:					
Financial assets measured at fair value through profit or loss (note 6):					
Quoted	December 31, 2018	1,462,341	1,462,341	-	-
Financial assets measured at fair value through other comprhensive income (note 7):					
Quoted	December 31, 2018	4,225,036	4,225,036	-	-
Unquoted	December 31, 2018	198,812	-	-	198,812
Investment proprites (note10) :	December 31, 2018	12,742,899			12,742,899
Financial assets that fair value has been disclosed:					
Financial assets at amortized cost(note 8)					
Quoted	December 31, 2018	4,989,518	4,989,518	-	-
Unquoted	December 31, 2018	9,052,190	-	-	9,052,190

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2017:

			Fair value Measurement using		
	Date of Measurement	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		U.S. $	U.S. $	U.S. $	U.S. $
Assets measured at fair value:					
Financial assets measured at fair value through profit or loss (note 6):					
Quoted	December 31, 2017	1,550,353	1,550,353	-	-
Financial assets measured at fair value through other comprhensive income (note 7):					
Quoted	December 31, 2017	3,105,226	3,105,226	-	-
Unquoted	December 31, 2017	184,920	-	-	184,920
Investment proprites (note10) :	December 31, 2017	7,958,529	-	-	7,958,529
Financial assets that fair value has been disclosed:					
Financial assets at amortized cost(note 8)					
Quoted	December 31, 2017	6,658,784	6,658,784	-	-
Unquoted	December 31, 2017	4,820,874	-	-	4,820,874

- Sensitivity of unobservable inputs (Level 3):

Authorized external appraisers are assigned to assess the significant assets such as investments properties. After discussion with these external appraisers, the Bank selects the methods and inputs to be used for the valuation in each case, which are mostly sale prices for similar lands during the year which are calculated at fair value per square meter of land multiplied by the numbers of square meters.

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

	Increase / decrease in fair value	Impact on fair value
2018	%	U.S. $
Fair value per square meter	5+	637,145
Fair value per square meter	5-	(637,145)
2017		
Fair value per square meter	5 +	397,926
Fair value per square meter	5 -	(397,926)

40. Fair value of financial instruments

The table below represents a comparison by class of the carrying amounts and fair values of the Bank's financial instruments carried in the financial statements as at December 31, 2018 and 2017:

	Carrying amount		Fair value	
	2018	2017	2018	2017
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Cash and balances at PMA	213,512,859	223,544,810	213,512,859	223,544,810
Balances at banks and financial institutions	117,114,066	90,638,436	117,208,587	90,638,436
Direct Islamic financing	679,951,860	619,378,328	679,951,860	619,378,328
Financial assets at fair value through profit or loss	1,462,341	1,550,353	1,462,341	1,550,353
Financial assets at fair value through other comprehensive income	4,423,848	3,290,146	4,423,848	3,290,146
Financial assets at amortized cost	14,140,580	11,497,979	14,041,708	11,479,658
Other financial assets	16,799,929	12,258,957	16,799,929	12,258,957
	1,047,405,483	962,159,009	1,047,401,132	962,140,688

	Carrying amount		Fair value	
	2018	2017	2018	2017
	U.S. $	U.S. $	U.S. $	U.S. $
Financial liabilities				
Banks and financial institutions' deposits	58,916,241	65,959,956	58,916,241	65,959,956
Customers' deposits	223,814,250	221,222,338	223,814,250	221,222,338
Cash margins	36,281,439	38,909,681	36,281,439	38,909,681
Other financial liabilities	20,715,762	12,027,329	20,715,761	12,027,329
Total liabilities	339,727,692	338,119,304	339,727,691	338,119,304
Unrestricted investment accounts	644,386,756	549,498,014	644,386,756	549,498,014

- 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 at PMA, balances at banks and financial institutions, other financial assets, banks and financial institutions' deposits, customers' deposits, cash margins, other financial liabilities and unrestricted investment accounts approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income that are actively traded in active financial markets is determined by reference to quoted prices at the date of the financial statements.
- The fair value of financial assets at amortized cost was estimated using the expected future cash flows using the same discount rates at prevailing market prices.
- The fair value of direct Islamic financing is determined through the consideration of different variables such as rates of return, risk factors and the debtor's ability to pay. The carrying value for Islamic financing approximates its fair value as at December 31, 2018.

41. Risk management process

The Board of Directors is 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. The Board of Directors is responsible for the development of risk strategies and determining the allowed limits for the adoption of plans and strategies related to risk management.

The Bank's Board of Directors is responsible for identifying and controlling risks. In addition, there are several entities responsible for the Bank's risk management process in each department. The responsibility for developing the risk strategy and permissible limits lies on the Bank's Risk Committee, Governance Committee and Compliance Committee which are appointed by the Board of Directors of the Bank.

The Bank has established policies and procedures to control the risks, and to mitigate its effects as much as possible. The risk management department monitors the effectiveness of risk management on a monthly basis.

The Bank discloses information to help the users of the 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 financial statements as follows:

I. Credit risks

Credit risks are those risks resulting from the default of counterparties to the financial instrument to repay their commitment to the Bank. The Bank sets ceilings for direct Islamic financing (retail or corporate) and total Islamic financing 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.

A. Gross exposures to credit risk (net of ECL provisions and profit in suspense and prior to collaterals and other risk mitigations):

	2018	2017
	U.S. $	U.S. $
Statement of financial position items:		
Balances with PMA	106,881,637	126,065,298
Balances at banks and financial institutions	117,114,066	90,638,436
Direct Islamic financing	679,951,860	619,378,328
Financial assets at amortized cost	14,140,580	11,497,979
Other assets	16,799,929	12,258,957
Total statement of financial position items	934,888,072	859,838,998
Commitments and contingencies:		
Unutilized limits of Islamic financing	41,814,338	21,030,364
Letters of guarantee	42,474,837	46,088,913
Letters of credit	3,091,891	5,719,165
Total commitments and contingencies	87,381,066	72,838,442

B. Concentration of risk exposures according to IFRS 9 Stages as at December 31, 2018:

	Stage 1	Stage 1	Stage 3	2018	2017
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balances with PMA	106,881,637	-	-	106,881,637	126,065,298
Balances at banks and financial institutions	117,114,066	-	-	117,114,066	90,638,436
Direct Islamic financing:					
Public sector	46,755,623	-	-	46,755,623	49,680,216
Industrial and agriculture	2,183,632	7,966,727	202,816	10,353,175	11,346,615
Service sector	9,777	13,246	54,942	77,965	39,463
Commercial	146,719,226	105,154,361	18,847	251,892,434	199,721,819
Real estate and constructions	81,309,292	79,538,149	5,487,292	166,334,733	174,179,318
Lands	44,683,085	31,976,827	-	76,659,912	75,929,637
Consumer Finance	31,066,725	62,317,553	275,443	93,659,721	108,481,260
Others	17,315,667	7,561,047	9,341,583	34,218,297	-
Financial assets at amortized cost	9,965,160	4,175,420	-	14,140,580	11,497,979
Other assets	16,799,929	-	-	16,799,929	12,258,957
Total	620,803,819	298,703,330	15,380,923	934,888,072	859,838,998

C. Concentration of risk exposures according to IFRS 9 Stages as at December 31, 2018:

	Stage 1	Stage 1	Stage 3	2018	2017
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	576,828,630	294,527,910	15,380,923	886,737,463	823,667,686
Jordan	8,618,424	-	-	8,618,424	10,709,041
Others	35,356,765	4,175,420	-	39,532,185	25,462,271
Total	620,803,819	298,703,330	15,380,923	934,888,072	859,838,998

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

	Total Credit risk exposure	Fair value of collaterals: Cash margins	Letters of guarantee	Real estate	Quoted stocks	Vehicles and equipment	Others	Total collaterals	Net Exposure	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Credit exposures relating to items on statement of financial position:										
Balances with PMA	106,881,637	-	-	-	-	-	-	-	106,881,637	-
Balances at banks and financial institutions	117,208,587	-	-	-	-	-	-	-	117,208,587	94,521
Direct Islamic financing:										
Retails	472,343,719	26,518,848	-	177,399,698	204,658	82,452,751	-	286,575,955	185,767,764	9,527,617
Small and medium-sized institution	84,864,483	4,764,556	-	31,872,836	36,770	14,814,022	-	51,488,184	33,376,299	1,711,796
Corporates	89,023,128	4,998,036	-	35,400,696	38,572	15,539,959	-	55,977,263	33,045,865	1,795,680
Public sector	46,755,623	-	-	-	-	-	-	-	46,755,623	-
Financial assets at amortized cost	14,245,998	-	-	-	-	-	-	-	14,245,998	105,418
Other financial assets	16,799,929	-	-	-	-	-	-	-	16,799,929	-
	948,123,104	36,281,440	-	244,673,230	280,000	112,806,732	-	394,041,402	554,081,702	13,235,032
Credit exposures relating to items on commitments and contingencies:	87,381,066	5,252,998	-	-	-	-	-	5,252,998	82,128,068	27,735
Total	87,381,066	5,252,998	-	-	-	-	-	5,252,998	82,128,068	27,735

E. Fair value of collaterals obtained against Stage 3 credit exposures is as follows:

		Fair value of collaterals								
	Total Credit risk exposure	Cash margins	Letters of guarantee	Real estate	Quoted stocks	Vehicles and equipment	Others	Total collaterals	Net Exposure	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Direct Islamic financing:										
Retails	7,439,677	-	-	6,378,715	-	228,602	-	6,607,317	832,360	3,034,280
Small and medium-sized institution	4,149,649	151,696	-	2,038,990	-	55,000	-	2,245,686	1,903,963	831,066
corporates	9,574,457	122,614	-	3,947,717	-	218,281	-	4,288,612	5,285,845	1,917,514
Total	21,163,783	274,310	-	12,365,422	-	501,883	-	13,141,615	8,022168	5,782,860

Macroeconomic factors, expected future events and the use of more than one scenario
In estimating the ECL the Bank takes into account three scenarios (the normal scenario, the best scenario and the worst scenario), each with different weights of the probability of default and credit exposure at default and excepted loss at default.

The following are the effects of macroeconomic factors on expected future events using more than one scenario as of January 1, 2018:

Macroeconomic factors	Scenario used	Weight weighted for each scenario (%)	Percentage change in Macroeconomic factors (%) 2018
Gross domestic product	Base scenario	80	0.30
	Best scenario	10	3.10
	Worst scenario	10	(3.60)
Unemployment rates	Normal scenario	80	6.80
	Best scenario	10	(1.20)
	Worst scenario	10	18.10

The following are the impact of macroeconomic factors on expected future events using more than one scenario as of December 1, 2018:

Macroeconomic factors	Scenario used	Weight weighted for each scenario (%)	Percentage change in Macroeconomic factors (%) 2019
Gross domestic product	Base scenario	80	0.40
	Best scenario	10	2.32
	Worst scenario	10	(1.52)
Unemployment rates	Base scenario	80	0.97
	Best scenario	10	(5.37)
	Worst scenario	10	7.31

F. Classification of debt securities facilities based on risk rating:

The table below analyzes the credit exposure of the debt securities using the credit rating as per the global credit rating agencies:

Credit Rating	2018 U.S. $	2017 U.S. $
Private Sector:		
A- to AAA	753,230	696,600
B- to BBB+	6,335,164	7,980,405
Unrated	7,052,186	2,820,974
Total	14,140,580	11,497,979

II. 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:

	2018		
	Increase in index	Effect on income statement	Effect on equity
Market	%	U.S. $	U.S. $
Palestine Securities Exchange	10	146,234	422,504
Unquoted	10	-	19,881

	2017		
	Increase in index	Effect on income statement	Effect on equity
Market	%	U.S. $	U.S. $
Palestine Securities Exchange	10	155,035	310,523
Unquoted	10	-	18,492

III. Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The U.S. Dollars is the functional currency for the Bank. The Board of Directors sets limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

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

The effect of decrease in foreign currency exchange rate is expected to be equal and opposite to effect of increase shown below:

	Increase in currency	Effect on income statement	Increase in currency	Effect on income statement
Currency	(%)	U.S. $	(%)	U.S. $
ILS	10	(653,130)	10	(541,133)
Other currencies	10	-	10	-

Foreign currencies position of the Bank is as follows:

	Equivalent to U.S. $			
December 31, 2018	JOD	ILS	Other currencies	Total
Assets				
Cash and balances at PMA	45,810,559	118,348,875	1,908,111	166,067,545
Balances at banks and financial institutions	21,198,590	1,292,145	1,037,275	23,528,010
Direct Islamic financing	143,481,579	273,020,236	11,264,352	427,766,167
financial assets at fair value through profit or loss	1,462,341	-	-	1,462,341
financial assets at fair value through other comprehensive income	3,960,508	-	-	3,960,508
Financial assets at amortized cost	7,052,186	-	-	7,052,186
Other assets	467,931	11,367,308	400,154	12,235,393
Total assets	223,433,694	404,028,564	14,609,892	642,072,150
Liabilities				
PMA deposits	-	3,986,393	-	3,986,393
Banks' and financial institutions' deposits	1,809,591	46,767,560	6,352,698	54,929,849
Customers' deposits	45,838,245	130,132,348	1,681,574	177,652,167
Cash margin	6,957,378	11,914,082	1,267,221	20,138,681
Other liabilities	4,868,381	3,129,658	561,205	8,559,244
Total liabilities	59,473,595	195,930,041	9,862,698	265,266,334
Unrestricted investment accounts	168,501,153	214,629,826	4,747,194	387,878,173
Total liabilities and unrestricted investment account	227,974,748	410,559,867	14,609,892	653,144,507
Statement of financial position concentration	(4,541,054)	(6,531,303)	-	(11,072,357)
Commitments and contingencies	5,794,134	12,751,178	9,613,488	28,158,800

	Equivalent to U.S. $			
December 31, 2017	JOD	ILS	Other currencies	Total
Total assets	216,899,518	360,553,250	11,227,249	588,680,017
Total liabilities	58,207,835	197,561,391	6,054,042	261,823,268
Unrestricted investment accounts	159,308,849	168,403,185	5,173,207	332,885,241
Statement of financial position concentration	(617,166)	(5,411,326)	-	(6,028,492)
Commitments and Contingencies	4,686,849	14,090,030	9,244,562	28,021,441

IV. 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 arranges diversified funding sources, manages assets and liability with liquidity in mind, and monitors future cash flows and liquidity, and maintain an adequate balance of cash and cash equivalents.

The table below summarizes the allocation of assets and liabilities on the basis of the remaining contractual entitlement as at December 31, 2018 and 2017:

December 31, 2018	Less than 1 month U.S. $	More than 1 month up to 3 months U.S. $	More than 3 months up to 6 months U.S. $	More than 6 months up to 1 year U.S. $	More than 1 year up to 3 years U.S. $	Without maturity U.S. $	Total U.S. $
Assets							
Cash and balances at PMA	212,365,859	1,147,000	–	–	–	–	213,512,859
Balances at banks and financial institutions	117,114,066	–	–	–	–	–	117,114,066
Direct Islamic financing	209,338,555	68,653,076	87,211,655	136,397,033	178,351,541	–	679,951,860
Financial assets at fair value through profit or loss	–	–	–	–	–	1,462,341	1,462,341
Financial assets at fair value through other comprehensive income	–	–	–	–	–	4,423,848	4,423,848
Financial assets at amortized cost	-	99,792	946,350	393,642	12,700,796	–	14,140,580
Investment in associates	–	–	–	–	–	11,450,784	11,450,784
Investment properties	–	–	–	–	–	12,742,899	12,742,899
Property and equipment	–	–	–	–	–	28,827,812	28,827,812
Projects in progress	–	–	–	–	–	1,419,676	1,419,676
Intangible assets	–	–	–	–	–	874,504	874,504
Other assets	14,252,404	1,053,641	986,345	–	2,182,518	–	18,474,908
Total assets	553,070,884	70,953,509	89,144,350	136,790,675	193,234,855	61,201,864	1,104,396,137
Liabilities, Unrestricted Investments Accounts and Equity							
Banks and financial institutions' deposits	58,916,241	–	–	–	-	–	58,916,241
Customers' deposits	223,814,250	–	–	–	-	–	223,814,250
Cash margin	22,154,219	2,121,102	2,518,749	9,487,369	-	–	36,281,439
Sundry provisions	–	–	–	-	8,322,582	–	8,322,582
Tax provisions	–	1,762,414	–	-	-	–	1,762,414
Other liabilities	21,093,889	–	–	-	-	–	21,093,889
Total liabilities	325,978,599	3,883,516	2,518,749	9,487,369	8,322,582	–	350,190,815
Unrestricted investment accounts	582,218,238	18,638,351	26,342,185	17,187,982	-	–	644,386,756
Equity							
Paid-in share capital	–	–	–	–	–	74,000,000	74,000,000
Additional paid- in capital	–	–	–	–	–	3,200,000	3,200,000
Statutory reserve	–	–	–	–	–	8,152,436	8,152,436
General banking risk reserve	–	–	–	–	–	3,165,788	3,165,788
Pro-cyclicality reserve	–	–	–	–	–	11,283,744	11,283,744
Investment properties reserve	–	–	–	–	–	960,751	960,751
Cumulative change in fair value	–	–	–	–	–	(234,153)	(234,153)
Retained earnings	–	–	–	–	–	9,290,000	9,290,000
Net equity	–	–	–	–	–	109,818,566	109,818,566
Total Liabilities, Unrestricted Investment Accounts and Equity	908,196,837	22,521,867	28,860,934	26,675,351	8,322,582	109,818,566	1,104,396,137
Maturity gap	(355,125,953)	48,431,642	60,283,416	110,115,324	184,912,273	(48,616,702)	–
Cumulative maturity gap	(355,125,953)	(306,694,311)	(246,410,895)	'136,295,571)	48,616,702	–	–

December 31, 2017	Less than 1 month U.S. $	More than 1 month up to 3 months U.S. $	More than 3 months up to 6 months U.S. $	More than 6 months up to 1 year U.S. $	More than 1 year up to 3 years U.S. $	Without maturity U.S. $	Total U.S. $
Assets							
Cash and balances at PMA	169,143,093	147,000	–	–	54,254,717	-	223,544,810
Balances at banks and financial institutions	90,638,436	-	–	-	–	-	90,638,436
Direct Islamic financing	191,011,676	62,490,134	79,382,721	286,493,797	–	-	619,378,328
Financial assets at fair value through profit or loss	–	-	-	–	–	1,550,353	1,550,353
Financial assets at fair value through other comprehensive income	–	–	–	–	–	3,290,146	3,290,146
Financial assets at amortized cost	278,447	376,442	383,009	482,659	9,977,422	–	11,497,979
Investment in associates	–	-	-	-	-	11,335,987	11,335,987
Investment properties	–	-	-	-	-	7,958,529	7,958,529
Property and equipment	–	-	-	-	-	24,615,614	24,615,614
Projects in progress	–	-	-	-	-	2,583,848	2,583,848
Intangible assets	–	-	-	-	-	779,081	779,081
Other assets	10,215,559	755,208	706,973	-	1,518,566	-	13,196,306
Total assets	461,287,211	63,768,784	80,472,703	286,976,456	65,750,705	52,113,558	1,010,369,417
Liabilities, Unrestricted Investments Accounts and Equity							
Banks and financial institutions' deposits	65,959,956	–	-	–	–	–	65,959,956
Customers' deposits	221,222,338	–	-	–	–	–	221,222,338
Cash margin	23,759,081	2,274,755	2,701,208	10,174,637	–	–	38,909,681
Sundry provisions	–	–	-	–	7,290,039	–	7,290,039
Tax provisions	–	5,836,407	-	–	–	–	5,836,407
Other liabilities	12,027,329	–	-	–	–	–	12,027,329
Total liabilities	322,968,704	8,111,162	2,701,208	10,174,637	7,290,039	–	351,245,750
Unrestricted investment accounts	469,838,330	53,006,076	26,231,632	421,976	–	–	549,498,014
Equity							
Paid-in share capital	–	–	–	–	–	69,000,000	69,000,000
Additional paid- in capital	–	–	–	–	–	3,200,000	3,200,000
Statutory reserve	–	–	–	–	–	6,639,276	6,639,276
General banking risk reserve	–	–	–	–	–	9,704,592	9,704,592
Pro-cyclicality reserve	–	–	–	–	–	9,403,142	9,403,142
Investment properties reserve	–	–	–	–	–	-	-
Cumulative change in fair value	–	–	–	–	–	250,325	250,325
Retained earnings	–	–	–	–	–	11,428,318	11,428,318
Net equity	–	–	–	–	–	109,625,653	109,625,653
Total Liabilities, Unrestricted Investment Accounts and Equity	792,807,034	61,117,238	28,932,840	10,596,613	7,290,039	109,625,653	1,010,369,417
Maturity gap	(331,519,823)	2,651,546	51,539,863	276,379,843	58,460,666	(57,512,095)	–
Cumulative maturity gap	(331,519,823)	(328,868,277)	(277,328,414)	(948,571)	57,512,095	–	–

In 2018, PMA issued instructions (4/2018) regarding the application of the liquidity coverage ratio, which is considered to be one of the quantitative repair tools prescribed by Basel Committee for Banking Supervision. This percentage should not be less than 100%.

The table below shows the calculation of the liquidity coverage ratio for the year ended December 31, 2018 :

Item	Value before applying discount rates/ Cash flows (average)	Value after applying discount rates/ Cash flows (average)
	U.S. $	U.S. $
Total high quality assets	218,935,708	216,224,283
Retail deposits including deposits of small enterprises:		
A-Stable deposits	71,000,398	3,550,020
B -Less stable deposits	741,356,744	148,271,349
Deposits and unsecured forms of financing for legal persons other than retail customers and small-scale enterprises:		
A-Operating Deposits	68,824,161	17,206,040
B-Non-operating deposits	40,215,707	8,043,141
Deposits and secured financing	921,397,010	177,070,550
Credit lines, non-cancellable credit lines and cancellable lines within a 30-day period		
Any other external contractual cash flows	75,717,623	75,717,623
Total cash outflows	997,114,633	252,788,173
Secured granting		
Other inflows based on the counterparty	179,801,773	144,824,979
Total cash inflows	179,801,773	144,824,979
Net cash outflow - after adjustments		107,963,194
Total high quality assets - after adjustments		216,224,283
Net cash outflow - after adjustments		107,963,194
Liquidity Coverage Ratio (%)		%200

PMA issued instructions number (No. 5/2018) regarding the application of the net stable financing ratio, the following table shows the calculation of the net stable financing ratio for the year ended December 31, 2018:

Item	2018
	U.S. $
Regulatory capital	118,556,751
Retail deposits and small (stable) institutions	399,903,348
Retail deposits and small (less stable) institutions	348,528,254
Secured and unsecured financing (deposits)	43,260,614
Total stable funding available	910,248,967
High quality liquid assets of the second level / category (A) not mortgaged	6,486,692
High quality liquid assets of the second level / category (B) not mortgaged	4,116,232
High quality liquid and mortgaged assets	32,771,254
Loans	433,271,978
Unquoted investments other than the mentioned above	11,694,036
All other assets	20,813,286
credit and liquidity financing not subject to cancellation and subject to conditional cancellation	2,090,717
Other potential future financing commitments	2,278,336
All off balance sheet exposures unlisted in the previous categories	2,278,336
Total required stable financing	515,800,867
Net stable financing ratio	%176

42. Segment information

a. Information on the Bank's business segments

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

- **Retail Banking:** Principally handling individual customers' deposits and providing them with Islamic financing and other services.
- **Corporate Banking:** Principally handling Islamic financing, deposits and current accounts for corporate and institutional customers.
- **Treasury:** Principally providing trading and treasury services and the management of the Bank's funds.

The Bank's business segments:

	Retail	Corporate	Treasury	Others	Total 2018	Total 2017
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	39,700,690	17,086,308	4,424,063	440,402	61,651,463	55,160,618
Net ECL re-measurement	1,100,537	236,329	(124,809)	-	1,212,057	(74,803)
Segment results	40,801,227	17,322,637	4,299,254	440,402	62,863,520	55,085,815
Unallocated expenses					(43,754,397)	(36,377,583)
Profit before taxes					17,871,258	18,708,232
Taxes expense					(2,739,654)	(4,177,094)
Profit for the year					15,131,604	14,531,138
Other information						
Depreciation and amortization					2,913,733	2,263,022
Capital expenditures					7,474,984	8,150,345

	Retail	Corporate	Treasury	Others	2018	2017
					U.S. $	U.S. $
Total segment assets	451,599,864	228,351,996	362,104,478	62,339,799	1,104,396,137	1,010,369,417
Total segment liabilities and unrestricted investment accounts	752,421,295	152,061,150	58,916,241	31,178,885	994,577,571	900,743,764

b. Geographical distribution information

This disclosure represents the geographical distribution of the Bank's operations. The Bank mainly carries out its activities in Palestine which represents the local operations. In addition, the Bank carries out its activities outside Palestine which represents the foreign operations.

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

	Local		Foreign		Total	
	2018	2017	2018	2017	2018	2017
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total revenues	60,746,685	54,385,259	904,778	775,359	61,651,463	55,160,618
Capital expenditures	7,474,984	8,150,345	-	-	7,474,984	8,150,345

	Local		Foreign		Total	
	2018	2017	2018	2017	2018	2017
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total assets	1,056,245,528	974,152,328	48,150,609	36,217,089	1,104,396,137	1,010,369,417

43. 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 adjusts it in light of changes in business conditions. The Bank did not make any adjustments to objectives and policies related to the capital structure during the year, except for raising the paid-in share capital by U.S. $ 5,000,000 through stock divdands .

The capital adequacy ratio is computed in accordance with PMA regulations derived from Basel Committee regulations as follows compared to the previous year:

	2018			2017		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S. $	Percent	Percent	U.S. $	Percent	Percent
Regulatory capital	95,143,981	%8.62	%12.81	86,024,419	%8.51	%12.71
Basic capital	95,761,676	%8.67	%12.92	87,463,337	%8.66	%12.92

44. Development strategy

The Bank's development policy includes the following:

- Providing innovative financial solutions and products that are modern, Sharia-compliant, to meet the needs of all targeted segments.
- Focus on customer service and the allocation of services and products to suit their individual needs.
- Design and update all bank operations in order to raise performance and improve the quality of service.
- Flexibility and efficiency in the introduction of new products and services and increase the efficiency of operations and enhance the access of banking services to customers in a safe and effective way, through digital transformation and the benefit from technological development.
- Utilizing the data available in performance analysis, needs, product development and services.

- Developing the human recourses and provide an appropriate work environment.
- Continue to focus on reducing business risks and compliance with relevant domestic and international regulatory requirements.
- Optimize existing partnerships and build new partnerships.

45. Legal cases against the Bank

The number of litigations filed against the Bank were (45) and (36) in the amount of U.S. $ 10,736,768 and U.S. $ 4,416,491 as at December 31, 2018 and 2017, respectively. The Bank's management and lawyer believe that the provision is sufficient against these litigations.

46. Concentration of risk in geographical area

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

47. Subsequent events

At its meeting held on March 12, 2019, the Board of Directors of the Bank decided to recommend to the General Assembly to increase the Bank's paid in capital by U.S. $ 3 million with a par value of 1 U.S. $ per share, and decided to recommend to the General Assembly to distribute 8.5% of the share's par value as cash dividend.

48. Comparative figures

The corresponding figures for the year ended December 31, 2017 have been reclassified in order to conform with the presentation for the current year. These reclassifications do not affect the net income and equity of the previous years.